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Public Financial Management for PRSP Implementation in Malawi

Formal and Informal PFM Institutions in a Decentralising System

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German Development Institute (DIE)

The German Development Institute (DIE) is a multidisciplinary research, consultancy and training institute for Germany's bilateral and for multilateral development cooperation. On the basis of independent research, it acts as consultant to public institutions in Germany and abroad on current issues of cooperation between developed and developing countries. Through its 9-months training course, the German Development Institute prepares German and European university graduates for a career in the field of development policy.

Stefan Leiderer has been a research fellow at the German Development Institute since 2003. His main areas of activity are public finances in developing countries and aid effectiveness.
E-mail: stefan.leiderer@die-gdi.de

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Tulpenfeld 6, 53113 Bonn
☏ +49 (0)228 94927-0
🖷 +49 (0)228 94927-130
E-Mail: die@die-gdi.de
http://www.die-gdi.de

Preface

The present study on ‘Public Financial Management for PRSP Implementation in Malawi’ was conducted within the framework of the postgraduate training course at the German Development Institute (DIE) from November 2004 to May 20005. The team consisted of five postgraduate students with various academic backgrounds under the direction of Stefan Leiderer from the DIE professional staff. The main findings were presented and discussed at a workshop in Lilongwe on 26 April 2005.

The study benefited hugely from the support and contributions of various persons and organisations. First and foremost, we would like to emphasize the contribution of our cooperation partner the National Local Government Finance Committee (NLGFC) as well as the sector programme ‘State and Democracy / Public Finance Reform’ of the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) in the preparation and realisation of the research. Especially, we would like to stress the commitment of Adil Chilungo (NLGFC), Matthias Witt, and Aues Scek (both GTZ), who provided valuable organisational support, thematic input, and advise.

We also received much assistance from various other individuals and organisations. Among them are Masawani Jere, District Commissioner of Dedza, Frank Sigmund from the German Development Service (DED) in Rumphi, and Peter Chihana, Vice Chair of the District Assembly in Rumphi. We are very grateful for their help in establishing contacts and setting up interviews as well as for their provision of thematic input. We are also grateful for feedback and advise of various kinds from colleagues at the DIE, especially Petra Schmidt, Peter Wolff, and Stephan Klingebiel.

Bonn, March 2007 Stefan Leiderer

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Abbreviations

ACB	Anti-Corruption Bureau
ADC	Area Development Committee
AEC	Area Executive Committee
AFFORD	Alliance for Democracy
AG	Auditor General
AIP	Annual Implementation Plan
BFC	Budget and Finance Committee
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Ministry of Economic Cooperation and Development)
CABRI	Collaborative Africa Budget Reform Initiative
CABS	Common Approach to Budget Support
CBO	Community Based Organisation
CFAA	Country Financial Accountability Assessment
CHAM	Christian Health Association of Malawi
CIDA	Canadian International Development Agency
CSO	Civil Society Organisation
CSQCBE	Civil Society Coalition for Quality Basic Education
DA	District Assembly
DANIDA	Danish International Development Agency
DC	District Commissioner
DDF	District Development Fund
DDP	District Development Plan
DDPF	District Development Planning Framework
DEC	District Executive Committee
DED	Deutscher Entwicklungsdienst (German Development Service)
DFID	Department for International Development
DHRMD	Department for Human Resource Management and Development
DIP	District Implementation Plan
DOF	Director of Finance
DPD	Director of Planning and Development
DPP	Democratic Progressive Party

DS	Decentralisation Secretariat
EHP	Essential Healthcare Package
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
GBS	General Budget Support
GDP	Gross Domestic Product
GoM	Government of Malawi
GRF	General Resource Fund
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries
IDD	International Development Department
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
LASCOM	Local Assemblies Service Commission
LDF	Local Development Fund
M&E	Monitoring and Evaluation
MALGA	Malawi Local Government Association
MASAF	Malawi Social Action Fund
MCP	Malawian Congress Party
MDAs	Ministries, Departments, Agencies
MDG	Millennium Development Goals
MEGS	Malawi Economic Growth Strategy
MEJN	Malawi Economic Justice Network
MEPD	Ministry of Economic Planning and Development
MERs	Monthly Expenditure Reports
MGPDD	Malawi - German Programme for Democracy and Decentralisation
MoF	Ministry of Finance
MoH	Ministry of Health and Population
MoFEP	Ministry of Finance and Economic Planning
MoLGRD	Ministry of Local Government and Rural Development

MoU	Memorandum of Understanding
MPRS	Malawi Poverty Reduction Strategy
MPRSP	Malawi Poverty Reduction Strategy Paper
MPs	Members of Parliament
MTEF	Medium Term Expenditure Framework
MWK	Malawi Kwacha
NAO	National Audit Office
NDP	National Decentralisation Programme
NGO	Non-Governmental Organisations
NLGFC	National Local Governance Finance Committee
NNR	Net National Revenue
NORAD	Norwegian Agency for Development Cooperation
NSO	National Statistical Office
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OPC	Office of President and Cabinet
PBA	Programme-based Approach
PEM	Public Expenditure Management
PFM	Public Financial Management
PPE	Poverty Priority Expenditures
PRA	Participatory Rural Appraisal
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIP	Public Sector Investment Programme
SAI	Supreme Audit Institution
SAP	Structural Adjustment Programme
SEP	Socio-Economic Profile
STF	Sector Transfer Fund
SWAp	Sector Wide Approach
TA	Traditional Authorities

TOR	Terms of References
UDF	United Democratic Front
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNV	United Nations Volunteers
USAID	US Agency for International Development
VAP	Village Action Plan
VDC	Village Development Committee
WB	World Bank

Summary

Recent years have seen a number of fundamental and far-reaching reorientations in the debate on international development policy and cooperation; for one, Poverty Reduction Strategies (PRS) – initially formulated as a prerequisite for debt relief under the HIPC initiative – have become widely accepted as comprehensive strategic frameworks for many developing countries' efforts to reach the Millennium Development Goals by 2015. Prepared through a participatory process, PRS Papers (PRSPs) are meant to describe a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty as well as associated external financing needs.

International donors in turn have committed themselves to align their support to developing countries' own strategic policies and to rely increasingly on the recipient countries' own administrative systems and procedures to manage donor contributions. Consequently, PRSPs have also become central to the provision of development assistance in terms of both grants and loans as they represent the key reference document for support from bi- and multilateral donor agencies through Programme-based Approaches (PBAs), including general and sector budget support.

At the implementation stage, PRSPs have to be translated into medium-term policies and programmes, which in turn have to be implemented through annual budgets. Accordingly, the debate on PRSP implementation and direct budget support increasingly focuses on the quality of public financial management (PFM).

Another important topical issue in the international development policy debate is the continued drive for decentralisation in developing countries. By moving decision-making closer to the grassroots and thereby strengthening the political participation and representation of the poor, the effectiveness and efficiency of public service delivery for poverty reduction, or so it is hoped, can be improved. At the same time, however, decentralization renders the processes of budget planning, execution and control significantly more complex, multiplying coordination requirements and possibly overtaxing scarce human and technical capacities in developing countries.

PRSP implementation and decentralisation both involve decisions about how public resources are spent. Good management of public finances is thus of cruciaveryl importancet for the successful implementation of PRSPs and effective decentralisation. In this study Public Financial Management (PFM) is understood in its broadest sense, i.e. not as a purely technical process regarding the management of financial flows and public accounts but rather with a more comprehensive governance perspective covering:

— the budget cycle, including strategic and budget planning, budget formulation, budget execution and budget control and evaluation;
— the legal and institutional framework;
— human and technical capacity for the management of public finances.

This study examines how the PRSP approach and decentralisation efforts interact with each other by studying constraining factors in Malawi's Public Financial Management at central and local government level that impede the implementation of the Malawi Poverty Reduction Strategy (MPRS). The main focus is thus on implications of a decentralising PFM-system for PRSP implementation.

Common weaknesses of PFM systems in developing countries

PFM systems in developing countries face numerous problems. Weak institutions, capacity constraints (financial, technical, human resources) and inadequate budgeting techniques, together with unfavourable external factors such as macroeconomic instability and dependency on donor funding, prevent budgets from working effectively and delivering the desired outcomes. However, the observed poor practices are not necessarily rooted exclusively in poor formal PFM systems. In fact, many developing countries (usually under pressure from international donors, in particular the World Bank and the IMF) have introduced modern PFM legislation and institutional set-ups over the years. As a consequence, the formal framework for PFM in donor dependent developing countries is often relatively well designed. However, in many cases, these formal frameworks for the management of public finances are not adhered to in practice, which is dominated by informal rules and procedures.

Wherever this is the case, the effectiveness of multi-year planning and annual budgeting as instruments to implement national strategic policies, such as poverty reduction strategies, is severely compromised, and so are the prospects for effective policy making for development and poverty reduction. The effective implementation of PRSPs, thus, to a large extent, hinges on a good match between formal PFM rules and procedures and actual PFM practices and is closely linked to at least three key factors: (i) the political will of the stakeholders in the budget process, (ii) an elaborated institutional framework that supplies them with the right incentives and efficient control mechanisms, and (iii) sufficient technical, human and financial capacity that enables them to execute their tasks throughout the budget cycle efficiently and effectively.

Most research so far focuses either on PRSP implementation and PFM at the central level or on decentralisation and local planning separately, with very few studies attempting to link the two issues. In contrast, this study covers PFM at local level and specifically examines how it is integrated into the national PFM system with regard to implementing national strategic priorities in a decentralised system. For this purpose the links (both where they exist and where they are missing) and the incompatibilities between PFM at local and central government level are examined.

Research approach

To study these complex relations, a case study seems the most adequate approach; Malawi was chosen as a typical showcase for a poverty-stricken developing country in Sub-Saharan Africa, pursuing both, the implementation of a national PRSP and an ambitious decentralisation agenda in parallel. In early 2005 Malawi also provided a somewhat special and particularly interesting context for this study, due to its recent history: Gross irregularities and massive overspending had led a number of donors to suspend development assistance in 2001. In 2004, however, when new president was elected, he was initially given considerable credit by the international donor community for appearing to be strongly committed to policies aiming at fiscal stability and austerity. Malawi in 2005, therefore, provides a particularly interesting case for a study on the role of political commitment and other potential factors for the formality and quality of PFM practices in a typical poor sub-Saharan African country.

A particular focus of this study is on education and health to account for the central role these sectors play in the MPRSP and with regard to poverty reduction in general. Furthermore, in Malawi and many other countries, education and health routinely feature prominently in the PRSP and represent pilot sectors for decentralisation reforms or new approaches in development cooperation.

The findings of this study are predominantly based on qualitative data collected during a three month field trip to Malawi.

The case of Malawi

Most studies conducted on PFM in Malawi to date refer to the situation under the Muluzi administration. Their findings are rather similar: the budget itself is considered a "shadow budget", the budget process is judged to be either extremely weak or even a mere "theatre that masks the real distribution and spending". Usually, political patronage and interference from the top level are blamed for creating informal practices that undermine formal institutions of the budget process. The deliberateness of these political interferences is generally not doubted by the cited studies. However, when the Muluzi administration was replaced in 2004, the IMF and other donors, were quick to hail the new administration as a great hope for Malawi, following a new policy approach and being serious about fiscal austerity and the fight against corruption. This enthusiasm was in part driven by the new president's decision to appoint a former director of the Africa department at the IMF his Minister of Finance. However, from the beginning many observers considered it problematic that the apparently strong commitment to better and more transparent political leadership depended on very few prominent figures at the top. It was, therefore, of particular interest to assess the impact of apparently improved political commitment to sound PFM at the top in Malawi on the quality of PFM on the ground.

Malawi is a unitary state with strong centralistic features. However, in recent years the state, has begun to devolve functions and responsibilities to local levels of government. This new approach is not least due to donors, who felt that a fresh impetus was needed and hence strongly argued for the need to develop a national a decentralisation strategy. Thus, when in 1995 a new constitution was adopted it entailed the requirement to establish local government authorities. In 1998 the National Decentralisation Policy (NDP) was approved, which includes establishing political decentralisation through democratically elected local assemblies and the devolution of central government functions to local government level.

The theory and practice of public financial management in Malawi

Since the mid-nineties, the formal legal and institutional framework for public financial management in Malawi has undergone a series of reforms. New legislation regulating finance, audit and procurement was written, providing for relatively clear cut responsibilities and time schedules of the budget process in Malawi. Accordingly, recent studies on Malawi's PFM system conclude that the legal and institutional framework for PFM in Malawi is relatively well designed and in principle provides a good starting point for a sound management of public finances for example. One could, therefore, expect that in principle the formal legal and institutional PFM framework in Malawi should provide for effective fiscal and expenditure planning, budget preparation, execution, and control in line with the priorities set in the Malawi Poverty Reduction Strategy Paper (MPRSP).

At the same time, however, the budget process in Malawi is judged by most assessments as extremely weak. This is due to the fact that formal institutions and procedures bear little relevance for PFM practice in Malawi. In fact, instead of being guided by the relatively sound formal legal and institutional framework, the actual PFM process is characterised by three main features:

Ad hoc mode of planning and budgeting: Malawi's PFM is not characterised by routine standard bureaucratic procedures but rather by an ad hoc mode of action throughout the PFM process.

Informal practices: Apart from deliberate manipulation of processes for personal gain, informal practices are often used as pragmatic solutions to cope with unexpected problems.

Uncertainty: Malawi's PFM system is characterised by systematic uncertainty, in particular with regard to (i) the availability of financial resources, (ii) the validity of formal rules, (iii) roles and responsibilities, (iv) future political developments, and (v) the progress of reforms.
These features are pervasive throughout Malawi's PFM system and the budget process in particular. Most actors involved in the process contribute to this out-

come to varying degrees and are at the same time negatively affected by it.

Determinants of informal PFM practices in Malawi

The observed gap between the formal framework for PFM and actual PFM practice in Malawi is rooted in a wide range of causes. While the fact that PFM processes in Malawi are predominantly shaped by informal institutions and procedures is widely recognised, most studies of the issue do not go into the details of the various underlying causes. Mostly, the reason for informal PFM practices is seen almost exclusively in a lack of political commitment by government and the bureaucracy. In contrast to this, the findings of the field research for this study, suggest that although an important one, lack of political commitment is only one reason among many for Malawi's PFM system being characterised by informal practices; and, what is more important, it seems not necessarily the most pressing problem with regard to effective MPRSP implementation.

From the analysis of the collected qualitative data, five key areas can be identified leading to Malawi's PFM system being characterised by persistent an ad hoc mode of action, informal procedures and systemic uncertainty:

1. Capacity for PFM

Although Malawi's government institutions suffer from understaffing, the key problems with regard to capacity for PFM are:

- Lack of adequately qualified staff in key positions for PFM;
- Insufficient equipment and financial resources;
- Shortcomings in organisational and human resource management.

2. Resources for administrative PFM processes

The substantial lack of funds in the civil service even for the most basic administrative processes threatens the functioning of the PFM system and leads to poor budgetary outcomes.

3. Donor impact on PFM

Poorly coordinated and unaligned donor activities tend to weaken annual and medium term budget planning and contribute to undermining budget credibility.

4. Coordination for PFM

Poor coordination between ministries, departments and agencies as well as between different levels of government undermines the whole budget process.

5. Commitment

Lack of political commitment to sound PFM used to be a critical source of uncertainty in the PFM process in Malawi. With the new leadership, there were positive signs of credible commitment to accountability and effectiveness of PFM, initially giving ground to the hope that substantial improvements in Malawi's PFM performance will soon materialise. However, it must be recognised that much of the old systems of inappropriate power distribution and unhelpful incentives remain.

Against the background of these multidimensional shortcomings that cause Malawi's PFM being characterised by uncertainty, ad-hoc planning and budgeting, and informal practices the analysis conducted for this study suggests that informal practices are often a compromise between what is legally required and what actors can realise in the respective situation. These practices are informal in the sense that they are not legally or institutionally provided for. However, this does not automatically imply that all of these informal practices are necessarily strictly illegal or actually bad. As matter of fact, in many cases they represent rational second best solutions to PFM problems by good willing actors facing the described constraints.

Although commitment seems absolutely essential as a precondition for reforming and improving PFM performance, it seems that by itself it cannot solve the more systemic problems that consist in a severe lack of resources and capacity as well as poor coordination and bad donor behaviour. Given these constraints, even with improved political commitment the following conclusions are likely to remain valid:

— Enforcing accountability is extremely difficult in a PFM system such as Malawi's.
— The relevance of formal rules and procedures for PFM in Malawi is limited and is being undermined in the process.
— The effectiveness of Malawi's PFM system is limited and therefore the implementation of strategic policies (e.g. the MPRS) through this system is unlikely.

Particularly in a context of political transition as in Malawi, decentralisation tends to further complicate the PFM system and procedures, increasing the likeliness that the problems identified in this study are exacerbated to a considerable extend.

Recommendations

- **Establishment of an operational link between PRSP and local planning and budgeting procedures:** Currently, there is no operational mechanism linking local planning and budgeting procedures to priorities set at the national level. However, even if some stakeholders doubt the need for such a link it needs to be understood that if devolution is taken forward, in particular in the sectors covered most prominently in the PRSP (health and education), such a link is indispensable if at the same time a meaningful PRSP approach is to be pursued.
- **Improved donor coordination:** The Government of Malawi should take the lead in donor coordination. The responsibility of coordination, however, should not be left to the Malawian side alone. Donors should encourage, support and actively empower the GoM to take its lead in donor coordination by coordinating their activities as well as by harmonising their modes of aid delivery and reporting
- **Better alignment of donor support to Malawian PFM processes:** In order to strengthen Malawian institutions and the formal PFM processes and to reduce uncertainty in the system, donors should align their procedures much more consequently to the Malawian PFM processes. This is especially important for the adherence to timeframes and deadlines throughout the budget cycle, particularly in the budget planning and execution phase.
- **Binding medium-term commitments to improve the predictability of donor funding:** Considering the dependency of Malawi on donor funding, donors should make detailed, binding and long-term pledges. This will increase the credibility and relevance of the budget as cash shortfalls in approved budget votes can be avoided. Apart from that it enables sound medium-term planning.

– **Pooling technical assistance for capacity development for PFM:** Donors play an important role in financing and organising capacity development. However, donor-financed capacity building measures are not always well communicated to and coordinated with activities of the Malawian government. The Department of Human Resource Management and Development (DHRMD) in the Office of the President does not have a comprehensive overview of ongoing training measures as donors tend to cooperate directly with sector ministries or the local government level, in part deliberately circumventing the DHRMD. In order to improve coordination and align donor activities to Malawian priorities, donors should pool their technical assistance and support a comprehensive and prioritised catalogue of systematic training measures that are closely connected to PFM reforms and instruments. The pooled fund should be under the supervision of the DHRMD. Capacity building might be necessary for this purpose in the DHRMD for this task.

– **New modalities to deliver capacity building for local authorities:** Especially for the local level, where the need for capacity development is even more pressing and uncoordinated donor approaches have in the past undermined existing capacity, donors should consider pooling resources to directly support capacity development of local authorities. For this purpose, establishing a mini-basket partly or fully financed by donors and based on an elaborated and prioritised catalogue of capacity building activities should be taken into consideration. These activities should be (i) systematically linked to PFM reforms, (ii) evenly distributed among districts and (iii) executed in a timely manner. They should include measures both for the executive and for the legislative branch of government. However, at the same time the mechanism must ensure that specific and sometimes very different capacity development needs of individual districts can be effectively addressed.

– **Strengthened support for the National Assembly to improve budget scrutiny and control:** Malawi's National Assembly is severely underfunded. In the light of development approaches such as PRSPs, budget support and programme-based approaches international donors focussed much on the executive. Currently very few donors are supporting the National Assembly. In order to increase parliament's relevance and its ability to contribute to a sound PFM by executing its oversight functions, it is recommended that more development assistance be directed towards the National Assembly. In order to minimize coordination needs, it is suggested that donor agencies pool their funds and leave the programme implementation to one lead donor. This could be done similar to the way DFID is currently contributing funds to the CIDA-run parliamentary programme.

– **Provision of equipment and financial resources for administrative processes:** One important capacity shortcoming in Malawi's PFM system is insufficient equipment and financial resources in government institutions, especially at local level. Donors should continue to assist local authorities by providing equipment. However, although maintenance of equipment is not always given priority, it has to be kept in mind that often local authorities simply do not have enough own resources to cover operational costs such as car maintenance. Therefore, it must be ensured that the responsibility to cover operational costs is clearly assigned and their coverage is guaranteed. As the resource envelope of local government institutions is usually thin, donors should consider financing recurrent costs by providing some form of budgetary support. Donors should also take into account that spare parts for special equipment and technologies are not always available or affordable in Malawi. Therefore, donors should rely more on domestic procurement in order to allow local authorities to acquire equipment and technologies that are locally available in Malawi.

– **Reduced salary gap between the public sector and private entities or donor organisations for middle-level staff:** High staff turnover in Malawian government and oversight institutions both at central and local level is an important factor that hampers the PFM process. This is partly due to relatively low salaries for middle-level staff. Therefore, it is important to reduce the salary gap between the public sector and employees working for the private sector or donor organisations in order to attract and retain qualified employees in the public sector. The GoM should continue to implement the Civil

Service Pay and Employment Reform to render middle-level positions in public institutions more attractive for qualified personnel.

– **Reduced payment of allowances and their transformation into a fixed component of civil servants´ salaries:** The payment of allowances to civil servants for the attendance of workshops and meetings is a common way to top up salaries and was initially intended to improve civil servants' performance. However, allowances render the salary system of civil servants intransparent and in fact create perverse incentives. Therefore, it should be considered to raise salaries by fixed sums and in exchange reduce allowances to the mere refunding of actually incurred transport and catering costs. Donors should support this policy and avoid creating adverse incentives through the payment of high allowances themselves for workshop attendance.

– **Better incentives for civil servants to work in remote areas:** GoM faces serious difficulties to attract qualified staff to districts in remote areas, where living and working conditions are poor. It thus seems necessary to create more and better incentives for civil servants to work in remote districts by compensating them for less attractive living conditions.

– **Merit-based and transparent recruitment and promotion of civil servants:** GoM should ensure that the recruitment und promotion of civil servants is strictly merit-based and transparent. The government should therefore guarantee that adequately qualified people are recruited for vacant positions and the promotion of civil servants is mainly based on good performance, Donors should pay particular attention to these issues and follow up on government's commitments.

– **Generating multiplier effects for capacity development:** Introducing new PFM tools should always be accompanied by systematic, long-term and timely capacity development. It has to be ensured that institutions´ capacity is developed instead of solely individuals´. This involves the establishment of mechanisms to disseminate specific knowledge acquired by individuals to all relevant stakeholders in order to preserve the gained knowledge and capacity for the institution.

- **Improved coordination between MoF and MEPD:** Coordination between the Ministry of Finance (MoF) and the Ministry of Economic Planning and Development (MEPD), in particular with regard to ensuring the consistency of the Public Sector Investment Programme (PSIP) and the capital budget, is not always satisfactory. GoM should consider establishing a mechanism guaranteeing consistency of the first year of the PSIP and the capital budget. This seems to be a necessary precondition to increase transparency within the system, enforce the accountability of MoF and MEPD and to ensure that national investment projects are really selected according to national priorities as stated in the MPRSP. One necessary precondition for this is that sector ministries follow formal procedures and submit their project proposals exclusively to MEPD.

- **Better involvement of local stakeholders in the recruitment of District Secretariat staff to strengthen accountability between local entities:** The recruitment process for key staff is still very long, unpredictable and centralised, above all for the local government level. In the medium term it may prove useful to increase the participation of local authorities in the selection of candidates for District Secretariats so that candidates feel more accountable to the local stakeholders. This could be achieved, for example, by changing the composition of the recruitment commission in the Ministry of Local Government and Rural Development (MoLGRD), giving more weight to local stakeholders such as the district commissioners and representatives of the District Executive Committee and District Assemblies. In the long run, the GoM could take into consideration whether responsibilities for the recruitment of local level staff should be transferred to the districts in order to reduce bureaucracy and increase the accountability of local civil servants to local government.

- **Performance-based resource allocation to local assemblies:** Local assemblies which are more committed to own revenue generation should benefit from central government transfers, based on the "performance matrix", created by the NLGFC. This benchmark tool can be used to strengthen the awareness and creativity among local assemblies to become more autonomous in financial matters.

– **Donor support for capacity to generate revenue generation at local level:** More attention needs be paid to revenue generating abilities of the state and the rural districts in particular. One possible option to broaden the local revenue base would be to assist districts with the costly and time consuming activity of valuing and rating areas to levy property tax.

– **Better alignment of donor support to DDPs:** Donors financing projects at district level must make sure not to undermine local structures and procedures. In particular, local planning procedures have to be taken serious and as a rule only projects emerging from local District Development Plans should receive substantial donor support.

– **Consequent support to and use of the new Local Development Fund:** Existing financing mechanisms to fund local development projects should be consolidated into the proposed Local Development Fund (LDF) with the objective to

(i) Support planning and management of development resources at the assembly and community levels;

(ii) Provide resources which ensure that development investment respond to the priority development needs;

(iii) Facilitate the implementation of the National Decentralisation Policy; and

(iv) Enhance the accountability of local authorities to their constituents.

All donors supporting Malawi's decentralisation policy should support the establishment and implementation of the LDF and align their activities and procedures accordingly.

– **Continued donor support to the NLGFC in order to ensure effective decentralisation:** The NLGFC is an appropriate institution for supporting local government in financial management issues, capacity building and local development planning. The staff seems to be highly committed and adequately qualified. Therefore, donors should support the work of NLGFC in a coordinated manner with a medium- to long-term perspective. The most pressing need of NLGFC is getting additional human resources rather than receiving technical training of existing staff. Now seems to be a particularly good time to discuss the form of support for the NLGFC. In the course of phasing out the Decentralisation Secretariat, some of this institution's responsibilities are being taken over by NLGFC, particularly with regard to local planning. Taking a medium- to long-term perspective in supporting NLGFC requires that regular evaluations are carried out to enquire whether the structure and responsibilities of NLGFC are still adequate for facilitating decentralisation or whether they have to be adapted. At the same time it is critical that donor's support to NLGFC is evaluated regularly and, if necessary, adapted to new requirements.

1 Introduction

Recent years have seen a number of fundamental and far-reaching reorientations in the debate on international development policy and cooperation; Poverty Reduction Strategies (PRS) – initially formulated as a pre-requisite for debt relief under the HIPC initiative – have become widely accepted as comprehensive strategic frameworks for many developing countries' efforts to reach the Millennium Development Goals by 2015. Prepared through a participatory process involving civil society and development partners, these papers (PRSPs) are meant to describe a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty as well as associated external financing needs (World Bank 2005). By June 2006, fifty countries had prepared a full PRSP (World Bank 2006a).

International donors in turn have committed themselves to align their support to developing countries' own strategic policies and to rely increasingly on the recipient countries' own administrative systems to manage donor contributions.[1] Consequently, PRSPs have also become central to the provision of development assistance in terms of both grants and loans (ODI 2004, 3) as they represent the key reference document for support from bi- and multilateral donor agencies through Programme-based Approaches (PBAs), including general and sector budget support.

At the implementation stage, PRSPs have to be translated into medium-term policies and programmes, which in turn have to be implemented through annual budgets. Donors are increasingly funding these budgets. Accordingly, the debate on PRSP implementation and direct budget support increasingly focuses on the quality of public financial management (PFM), or – to stick to the jargon – *Good Financial Governance* criteria (cf. IMF / EO 2004, 4; GTZ 2006).

There is another important topical issue in the current debate on international development policy, besides the discussion on PRSPs, PBAs and PFM. It is the continued drive for decentralisation in developing countries. The effectiveness and efficiency of public service delivery for poverty reduction, or so it is hoped, can be improved by moving decision-making closer to the grassroots and thereby also strengthening the political participation and representa-

1 The *Paris Declaration on Aid Effectiveness* from March 2005 represents the latest milestone in this process.

tion of the poor. At the same time, however, decentralization renders the processes of budget planning, execution and control significantly more complex, multiplying coordination requirements and possibly overtaxing scarce human and technical capacities in developing countries. None the less, most work on PFM systems and reform focuses almost exclusively on PFM at the central level of government, neglecting that many developing countries – strongly supported by international donors – are increasingly delegating political decision-making powers and financial responsibilities to sub-national levels of government.

To make matters worse, most analytical work on PFM in any particular country's circumstances focuses mainly on assessing formal institutions and processes governing the management of public finances. And although most authors recognise that PFM systems in most developing countries are largely characterised by informal practices and procedures, the underlying mechanisms leading to these informal practices are rarely examined in detail. Instead, neo-patrimonial structures and a lack of commitment by political leaders to sound PFM and poverty reduction are readily blamed for consistent non-adherence to formal rules and procedures in the management of public finances. This study, however, argues that there are a number of important influencing factors that lead to persistent non-adherence to formal rules and regulations other than "cultural" ones. These factors leading to informal PFM practices are in part the result of modern but poorly adapted formal PFM rules as well as inadequate sequencing of reforms, and not least donor behaviour.

This study examines how the PRSP approach and decentralisation efforts interact with each other by studying their impact on the PFM system in Malawi. It is precisely the PFM system where PRSP implementation and decentralisation need to be linked and reconciled with each other. The research focus of this study is thus on the implications of a decentralising PFM system for PRSP implementation. The following section presents the main research question of the case study for this report in detail in the following section. It goes on to provide some background information on the issues being addressed. The section then briefly introduces the research approach and ends with an overview of the structure of this report.

Background and main research question

In the late 1990s, PRSPs were introduced as a pre-requisite for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. The intention was to provide poor developing countries with tailor-made national medium-term strategies for poverty reduction and sustainable development. Since then, PRSPs have evolved into key reference documents for international development cooperation. However, implementing PRSPs is more difficult than formulating them. This is the reason why Public Financial Management (PFM) and particularly budgeting in developing countries has become a focal point of the international discussion in recent years. Also in the 1990s, donors began to complement the much criticised project-based approach to development cooperation with programme-based approaches (PBAs). This shift towards PBAs introduced new planning and coordination frameworks such as Sector-Wide Approaches (SWAps) in international development cooperation. This also refocused attention on somewhat older instruments such as Medium Term Expenditure Frameworks (MTEFs). The modes of aid delivery were adapted too. Traditional project funding was to some degree replaced and complemented by basket funding and budget support. The quality of national PFM systems is an important factor for the success of these approaches. Donors therefore also have an interest in PFM in developing countries.

Decentralisation is a second topic that has gained prominence in the international development debate and policy practice in recent years. A number of different objectives and hopes are usually connected with decentralisation. One objective is more effective poverty reduction, which is hoped to be achieved by moving decision-making closer to the grassroots and thereby strengthening the political participation and representation of the poor. Unlike the PRSP approach, decentralisation has already been around in the development debate for some time. It was already on the agenda in the 1970s and 1980s but has become increasingly important in the 1990s. A strategy of decentralisation covers the fields of politics, administration and finances, and therefore implies the fundamental redistribution of power, responsibilities and resources and a reorganisation of the way the state works within a particular country.

PFM on the other hand is a relatively new issue in international development cooperation. The IMF and the World Bank have always taken interest in singular questions related to the performance of national PFM systems during the structural adjustment period. However, the necessity for comprehensive and systematic integration of PFM work into international development co-operation was only recently recognised with the PRSP approach and new modes of aid delivery increasingly gaining importance. There is no universal definition of the term Public Financial Management. In this study, PFM is used to denote the different stages of the budget process as well as the design of the legal and institutional framework for PFM and for the management of human and technical capacity that determine the effectiveness and efficiency of processes on each of these stages. The stages are strategic and budget planning, budget formulation, budget execution as well as budget control and evaluation (Leiderer 2004, 7).

The primary research focus of this study is on the PFM system because it links and ideally integrates the two prominent approaches to poverty reduction, PRSP and decentralisation. The public budget is the central tool for operationalising and implementing policies based on national strategic plans. However, if a country pursues a strategy of decentralisation, it means either that a new level of government is created or the existing sub-national government levels gain power, responsibilities and resources. This fundamental reorganisation of the state has strong implications for the national PFM system. It also has to be reorganised in a way that provides for effective coordination or integration of planning, budgeting and implementation processes across the various levels.

To implement just one these approaches, either PRSP or decentralisation, already is a very complex and long-term process. Nevertheless, particularly in sub-Saharan Africa, many countries are currently in the process of implementing both reforms. For both reform approaches to be successful, a parallel reform of the PFM system is thus crucial. So far, most research has focussed either on PRSP and PFM or – less frequently – on decentralisation and PFM. This study tries to examine the existing and missing links, the contradictions, and the space for synergy between the implementation of PRSP and decentralisation in PFM. Therefore, the main research question of this case study is the following:

What are the major challenges in Public Financial Management (PFM) at the central and local government level for implementing the Malawi Poverty Reduction Strategy (MPRS), particularly in the education and health sector?

Special attention is given to the following PFM coordination processes:

- Between central and local government level in general (vertical coordination);
- Between education and health sector ministries and their respective deconcentrated units (vertical-sectoral coordination);
- Between the various administrative units and other institutions at the local level (horizontal-local coordination).

The study aims at answering this question and at identifying starting points for possible solutions to these challenges.

Research approach and the case of Malawi

The purpose of this study is twofold. First, it seeks to contribute to the current debate on Good Financial Governance. Second, by obtaining a better understanding of the investigated issues, it aims at helping decision-makers in developing countries' governments and donor agencies to develop a better understanding of the mechanisms at work undermining sound PFM in developing countries in sub-Saharan Africa. To fulfil this double purpose, a case study approach was deemed appropriate, which allows a detailed examination of a country's PFM system, but also lends itself to careful generalisations. Malawi was identified to be a typical case for a poor sub-Saharan African country in many aspects, while special in others. It is a typical case because it is currently in the process of implementing a PRSP, a decentralisation strategy and PFM reforms all at the same time. Therefore, it can be expected that lessons drawn from this case analysis are to some degree applicable to other developing countries that undergo similar reform processes. On the other hand, at the time the study was conducted Malawi provided a somewhat special case with respect to the role of political commitment to transparent and pro- poor financial management. As a new government under president Bingu wa Mutharika had just been elected, great expectations were raised among donors, who believed to discern clear signs of the new administration's genuine commitment to good governance principles.

The methods used in conducting this case study were mainly qualitative. The research team conducted more than 140 semi-structured interviews with various stakeholders and carried out an extensive review of literature and official documents. This set of data was complemented with data gained from non-participant observations and informal conversations. The interview partners came from various contexts, among them politicians and administrative personnel at various government levels, staff of multi or bilateral donor agencies, non-governmental organisations (NGOs), the media, traditional authorities and ordinary citizens (for a list of interview partners see Annex 2). The research project was closely coordinated with a Malawian partner organisation, the National Local Government Finance Committee (NLGFC) as well as with GTZ experts in Malawi and Germany.

A particular focus of this study is on education and health to account for the central role these sectors play in the MPRSP and with regard to poverty reduction in general. Furthermore, these sectors are often pilot sectors for decentralisation reforms or the introduction of new development assistance approaches such as SWAps. The sectors of primary education, basic health and democratic decentralisation are also focal areas of Malawi-German development cooperation. The results of this study are therefore particularly relevant for German development agencies.

Structure of the report

This report is divided into three parts. First, Part I introduces the three subjects of this study (the PRSP approach, decentralisation in developing countries and public financial management) in detail and sets the conceptual framework for this study (Chapter 2). It then formulates the main research question and presents the research design and methodology (Chapter 3). Part I ends with a presentation of the case study (Chapter 4), providing the rationale why Malawi was selected as case study and some relevant background information on the country, particularly on recent political history, decentralisation, the Malawian PRSP and on the sectors education and health in Malawi.

Part II presents the empirical findings collected during the research. Theory and practice of PFM in Malawi are contrasted with each other and the blatant discrepancy between formal rules and procedures and actual PFM practice is discussed (Chapter 5). Key areas where major weaknesses undermine Malawi's formal PFM-system are identified (Chapter 6).

Part III draws together the empirical findings, linking weaknesses in the areas identified to observed PFM practices in Malawi. The findings are put into context with recent literature on institutional development and political transition in Africa and carefully generalises the empirical findings for Malawi (Chapter 7). Part III ends with recommendations for donor agencies as well as Malawian government bodies to address the challenges identified in this study (Chapter 8).

Part I: Conceptual Framework and Case Selection

2 Conceptual Framework: PRSPs, Decentralisation, and PFM

International development cooperation has never been short of new concepts and trends. However, the 1990s were particularly rich in creating presumably new ones. Although decentralisation and PFM are both not genuine development cooperation concepts, their relevance for development and poverty reduction were soon recognised and both were quickly taken up in the international development debate in the 1990s for a number of reasons. This chapter introduces each of the three concepts that are relevant for this study. The chapter starts with introducing both the PRSP approach and decentralisation as developmental concepts, highlighting the relevance of good PFM for the success of both approaches. Section 2.2 continues to look at the concept of sound PFM in the sense of *Good Financial Governance* and pays particular attention to common weaknesses of PFM in developing countries.

2.1 Two prominent approaches in the current debate on development cooperation: PRSP and decentralisation

2.1.1 The PRSP approach

Poverty Reduction Strategy Papers (PRSPs), which were originally developed as a pre-requisite for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative have become widely accepted as comprehensive strategic frameworks for efforts made by developing countries to reach the Millennium Development Goals by 2015. With the Structural Adjustment Programmes (SAP) having fallen short of expectations with regard to economic development and poverty reduction, PRSPs are meant to describe in a comprehensive manner a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty as well as associated external financing needs (World Bank 2005). However, the final responsibility for developing such a strategy should be with the respective country’s government in order to ensure ownership for the process. For the first time, this initiative explicitly linked debt relief with poverty reduction goals. The principles according to which the PRSPs are to be produced and implemented largely incorporated the elements of the Comprehensive Development Framework (CDF) proposed by the World Bank in 2001. These principles are:

— Country driven;

— Results-oriented;

— Comprehensive;

— Partnership-oriented; and

— medium and long-term oriented (World Bank 2006b).

The principles of country ownership and civil society participation received particular attention as they – at least rhetorically – put an end to the long criticised externally defined conditionalities. By June 2006, fifty countries had developed a full PRSP and an additional 13 an interim PRSP, with sub-Saharan African countries accounting for 25 full and seven interim-PRSPs respectively (World Bank 2006a).

First developed as an instrument to effectively direct resources freed up by debt relief to pro-poor purposes, PRSPs quickly assumed much broader importance evolving into key reference documents for donor agencies' support strategies for developing countries. Perhaps most prominently, the IMF replaced its Enhanced Structural Adjustment Facility (ESAF) with a Poverty Reduction Growth Facility (PRGF) and the World Bank introduced the Poverty Reduction Support Credit (PRSC) scheme. But also bi-lateral donors readily endorsed the PRSP approach as a vehicle to shift their support from a project-based approach to programme-based approaches (PBAs) and budget support operations.

The PRSP thus became the 'master plan' for development and poverty reduction in many developing countries. However, to carry out these strategic plans they have to be translated into medium-term policies and programmes, which in turn have to be implemented through annual budgets. Successful PRSP implementation thus hinges on a country's administrative and managerial capacity to effectively translate strategic priorities into annual budgets and execute them accordingly, in other words, on the quality of the country's PFM system. However, a number of assessments and evaluations of the PRSP approach (e.g. World Bank 2004b; IMF/IEO 2004; Booth 2003) clearly show that most developing countries lack the required systems and capacities to implement their strategy papers effectively. All studies conclude that important improvements in domestic policy processes were made in cases where the PRSP approach had been integrated into domestic institutional structures. These improvements occurred where leadership and commitment were strong and good starting conditions existed. In most cases, however, achievements have been more tentative and incremental. An IMF evaluation even concludes that the PRS approach has "acted more as a distraction from strengthening the domestic policy framework" (IMF / IEO 2004, 5) in countries where it had been externally imposed and where it was an isolated exercise.

With regard to the implementation of PRS through the PFM system, the IMF evaluation team concludes:

> *"Budgetary processes are weak, and the linkages between the PRSP, medium-term expenditure frameworks, and the budgets are generally poor. In particular, public expenditure management (PEM) systems are generally too weak to allow the PRSP to play a central role in implementing expenditure priorities or modifying them on the basis of feedback on actual costs and outcomes. Strengthening PEM has been recognized as central to the success of the initiative"* (IMF / IEO 2004, 4).

These findings, together with the fact that many donors are increasingly turning towards supporting PRSP implementation through budget support operations and other forms of PBAs, lead donor agencies to shift their focus from thematic sector questions to institutional, administrative and procedural issues. This shift is increasingly affecting the quality of financial governance, i.e. planning capacities, budget transparency, fiscal discipline, or accountability, etc. Consequently, instruments promoted by the Wolrd Bank and the IMF in the second half of the 1990 such as Medium Term Expenditure Frameworks (MTEFs) are becoming more and more important.

2.1.2 Decentralisation in developing countries

Decentralisation is one of the most prominent reform approaches in developing countries, strongly supported by donors. International development agencies highly value decentralisation and attach a number of expectations to, such as increased efficiency in public service delivery, local consolidation of democratic principles and more effective poverty reduction. There have been several waves of decentralisation in most developing countries (Manor 1999: part II), including sub-Saharan Africa (Ribot 2002, 4–7; Mawhood 1993). With the end of the Cold War, the approach experienced a revival triggered by the failure of centralised systems to deliver poverty reduction and overall development (Wunsch / Olowu 1990). In addition, increasing attention was paid to governance and democratisation.

Decentralisation always implies the transfer of power, responsibilities and resources from higher to lower government levels. Four different forms of decentralisation are commonly distinguished according to the degree to which competencies are transferred downwards: delegation, administrative decentralisation or deconcentration, fiscal decentralisation and political/democratic decentralisation or devolution (see Box 1).

Box 1: Forms of decentralisation

- **Delegation** involves passing more or less clearly defined tasks to semi-autonomous authorities at the lower level, such as parastatal agencies. However, the decision-making power remains entirely at the higher levels of government.
- **Administrative decentralisation** or **deconcentration** describes the transfer of certain tasks to government institutions at lower levels. It often happens in the form of moving agents of higher levels of government into lower level arenas or of establishing local offices of central agencies. The crucial point is that although these offices may carry out activities at lower levels, they nevertheless remain accountable only to the institutions higher up in the system. If this kind of decentralisation is being implemented in isolation from the other three, it tends to constitute increased centralisation rather than decentralisation by enabling central authority to penetrate the periphery more effectively than before.
- **Fiscal decentralisation** implies that higher government levels grant agencies at lower levels the authority to decide autonomously on the use of financial resources they have access to and to raise local revenue. Central government transfers are often an important element of the financial resources at the disposal of local governments in most developing countries due to the low economic potential at local level.
- **Political** or **democratic decentralisation** or **devolution** refers to the transfer of the power of decision-making, responsibilities and resources to the lower government levels. The bodies at the lower levels are independent from higher-level authorities and are usually democratically legitimated to some degree. Accountability relations are mainly downwards to local constituencies.

Source: own compilation

Those arguing for decentralisation pursue various objectives. Generally, decentralisation is thought to positively impact in five areas. More specifically, decentralisation expects to

— Increase administrative efficiency and improve local service provision;

— Improve equity between as well as within local entities;

— Increase political participation and strengthen democratisation;

— Enhance the responsiveness and legitimacy of the state;

— Support local poverty reduction.

However, experience shows worldwide that these expectations have been rather optimistic. In most cases, the improvements listed above did not materialise. Among the reasons are the following: capture of decentralised government and administration bodies by local elites, limited commitment to decentralisation at the central level, as a consequence, insufficient transfer of power and finances, limited capacity at the local level and weak civil society structures at the grassroots (OECD 2004; SLSA Team 2003; Ribot 2002; Manor 1999; Crook and Manor 1998). It is argued that these restricting conditions are particularly often found in African countries.

Although *fiscal* decentralisation is of particular importance to this study's focus on Public Financial Management, analysis of decentralisation as a reform requires a much broader approach. In accordance with a broad definition of PFM that includes the design of the legal and institutional framework, various aspects of decentralisation are taken into account in this study.

2.2 The relevance of public fnancial management in developing countries

The public budget determines the origin and use of public financial resources. Therefore, it plays a crucial role in the process of governance. Once passed by Parliament, the budget authorises the government to raise revenues, incur debts and effect expenditures to achieve defined policy objectives. The budget should discipline policy-making and ensure that the objectives of public agencies, institutions and individuals are in line with those agreed on in the Poverty Reduction Strategy (Foster / Fozzard 2000, 8).

According to standard public finance textbooks and publications by the IMF and the World Bank, budgets are the key instrument to achieve three important policy goals (World Bank 1998, 27–30):

— Aggregate fiscal discipline;

— Allocation of resources according to strategic policy priorities;

— Efficient and effective use of public money.

The public budget is therefore the key instrument to translate the aggregate policy objectives of a population into concrete sector policies and programmes. National strategies, such as PRSPs, have to be implemented through the budget. Therefore, "good" PFM (or financial governance) is crucial for implementing a PRS. In many developing countries, poorly functioning PFM systems are among the main obstacles to achieve development and poverty reduction objectives.

This section of the report aims at delivering the conceptual background of PFM systems for this study. First, it gives a brief definition of the term Public Financial Management and then goes on to provide a conceptual overview of PFM systems and key elements of the budget cycle. Finally, it provides an overview of typical problems of PFM systems in developing countries.

2.2.1 A definition of public financial management

The international debate on public finance and budget reform offers different definitions of the term public financial management. Some of them adopt a rather narrow concept, concentrating mainly on management and control of public expenditure, while others incorporate a broader concept, including management of the whole budget cycle and even the legal and institutional framework as well as questions of capacity for managing public finances. In addition, there is no universal consensus in the literature concerning the accurate distinction between the terms Public Expenditure Management (PEM) and Public Financial Management. Although in most discussions PFM represents a broader concept than PEM, covering the revenue side of budgets as well as questions of public debt, both terms are frequently used synonymously and interchangeably.

In this study, PFM is understood in its broadest sense, i.e. not as a purely technical process regarding the management of financial flows and public accounts, but rather with a more comprehensive governance perspective covering the following three areas:

— The budget cycle, including strategic and budget planning, budget formulation, budget execution and budget control and evaluation;

— The legal and institutional framework;

— Human and technical capacity for the management of public finances.

Box 2 presents the second and third components, while the budget cycle is introduced in more detail below.

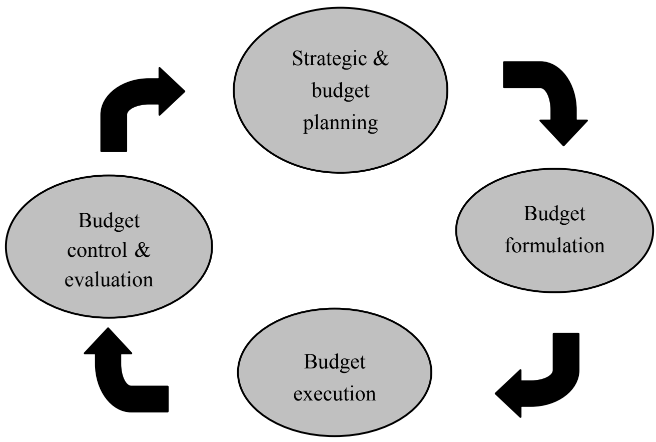
Box 2: Components of PFM systems
The **legal PFM framework** defines the overall setting for the actual design of the budget process. It should fix binding rules and regulations for budgetary practices. The legal PFM framework may incorporate constitutional regulations such as binding ceilings for the overall budget deficit and concrete budgetary regulations such as the timeframe for the different steps of the budget cycle or provisions concerning the management of public expenditures (Leiderer 2004, 8). The **institutional PFM framework** defines how the public budget process is organised. It determines the organisational setup of the governmental and administrative body determines the fiscal relations between the different levels of government or between the private and public sector etc. Adequate **accountability structures** are an important result of the legal and institutional PFM framework. The degree to which every single actor of the budget process feels or can be held accountable for budgetary practices and outcomes is a very important factor to guarantee that public resources are allocated in line with strategic policy priorities and spent effectively and efficiently. According to Schiavo-Campo / Tommasi (1999), effective accountability has two components: answerability (or responsibility) and consequences in the case of non-compliance with formal rules and regulations. The quality and appropriateness of **human and technical capacity** is also a very important factor for effective and efficient PFM systems. Despite well-developed legal and institutional frameworks, human and technical capacity constraints can undermine the budget process at all stages. Many developing countries lack qualified staff in key positions for PFM such as auditors, accountants, etc. so that rules, regulations and plans cannot be executed as prescribed or intended because the responsible personnel does not have enough knowledge to carry them out correctly. Well functioning **information systems** are another important factor for efficient

PFM systems. Financial management information systems (FMIS) allow decision makers to better control aggregate spending and deficit, to better prioritise expenditure across policies, programmes and projects and to more efficiently use the budgeted resources. As financial management processes are transaction intensive, time consuming and labour intensive, automated or computerised FMIS can make work much easier, speed up the process and eliminate sources of error.
Source: own compilation

2.2.2 The budget cycle

A typical budget cycle can be subdivided into several stages and phases, each of which is of particular relevance for the effective implementation of strategic plans such as a PRSP. For the purpose of this study a breakdown of the budget cycle into four major stages was deemed seems appropriate: strategic and budget planning, budget formulation, budget execution, and budget control & evaluation (see Figure 1).

Figure 1: The budget cycle



Source: own compilation

It must be noted that the individual steps of the budget process tend to be iterative rather than unidirectional. Although the budget process is an annual procedure in almost all countries, the period for the whole budget cycle is typically three years. It comprises budget planning, budget formulation, its execution and the finalisation of accounts. Therefore, at any time, three or more budgets will be in various stages of the budget cycle (Foster / Fozzard 2000, 12). The following part is a description of the different steps of a budget cycle, with particular reference to developing countries.

Strategic and budget planning

Before the actual budget process starts, the government (with varying degrees of participation by civil society and other stakeholders) has to define the main strategic policy priorities for the forthcoming years. In many developing countries, this strategic priority setting is done in the form of a Poverty Reduction Strategy Paper (PRSP) or similar national development plans. These strategic priorities then have to be translated into concrete sector policies and programmes, which can then be implemented through the public budget (Leiderer 2004, 9).

Once the strategic policy priorities are defined, the ministry of finance collaborates with the central bank and possibly other agencies to establish a macroeconomic framework in order to forecast the overall resource envelope available in the forthcoming period. The macroeconomic framework commonly consists in a medium-term forecast in GDP growth and estimates of the resulting collected public revenue as well as forecasts of external financial inflows supporting the budget. Furthermore, the ministry of finance has to consider the scope for domestic and external financing of any budget deficit. In order to asses the resource envelope available for allocation to ministries and agencies in the upcoming budget negotiations, statutory spending (e.g. debt services, pension obligations etc.) has to be subtracted from the forecast revenue (Foster et al. 2002, 15–16). A reliable macroeconomic forecast is a fundamental precondition to ensure macroeconomic stability and a realistic budget. To establish a credible and reliable overall resource envelope is a required precondition for the government to be able to reconcile sector allocations with the overall amount of public resources available; thus preventing budget overruns by ministries, departments and agencies (MDAs) while implementing the budget.

Based on the established macroeconomic framework, the actual budget planning begins. It is fundamental to embed the annual planning process into a longer term planning perspective as the implementation of strategic policy objectives and political programmes takes time and usually commits government to expenditures beyond one fiscal year. Therefore, annual budget planning alone is not an adequate instrument to translate medium or long-term strategic goals into effective allocation decisions and spending priorities in accordance with medium-term sector policies and programmes. Consequently, many developing countries – mostly under pressure from IMF and World Bank – have introduced Medium Term Expenditure Frameworks (MTEFs) in order to facilitate the integration of policy, planning and budgeting within a medium-term perspective (Holmes / Evans 2003, 5) and thus provide a better link between medium-term objectives and the annual budget (see Box 3).

Box 3: MTEFs in developing countries

According to the World Bank, MTEFs aim at achieving four major objectives:

- Improve macroeconomic balance by developing a consistent and realistic resource framework.
- Improve the allocation of resources to strategic priorities between and within sectors.
- Increase commitment to predictability of both policy and funding so that ministries can plan ahead and programmes can be sustained.
- Provide line agencies with a hard budget constraint and increased autonomy, thereby increasing incentives for efficient and effective use of funds.

An MTEF consists of a top-down resource envelope and a bottom-up estimation of the current and medium-term costs of the policy programmes and activities. Typically, MTEFs cover a time horizon of three to five years, over which estimated aggregated costs are matched with the estimated overall amount of available resources. The precise matching of costs then takes place in the context of the annual budget process.

The typical MTEF process consists of six key steps:

1.	Development of Macroeconomic/Fiscal Framework	- Macroeconomic model that projects revenues and expenditure in the medium term (multi-year)
2.	Development of Sectoral Programmes	- Agreement on sector objectives, outputs, and activities - Review and development of programmes and sub-programmes - Programme cost estimation
3.	Development of Sectoral Expenditure Frameworks	- Analysis of inter- and intra-sectoral trade-offs - Consensus-building on strategic resource allocation
4.	Definition of Sector Resource Allocations	- Setting medium-term sector budget ceilings (cabinet approval)
5.	Preparation of Sectoral Budgets	- Medium-term sectoral programmes based on budget ceilings
6.	Final Political Approval	- Presentation of budget estimates to cabinet and Parliament for approval

Source: World Bank (1998, 48); Le Houerou / Taliercio (2002, 3)

Budget formulation

As seen in Box 3, the next step in the MTEF and the final one in the upstream process of the budget cycle consists in the actual budget formulation. This step begins with the government outlining the annual budget based on medium expenditure plans and the available resource envelope. Budget formulation consists in allocating available resources for different purposes and to different government institutions and spending agencies. Ideally, the budget provides information about all public revenues and expenditures, including external assistance and debt. The process of resource allocation is, however, essentially a political rather than a technical task.

The overall resource envelope, defined by the Ministry of Finance and based on the macro-economic forecast and MTEF, provides the basis on which sector ministries should prepare their budget bids for the following year. Usually, the ministry of finance announces indicative ceilings for each line ministry or spending agency. However, these ceilings are contestable in subsequent budget discussions.

Each ministry or public agency submits a budget outline to the Ministry of Finance, reflecting the sector priority expenditure programmes and justifying the overall level of the bid. The Ministry of Finance has the task to reconcile the budget proposals of the different ministries and public spending agencies with the overall resource envelope available and the national policy priorities.

After cabinet approval, the budget is then presented and debated in Parliament, and – once it is approved by Parliament – is published together with the detailed estimates, setting out expenditures by MDAs in whatever detail the procedures prescribe (Foster / Fozzard 2000, 16).

Different budget classifications can be used to organise the budget, each having its advantages and disadvantages. Often governmental institutions use a mix of different budget classifications, e.g. line item classification within an activity-based budget. Box 4 outlines the most common types of classifications.

Box 4: Budget classifications

Line item classification: structures expenditures according to objects or "line items" (e.g. salaries, travel allowances, office material); strengths: relative simplicity, lack of ambiguity, easy control of expenditures, detailed; weaknesses: no indication of why money was spent, nor whether spending programmes were effective and efficient.

Programme or activity-based classification: structures expenditures according to programmes - public policy objectives along with a set of activities necessary to attain them. The programmes may cross departmental responsibilities.

Administrative classification: structures expenditures according to institutions (ministries, units, different administrative levels etc.) responsible for managing funds. ***Economic classification:*** structures government financial operations according to economic categories, especially for statistical analytical reasons, distinguishing between capital and current spending and revenues, subsidies, interest payments, transfers from the state to families and other public institutions, financing operations. ***Functional classification:*** structures government activities and spending according to their purpose (e.g. defence, education, health, transportation)
Source: Schiavo-Campo et al. (1999); World Bank (1998)

Budget execution

The process of budget execution usually starts with the release of public resources from the central bank to the accounts of spending agencies. The central bank normally holds government funds within a single treasury or a general fund. In most developing countries funds are released in monthly or quarterly intervals. MDAs have the task to disburse funds to provide for salaries and to pay suppliers and contractors to deliver services to the public. All these payments follow a series of steps (Box 5) designed to insure that procurement procedures are applied and that the limits set by parliamentary appropriations are respected (Foster / Fozzard 2000, 16–17).

Box 5: Steps in the Disbursement and Procurement Process
• **Commitment of funds:** Spending proposals are initiated by the department, which will use the goods or services. These proposals are subject to a pre–audit by the chief accounting office of the spending agency to ensure that government procurement procedures have been followed, the decision to commit funds has been taken at the appropriate level of delegated authority, and the expenditure is covered by the appropriation. Once approved, the spending agency signs a contract or places an order for the delivery of goods and services. • **Acquisition of goods and services:** The supplier or contractor presents the spending agency with an invoice for the goods and services delivered. The department that initiated the order confirms that the goods or services were received, in compliance with the terms and conditions, and requests that the accounts department makes payment.

- **Payment:** The Payment is made by the accounts department of the spending agency pays by cheque or bank transfer. Cash payments are extremely rare and discouraged. However, in countries with sparse banking networks, there may be arrangements whereby, for example, the head teacher picks up the salary cheque on behalf of all staff, and makes payment in cash.
- **Accounting:** The transaction is registered as complete in the accounts once the payment has been made, immediately following the issue of a payment order.

Source: Foster / Fozzard (2000, 16)

However, these steps do not guarantee that public funds are spent strictly according to budget allocations,[2] as the orderly execution and implementation of the budget depends on a combination of both political and technical processes. As the government spends scarce public resources, the government and its administrative bodies, therefore, need to ensure the responsible use of public money. Four general principles are commonly considered of importance for effective budget execution: legality, efficiency, effectiveness and economy of the use of public funds (INTOSAI 1998, Section 1).

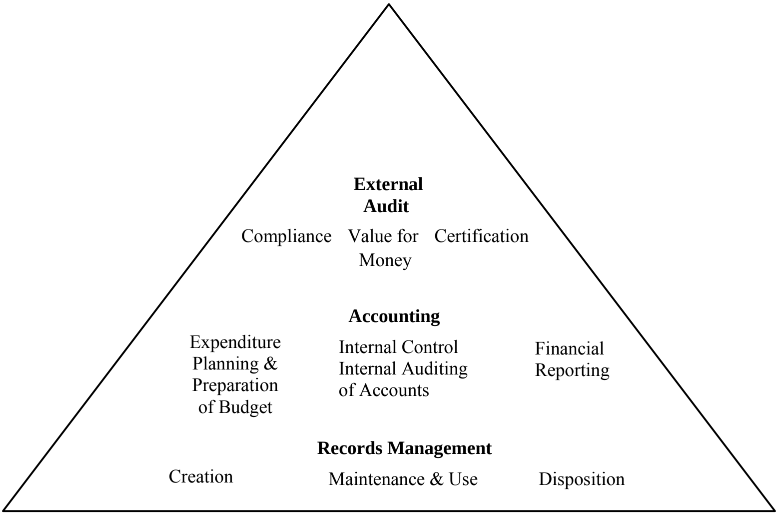
Budget control and evaluation

The final important element in the budget cycle is control and evaluation of budget execution. Control takes place at different layers in the PFM system as shown in the pyramid in Figure 2: Levels of Control.

Effective control is only possible with reliable data based on actions taken by spending agencies for which adequate systems for record keeping must be in place. Appropriate records must therefore be created, maintained and used in a way to show all transactions incurred by spending agencies reliably. These records are the basis for effective bookkeeping and accounting, which serves three purposes: it provides the database for future expenditure planning, it forms the basis of internal control and auditing to ensure compliance with laws and administrative rules, and, finally, financial reports are produced from the data (GTZ 2006, 24).

2 In the interest of flexibility this might not even be desirable.

Figure 2: Levels of Control



Source: GTZ (2006)

In principle, two forms of accounting systems can be distinguished (Foster / Fozzard 2000, 17):

— *Accrual Accounting*: transactions are booked when they legally arise and not when they are actually paid. Thus, expenditures are accounted for when liabilities arise due to the purchase of goods and services, even if payment has not yet been made. Revenues are accounted for when goods and services are sold, even if payment has not been received. The advantage of this system is that it captures the full costs of activities and provides a clear picture of the financial situation at any time during the process of budget execution. The main disadvantage lies in its complexity, so that its application does not seem appropriate for all countries, in particular developing countries where weak capacities limit effective cash flow management.

— Cash Accounting: transactions are registered only when actual payments are done for the purchase or sale of goods and services. The advantage of this system lies in its simplicity. The disadvantage is that cash accounting does not provide a clear picture of the outstanding liabilities and payment arrears at any point of time so that public agencies might lose track of the actual financial situation.

In any democratic system, government and its administrative bodies have to be held accountable for their budget commitments and actions. External control over the budget process is exercised through a number of mechanisms and by various actors, above all national parliaments, supreme audit institutions and civil society organisations.

The role of audit institutions

Supreme Audit Institutions (SAIs) play a key role in promoting accountability, and transparency in the budget process and in uncovering issues such as the misappropriation of funds and corruption. They oversee the management of public funds and evaluate the credibility and quality of the reports dealing with the use of public funds by the government. To be able to play this role, SAIs need to be able to act independently from the executive in order to provide an impartial analysis of the execution of the budget by the government.

The role of parliament

The principal role of Parliament in the budget process is to scrutinise the budget in terms of priorities and effectiveness and thus exert political control over the budget. By approving the budget, Parliament has an important oversight function and can ensure that the allocation of resources is consistent with the national strategic objectives and political priorities of the electorate. Through the approval of the aggregate budget proposal, Parliament empowers and legitimates the government to execute its plans embedded in the budget (Fjelstad 2004, 19–24). It is also the role of Parliament to hold the government accountable for the proper implementation of the approved budget. For this Parliament depends on a timely and meaningful report provided by the supreme audit institution of the country.

The role of civil society

Civil society can influence the budget cycle primarily through the electoral process. In functioning democracies, the right to vote should enable the population to ensure that politicians really deliver the promised services and claim efficient and better policies. Furthermore, the organised groups of civil society may have an influence on the budget cycle by lobbying parliamentarians to increase budget allocations in their priority areas.

An independent media also plays a crucial role in the external scrutiny of the budget. It is the role of the media to assess the budget process and its outcomes and to inform the public about the government's performance.

2.2.3 Common weaknesses of PFM systems in developing countries

PFM systems in developing countries quite often face a number of similar problems that prevent budgets from working effectively and delivering the desired outcomes. These problems are above all weak institutions, capacity constraints (financial, technical, human resources) and inadequate budgeting techniques, together with unfavourable external factors such as macroeconomic instability and dependency on donor funding. Especially when countries face several of these problems simultaneously, the result is often poor budgetary performance. However, it needs to be emphasised that this observed poor performance does not necessarily stem primarily from poor formal PFM systems. On the contrary, many developing countries (usually under pressure from international donors, in particular the World Bank and the IMF) have introduced modern PFM legislation and institutional set-ups over the years. Consequently, the formal framework for PFM is often well designed in principle. However, in many cases, these formal frameworks are not adhered to in practice because informal rules and procedures tend to dominate the management of public finances.

In these cases, the effectiveness of multi-year plans and annual budgeting as key instruments for implementing national strategic policies, such as poverty reduction strategies, are severely compromised as well as the prospects for effective public policy for development and poverty reduction. Box 6 contrasts good budgeting principles with typical poor practices often observed in developing countries.

Box 6: The Theory and Practice of PFM in Developing Countries	
Good Budgeting Principles…	**… and Poor Budgeting Practices**
1. Comprehensiveness: the budget must encompass all the fiscal operations of the government 2. Discipline: policy decisions with financial implications must be made against the background of a hard budget constraint and in competition with other demands 3. Legitimacy: decision makers who can change policies during implementation must take part in and agree to the original policy decision 4. Flexibility: decisions must be pushed to the point where all relevant information is available 5. Predictability: fiscal policy must take account of the need to ensure the timely flow of funds to spending units 6. Contestability: existing policies are subject to constant review and evaluation 7. Honesty: budgets are based on unbiased projections of both revenue and expenditure 8. Information: accurate and timely information on costs, outputs and outcomes is essential	1. Unrealistic planning/ budgeting: both plans and budgets are not a statement of intentions, but a wish list of political promises 2. Short-term budgeting: no consideration of medium-term implications of budgets, such as the recurring operating costs of new investments 3. Repetitive budgeting: the budget is frequently remade during the year, in response to economic or political conditions 4. Cashbox budgeting: government spends as cash becomes available, not according to preset budget priorities 5. Deferred budgeting: arrears build up as expenditures are pushed into subsequent years 6. Distorted priorities: scarce resources are spent on 'showcase' projects that produce meagre social returns 7. Declining productivity: the size of the civil service expands in response to unemployment, but ghost workers,

9. Transparency: information about budget decisions must be accessible, clear and communicated to the wider community 10. Accountability: decision makers must be held responsible for the exercise of the authority provided to them	underinvestment in training and IT, and poor working conditions degrade operational efficiency 8. Informal management: extra-legal arrangements dictate how government operates in recruitment, procurement, etc. 9. Corruption: lack of enforcement of formal rules breeds illegal behaviour, which goes undetected and unsanctioned
Source: ODI (2004)	

The effective implementation of PRSPs through annual budgets highly depends on a good match between formal rules and procedures and actual practices of PFM. It is thus closely linked to at least three key factors: the political will of the stakeholders in the budget process, an elaborated institutional framework that supplies them with the right incentives and efficient control mechanisms, sufficient technical, human and financial capacity that allows for executing tasks throughout the budget cycle efficiently and effectively.

The following chapters examine in detail how these influencing factors determine the relevance of the formal framework to the actual practice of PFM in developing countries and thus the chances of effectively implementing PRSPs.

3 Main Research Question, Research Design, and Methodology

This chapter presents the main research question and gives a brief overview of the research design chosen for this study. It concludes with an overview of the structure for the remainder of this report.

3.1 Main research question

The research focus of this study is on the PFM system in a in many ways typical Sub-Saharan-African country, paying heed to the enormous relevance of a well functioning PFM system for implementing poverty reduction strategies and for linking and integrating PRSP and decentralisation. The public budget is the single most important tool for operationalising and implementing policies based on national strategic development plans. At the same time, if a country pursues a decentralisation policy, this means that new levels of government are created or that existing sub-national levels of government are assigned additional powers, responsibilities and resources. This fundamental reorganisation of the state has far-reaching implications for the national PFM system, as its functions need to be reorganised in a way that allows for the successful integration or at least effective coordination of planning, budgeting and implementation processes across the various levels.

Most research so far focuses on either PRSP and PFM at the central level[3] or on decentralisation and local planning separately without linking the various levels. Thus, this study extensively covers PFM at local level and examines how it is integrated into the national PFM system with regard to implementing national strategic priorities. For this purpose, it examines the links (existing and missing) and the incompatibilities between PFM at local and central government level. In order to study these complex relations the research team deemed a case study design as the most adequate approach. For a number of reasons (detailed in Chapter 4) Malawi has been identified as a typical showcase for a poor developing country in Sub-Saharan-Africa that pursues both the implementation of a national PRSP and an ambitious decentralisation agenda simultaneously.

3 For recent studies on Malawi, see Rakner et al. (2004); IMF (2004a); IMF (2004b); South African Institute of International Affairs (2004) and Durevall / Erlandsson (2005).

The main research question for this case study is therefore the following:

What are the major constraints in Public Financial Management (PFM) at the central and local government level for implementing the Malawi Poverty Reduction Strategy (MPRS), particularly in the education and health sectors?

Special attention is paid to the following PFM coordination processes:

— Between central and local government level in general (vertical coordination);

— Between education and health sector ministries and their respective deconcentrated units (vertical-sectoral coordination);

— Between various administrative units and other institutions at the local level (horizontal-local coordination).

The study also aims at identifying starting points for possible solutions to overcome these challenges.

3.2 Research approach

The research approach selected for this study is mainly qualitative and the overall research design is a country case study. The rationale behind this choice is that the interrelations between PRS implementation, decentralisation and PFM – even PFM as such – are very complex and might take very different forms in different country contexts. Therefore, it can be assumed that meaningful results can only be gained by studying a particular case in detail. Malawi was identified as an ideal showcase in many aspects, being a poor sub-Saharan African country. Nevertheless, the overall aim of this study is to identify typical challenges and to carefully draw generalisations that could apply to similar processes in other developing countries as well. For this purpose, it was deemed appropriate to attempt to gain a genuine and thorough understanding of all aspects and underlying mechanisms of informal practices of public financial management, in particular processes of one specific case rather than trying to paint a broad but shallow picture of the challenges for sound PFM in Malawi. In an effort to gain such a thorough understanding, the research was even further narrowed down by concentrating on PFM in two sectors, namely health and education. Both sectors feature prominently in Malawi's PRSP and are at the same time considered pilot sectors for its decentralisation policy.

The study intends to focus not exclusively on PFM at central but also at local government level. Because the situations differ significantly in urban and rural districts, the research team decided to concentrate on rural districts, given that roughly 85 percent of the population and 90 percent of Malawi's poor live in these areas (Ellis et al. 2003, 1497; IFAD 2002, 9). The team selected two rural districts (Dedza in the central region and Rumphi in the north), choosing one considered a relatively good performer and one considered to face particularly many challenges regarding PFM (for a map of Malawi, see Annex 4). By resorting to this maximum difference sampling strategy, the study aims at covering the broadest possible range of performance in order to identify critical differences as well as general features in terms of factors and context conditions. [4] Therefore, in addition to PFM performance, three other criteria have been taken into account for district selection:

— Pilot-districts for devolution in the education sector;

— Different donor agencies involved in decentralisation/PFM activities at district level;

— Regional and political party division in Malawi.

The analysis is predominantly based on qualitative data collected during a three month field trip to Malawi. The main instrument of data collection has been semi-structured interviews with individually adjusted interview guidelines. Furthermore, official documents as well as grey literature have been collected. Data from a number of non-participatory observations and informal conversations complement the data gained through interviews and documents. The analysis of these data has been qualitative and guided by the principles of Grounded Theory. Annex I provides more details on methodology and research strategy.

4 For the initial evaluation of the districts' PFM performance, the research team relied on assessments by different stakeholders in Malawi, in particular the local partner institution for this project, the National Local Government Finance Committee as well as donor representatives involved in activities with local governments.

3.3 Structure of this report

The remainder of this study is structured as follows:

Chapter 4 explains why Malawi was selected a case study and provides readers with some relevant background information on the country.

Chapter 5 contrasts theory and practice of public financial management in Malawi and tackles the following sub-questions:

— Do legal regulations and institutional arrangements provide a coherent and comprehensive framework for PFM procedures (at all government levels)?

— What does current PFM practice look like and does it reflect the formal framework (at all government levels)?

Chapter 6 presents the empirical results in more detail based on the following sub-question:

— What are the key areas where challenges arise in the PFM process (at central and local levels) and what is the exact nature of those challenges?

Key areas where challenges for PFM arise in Malawi and the mechanisms of these problems are then drawn together and put into relation to each other in Chapter 7. The impact of the problems identified on the PFM process are laid out and an analysis of current PFM practice is provided at a higher aggregated analytical level. These findings are also put into context of recent literature on institutions and state-building in Africa. Chapter 8 identifies starting points and provides recommendations for possible solutions to the identified challenges. It does so with particular attention to the role of donors and in particular German development cooperation in the PFM process in Malawi.

4 The Case of Malawi

This chapter explains why Malawi was chosen for this case study. It provides the reader with some relevant background information on the country, particularly with regard to the Malawian PRSP. Furthermore, it briefs on recent political history, and decentralisation in Malawi. Finally, it provides information on the local institutional set-up and the education and health sectors.

4.1 Why Malawi?

Malawi was a particularly interesting choice for a case study because PRS implementation, decentralisation and reforms of the PFM system are all currently being carried out simultaneously in the country. It therefore reflects well the current dynamics in much of sub-Saharan Africa and developing countries elsewhere. Lessons drawn from this case analysis are thus likely to be relevant in other comparable situations. In addition, conducting this study in Malawi in early 2005 was particularly interesting due to the specific history of PFM reforms in the country. Gross irregularities and massive overspending under president Muluzi's government led a number of donors to suspend development assistance in 2001. In 2004, however, a new president was elected, who was initially given considerable credit by the international donor community for appearing to be strongly committed to policies aiming at fiscal stability and austerity. Malawi, therefore, provided a particularly interesting case to study the role of political commitment and other potential factors for formality and quality of PFM practices in sub-Saharan Africa.

Box 7: The Malawi Poverty Reduction Strategy Paper

Malawi prepared its first PRSP in 2001/2002. The Malawi Poverty Reduction Strategy (MPRS) was based on four strategic pillars:

1. *Sustainable Pro-Poor Economic Growth* – economically empowering the poor by ensuring macroeconomic stability, access to credit and markets, skills development and employment generation.
2. *Human Capital Development* – ensuring the poor have the health status and education to lift themselves out of poverty
3. *Improving the Quality of Life for the Most Vulnerable* – providing sustainable safety nets for those who are unable to benefit from the first two pillars.
4. *Good Governance* – ensuring that public and civil society institutions and systems protect and benefit the poor.

In addition, there were four issues cutting across these pillars: HIV/AIDS, Gender, Environment, Science and Technology.

While PRSPs are considered key documents in joint efforts by governments and donors to achieve sustainable development in many countries, the Malawian PRSP never gained too much relevance. It is mainly perceived as a background document that guided the general formulation of policies rather than being considered a binding policy document for different sectors of the government.

The first MPRSP expired by the end of 2005. Preparations for a new PRSP had not started by the time the field research was conducted and another strategy document, the "Malawi Economic Growth Strategy" (MEGS) was generally considered the guiding policy document reflecting government priorities. By the end of 2006 a new PRSP had been drafted; however, the finalisation process got delayed when the president presented different priorities from those initially agreed upon in the participatory formulation process to be included.

Source: World Bank (2004a); own compilation

Most studies conducted on PFM in Malawi thus far refer to the conditions under the Muluzi administration. Their findings are rather similar: the budget itself is considered a "shadow budget" (South African Institute of International Affairs 2004, 2), the budget process is judged to be either extremely weak (IMFb 2004) or even a mere "theatre that masks the real distribution and spending" (Rakner et al. 2004, iv). Political patronage and interference from the top level have been identified as creating informal practices that undermine formal institutions of the budget process. The deliberateness of these political interferences for individual gains under the Muluzi administration is generally not doubted by the cited studies. It was, therefore, particularly interesting to attempt to assess the impact of apparently improved political commitment at the top on the quality of PFM in Malawi.

Box 8: Recent Political History of Malawi

Malawi's recent political history is far from unique in the African context. It is a country in transition. In 1994, the first democratic multiparty elections took place after almost 30 years of authoritarian rule under Dr. H. Kamuzu Banda. Poor economic performance and external shocks reduced political elites' access to resources and thus eroded the support bases for "bureaucratic-authoritarian" regimes (Haggard / Kaufman 1995, 28–30). However, the regime change was primarily induced by heavy donor pressure from World Bank and the IMF instead of evolving elites or revolutions. The aftermath of the changes in 1993/94 has been characterised by a typical setting and the challenge for democratic consolidation. Winner of the first

(1994) and second free elections[a] (1999) was the conservative United Democratic Front (UDF)[b] party and its leader Bakili Muluzi was elected president[c]. In 2004, Muluzi did not succeed in changing the constitution to run for a third term, mainly thanks to the resistance of Members of National Parliament (MP) and Civil Society Organisations (CSO) influence. Bingu wa Mutharika, his successor and winner of the 2004 presidential elections, however, had enjoyed strong support from the former president and seemed to be dependent on his political influence. Nonetheless, the IMF and other donor organisations quickly hailed the new Mutharika government as a great hope for Malawi, following a new policy approach, being serious about fiscal austerity and fighting corruption. This was in part driven by the new president's decision to appoint Goodall E. Gondwe as Minister of Finance, who had – among other things - previously served as director of the Africa department at the IMF. This appointment was interpreted as a strong signal that Mutharika was indeed committed to sound fiscal policy and to improving Malawi´s relations with international donors (Meinhardt 2004, 21). However, from the beginning many observers considered it problematic that the apparently strong commitment to better and more transparent political leadership depended on very few prominent figures at the top.

In 2005, controversial positions between the president and his predecessor became more obvious and finally led into open confrontation. Mutharika withdrew from UDF and formed his own Democratic Progressive Party (DPP). Political conditions in transition countries are often shaped by rapidly changing coalitions and 'turncoat' mentalities. This appeared to be the case in this new setting of parties and politicians, who had left UDF to join the new DPP. These new developments created a situation of political uncertainty with the result that local government elections have repeatedly been postponed since May 2005. Calls from voices within society and the political arena for a so-called Government of National Unity (GNU) became stronger. By the end of 2006, local government elections had still not been held, although there were signs that preparations were finally under way. By this time, many observers no longer shared the initial enthusiasm for the new administration. The general impression conveyed that the new president was increasingly turning to an authoritarian style in his decision-making.

Although this is not unusual in the African context, recent developments seem to reduce the likelihood of a democratic consolidation to happen soon. The introduction of a multiparty electoral system by itself does not create a liberal democracy overnight. Although the democratic changes have increased the likeliness of legal institutions and procedures to be more predictable, ad hoc decision making and informal procedures still exist. Thus, Malawi's way to consolidate liberal democracy proves its relevance for the PFM in so far as the absence of a dysfunctional system in favour of arbitrary procedures and weak institutions is a precondition for successful and sustainable management of finances for development.

[a] *Elections are held in five-year terms. The president and the legislative branch are elected at the same time (CIA Factbook, 2004).*

[b] *UDF entered a coalition with AFORD (Alliance for Democracy) and the Malawi Congress Party (MCP). The characteristic of national party politics became clear after the elections. All three parties are not characterised by strong ideological ties but frequent shifts of alliances. Personality matters and people vote along regional patterns: UDF established strong ties in the south with connections to the Chamber of Commerce. AFORD shows affinity to the north and various trade unions, whereas the former Banda party MCP could preserve its connections to the centre region of Malawi (Hussein 2004, 109-112)*

[c] *Muluzi is a former MCP member, who – like many other politicians in Malawi – changed his party affiliation after the end of the Banda era.*

4.2 Decentralisation in Malawi

Malawi is a unitary state with strong centralistic features. However in recent years, it has begun to devolve functions and responsibilities to local levels of government. This new approach is not least due to donors, who felt that a fresh impetus was needed and hence strongly argued for the need to develop a national decentralisation strategy. Thus, when in 1995 a new constitution was adopted it entailed the requirement to establish local government authorities. In 1998 the National Decentralisation Policy (NDP) was approved, and incorporated into the Local Government Act. The NDP along with the Local Government Act provide the main framework for decentralisation in Malawi. This framework establishes political decentralisation through democratically elected local assemblies and the devolution of central government functions to local government level.

The NDP is formulated and reviewed by a Cabinet Committee on Decentralisation and seeks to achieve the following objectives (Decentralisation Secretariat 1998, 2–3):

— creating a democratic environment and institutions in Malawi for governance and development; at the local level which will facilitate the participation of the grassroots in decision-making;

— eliminating dual administration (field administration and local government) at the district level with the aim of making public service more efficient, more economical and cost effective;

— promoting accountability and good governance at the local level in order to help Government reduce poverty; and

— mobilising the masses for socio-economic development at the local level

The Local Government Act provides the implementation modalities and details of the local government structure, including key structures, procedures, accountabilities and remedies. It also defines the specific parameters of the intergovernmental fiscal system (GFA 2005, 20).

Today Malawi is divided into three regions: the north, the centre, and the south. These regions, however, do not have any relevant administrative functions. Thus, the relevant second administrative tier is formed by 28 rural districts; 8 towns; 1 municipality and 3 major cities of Malawi. Districts are themselves further divided into areas, wards and villages. Areas are headed by Traditional Authorities (TA) such as chiefs and sub-chiefs. In 1998 Malawi counted as many as 380 areas with approximately 26,000 inhabitants in each area, and 850 wards of 10,000 to 12,000 people each, which are the smallest administrative units (DANIDA 1998, 24; NSO 2005).

4.3 The sectors: education and health in Malawi

Although this study focuses on PFM in general, it particularly concentrates on PFM in the sectors health and education. There are several reasons for this: First, both sectors are considered highly relevant to reducing poverty in sub-Saharan Africa. This is also reflected in the central role both sectors are attributed in the MPRSP. The second reason is that the MDG-driven debate about new modes of aid delivery such as Sector Wide Approaches (SWAps) or budget support are heavily biased towards these "social" sectors. Thus, they play a role in the closely related debate on PFM reforms. This is also the case in Malawi.[5] Furthermore, decentralisation efforts regularly are most

5 GoM and a group of donors agreed to a health SWAp in 2004. A 'mini-SWAp' already exists on HIV/AIDS. At the time the field research was conducted a SWAp in the education sector was also being prepared.

pronounced in these sectors as seen in Malawi. Finally, these sectors account for the largest share of the national budget.

The following section gives a brief overview of the two sectors.

4.3.1 The education sector in Malawi – current situation

Around 13 % of the national budget is currently allocated to the education sector (fiscal year 2003/2004). The sector heavily depends on donor funding, much of it in support of a SWAp. About one third of the total education budget is donor grants (World Bank 2004b, 58). However, donors working in the education sector assume that 30 % to 40 % of donor funds are actually provided off-budget. At the time of writing Malawi is seeking to apply for the **Education for All Fast Track Initiative**. This would make an allocation of 20 % of the national budget for education necessary. Therefore, the Ministry of Education (MoE) currently tries to improve coordination of the various donor-contributions. Donors are heavily involved in supplying **teaching and learning materials** as well as in **school construction.** Most school construction in Malawi is donor-financed, often including only minor community contributions. An arrangement between the government of Malawi (GoM), Germany, the UK and Canada is currently being set-up to create a thematic basket financing mechanism to jointly fund activities in support of primary education.

About 26 % of all men and 55 % of all women in Malawi are illiterate. A severe problem of Malawi's education sector consists in a **lack of qualified teachers**. In 1994, the government introduced free primary education. Despite a positive impact on enrolment ratios, this sudden policy shift had severe consequences on the quality of primary education as not enough trained teachers were waiting in the wings. There are six publicly funded primary teacher colleges in Malawi with a combined training capacity of 2760 qualified teacher graduates each year (MoE 2005b, 8). As a make-shift solution, the government employed 20,000 untrained teachers, planning to train them over the coming years. This has only happened partially so far. Consequently, the qualified teacher/pupil-ratio dropped drastically to around 1/118 (Hau 2004, 29), whereas the goal is 1/60. In addition, there are currently around 10,000 vacancies and the number is rising due to retirements and deaths (BMZ 2004a, 5). However, the total number of teachers – trained and untrained – declined (from 47,840 to 43,952) between 2000 and 2004 (MoE

2005b, vi). One serious problem appears to be that a surge in the number of private secondary schools has deprived the public primary schools of their most qualified teachers because they offer higher salaries. The situation is even worse in rural than in urban schools.

Furthermore, the **HIV/Aids** pandemic poses major challenges to this sector. According to the MoE, four to six teachers die per day in Malawi. In addition to the detrimental effect this has on the quality of education, the ministry also faces the problem of paying the funeral costs of deceased teachers. Custom in Malawi requires any employer, in this case the MoE, to cater for the funeral costs for deceased employees. In the past, however, the education budget did not provide for these expenses, which can amount to considerable sums. The policy to place teachers all over the country contributes to high funeral costs, because the ministry is also expected to pay for transporting the body to the deceased person's home village. This problem has been recognised and funeral costs can now be budgeted for under the item "consumables" in the sector vote, which consequently is the second biggest expenditure item of the sector budget. It is expected that the devolution of the responsibility to recruit teachers to local administrative units will further reduce this problem by making it possible for teachers to teach in their home district. Besides reducing funeral costs, this may also contribute to lower HIV infection rates among teachers as well.

4.3.2 The health sector in Malawi – current situation

Poor health status is both a main reason and an important aspect of poverty in Malawi. Recent trends have been quite negative. Life expectancy has dropped from 43 years in 1996 to only 37 years in 2005, mainly due to HIV-AIDS pandemic (estimated adult prevalence rate in 2005, 14.2 %). Infant mortality is estimated to have reached 103 deaths in 1,000 births in 2005 (CIA World Factbook) while the maternal death rate in the same year was 1,120 deaths in 100,000 births, almost double the rate of 1990 (Republic of Malawi 2002).

Malawi's **public health care system** is structured in three tiers:

— Three *central hospitals* (in Lilongwe, Blantyre and Zomba) for the delivery of tertiary services with a semi-autonomous status.

— *District hospitals* for the delivery of primary and secondary services, with one hospital per district.

— Several *health centres* for the delivery of primary health services (maternal and child health, treatment of common diseases). Health centres are not separate cost centres but fall under the responsibility of district hospitals.

As such, the Ministry of Health and Population (MoH) accounts for 64 % of the total number of formal health facilities (Hanson 2005, 1). Beside the public health care providers and some private clinics, non-governmental organisations play an important role in providing health care services in Malawi. The most important among these is the Christian Health Association of Malawi (CHAM), which provides 26 % of health care facilities (Hanson 2005, 1).[6]

The most prominent government strategy in the Malawian health sector is the **Essential Healthcare Package** (EHP), which is also incorporated in the MPRSP. The EHP consists of a bundle of health services that are supposedly available for every Malawian throughout the country. It is intended to improve the quality and availability of essential healthcare inputs, to improve the access to essential healthcare and to strengthen the administration and financing of essential healthcare services (Republic of Malawi 2002, 60). Implementation of the EHP programme, however, is difficult, not least due to the poor staffing situation in the sector.

The health sector is extremely donor dependent, with donors providing around 60–75 % of total expenditure over the period from 2000/01 to 2003/04 (Hanson 2005, 8). In October 2004 the government and a group of donors (DFID, NORAD, World Bank) launched a **Sector Wide Approach** (SWAp) for the health sector. The financing mechanism is viewed as an important instrument for implementing the EHP. Accordingly, the EHP Programme of Work provides an extensive list of activities that should be financed with SWAp resources (Republic of Malawi 2004). Although at the time of research, the SWAp was still in its very early stages, most stakeholders expected substantial improvements regarding the alignment of donor procedures to the Malawian budget cycle and donor coordination in general,

6 CHAM coordinates health units from different church denominations, including hospitals, health centres, and dispensaries. Together, these units provide roughly one third of health services in Malawi. CHAM receives funds from government, churches and private donations. In addition, it charges user fees for health services.

leading to reduced workload on all sides thanks to harmonised monitoring and reporting requirements.

Most votes within the health budget (around 80–90 %) are classified as **Poverty Priority Expenditures** (PPEs) and thus cannot be cut back during the budget year in case of cash fluctuations (see Section 5.1.2). As a result, funding for salaries and drugs appear to be disbursed relatively regularly and without substantial fluctuations during the financial year.[7] This seems to apply less so to expenditures for administration at headquarters. Furthermore, operational costs are often cutback substantially during the fiscal year, because expenditure items such as fuel, electricity, water etc are not classified as PPEs.

Similar to teachers in the education sector, one major problem in the health sector consists in the lack of qualified medical staff. Table 1 shows the population to health personnel ratios for doctors and nurses in Malawi. Approximately 50 % of key positions, such as doctors, clinical officers and nurses cannot be filled; this leads to a severe shortage of medical professionals in public hospitals and health centres. Although the government produces a number of qualified professionals in nursing schools and universities, a large share of these graduates are absorbed by private facilities offering better salaries or they emigrate to Europe and other countries where salaries are generally much higher than public sector pay in Malawi.[8] Among the reasons for the poor staffing situation are the cumbersome recruitment process and poor coordination between different departments in the MoH. For example, it is common for new staff to receive their first salary 3–4 months after taking up their job in the public health service.

7 However, this does not mean that drugs and supplies are readily available in all regions of the country, as explained below,

8 Especially the UK is blamed for luring urgently needed nurses and doctors away from Malawi. As a counter-measure, the British Department for International Development (DFID) has recently agreed to top up the salaries in Malawi's public health sector. This measure should attenuate the brain drain and contribute to attracting and retaining more qualified medical professionals in the public sector.

Table 1: Population per Health Personnel Ratios (MoH and CHAM personnel)

	2000	**2002**	**June 2003**	**June 2004**	**Recom-mended**
Doctors	31,746:1	70,725:1	89,962:1	106,397:1	9,000:1
Nurses	4,871:1	4171:1	3,240:1	3,035:1	2,000:1

Source: Hanson (2005)

Another major problem is the severe **shortage of drugs and materials**, despite of relatively regular funding. The Central Medical Stores are responsible for supplying and distributing drugs to public hospitals and health centres. In recent years, it has become a common phenomenon for drugs and materials to disappear; therefore, some donors headed by DFID are now pushing for a reform of the central medical stores system.

Another problem consists in a severe **lack of basic infrastructure**, especially in rural health centres. Health centres in remote areas often do not have electricity, running water or even a telephone available, seriously limiting the effectiveness of these facilities. Many health centres do not have ambulances at their disposal, making transport of patients extremely difficult in rural areas.

Part II: Empirical Findings

5 Worlds Apart: The Theory and Practice of Public Financial Management in Malawi

The formal legal and institutional framework for public financial management in Malawi has undergone a series of reforms since the first free multiparty elections in 1994 and even prior to that. New legislation regulating finance, audit and procurement was written, providing for relatively clear-cut responsibilities and time schedules of the budget process in Malawi. Accordingly, various recent studies on Malawi's PFM system conclude that the legal and institutional framework for PFM in Malawi is relatively well designed. In principle, it provides a good starting point for a sound management of public finances (c.f. Rakner et al. 2004, 14–15, 18). For example, the World Bank's 2003 Country Financial Accountability Assessment for Malawi states: "*When compared to most developing countries, Malawi has a good legal and institutional framework for public sector financial management and accountability.*" (World Bank 2003, v). Therefore, one could expect that the formal legal and institutional PFM framework in Malawi should provide in principle for effective fiscal and expenditure planning, budget preparation, execution, and control in line with the priorities set in the Malawi Poverty Reduction Strategy Paper (MPRSP).

At the same time, however, many assessments judge the budget process in Malawi to be extremely weak (c.f. IMF 2004a; IMF 2004b; see Table 4 and Figure 6 below). The main reason for this is that formal institutions and procedures bear little relevance for PFM practice in Malawi. As a recent study on Malawi's formal and informal PFM institutions commissioned by DFID states:

> *"The budget process is a theatre that masks the real distribution and spending. All the actors, from civil society, government, and donors seem aware that many of their statements and actions have little bearing on [the] actual distribution of resources"* (Rakner et al. 2004, iv).

The cited studies of Malawi's PFM tend to focus on central government. However, the findings of the field study conducted for this research in 2005 confirm that their assessment is also valid for local government in Malawi. It found ample evidence that Malawi's local PFM-system is characterised even more by informal procedures and ad-hoc behaviour by virtually all relevant stakeholders in the PFM process.

This observed gap between the formal framework for PFM and actual PFM practice in Malawi has a wide range of causes. In order to provide a clearer picture of these discrepancies and their relevance for PRSP implementation in Malawi, the following sections contrast the 'theory' and 'practice' of PFM[9] in more detail before Chapter 6 goes on to examine the underlying determinants of informal PFM practices in Malawi.

5.1 The formal legal and institutional framework for PFM in Malawi

This section first introduces the formal and institutional framework for PFM in Malawi including the formal links between the MPRSP and the budget, before examining the determinants for these divergences more closely in Chapter 6. The empirical findings with regard to actual PFM practice in Malawi are presented in Section .

5.1.1 The legal framework for PFM in Malawi

The most important laws regulating Public Financial Management in Malawi are the

— Constitution of the Republic of Malawi 2002
— Public Finance Management Act No. 7 of 2003
— Public Audit Act No. 6 of 2003
— Public Procurement Act No. 8 of 2003

These acts have replaced the Public Finance and Audit Act, which was considered inadequate for modern financial management. The new acts are mainly based on the recommendations given by a team of experts led by the

9 In this context 'theory' of PFM refers to the formal legal institutional framework for the management of public finances while 'practice' covers the actual reality of PFM in Malawi. While it is obvious that a certain gap between the formal framework and practical reality always exists, the degree to which a formal legal and institutional framework actually guides real processes may differ widely in different contexts.

World Bank in the course of a Country Financial Accountability Assessment (CFAA) undertaken between February and December 2001, following a previous breakdown of donor-government relations.

In addition to these legal acts, financial management within government institutions is guided by the issuance of circulars. The purpose of these circulars is to clarify and update the above-mentioned regulations.

At the local government level, PFM is regulated mainly by the following acts, guidelines, and regulations:

— Local Government Act 1998
— National Decentralisation Policy (NDP) 1998
— Development Planning System Handbook for District Assemblies 2001
— Financial Reporting Guidelines for Local Authorities 2004

5.1.2 Formal PFM at central government level

The financial year in Malawi covers the period 1 July to 30 June. The most important public actors involved in the budget process at the central government level are the Ministry of Finance (MoF), the Ministry of Economic Planning and Development (MEPD), respective line ministries, the National Parliament, and the National Audit Office (NAO).

Malawi operates a dual budget system, i.e. the recurrent budget and the development or capital budget are prepared separately.[10] In the specific institutional setup of Malawi's PFM system this has the consequence that the responsibility for the budget planning process is distributed between two ministries, namely the **Ministry of Finance** (MoF) and **the Ministry of Economic Planning and Development** (MEPD). The MoF is responsible for medium-term expenditure planning (i.e. the **MTEF**) and the formulation of the annual budget (consisting of the recurrent and the development budget). The MEPD is in charge of compiling the **Public Sector Investment Programme (PSIP)**, a five-year rolling plan of prioritised investment projects. The first year of the PSIP provides the basis for the annual development budget. The harmonisa-

10 The term capital budget is somewhat misleading, as it can contain recurrent expenditures related to investment projects as well. The reverse is true for the recurrent budget, which can contain capital expenditure.

tion of the two budgets, the actual allocation of resources and the disbursement of funds to MDAs is the responsibility of the MoF and the Treasury.

Strategic and budget planning – the formal link to the MPRSP

Budget planning in Malawi is based on a macroeconomic forecast prepared by a special resource committee, composed of representatives of the Reserve Bank of Malawi, the MoF and the MEPD, and supported by the National Statistics Office (NSO). The forecast consists in the projection of key macroeconomic data such as the economic growth rate, interest and inflation rates, level of debt, i.e. the amount of public resources available in the forthcoming years, including external inflows, etc. A special division in the MoF was established to deal with the management of external funds (Rakner et al. 2004, 10). In theory, the annual budget process in Malawi is systematically integrated into the Medium Term Expenditure Framework, which was introduced in 1995/96 in four pilot sectors (e.g. education and health) and has since been rolled out to all remaining ministries. The time frame of the MTEF covers the preparation of estimates for the coming budget year, i.e. the annual budget plus three outer years, i.e. the medium-term planning perspective (World Bank 1998, 42–43). At the time of writing, the MTEF only covered the central government level.[11]
At the time the field research for this study was undertaken the **Malawi Poverty Reduction Strategy Paper (MPRSP**) together with the **Malawi Economic Growth Strategy (MEGS)** were supposed to represent the most important references for strategic policy planning and the allocation of public resources.[12] In theory, the MEPD is responsible for screening proposals of the line ministries to determine whether they meet the development priorities of the government and if costing is realistic (Scek 2004, 8). To compile the PSIP, the MEPD then ranks project proposals, based on how well they fit into the government's development strategy explicitly stated in the MPRS and the Malawi Economic Growth Strategy (Durevall / Erlandsson 2005, 22). The PSIP is then submitted to the budget department in the MoF and is used to formulate the development budget.[13]

11 This will probably change because of recent reforms.

12 The first MPRSP was limited to the period 2002–2005. At the time of writing a new strategy document was being devised that would better integrate the two strategies.

13 The first year of the PSIPS rolling plan should be identical with the development budget.

No direct formal mechanism links the MPRSP directly to the recurrent budget. Recurrent expenditures are classified as being part of a programme, a sub-programme and as a line item, which are not related to MPRSP activities. However, as part of the Enhanced HIPC conditionality **Protected Pro-poor Expenditures (PPEs)** were incorporated in the Malawian budget for 13 key areas. PPEs are aimed at protecting vital pro-poor expenditures from arbitrary in-year cuts to budget expenditure caused by fiscal restraints (Fozzard / Chauncy 2002, 37–38). And in effect, although not directly linked to MPRSP activities but rather to inputs such as drugs, nursing materials, teaching materials etc., PPEs appear to have led to a significant redirection of resource allocation towards MPRS activities (Durevall / Erlandsson 2005, 27 et seq.). Thus, in principle there are a number of mechanisms linking the budget to the MPRSP, which should ensure that to a certain degree the MPRSP is implemented through medium-term planning and the annual budget. Accordingly, the World Bank concludes in its 2004 HIPC review that the 2002/03 budget allocated some 63.5 percent of ORT to MPRSP activities (see Table 2).[14]

Budget formulation

The whole budget formulation process is designed to take six months, starting with line ministries submitting their budget bids in December and ending with the approval of the budget estimates by Parliament in June. The Secretary to the Treasury (Principal Secretary of the MoF) formally begins the process in December by submitting the Treasury Circular 1 to the line ministries. The circular requests the line ministries to submit budget estimates for the next budget year.

14 ORT (Other Recurrent Transactions) represent all expenditures other than statutory and statehood expenditures, development budget, and personal emoluments and therefore in the short run represent the discretionary recurrent expenditure of government. However, one has to keep in mind that these numbers are for *planned* ORT only. As explained in the following section, actual budget outturns differ substantially from planned figures. In addition, a recent overview of Malawi's Public Finance Management Reforms published by SIDA emphasises that these allocations may not be due to policy decisions as the MPRS does not contain any details about spending priorities in line ministries and there is no clear connection between policy decisions and budget implementation (Durevall / Erlandsson 2005, 27 et seq.).

Table 2: The allocation of FY 2002/03 budget by MPRSP Pillar (ORT Only)

	MK	as % total voted ORT	as % allocation to MPRSP activities
Total Voted ORT	15,078.50		
Total MPRSP Activities	9,569.44	63.5 %	
Pillar 1	3,141.94	20.8 %	32.8 %
Pillar 2	5,081.76	33.7 %	53.1 %
Pillar 3	119.97	0.8 %	1.3 %
Pillar 4	1,116.93	7.4 %	11.7 %
Cross-Cutting	66.57	0.4 %	0.7 %
Implementation and Monitoring	42.26	0.3 %	0.4 %
Statehood Activities	1,218.94	8.1 %	
Other (Outside MPRSP)	4,290.12	28.5 %	

Source: World Bank (2004a)

From this point, the planning departments within the line ministries start preparing their budget bids, consolidating the inputs from all cost centres and statutory bodies, which submit their proposals (European Commission 2002, 12, 50). They should set priorities within planned activities based on the MPRS and costing. In a next step, line ministries and public agencies present their resource bids, policy objectives and planned activities to the MoF. These resource bids are discussed during the hearings between the MoF and the different line ministries. Based on the submitted bids, the MoF needs to allocate the resources to the different line ministries. Resources should be allocated in line with the overall resource envelope available, according to strategic policy priorities as stated in the MPRS and costing. The MoF needs to establish binding sector ceilings so that line ministries avoid overspending (Rakner et al. 2004, 10).

When all available resources are allocated to MDAs, the MoF prepares and submits a statement of anticipated revenues and budgetary appropriations to the Cabinet. This has to be done at least fourteen days before introducing the budgetary estimates to Parliament for approval. The submitted statement is then discussed in the Cabinet. When the Cabinet approves the proposed budget, the MoF is authorised to prepare the estimates to be presented to the National Assembly (PFM Act: Section 21). The final step in the budget formulation process is the submittal of a statement of the budget estimates to the National Assembly for approval. The budget estimates have to include all estimated receipts, grants, other revenues and expenditures for the forthcoming financial year.

Although statutory expenditures do not have to be approved by the National Assembly, they are to be included in the budget estimates to deliver a complete picture of the total amount of expenditures proposed by the programmes and activities of the government.(PFM Act: Section 21–22). The Budget and Finance Committee of the National Assembly scrutinises the budget for adequacy and prioritisation of key expenditures. The findings are then discussed in the National Assembly before approval. Finally, the Appropriation Act (the budget bill as voted by Parliament), normally tabled for June, authorises the expenditure of public money. No public expenditure is to be incurred unless public funds have been authorised by an Appropriation Act (PFM Act: Section 23–24). In addition to the budget estimates, the MoF has to sub mits no later than April 1 of each year an economic and fiscal policy statement for the forthcoming financial year and two outer years to Parliament. This document aims at specifying the economic and fiscal policy, the fiscal objectives and strategic priorities of the government. In addition, the MoF is required to publish a report by June 30 each year updating the economic and fiscal policy statement. (PFM Act: Section 14–17). These statements are produced to enable Parliament to scrutinise if the estimated budget allocations really represent the economic and fiscal policy goals, as stated in the documents of the government.

Budget execution

In 1996, the Government of Malawi introduced a cash budget system on a monthly basis to improve fiscal discipline and attenuate persistent overspending due to observed weaknesses in the expenditure control system. Initially, the cash budget system was devised as a temporary measure, but it remains in place as a central tool for budget control and stabilisation. In order to improve planning security for spending agencies, at least partially, a credit ceiling allocation system was introduced. This system provides spending agencies with a tentative three-month allocation forecast. Each ministry and public agency holds various bank accounts (for personnel, administration, loans, donors, projects, programmes etc.) at commercial banks. The ceilings or spending limits for each ministry, public agency and category of expenditure are determined by the Accountant General and are then communicated to the Reserve Bank of Malawi and commercial banks holding government accounts. Controlling Officers can draw cheques and payments based on the spending limits from their respective bank accounts and the Reserve Bank of Malawi only reimburses cheques within the respective ceilings to the commercial banks. (European Commission 2002, 53; World Bank 2003, 7).

At the beginning of each month all line ministries are required to submit an Expenditure Return Report to the MoF. This report provides information about all the expenditures incurred during the month. These reports are based on information from cost centres of line ministries and districts. The timely submission of the Expenditure Return Report is a prerequisite for the release of funds in the following month (European Commission 2002, 13, 55).

Until recently, reporting was done manually. However, in 1996 the government started implementing an Integrated Financial Management Information System (IFMIS) to computerise all records. This system should help to provide timely and accurate financial information, to improve and strengthen financial control, to introduce a standardised integrated financial management reporting system for the GoM at various operational levels and to provide the Accountant General with an upgraded computerised accounting system (World Bank 2003, v).

Monitoring, budget control and evaluation

The government has developed a master plan for monitoring and evaluating the progress of implementing the MPRSP at a strategic level. This plan consists of five components:

- Poverty Reduction Strategy Monitoring
- Poverty, Vulnerability, and Inequality Monitoring

- Impact Assessment and Policy Analysis
- Poverty Monitoring Information System
- Communication and Advocacy Initiative;

The lead institution for monitoring and evaluation at a strategic level is the M&E Division within the MEPD.

The formal framework and institutional setup for the evaluation and control of the budget process in Malawi in principle provides for effective control and scrutiny of government's PFM performance. Key actors are the National Audit Office (NAO), the National Assembly, Controlling Officers (COs), the Anti-Corruption Bureau, and finally Civil Society Organisations (CSOs).

National Audit Office – According to the Public Audit Act, the National Audit Office (NAO) is a fully independent audit institution headed by the Auditor General who serves for a term of five or ten years maximum. The Auditor General audits and examines transactions, books, accounts and other financial records associated with programmes and projects financed with public resources. Wherever it seems appropriate, the Auditor General can express an opinion concerning the reliability of information and the management and control of public money (Public Audit Act: section 4–13). The Auditor General summarises the results of the audits and reviews of the financial year in an annual report that is submitted by the 31 December to the President or the Speaker of the National Assembly for information purposes. Subsequently, the members of the National Assembly discuss the report and have the opportunity to comment on it (Public Audit Act: section 14–17).

National Assembly – Parliament incorporates an important oversight function in the budget process. As described above, the MoF has to present the budget estimates for the forthcoming year to the National Assembly for political scrutiny. The MoF is only authorised to disburse funds if the budget allocations have passed through Parliament and are approved by the Appropriation Act (PFM Act: Section 21–26). The Public Accounts Committee of the Parliament scrutinises the financial statement of the government as well as the reports and statements of the Auditor General presented to the National Assembly. It has the task to examine whether there is any evidence of non-compliance of actual expenditure patterns with the original budget allocations as approved by the National Assembly. In any such case, the committee can request line ministries and public agencies to explain or justify the use of public funds. Although the Committee can recommend sanctions, it is not authorised to take action (Public Audit Act: Section 18–24; Rakner et al. 2004, 16).

Controlling Officers – Controlling Officers (COs) are public servants designated by the Secretary to the Treasury to control public expenditures for individual budget lines. Usually, the CO is the head of a ministry or department within a ministry or public agency. The CO is to ensure that all expenditure is properly authorised and used for the specific purposes as enacted by the National Assembly (PFM Act: Section 10). COs are formally accountable to the Secretary to the President in Cabinet, but in the actual budget process tend to be supervised and sanctioned rather by the respective minister of the line ministry (Rakner et al. 2004, 15).

Anti-Corruption Bureau – The Anti-Corruption Bureau (ACB) was established in 1998 under the Corrupt Practices Act. The ACB is not mentioned in one of the main chapters of the constitution but has been created under a subsection. The ACB should work independently from the executive branch and receive annual funding from the GoM to cover its administrative costs (Rakner et al. 2004, 16–17). Founded primarily as a reaction to increasing political pressure from international donors, the ACB can initiate its own investigations, publish the results and take legal action against government officials in case of alleged cases of corruption, fraud etc.

Civil society and media – Like in most young democracies, civil society in Malawi is in general relatively weak. However, a number of CSO do engage in PFM work, and are beginning to have a significant impact on policy-making in Malawi (James / Malunga 2006, 49). Such organisations are, for example, the Malawi Economic Justice Network (MEJN) or the Civil Society Coalition for Quality Basic Education (CSQBE)) Although the press in Malawi is not considered completely free, it is rather diverse given the size of the country, and it often publishes critical articles on government performance.

5.1.3 Formal PFM at local government level

The institutional setup of local government in Malawi has undergone a number of changes since the field research in spring 2005. Probably the most important change is that central government assigned an individual vote to each district in the national budget. The District Commissioners are now the controlling officers for these budget lines. At this stage, it seems too early to assess the impact of these changes on PFM at local government level in Malawi. However, there are some indications that while improving budget control this new setup might undermine local accountability mechanisms. However, it can be safely assumed that the changes made to the system are only of minor importance with regard to the generic mechanisms that cause deviations of PFM practice from formal rules and regulations. For this reason, this section describes mostly the setup that existed while conducting the field research.

Institutions for local PFM

While the research team conducted this study, four institutions were directly involved in implementing Malawi's decentralisation policy at the central level, namely the Ministry of Local Government and Rural Development (MoLGRD), the Decentralisation Secretariat (DS), and the National Local Government Finance Committee (NLGFC). These institutions provided the formal legal and institutional framework for local PFM. At local level, the district secretariats and district assemblies were the most important actors in local PFM processes.[15]

The **Cabinet Committee on Decentralisation** formulated and reviewed the National Decentralisation Policy and oversees the implementation of the policy, including all plans and programmes. Committee membership is not restricted to particular institutions and is made up of selected ministers (GFA 2005, 24).

The **Ministry of Local Government and Rural Development (MoLGRD)** acts as the supervisor of the decentralisation process and the budget process of local authorities. Therefore, it develops the overall policies and monitors the strategic planning processes of the local governments. The MoLGRD also recruits the directors of the district secretariats through the Local Assemblies Service Commission (LASCOM).

The **National Local Governance Finance Committee** (**NLGFC)** acts as the institutional link between central and local government level. At the time of the research, transferring funds from central government transfer mechanisms

15 This only applies to rural districts. Structures and the names of the institutions are somewhat different in cities and towns but are not subject to/not a part of this study.

(in particular the General Resource Fund – GRF and the District Development Fund – DDF) to the local assemblies was one of NLGFC's main responsibilities.. In addition, it also examined and supervised accounts of local government authorities.[16] Apart from that, the NLGFC's role is to advise and provide training to local authorities on PFM issues, in particular planning and budgeting processes. After budget preparation at local level, it consolidates local assemblies' budgets and submits them to the National Assembly through the MoLGRD. The local authorities report regularly to the NLGFC on budget execution at local level. This served as a budget control mechanism because the NLGFC could hold back funds when the respective local authority did not submit the required reports on time.

The members of the NLGFC are (GFA 2005, 27):

— Nominee representing local government authorities

— Principal Secretary for Local Government

— Member of Society of Accountants in Malawi

— Chairman of the Civil Service Commission or a representative;

— Nominee representing the Electoral Commission;

— Principal Secretary for Finance or his or her senior representative;

Unlike the NLGFC, the **Decentralisation Secretariat** was always meant to be a transitional institution and has – after numerous delays – been finally phased out, passing its responsibilities on to MoLGRD and NLGFC.[17] Mainly funded by donors, the DS was mainly responsible for the implementation of the National Decentralisation Programme (NDP). In this capacity, the DS had originally been created to provide technical support to the MoLGRD. In addition, the DS was responsible for the consolidation of local authorities' strate-

16 This arrangement changed in 2005 when the GoM made the District Commissioners (for rural districts) and Chief Executives (for cities and towns) controlling officers directly accountable to the National Assembly and the National Audit Office. Transfers via the GRF and the DDF are now transferred directly from the Treasury to the accounts of the assemblies.

17 This change took place after the research was completed for this study in early 2005.

gic development plans, the District Development Plans – DDPs, and for submitting them to the MoLGRD.[18]

In rural districts, the District Secretariat and the District Assembly are the most important actors in the PFM system. The **District Secretariats** form the administrative bodies of the districts. They manage the district's budget planning and execution process, i.e. they formulate the DDP, and are responsible for the formulation of annual budgets as well as budget implementation and control. The **District Assembly** (DA) is the legislative body at rural local level, among other things responsible for approving DDPs and annual budgets.

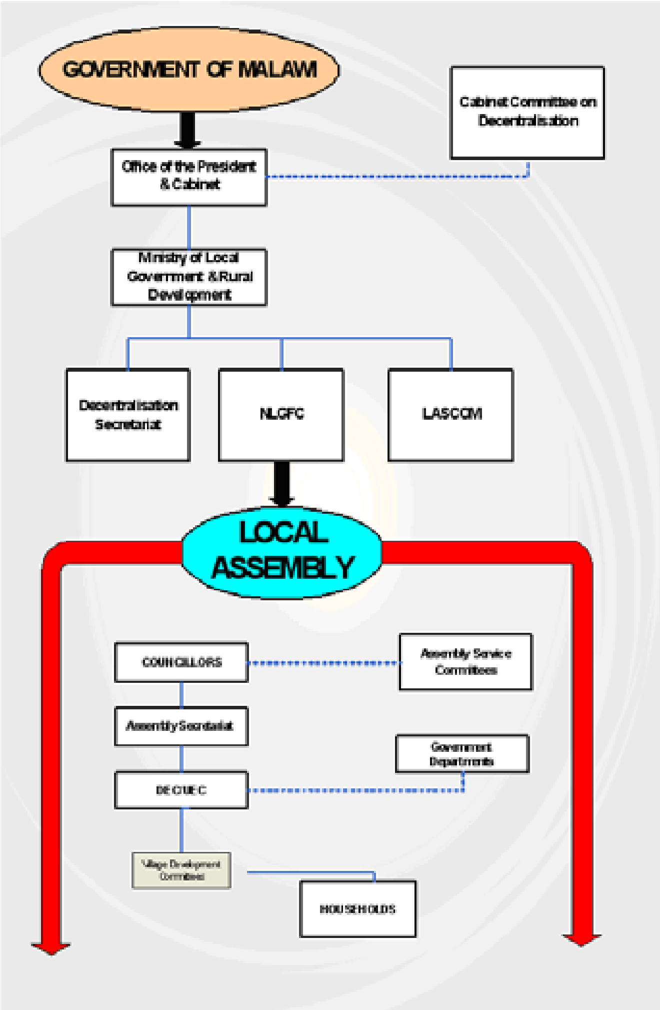
The DA is composed of elected councillors; each ward within a district sends one councillor to the Assembly. The chair (mayor in cities) is elected among the councillors and heads the Assembly. Furthermore, there are three additional groups of members groups without voting power. These members are the TAs (Traditional Authorities) who are the chiefs and sub-chiefs of areas; members of National Parliament (MP) from constituencies that are within the geographical limits of the district; and finally five additional individuals who are appointed by the elected members of the DA and who represent various interest groups form civil society (Hussein 2004, 116–118).

The administrative body of the DA is the District Secretariat, which is composed of a District Commissioner (DC), a Director of Finance (DoF); a Director of Planning and Development (DPD); a Director of Works (DoW); and a Director of Administration (DoA). All these positions are hired directly by the MoLGRD. Together with the District Health Officer (DHO) and the District Education Manager (DEM), who are the heads of their respective line ministry's deconcentrated units in the district, they form the District Executive Committee (DEC). The DEC is thus the administrations' highest committee responsible for preparation of decision making by the Assembly, especially with regard to strategic development planning and PFM related issues.

Figure 3 illustrates the institutional set-up as established by the NDP and the Local Government Act.

18 Every district develops a District Development Plan (DDP), from which Annual Investment Plans are derived.

Figure 3: Institutional setup established by the National Decentralisation Policy



Source: GFA (2005)

Local planning process

In 2002, Malawi's districts were for the first time eligible to take measures for a locally initiated 'medium-term planning', called District Development Planning System (DDPS)[19]. This system contains steps such as preparing a Socio-Economic Profile (SEP); developing Village Action Plans (VAP)[20]; and finally, prioritising development needs of each district in a District Development Plan (DDP) (Republic of Malawi 2001, 43; MoLGRD 2004). Figure 4 illustrates the local planning process.

As a starting point the Village Development Committees (VDC) usually identify community-based projects and estimates the required internal and external resources mainly in cooperation with members of the District Executive Committee (DEC) and local extension workers. Nevertheless, community members, NGOs, and grassroots organisations may also propose projects to the VDC. The Area Development Committee (ADC) then compiles a list of suggested projects for prioritisation and finally submits the list to the DEC.[21]

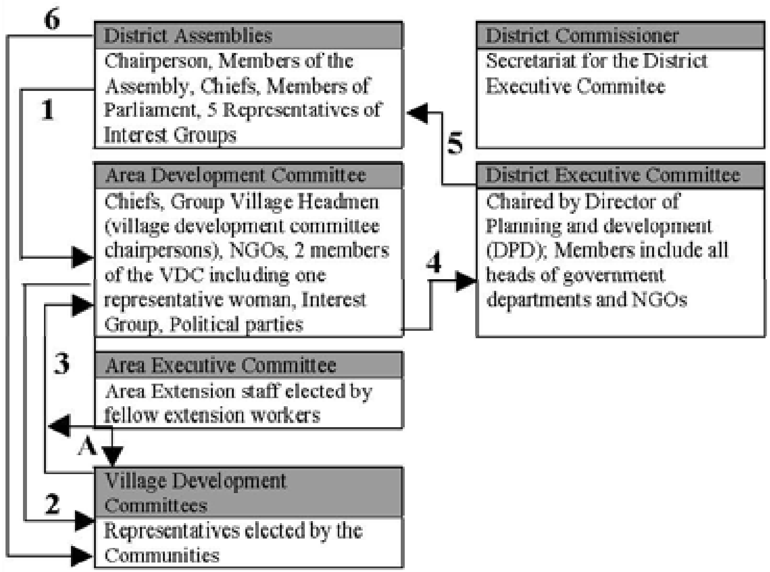
The DEC should approve projects that are feasible and judged worthwhile, by comparing the goals and objectives and evaluating whether the project implementation will assure an efficient use of resources. The DEC also evaluates on how the chosen projects will be best realised in order to achieve the objectives and outputs (Republic of Malawi 2001, 36–38). The DDP describes the objectives and strategies of the district thus providing a compre-

19 According to the Development Planning System Handbook for District Assemblies, the DDPS is based on four principles namely (i) bottom-up approach, (ii) participation, (iii) district-focus, and (iv) people-centred (Republic of Malawi 2001, 5, 33). The handbook also makes clear that the whole DDPS process should be based on the MPRSP and the Vision 2020 (MPRSP-Annex 1 2002, 34; Republic of Malawi 2001, 32, 41).

20 Developing a VAP involves a highly participatory process. To prioritise village needs independently, group patterns, such as elderly, women, or the youth within a village are separated to prioritise and finally bring all their findings together for discussion.

21 Important prerequisites for this participatory process to function well were established only recently. Before 2003, VDCs did not exist in most districts and the process at village level was either not working or dominated by arbitrary actors, which contributed to a state of informal procedures and flawed accountability. This has changed in most Malawian districts. Similarly, so far ADCs were chaired by Traditional Authorities (TA) instead of elected members. Some districts, however, have undergone adjustments in this respect after councillors pushed for reforms to have VDC members elected by the village population and ADC members and their chairs elected by the area's VDCs.

Figure 4: Local Development Planning in Malawi



1) The District Assembly formulates and approves the Development budget.

2) The ADC communicates to each VDC through Group Village Headmen.

3) With assistance from the Area Executive Committee (extension workers), the VDC packages, prioritizes, and sends project proposals to ADC. Meanwhile, each village begins work on its contribution – usually the provision of materials and labour.

4) With assistance from the AEC, the ADC consolidates, prioritizes the project proposals from VDC and submits them to the DEC.

5) The DEC appraises project proposals submitted by *the ADCs and – taking into consideration the socio-*economic profile and other funding sources and budgetary priorities – prioritises the projects and consolidates the projects into a Development Plan.

6) The District Assembly makes the final decision and approves funding of the District Development Plan, based on recommendations from the DEC. Tendering is initiated, contracts procured, and work begins at the village level on the approved projects.

A) The extension workers in the AEC assist the VDC in prioritizing its proposed projects, and packaging the proposals into a comprehensive plan, which is then forwarded to the ADC.

Source: reproduced from UNCDF 2001

hensive policy direction and guidance for development. The analysis in the DDP serves as a basis for selecting programmes and projects that the district would like to implement. The DEC is responsible for compiling the DDP, while the DA is responsible for its approval. (Republic of Malawi 2001, 4–23). The Development Committee (DC) thus reviews the drafted plan and finally sends it to the full assembly for approval.

Funding for local development

To fund approved projects, the districts– in principle – have access to three different sources of revenue, namely central government grants, locally generated revenue, and ceded revenue collected by central government (see Section 6.2.2.1).

There are five major transfer mechanisms to provide financing for local governments, namely the General Resource Fund (GRF), District Development Fund (DDF), Malawi Social Action Fund (MASAF), EU Micro-projects Programme (MPP), and EU Public Works Programme.

The GRF is a formula-based unconditional block grant accessible to all local governments in Malawi. Although the main purpose is to provide funding for recurrent expenditure of local governments, 25 percent of GRF grants are earmarked for capital investment. In the case of rural districts, these 25 percent are supposedly transferred directly to district's DDF account. However, far more important for funding local development expenditure are the District Development Fund (DDF) and the Malawi Social Action Fund, which make up about 90 % of the capital budget of rural districts (GFA 2005, 51 et seq.).

MASAF was established in 1995. The World Bank funded MASAF with a $122 million credit for the first two phases from 1995 to 2003. As most social action funds, MASAF administrative units manage nearly all processes related to identifying and financing community projects in a parallel structure to those of local government planning authorities.

Box 9: The Local Development Fund

A new financing mechanism for local development was proposed in a recent study (GFA 2005) commissioned by the MoLGRD and supported by UNCDF and KfW. The purpose of this new mechanism would be to establish a nation-wide sustainable, standardised and transparent financing mechanism in the form of a country-wide basket financing mechanism that would consolidate existing financing mechanisms into a common system for financing capital investment at the decentralised level.

The specific objectives of the LDF are to:

- Support planning and management of development resources at the assembly and community level;
- Provide resources which ensure that development investments respond to the priority development needs;
- Facilitate the implementation of the National Decentralisation Policy; and
- Enhance the accountability of local authorities to their constituents.

The proposed LDF would be managed by a special management unit within the NLGFC and offer four different financing windows (Community Fund, Local Assembly Fund, Urban Fund, and Performance/Capacity Building Fund) in order to accommodate different needs and objectives of donors and recipients. Funds channelled through the LDF could thus be earmarked for specific sectors, themes or windows.

By the time of writing the approach had been endorsed by the Government of Malawi and all important stakeholders, including MASAF, had signalled their support to the LDF.

Source: GFA (2005)

The DDF is a (mostly donor funded) municipal development fund accessible only to rural districts.[22] Its allocation is partly formula-based, with 30 percent equally distributed between districts and 70 percent allocated according to population and poverty indicators (GTZ 2004, 1; Boex et al. 2001, 18).

The DDF is managed by the NLGFC and serves to channel funds to finance small-scale projects and activities emerging from the District Development Plan. In order to access project funding from the DDF certain minimum conditions apply (GFA 2005, 57):

— A Director of Development and Planning, two Accounts Clerks and a Works Supervisor must be in place

— Quarterly progress reports and monthly financial statements must be produced by the DA and sent to the Decentralisation Secretariat/Ministry of Local Government and Rural Development

— An annual investment plan must be approved by the Assembly by the end of January each year

— three quarters of the projects approved from the previous planning period must be successfully completed.

It is the NLGFC's responsibility to ensure that resources provided through the DDF are properly managed (Simwaka 2003, 5).

Therefore, in theory, the institutional setup of Malawi's PFM system, as outlined in Figure 5, is relatively well designed Responsibilities are to a large extent clearly defined and distributed between actors. However, as seen in the next section, this formal framework bears little relevance for actual PFM practice in Malawi.

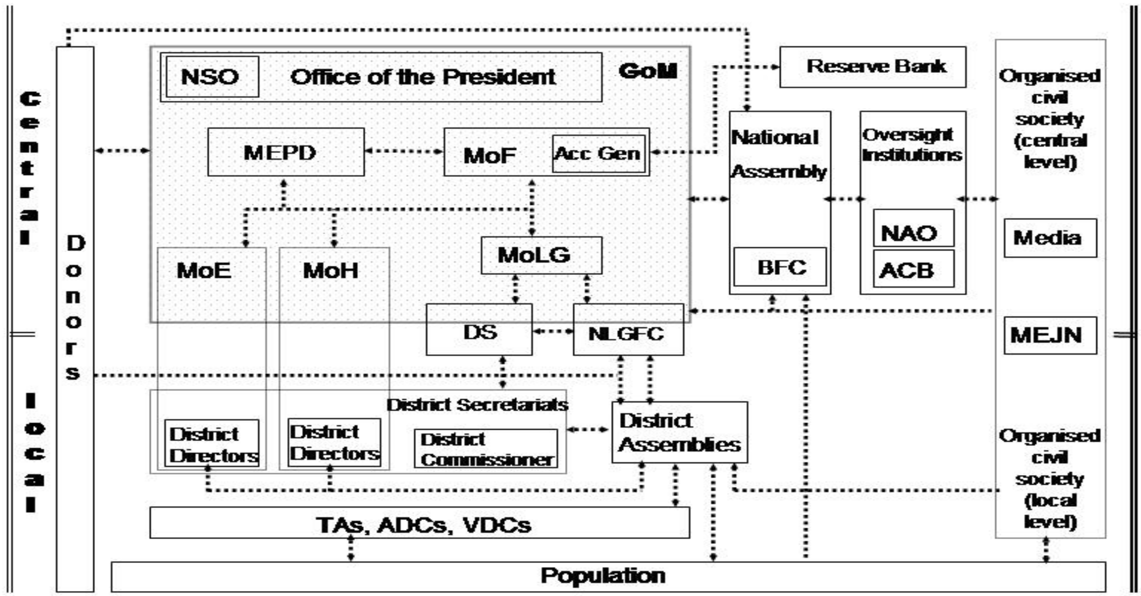
22 At the time the research was undertaken UNDP/UNCDF, the African Development Bank (AfDB), NORAD, DANIDA, CIDA and DFID among others (including non-governmental organisations) were channelling significant funds through the DDF to support Malawi's development. (Gama et al. 2003, 30; GTZ 2004, 1; GFA 2005, 56). Currently, with strong support from German Development Cooperation, a Local Development Fund (LDF) is being drawn up, which will integrate the different funding mechanisms into one single financing mechanism for local governments in Malawi, open to towns and districts as well. The LDF will be managed by a special unit within NLGFC.

Table 3: Abbreviations used in Figure 5

ACB	Anti Corruption Bureau
Acc Gen	Accountant General
ADCs	Area Development Committees
BFC	Budget and Finance Committee
DS	Decentralisation Secretariat
GoM	Government of Malawi
MEJN	Malawi Economic Justice Network
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoLG	Ministry of Local Government
MoPD	Ministry of Economic Planning and Development
NAO	National Audit Office
NLGFC	National Local Government Finance Committee
NSO	National Statistics Office
Tas	Traditional Authorities
VDCs	Village Development Committees

Note: Figure 5 gives an overview of the major actors and the interrelations between them as far as they are of importance for this study. It does not claim to cover Malawi's PFM system comprehensively. The size of the boxes nor their position in the figure reflect the political importance or hierarchy of the respective actors. Arrows mark the interrelations between them, whether in terms of finances, policy directives or accountability.

Figure 5: Institutional Setup of Malawi's PFM system



Source: own compilation

5.2 PFM in practice: ad hoc planning and budgeting, informal practices and uncertainty

As the preceding section illustrates, the formal framework for the different PFM processes at central and local government level in Malawi is relatively well defined and, thus, should in principle enable the Government of Malawi to implement strategic policies through the national and local budgets. In practice, however, it routinely encounters considerable difficulties with translating MPRSP priorities into the budget and implementing it accordingly.

One reason is that activities listed in the MPRSP and the respective costing exercises have not been clearly linked to budget programmes, sub-programmes and items (Durevall / Erlandsson 2005, 29). Furthermore, in practice it is not entirely clear how spending needs are reconciled with the top-down resource constraints provided by the MTEF.

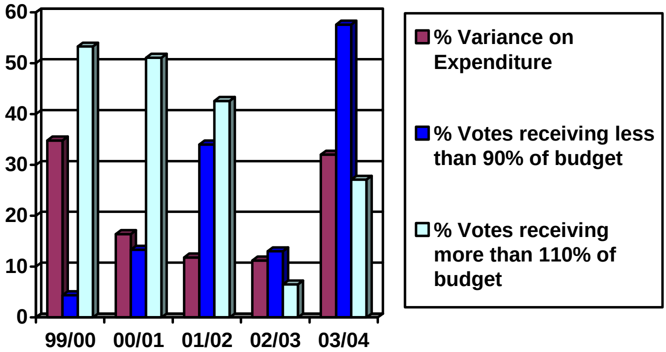
Table 4: Approved and actual recurrent and development expenditure as a share of GDP

	Recurrent Budget		Development Budget	
Fiscal Year	**Approved**	**Actual**	**Approved**	**Actual**
1994/95	27.0	34.0	6.8	7.6
1995/96	21.6	24.3	7.0	6.5
1996/97	19.1	18.4	4.9	4.8
1997/98	20.4	22.6	5.1	5.1
1998/99	15.6	18.4	9.4	8.6
1999/2000	15.9	17.8	9.3	10.5
2000/01	19.8	22.6	10.6	10.1
2001/02	19.4	24.6	6.9	7.3
2002/03	23.2	32.0	8.2	7.7
2003/04	20.4	33.0	8.1	10.3

Source: Durevall / Erlandsson (2005, 9)

As a consequence, hard budget ceilings are neither clear nor consistently rolled out and enforced (CABRI 2004, 40), and as Table 4 shows, budget outcomes differ substantially from planned allocations, both for recurrent and development expenditures. Although there have been notable improvements in overall variance on expenditure, in particular with regard to overspending on individual budget votes, important compositional shifts and thus significant re- prioritisation in the course of budget execution occur. exist (see Figure 6). This phenomenon is particularly marked for the fiscal year 2001/02, when overall variance on expenditure was only slightly above 10 percent, but compositional shifts were extremely important with more than three quarters of budget votes receiving either 10 percent more or 10 percent less than originally budgeted for.

Figure 6: Variability of budget outturn with respect to original budget



Source: IMF (2004a; 2004b)

According to the IMF, the observed poor outcome of the budget process is rooted in the fact that formal institutions and procedures bear little relevance for PFM practice in Malawi as the directives of the budget are not being observed by the senior leadership, and public expenditure management regulations that bind the administration are not fully enforced (IMF 2004a, 7). Or, to repeat the image invoked by as a recent study commissioned by DFID on formal and informal PFM institutions in Malawi: "The budget process is a theatre that masks the real distribution and spending. All the actors, from civil society, government, and donors seem aware that many of their statements and actions have little bearing on [the] actual distribution of resources" (Rakner et al. 2004, iv).

Box 10 taken from Rakner et al. (2004, 15 et seq.) gives a vivid illustration of this phenomenon with regard to the MTEF process in Malawi. Similar discrepancies can be observed for the budget implementation and oversight processes in Malawi.

Evidence shows that in many cases the formal PFM processes at local level are distorted. There are three main reasons for this.

First, councillors regularly do not partake in important local PFM processes even if they are formally required to do so. Financial constraints often make it impossible for the DAs service committees and the full assembly to meet on a regular basis to decide and approve submissions of the DEC. Lack of finances, but also poor infrastructure, in particular transportation, telecommunication, and postal services make communication between councillors and the District Secretariat difficult.

The second reason is the lack of skills and experience of elected councillors. Many elected members have not developed a routine with regard to formal procedures of decision-making and agenda setting for scheduled meetings. Therefore, decision-making procedures such as the approval of DDPs or the local budget often do not follow formal procedures and regulations. Not being familiar with routine formalities disables decision-making, leads to frustration and weakens commitment. This scenario does not only apply to DA members, but also to those members engaged in planning processes at lower levels (e.g. ADCs or VDCs).

Box 10: The formal and informal institutions affecting budget formulation

Formal institution	Informal institution	Outcomes
MTEF Stage 1		
A resource committee formed of the divisions of the MoF, NSO, RBM, and MEPD does macro economic modelling to forecast economic growth and estimate resources available. The process has problems: the modelling is done after budget process has moved to advanced stages. GDP growth rate is often over-estimated. MRA tends to under-report its collections or capacity to collect.	Donors influence the modeling. Executive would like to overestimate growth to give a good impression, enable planning for a bigger budget and create positive expectations among economic agents. Stakeholders act as if estimates are robust.	A budget that is set to over-expend, and necessitates borrowing.
MTEF Stage 2		
MoF conducts hearings where ministries and departments present their goals, objectives and activities and indicate priorities based on the MPRSP and costings.	An informal process that ignores the MTEF begins as line ministries inflate resource bids to MoF to receive a minimum requirement as it is known that MoF cuts budget even if appropriate budgets are submitted. Due to limited resources, the reallocation is done by some members of the cabinet, CCE[a] meets seldomly. Technocrats know that even if they present accurate technical proposals, the president and cabinet may change it.	A budget that reflects political interests rather than a pro-poor focus. Some departments get too big allocations given their contribution to poverty reduction.

MTEF Stage 3		
The Debt and Aid section of the MoF co-coordinates aid through consultations with donors. All donor aid is supposed to be processed through MoF.	Often donors fund of projects off- budget. Line ministries have incentives to make agreements about projects outside of the national priorities because projects make funds available for staff allowances, vehicles etc.	Many projects are started with and depend on donor funding. The failure to keep conditionalities result in withholding of funds which derails the budget. The government resorts to borrowing to keep paying salaries and obligations.
MTEF Stage 4		
The resource committee reporting to the CCE determines sector allocations of resources and advises the ministries and department of ceilings and available resources according to the MPRSP and PPEs.	The MTEF process should prioritise social sectors. But when budgeting starts, no ministry is able to declare activities non-priority. PPEs are not location specific and they tend to be spent by politicians in areas were they intent to make a political impact. This is especially evident in the construction of boreholes and maintenance of feeder roads.	The final budget allocations are not related to ministries' proposals, or to the MPRSP prescribed allocation.
MTEF Stage 5		
Line ministries prepare expenditure estimates and discuss them with MoF.	Allocation not based on MPRSP but criteria that pragmatically responds to political interests, and the reality of inadequate funding.	

MTEF Stage 6		
MoF holds consultations with civil society and the private sector. Consultations were introduced in the 2000/2001-budget year. Pre-budget meetings to hear the views of various interests groups in the three regions of the country (MoF). Sometimes post budget consultations are held.	The consultations are regarded as public relation of MoF's, too unstructured and lacking formal process ensuring that outputs are taken into the budget. Often, they degenerate into 'government bashing sessions'. Stakeholders are losing interests in participating.	The pro poorness of the budget remains at the pitch set at stage 5, often very limited.
MTEF Stage 7		
Printing and presenting the expenditure estimates.	Compendious and unwieldy presentation of the budget documents, absence of useful information to aid the understanding of the budget Civil society has responded to the need to increase the knowledge of MPs on the budget, but analyses are based on limited information and not part of the formal budget process.	Constrained capacity of parliament and civil society to influence budget in pro-poor direction.
MTEF Stage 8		
Approval of estimates by parliament. Ministry of Finance (MoF) submits to Parliament and publish by the 1st of April	Tendency of MPs to approve a budget that protects particularistic benefits. MPs vote on party lines and those opposing expendi-	No real assessment of the budget by parliament of its pro-poor focus, and attention is

an economic and fiscal policy statement for the ensuing financial year. For the first time, in the July 2003 budget session of parliament, MPs were able to shift some spending priorities.	tures may be from the opposition, fearing to put up a battle because the refusal to approve a budget may cause the perception or can be used by the ruling party to create the perception that the opposition is anti development.	to personal or party interests. The pro poorness budget remains at the pitch set at stage 5, often very limited.
MTEF Stage 9		
Budget & Finance Committee and National Assembly approves budget. B and F comm. scrutinises for adequacy and prioritisation of key expenditures. Committee makes a report with any recommendations for discussion by the full National Assembly.	MoF submits budget proposals shortly before presentation, knowing that Committee and National Assembly have insufficient time to scrutinise the proposals. MoF wins the MPs vote by including allowances and benefits which accrue upon passing the budget. B&F Committee struggles to scrutinize the budget in that short period of time without in-house technical support. Pre-budget consultations occur but there is not enough time for consultation with members of the civil society for technical assessments.	Budget is passed without adequate assessment, particularly the match between stated economic and fiscal policy statement and budget estimates. Parliament's role has often been ineffective and not in the spirit of the laws on accountability.

[a] Cabinet Committee on the Economy

Source: Rakner et al. (2004)

Third, these dysfunctional and barely institutionalised procedures create more responsibilities for the DEC. The DEC has to play a more vital role in all PFM processes and decision-making than provided for by the formal framework. Due to the shortcomings explained above, the DEC has to act on its own in many cases to reach decisions. Informal procedures might not involve the full assembly and the budget and other submissions might get approved without the presence of all necessary members. In some cases the finance or planning committees make the decisions or even just the chair of committees without scrutiny of all elected members. These informal procedures are often justified by involved stakeholders as necessary ‘procedural shortcuts’ that are left as the only possible alternative for decision making. However, this frequently leads to frustrations at the grass root level not only because development projects are not implemented according to community priorities, but also because there is lack of transparency and thus lack of understanding how decisions were made. Although planning is meant to be based on grass-root decision making, it has turned out to be difficult, time consuming and expensive to create room for public consultations about planning and development prioritisation. Hence, many people are less willing to participate in future activities. Although from the empirical evidence it cannot be deduced that DECs regularly abuse their position of power and their additional responsibility, the situation increases the chances for bureaucrats to capture decision-making procedures.[23]

23 Although public administration primarily is an instrument to execute and structure policies, in reality it tends to gain political influence in decision-making procedures of its own and acts as an independent interest group following own objectives (Illy 2002, 148). This system of bureaucracy proves to be important in Malawi’s local setting.

Box 11: Counterproductive competition among local stakeholders

The PFM cycle process at district level and beyond seems to be based on a sound regulatory framework. The principles of broad participatory and bottom-up planning and implementation are very well integrated into the formal procedures. However, it is striking that organisational structures especially at community level are sometimes not clear. Counterproductive competition among local stakeholders is common.

This becomes obvious in the relations between chiefs (TA), councillors, and Members of the National Parliament (MPs). In Malawi's rural society Traditional Authorities tend to receive more respect than elected local councillors. The same applies to MPs who are perceived to represent a higher authority than local assembly members. It is common practise in Malawi that TAs with good local connections are used by national politics to gain additional political support at the grass roots level. TAs who are successful in acting as local agents for development are more likely to link up with their communities in their areas and districts. This strengthens their trustworthiness for the people and on the other hand makes them more interesting for national politics to broaden their support. In sum, the better TAs prove their connections, the better they can also benefit from national politics and thus have an incentive to broaden their clientelistic relations. Nevertheless, this means that TAs have to interfere in local procedures, which in theory are reserved for elected officials such as councillors. This observation has important implications for the way in which the devolution process is undertaken to empower the citizenry so that it can hold public officials and institutions to account for their performance in the delivery of public goods and services

Source: MoLGRD (2005); own compilation

6 Determinants of Informal PFM practices in Malawi

Various recent studies on PFM in Malawi recognise that it is mainly informal institutions and procedures that predominantly shape PFM processes in Malawi. However, most studies do not discuss the underlying mechanisms causing the observed discrepancy between formal and informal PFM institutions in Malawi in detail. One of the most recent studies commissioned by SIDA, for example, comes to the conclusion that although capacity constraints in implementing PFM reforms must be recognised, in the past the main limiting factor for sound PFM in Malawi appears to have been a lack of commitment from political leaders (Durevall / Erlandsson 2005, 35). The findings of this study, however, suggest that although lack of political commitment is important, it is only one reason among many why the PFM system is characterised by informal practices; and that it is not necessarily the most pressing problem for MPRSP implementation in Malawi.

After summarising existing studies on Malawi's PFM system and looking at the findings of this research, the following statements apply:

— The effectiveness of the PFM system is limited; therefore, implementing strategic policies (e.g. PRPS) through this system is unlikely.

— Enforcing accountability is extremely difficult in Malawi's PFM system.

— The relevance of formal rules and procedures for PFM in Malawi is limited and is constantly being undermined by a lack of resources, capacity and a general mode of uncertainty.

Actual PFM practices and the budget process in particular depart substantially from formal rules and procedures. Instead of being guided by the formal legal and institutional framework, the actual PFM process is characterised by three main features:

— *Ad hoc mode of planning and budgeting*: Malawi's PFM is not characterised by routine standard bureaucratic procedures but rather by an ad hoc mode of action throughout the PFM process.[24]

— *Informal practices*: Apart from deliberate manipulation of processes for personal gain, informal practices are often used as pragmatic solutions to cope with unexpected problems.

24 This is to a somewhat lesser extent the case for strategic planning at central level, e.g. the MPRSP formulation process.

— *Uncertainty*: Malawi's PFM system is characterised by systematic uncertainty, in particular with regard to the availability of financial resources, and with regard to the validity of formal rules. Uncertainty in terms of financial resources stems from the fact that various actors in Malawi's PFM system at no time know how much money they will have at their disposal for implementing policies during the next financial year (amount). Even after their budgets have been approved, cutbacks occur frequently. Even worse, most actors do not even know when they will be told how much money they will actually receive as the official schedule is not adhered to (ceilings and time of disbursement). Uncertainty in terms of formal rules not only means that formal rules and procedures might not be well known by many stakeholders in the first place but that their practical relevance is further undermined by the constant non-adherence to them.

These features seem to be pervasive throughout Malawi's PFM system and the budget process in particular. Most actors involved in the process contribute to this outcome to varying degrees and are at the same time are negatively affected by these practices. In order to understand the determinants of PFM outcomes in Malawi, therefore, the underlying causes for these features of Malawi's PFM system need to be explored in detail.

After analysing the collected qualitative data, five key areas can be identified leading to Malawi's PFM system being characterised by persistent ad hoc mode of action, informal procedures and systemic uncertainty. The following sections discuss these main areas in more detail. They can be summarised as follows:

1. Capacity for PFM

   Although government institutions suffer from understaffing, the key problems with regard to capacity for PFM in Malawi are:

   - Lack of adequately qualified staff in key positions for PFM
   - Insufficient equipment and financial resources
   - Shortcomings in organisational and human resource management.

2. Resources for administrative PFM processes

The substantial lack of funds in the civil service, even for the most basic administrative processes, threatens the functioning of the PFM system and leads to poor budgetary outcomes.

3. Donor impact on PFM

Poorly coordinated and unaligned donor activities tend to weaken annual and medium-term budget planning and contribute to undermining budget credibility.

4. Coordination for PFM

Poor coordination between ministries, departments and agencies as well as between different levels of government undermines the whole budget process.

a) Horizontal coordination at central government level (MoF-MEPD)

Although responsibilities between MoF and MEPD are clearly assigned to one of the two ministries in most cases, coordination problems arise, as MoF sometimes seems to push through its own priorities.

b) Vertical coordination in general

Coordination between central and local government level is characterised by a highly hierarchical system, which results in poor vertical information flows, in particular from the bottom to the top. With regard to information flows, unclear distribution of responsibilities and the introduction of new PFM tools as well as local authorities' dependency on transfers from central government, this leads to delays and uncertainty in the budget process. Finally, this results in informal practices at local government level.

c) Vertical-sectoral coordination (MoE, MoH)

As devolution in the sectors has not gone very far yet, communication and coordination between central and deconcentrated units of sector ministries do not appear to pose major problems yet. However, the envisaged devolution of sector responsibilities to local governments will cause difficulties. This is especially the case with the observed weaknesses in communication and coordination between different actors and levels in Malawi's PFM system.

d) Horizontal coordination at local government level

First, PFM at local government level has not yet evolved into a fully functional subsystem of the Malawian PFM system due to a poor institutionalised local governance system, in which local stakeholders and PFM procedures are characterised by a high degree of uncertainty. In the course of decentralisation, newly established institutions collide with existing ones, leading to an unclear distribution of responsibilities.

Second, uncertainty of local institutions and procedures is exacerbated by uncoordinated financing mechanisms of government and external donors. Especially the Malawi Social Action Fund (MASAF) does not adhere to the formal local government structures and thus perpetuates chances for sound, transparent, and accountable local institutions, effective for sound PFM (see Section 6.2.2).

5. Commitment

Lack of political commitment to sound PFM was in the past a critical source of uncertainty in the PFM process in Malawi. With the new leadership, there are positive signs of credible commitment to accountability and effectiveness of PFM, giving ground to the hope that substantial improvements in Malawi's PFM performance will soon materialise. However, one must recognise that much of the old systems of inappropriate power distribution and unhelpful incentives remain.

The following sections form the main analytical part of this study. These sections explore the underlying mechanisms by which weaknesses in the five identified areas lead to the observed diversion between formal rules and procedures and actual PFM practice.

Weaknesses identified in these areas contribute to the ubiquitous feature identified to be key for actual PFM practice in Malawi: ad hoc mode of planning and budgeting, informal practices and uncertainty in various dimensions.

The analysis does not claim to be comprehensive in any way, but rather focuses on the most important challenges in each of the key areas identified instead. The various dimensions of each weakness are highlighted and the causes and consequences discussed. Where appropriate, it is specified whether the problems discussed are relevant only at central or local government level. If not specified, they are prominent to a stronger or lesser extent at both levels. Furthermore, the analysis is linked back to the different stages of the budget cycle throughout the chapter. The interrelations between the challenges identified in these key areas are discussed and linked back to the overall findings in Chapter 7.

6.1 Capacity

Lack of adequate human and technical capacity was identified as one of the major shortcomings undermining sound PFM in Malawi. The United Nations Development Programme (UNDP) defines capacity as the "ability of people, institutions and societies to perform functions, solve problems, and set and achieve objectives" (UNDP 2002, 2). This definition is quite broad; it thus seems useful to elaborate a bit more on how the term 'capacity' is used in this study. The analysis especially concentrates on four key elements of capacity concerning PFM: the staffing situation in public institutions, the qualification of staff, the management of human resources, and the availability and condition of necessary equipment and installations.

Although Malawi's government institutions are severely understaffed, the major problems with regard to capacity for PFM appear to be:

— Lack of adequately qualified staff in key positions for PFM

— Shortcomings in organisational and human resource management

— Insufficient equipment and financial resources

Many government and oversight institutions are severely understaffed both at central and local government level in Malawi. It is not uncommon for ministries, oversight institutions (in particular the National Audit Office), and local administrations to have 30–50 % of all established positions vacant.

Box 12 illustrates how serious the staffing situation can be at the local level. However, in some cases it often remains unclear how staffing requirements are determined. Strong evidence indicates that all vacancies of an institution do not necessarily reflect the number of employees necessarily needed to carry out the respective tasks.

Box 12:	**Staffing situation in the District Education Office in Rumphi district**
The District Education Manager's (DEM) office in Rumphi is a good example of existing dimensions of staffing problems. The structure of the office is split into three pillars: human resource management, financial management and the actual teaching staff, e.g. primary education advisors, head teachers, teachers etc. Each of the pillars has six hierarchy levels. In the three pillars positions at the upper four levels are all vacant. The financial management pillar gives the following picture regarding the chain of command: DEM → Principal Accountant (vacant) → Accountant (vacant) → Senior Assistant Accountant (vacant) → Assistant Accountant (vacant) → Senior Accounts Assistant (filled) → Accounts Assistant (filled). Although the accounts assistants might be adequately qualified, it is obvious that they probably have difficulties to cope with the workload. This has severe consequences for the efficiency and effectiveness of PFM in the education sector at the district level. In Dedza district, the situation is even worse; the office is only staffed with an acting DEM, a human resource officer, an accountant and a typist.	
Source: MoE (2005a); own compilation	

Consequently, evidence collected during the field study suggests the real problem is not the overall level of staffing but the lack of qualified staff in key PFM positions combined with insufficient financial resources and shortcomings in organisational and human resource management. Thus, these shortcomings are described in more detail in the following section with a special focus on the latter, while Section 6.2 elaborates on the causes and consequences of the lack of adequate resources for PFM.

6.1.1 Lack of adequately qualified staff in key positions

There is a lack of adequately qualified staff throughout all government levels, in particular in key middle-level positions for PFM, e.g. accountants and auditors at central level or directors of finance or planning at local government level. Thus, it is common to find key positions filled only with "acting directors" and the like. Consequently, staff routinely perform key PFM functions without qualified technical skills and training in important formal PFM procedures Not only does this lead to work overload and poor performance, but more importantly this situation causes uncertainty among other actors with regard to the distribution of responsibilities and the validity of formal rules and procedures. These capacity shortcomings have negative effects on the efficiency and effectiveness of PFM on all stages of the budget process and the use of public finances. While the capacity constraints may partly result from an insufficient supply of qualified candidates on the Malawian labour market, they are also due to a lack of financial resources and adequate equipment as well as shortcomings in organisation and human resource management, which are described in the following sections.

6.1.2 Shortcomings in organisational and human resource management

High staff turnover

High staff turnover is a very common phenomenon in nearly all government bodies in Malawi, both at central and local government level. Apart from qualified staff being lured away by private sector companies or donors, there is frequent reshuffling of staff between key positions in the public administration. Evidence suggests that this is not merely a phenomenon owed to the consolidation of a newly elected administration but a general feature of the public sector in Malawi. This, of course, has severe consequences for these civil servants' functioning in the PFM system for different reasons:

First, high staff turnover in government bodies leads to a lack of institutional memory. It is rare to find the employees working at the same government institution or even in the same department for several years, especially at central government level. Therefore, the majority of the staff is poorly informed about past reforms or decisions. A high turnover also leads to a lack of routine in working procedures. The research team found one common symptom during the interviews; many civil servants explained that they were new in their jobs and excused themselves for not being able to provide all details about their responsibilities since they were not quite sure about the regulations defining these. As a result, work efficiency is not optimal until the newcomers familiarise themselves with their work. Another important consequence of high staff turnover factor is the frequent loss of training efforts and effects. High staff turnover thus causes targeted capacity development measures for public sector employees to be largely ineffective, as individuals being trained e.g. in the use of specific PFM tools may soon be in a completely different position performing entirely different functions. Knowledge about formal rules and regulations is thus frequently lost and has to be permanently learned anew. This significantly limits the effectiveness of efforts to build capacity in the public sector.

Another important issue for sustaining and building up capacity are monetary incentives to retain qualified staff in the public sector. While the upper cadres in Malawi receive comparatively high salaries, many government institutions find it difficult to attract or retain qualified middle-level employees. These civil servants often leave their jobs to work for private companies and, more importantly, for donor organisations. There is a huge discrepancy between public salaries and those paid in the private sector or by donor organisations. This difference is only partly reduced by the widespread use of paying civil servants allowances for attending workshops and seminars. In addition, these payments create adverse incentives of their own.[25]

A recent study (Valentine 2003) commissioned by the Department for Human Resource Management and Development in the Office of the President and Cabinet concludes:[26]

— Real salaries in the public sector in 2001/02 were half of those paid to civil servants in 1980.
— The differences in salaries between job grades are too small to offer sufficient reward for experience, skills, responsibility and performance.
— Salaries and working conditions are inadequate to attract and retain staff with managerial, professional and technical skills.
— Promotions are awarded for the length of service, not merit. There are no awards/sanctions in the incentives regime for good/bad performance.

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25 For more detailed information about the incentive structures in the public sector and the importance of allowances in Malawi see Durevall / Erlandsson (2005, 13–14).

26 The report (Valentine 2003) was prepared as an input into the design of a medium term pay policy reform and gives a comprehensive overview about the situation in the Malawian civil service and makes recommendations on how to overcome some of the problems. Based on these findings, the GoM is currently undertaking a broad Civil Service Pay and Employment Reform to improve transparency and incentive structures for civil servants and to increase transparency within the system. A key element of this reform consists in a substantial raise of salaries for the entire civil service. However, whether sufficient resources are going to cover this reform is being debated (Scek 2004, 7). It was too early to draw conclusions about the possible impact of the reform process for this study.

— The compensation package is not transparent due to various forms of allowances and benefits.

The incentives for civil servants to work in rural districts are especially low. Many are reluctant to take on government posts in rural areas because living and working conditions are less attractive than in urban areas. Several key positions are being transferred to districts or are newly created as ongoing measure in the decentralisation process. This makes it even more important to improve the incentive structure for qualified civil servants to work in these areas.

Insufficient delegation of tasks and responsibilities

Civil servants in senior positions tend to be reluctant to delegate tasks and responsibilities to lower staff levels. They perceive lower level staff as not having sufficient abilities to follow procedures and instructions and carry out the delegated tasks to their satisfaction. This occurs at central and local as well as between government levels and potentially leads to work overload for senior staff. But it also implies that lower level staff have few opportunities to gain additional work experience and improve their skills through learning by doing. Contributing to this phenomenon are also the many vacant government positions in middle level management.

A similar mechanism applies to the ongoing devolution process in Malawi. Many stakeholders in central government institutions are reluctant to devolve functions to local government levels because they have concerns regarding the capacity of staff in district secretariats and assemblies.

Lack of effective capacity development and professional skills

Conversations with different stakeholders at both central and local government level revealed a significant lack of effective capacity development and professional skills throughout the public sector. This is in part because recruitment in the public sector in Malawi does not always seem to select candidates strictly based on their merit. As a number of interview partners stressed, on-the-job training cannot substitute basic education in the principles of accounting, for example. In addition, once employed, civil servants are frequently inadequately trained and prepared for their tasks, especially when new policies and PFM tools are introduced. A prominent example was the introduction of Activity Based Budgeting (ABB) at local level. Local staff interviewed had received training, but felt insufficiently prepared to actually produce and submit ABB budgets on time. The quality of capacity development measures is furthermore compromised by the fact that many capacity-building measures are primarily aimed at training individuals instead of building sustainable capacity of public institutions. In addition, training content is sometimes poorly adapted to practical working situations most civil servants face.

The same applies to elected councillors, who frequently have low levels of academic attainments and cannot provide policy direction. Training programmes for elected assembly members on PFM issues are thus often inadequate (GFA 2005, 33).

The described shortcomings in professional training and capacity development for key PFM processes and tools complicate the implementation of reforms, new policies, and innovative PFM tools.

Long and unpredictable recruitment process

Not only is the recruitment process of senior staff both in central and local government institutions in Malawi not strictly based on merit criteria, but it is also often long and unpredictable. Although there are plans to decentralise some of the recruitment procedures,[27] the recruitment system is still very centralised and bureaucratic. Central government entities hire key executive staff for local government. Different service commissions are in charge of recruiting candidates for vacancies. Lower level staff are employed directly at the local entities, for example, district secretariats.

Many interview partners, especially at district level, claim that they do not know when key positions are going to be filled. The mechanisms and progress of ongoing recruitment processes do not seem to be well communicated and transparent to local staff and assembly members. The lack of communication combined with the limited supply of qualified candidates for key administrative functions on the labour market, leads to uncertainty regarding human resource planning. It also makes the distribution of tasks and respon-

27 It remains to be seen whether this still holds true in view of recent institutional changes, in particular with regard to the role of district commissioners having been made controlling officers.

sibilities among civil servants difficult and existing staff have to assume additional responsibilities and workload.

Disturbance of regular working procedures and additional workload through donor-related activities and workshops

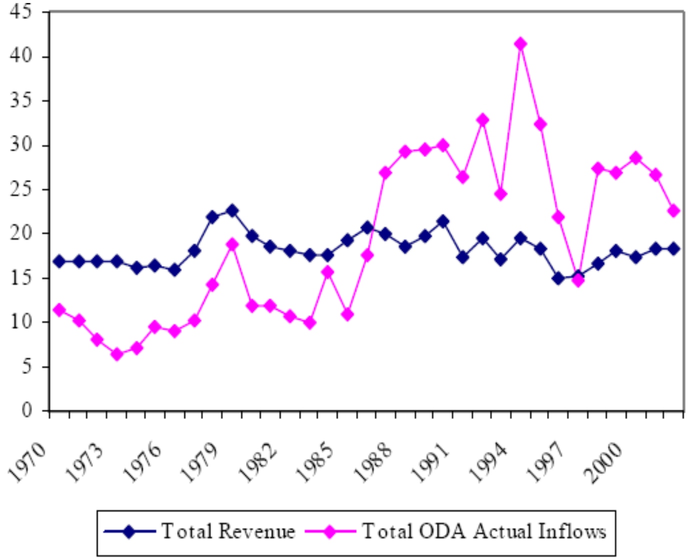
Donor-related activities and workshops (see Chapter 6.3. and 6.2.) regularly disturb working procedures at central and local government level. There are many different donors in Malawi and their activities are not always well harmonised and aligned to Malawian procedures. In addition, hey frequently absorb public employees for meetings, workshops or administrative work. Different application, implementation and monitoring procedures and requirements for donor funds and projects cause additional workload for civil servants. This leads to time constraints for PFM related activities.

6.2 Resources for PFM processes

In a poverty-stricken country like Malawi, resource constraints are an omnipresent problem. The following section deals with different dimensions of resource constraints in the administrative bodies of Malawian government institutions and analyses their impact on PFM.

As described in Section 5.1.2, Malawi operates a dual budgeting system with the national budget divided into a development budget and a recurrent budget. The civil service has to be financed out of the recurrent budget. While the development budget is about 80 % donor-financed, the recurrent budget incorporates much smaller proportions of donor funding and relies more heavily on national revenue. This implies serious problems at the level of financial management, as Malawi's revenue base is extremely thin (significantly below 20 % of GDP). The economy relies heavily on agriculture, which accounts for 35 % of GDP and constitutes over 90 % of its exports. Export earning rely are dominated by one single commodity, tobacco, which accounts for 65 % of total exports. This makes Malawi's export earnings and public revenue highly vulnerable to external shocks (IDD and Associates 2005, 8). Together with extremely unpredictable donor funding as illustrated in Figure 7, this makes intra-year monetary planning extremely difficult (see Section 6.3.1).

Figure 7: Total Revenue and Actual ODA Inflows (in percent of GDP)



Source: IMF (2004b)

These factors, together with the cash budgeting system, lead to a situation where in a given month the government can only spend what it collected in the previous month. The resource envelope is small and ridden by cash flow fluctuations. This leads to cutbacks of approved budget votes and implementing agencies usually do not receive the money that was allocated to them for the financial year. However, not only is the overall resource envelope characterised by a high degree of volatility and thus uncertainty. In addition, more specifically, resources available to public sector institutions to perform their PFM functions are often all but unpredictable. This is particularly true for Malawi's oversight institutions, in particular the National Audit Office and Parliament, but also for administrative bodies at the local level as seen in the following sections.

6.2.1 Funding as a prerequisite for capacity

As illustrated in the previous sections, Malawi faces severe capacity constraints in its government institutions. One of the most important reasons for this is the lack of resources. There are three main ways this affects the capacity of key PFM institutions:

— Inadequate staffing of key PFM positions

— Inadequate incentives and brain drain due to low salaries in the civil service, and

— Lack of adequate equipment to perform key PFM functions.

Lack of adequate equipment and financial resources, in particular, impedes effective PFM at central and even more at local government level. Ample evidence exists that officials regularly do not have transport, fuel, computers and office stationary to carry out even simple tasks. It is a common that no funding is provided to cover maintenance costs, even if there is enough equipment such as cars or computers (mostly provided by donors). The research team saw many broken and useless computers or copy machines that would be needed for instance to produce and distribute financial reports. Consequently, accounting and other important tasks are done manually, which creates many errors and makes meaningful financial control a very difficult undertaking. According to a number of interview partners, frequent power-cuts make it difficult to use computers for key PFM tasks, in particular in rural areas. Of course, these problems severely undermine efforts such as those currently made by the World Bank to improve financial control through a computerised Integrated Financial Management Information System (IFMIS). Accordingly, the IFMIS was not operational at the time of this field study (see Durevall / Erlandsson 2005, 22–26).

The lack of resources to perform key PFM tasks is omnipresent at central level. In particular Malawi's oversight institutions, such as the National Audit Office and Parliament, are severely underfunded (see Box 13). This affects the external control of administrative bodies at the local level as well.

Box 13: Financial Resources for budget scrutiny and control – Parliament and the NAO

Parliament plays a crucial role in scrutinising and controlling the budget and thereby assuring sound financial management and transparent budgetary procedures. The approval by Parliament legitimises government spending. However, capacities of legislature to use its control function are very limited. And Parliament seems to be critically underfunded, lacking – among other things – technical support to scrutinise the executive's budget proposals and the NAO reports.

The National Assembly faces resource constraints in several areas; for example, the MPs are not assigned **offices**. MPs are forced to work from their homes or private offices. They use private equipment such as computers and stationary. The MPs lack **training** on parliamentary issues in general and budgetary procedures in particular. Training is only provided if it is donor-funded. UNDP, CIDA as well as other donors provide some training.

The GoM funds up to three parliamentary sessions per year. The parliamentary **committees**, however, are not funded by the GoM except for the Public Accounts Committee, which is provided for in the constitution. Thus, key parliamentary committees such as the budget and finance committee rely heavily on (erratic) donor financing for their meetings and, consequently, are chronically under-funded. This, of course, severely undermines oversight function of parliament and has in the past led to unrealistic budgets and unsanctioned deviations from approved budgets. For the time being CIDA (with funding from DFID) is the only donor agency working on budgetary matters with the National Assembly. They fund committee meetings (by renting a conference centre and paying allowances and accommodation), budget literacy workshops and fact finding missions, and produced a handbook for MPs on the budget process. Without donor funding the National Assembly would not be able to carry out their functions of scrutinising, approving and controlling the budget.

Budget oversight is also undermined by the lack of funds in the **National Audit Office (NAO).** Although the NAO is formally independent from the MoF, it receives its funding from treasury and not directly from Parliament. In the past, this funding was subject to considerable in-year cutbacks. Consequently, the NAO cannot execute its oversight function properly. In recent years, the NAO never presented its report on the financial statements on time. This undermines transparency and accountability in the budget process.

Staffing is a serious problem for the NAO. Out of 300 posts in the three NAO offices 150 were filled at the time of the field research. Most of the employees were only partly qualified, some had only received secondary education. According to the Auditor General, the NAO would need 60–70 qualified accountants with diploma, but presently has only 15 employed. It seems to be difficult for the NAO to attract qualified staff as the few existent accountants are also sought by the private sector, which can pay much more competitive salaries than the NAO. Therefore, the NAO has difficulties retaining freshly trained accountants.

There is some evidence that in particular the NAO's regional offices cannot perform their duties because of under-funding of operational costs and these in-year cutbacks. The Auditor General (AG) for the northern region, for example, plans to audit 75 % of the MDAs and District Administrations in the region annually. However, by March 2005, the AG's northern region office had audited only one district. In fact, most districts' accounts have not been audited for at least 4–5 years, on district visited by the research team had not been audited for seven years. This, consequently, leaves most responsibility for control to the DAs internal auditor at district level; and the MoLGRD, NLGFC, and the DS as central state institutions (Government of Malawi / UNDP / UNCDF 2000, 48). This situation has been exacerbated by failure of the Assemblies to produce the final accounts for audit due to the nature of their accounting systems coupled with staffing problems.

Still, the Auditor General for the northern region puts the relation of capacity and resource constraints as follows: *"Staff is not the only factor, it is finance. With the staff we have, we could do the 75 %, if we do not take weekends and holidays off. But we would need finances and another vehicle".*

Funding for the NAO seems to have increased substantially in the first half of 2005; however, in order to develop and implement meaningful and well-prioritised audit programmes, what the NAO seems to need most in order to adequately perform its functions is a combination of more predictable funding and the capacity to attract and retain qualified staff.

6.2.2 Lack of resources for PFM at district level

At local level, the lack of resources to perform key PFM functions is even more evident, because especially rural districts are financially highly dependent on transfers from the centre, their own resource base being negligible.

Consequently, informal procedures in planning and budgeting are common at local government level.

Local development planning is formally required to be done through a participatory bottom-up process, involving Participatory Rural Appraisals (PRAs) in villages throughout the districts. Based on these appraisals Village Action Plans are to be developed and incorporated into a District Development Plan (see Section 5.1.3). However, due to time and resource constraints most of the districts do not adhere to these formal procedures. Instead, in many districts planning is done on an ad-hoc basis by members of the district administration or even by external consultants with technical and financial support of the Decentralisation Secretariat.

The same is true for budget formulation at district level. Regular funding is not available to prepare and convene district assembly meetings to discuss and approve the local budge. For example, the councillors in Rumphi district reported that they did not receive the budget draft before the full assembly's budget session simply because the District Secretariat does not have the resources to copy and send the drafts. Even invitations to assembly meetings are not always communicated, as the District Secretariat may not send them by official mail. To avoid costs, invitation letters are entrusted at random to passengers on vehicles travelling to the home villages of the respective councillors instead.

DAs are supposed to have at least six service committees, as specified in the Local Government Act. These committees are supposed to meet quarterly. However, due to funding constraints they meet less frequently (see Table 5). In order to meet the formal deadlines for submitting the budget to the National Local Government Finance Committee, districts have repeatedly turned to ad-hoc solutions. For example, they discuss and approve the budget only in the budget and finance committee instead of the full assembly, as is formally required. Obviously, this undermines the legitimacy and credibility of local budgets.

In a similar fashion, local governments' internal auditors are not adequately equipped with resources like computers and motor vehicles due to the lack of resources. In addition, they have no formalised audit procedures manual to guide them. Consequently, audit reports are largely below acceptable stan-

Table 5: Service committee meetings in Dedza and Rumphi DA

	Suggested frequency of meetings	Frequency of meetings in Dedza	Frequency of meetings in Rumphi
Education Committee	quarterly	"Around twice a year"	"Not even once a year"
Budget and Finance Committee	monthly	"Around five to six times a year"	"Three to four times a year"

dards (GFA 2005, 44). Even worse, external auditors do not regularly scrutinise local accounts because of scarce resources (see Box 13).

A particular challenge at district level is the frequent lack of funding for salaries of local staff. Because lower level staff are employed directly by the DA their salaries have to be paid, at least partially, out of local revenues. Local revenues, however, are extremely scarce as the following section illustrates.

6.2.2.1 Sources of local finance for recurrent expenditures

According to Section 44 of the Local Government Act, District Assemblies (DAs) in principal have access to three different sources of revenue for recurrent expenditures, namely central government grants through the General Resource Fund (GRF) and sector funds, ceded revenue collected by central government within districts, and locally generated revenue.

The General Resource Fund

The GRF is an unconditional block grant. Three-quarters can be used for recurrent expenditures, whereas one quarter must flow into the assembly's DDF account for development purposes.[28] The NLGFC distributes the GRF to the 40 DAs in accordance with a formula approved by National Parliament and based on factors such as population; poverty indicators and equalisation.

28 The most important funds for development expenditure at local level, including the DDF, are described in Section 5.1.3.

In addition, as a key element the distribution is supposed to “encourage Local Assemblies to raise more own revenues” (Decentralisation Secretariat 2005, 1). However, this performance-based element of the formula is not yet being applied.

According to the National Decentralisation Programme I and II, five percent of the total (net) national government revenue (NNR)[29] should be allocated to districts through the GRF. However, as can be seen in Table 6, actual allocations have been much lower in the past and – possibly even worse – are highly unpredictable for District Assemblies. This leaves local governments severely under-funded with regard to recurrent expenditure for administrative activities and service delivery. Local governments thus often cannot allocate the required 25 % of GRF transfers to development activities because they need these funds to cover administrative and other recurrent costs (GFA 2005, 50). The cases of Dedza and Rumphi help to illustrate the relative importance of GRF allocations for rural districts. GRF allocations account for roughly 29 percent (Dedza) and 16 percent (Rumphi) of the assemblies’ respective total income. Given this heavy dependency on GRF transfers and the fact that they are used mainly to pay salaries, there is an argument that the distribution of GRF funds between districts according to poverty indicators may be inappropriate (GFA 2005, 53).

29 Excluding grants.

Table 6: GRF Allocations

	Approved estimates 2001/2002	Revised estimates 2001/2002	Estimate 2002/2003	Actual 2002/2003	Approved 2003/2004	Actual 2003/2004	Revised 2004/2005	Projection 2005/2006
GRF actual as % of NNR	1.00 %	1.39 %	1.06 %	0.71 %	0.72 %	0.76 %	1.06 %	0.96 %
Actual as % of expected 5 %	25.12 %	27.74 %	21.24 %	14.16 %	14.42 %	15.23 %	21.14 %	19.29 %

Source: NLGFC data provided by GTZ-MGPDD

Ceded revenue

Ceded revenues are non-tax revenues collected by various government agencies on behalf of the central government that should partly be transferred back to local authorities. The non-tax revenues to be ceded to the local governments include toll fees; gambling and casino fees; fuel levy/fee (road maintenance levy); motor vehicle registration fees; and industrial registration fees (GFA 2005, 50). However, ceded revenues are currently not redistributed to Local Assemblies (Decentralisation Secretariat 1998, 12; Decentralisation Secretariat 2005,5) as the institutional mechanisms, the legislative procedures, budgeting processes and the revenue distribution mechanisms are yet to be established (GFA 2005, 51). Therefore, for the time being, ceded revenues do not play any relevant role for local revenue mobilisation.

Local revenue generation

Locally generated revenues mainly consist of ground rents, fees and service charges, user fees, business and occupational licences, income from commercial undertakings, property rates, and interest on monies invested by local government (Decentralisation Secretariat 1998, 11; Decentralisation Secretariat 2005, 1). According to Section 49 of the 1998 Local Government Act, DAs may also borrow money for some commercial activities but need the approval of the NLGFC (Republic of Malawi 2001, 51).

Local revenue generation is generally low because the available sources of revenue have low yield, are difficult to collect and are not sufficient to make a meaningful contribution to administrative costs of local government, let alone for investment for development (GFA 2005, 50 et seq.).[30] In particular, while legally entitled to collect property taxes, rural districts in Malawi are currently not able to do so as there is no database of rateable properties in rural assemblies, and no system or capacity for valuing these rateable properties exists.[31] Other fees, such as market fees, are frequently not collected for

30 Annex 3 gives a more detailed overview of sources of local revenue generation available to rural districts.

31 This problem is somewhat less serious for urban assemblies as property rates and business licences are easier to collect in towns and cities than in rural districts (see Box 14). The key precondition to be able to raise property tax, of course, is the ability to value property / rate areas within a jurisdiction. The time consuming and expensive task of rating properties requires capacity in terms of manpower and knowledge.

the simple reason that staff supervising the collection of market fees lack means of transport to access market places.

Box 14: Revenue Generation in Urban Districts

With regard to revenue generation, cities and municipalities are in a clearly better position than towns and rural districts. There are two main reasons for this:

First, Malawi's three cities, its municipality, and even its towns, benefit from better infrastructure and conditions than rural districts, facilitating most kinds of economic activities.. Consequently, companies and market places, such as Malawi's largest market, located in Zomba municipality, are more often found in urban areas than in villages of rural districts. This also brings more diverse and wealthier segments of population to the cities, increasing the potential for tax revenues. Thus, cities benefit from a much broader tax basis than rural districts.

Second, most property in cities is rated and registered, enabling the administration to collect significant amounts of revenue from property taxes. In Lilongwe City, property rates alone make up 85 percent of its total income, including other tax income and GRF transfers from central government. Even in small towns such as Dedza Town, and Mangochi Town, property rates account for 58 percent and 34 percent of total income respectively.

Therefore, urban districts are far less dependent on external sources of money. For example, in the case of Lilongwe City payments from GRF account for only 0.8 percent of the city's total income. No direct conclusion can be drawn as to whether cities manage their development planning and public finances better than rural districts. Nevertheless, the city assemblies are much more independent in PFM issues than their rural counterparts. In consequence, planning procedures are less likely to be undermined by parallel planning procedures of external funding mechanisms. In addition, delays in central government resource allocations and transfers do not harm planning and budget execution to the same extent they affect rural districts. This contributes to to more certainty and own responsibility of PFM procedures.

Note: Urban districts refers to Malawi's three major cities (Lilongwe; Blantyre; Mzuzu); one municipality (Zomba); and eight towns (Balaka; Dedza; Karonga; Kasungu; Liwonde; Luchenza; Mangochi; Salima).

6.3 Donor impact on PFM

Malawi is even more dependent on foreign aid to finance its balance of payments and public expenditures than most other African countries (IDD and Associates 2005, 18). Up to 80 % of the capital budget and around 23 % of Malawi's GDP are donor-financed (Whitworth 2005, 1). Consequently, donors interfere in many ways and at various levels in Malawi's PFM.

Three areas appear to be most problematic to Malawian stakeholders: lack of predictability of donor funds; different, complicated and poorly harmonised donor procedures; and insufficient donor support for the adoption of PFM reforms.

6.3.1 Lack of predictability of donor funding

The high dependency on external aid creates special problems for Malawi's government in terms of in-year monetary management and it is an important factor behind the observed fiscal volatility and budget deviations.

To make matters worse, as Figure 7 on page 96 illustrates aid flows to Malawi are highly volatile and ODA commitments have been systematically higher than actual ODA inflows. According to a recent evaluation of general budget support[32] for Malawi, the share of external resources has fluctuated between 33 and 57 percent of total inflows since the mid-nineties (IDD and Associates 2005, 6). Consequently, ODA flows are highly unpredictable for the Government of Malawi and commitments contain little information on actual future inflows (IMF 2004b, 43; see Figure 8).

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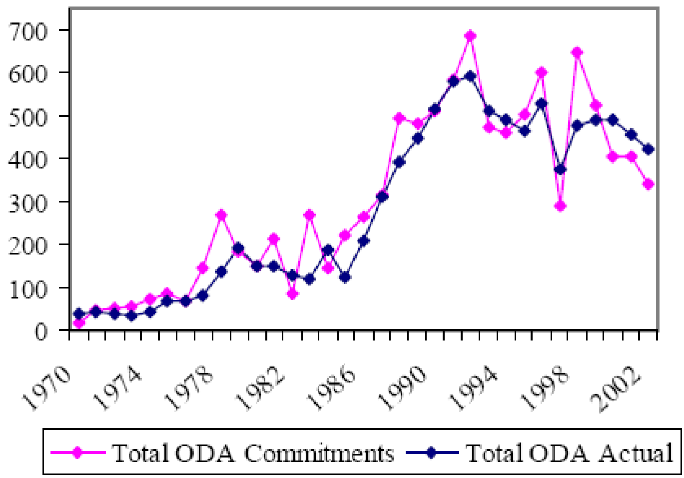
32 Malawi was not receiving general budget support (GBS) when this research was conducted in 2005. Only the UK and the EU had GBS programmes. However, while DFID had pledged £ 68m for the 2005/2006 budget, the EU had stopped disbursing when Malawi had gone off-track. Other donors organised in the CABS (Common Approach to Budget Support)-Group, were considering providing budget support but had not taken a final decision (Whitworth 2005).

Figure 8: Commitments and Actual Inflows (in Mio U.S. dollars)



Source: IMF (2004b)

In addition to this, not only are the amounts disbursed subject to a high degree of uncertainty, also the time of disbursement is often unclear to Malawian officials in advance. Sound resource and budget planning as well as in-year cash management are further complicated in Malawi because planning cycles of donors are not coordinated with the Malawian budget cycle and planned disbursements are often delayed.[33] In the words of a government official: *"There's no point in planning for three years if you can't even plan for six months. If suddenly 50 % of the money doesn't come, there's really no point."*

Weak capacities to meet overly demanding or poorly communicated donor requirements and conditionalities also lead to delayed or withheld disburse-

33 Many donors announce their commitments only after the budget is approved. This has, for example, led to the practice that the Ministry of Health asks its deconcentrated units to prepare two budgets, one with and one without donor support. This serves to reflect different scenarios in the planning process – one optimistic, one pessimistic – regarding donor support during the fiscal year.

ments.[34] Consequently, when external funding is delayed or does not materialise at all, the government may be required to turn to ad-hoc solutions such as domestic borrowing, or cutbacks of planned expenditures and deviation of funds intended for different purposes, undermining macro-economic stability and budget credibility (IDD and Associates 2005, 18).

Poor communication by donors and among government agencies also undermines effective resource planning and prioritisation in other ways. A large share of donor support is provided as tied aid in the form of technical assistance to ministries, departments and agencies. This aid does not appear in the national budget and donors do not regularly provide detailed information on the costs of such projects. In addition, they tend to negotiate directly with the MDAs supported, often bypassing central ministries. The supported entities have strong incentives not to communicate all support received directly from donors to central government agencies, in particular the MoF, as this could diminish allocations they receive from the national budget.[35] Communication failures occur in the reverse direction as well, with the consequence that spending agencies are not informed about funding and donor support available to them. Thus, the MoF cannot establish a comprehensive picture of the resources available to each sector and, therefore, cannot ensure that the budget allocations are in line with the strategic priorities of the MPRSP and other strategy documents.[36]

34 This applies to central and local level. However, while at central level a typical obstacle to the disbursement of donor funds consists in the government not meeting demanding reporting requirements, the problems at local level are frequently much more basic. Frequently, local communities simply fail to meet even simple requirements to contribute own resources to donor financed development projects such as sand or bricks for the construction of schools or roads.

35 Formally, all donor activities should be reported to the Department for Aid and Debt Management within the Ministry of Finance. However, all attempts to establish a comprehensive aid database have failed so far (Whitworth 2005, 7).

36 This poses serious problems with regard to the availability of funding as well. To access funding via the Education for All Fast Track Initiative (FTI), at least 20 % percent of a country’s public spending has to go to education. In Malawi, the sector’s share of the national budget is only about 12,8 % (2004/2005). One reason is the substantial share received by the sector off-budget. In order to be eligible for funding from the FTI, it is thus crucial for Malawi to get this extra-budgetary expenditure on-budget The fact that a donor agency had to take on the responsibility to compile the required data and prepare the application for FTI funding is a good indicator for the lack of capacity and possible perverse incentives in the Ministry of Health.

6.3.2 Differing, complicated and poorly harmonised donor procedures

Donors exacerbate PFM capacity constraints through poorly harmonized procedures and control requirements, thereby generating confusion and additional workload for the domestic administration. With virtually all major donors operating in Malawi, it seems to be difficult for Malawian stakeholders to know, understand and follow all the different procedures and mechanisms required by different donor agencies. Especially stakeholders at local level find it particularly difficult to understand and meet the requirements of the various funding mechanisms available to them.

Donors also actively contribute to PFM in Malawi being characterised by systemic uncertainty through uncoordinated and unsustainable capacity building efforts. This problem is especially relevant at the local level. A number of donors have distributed the 28 rural districts between them and provide capacity building support almost exclusively to their "own" districts. By doing this they tend to undermine rather than promote the introduction of new PFM tools at the local level. One example is the introduction of an integrated financial management information system (IFMIS). Not all districts receive the required training and technical equipment in time. Thus, possible synergies and economies of scale and scope of capacity building measures are not realised.

6.3.3 Insufficient donor support for the adoption of PFM reforms

In the past, donors have repeatedly contributed to discrepancies between formal and informal PFM procedures. They introduced PFM tools such as sector investment programmes, SWAps or the MTEF but failed to ensure genuine ownership for these tools and to provide sufficient support to make them fully operational, as an integral element of the overall PFM system. The MTEF exercise for instance is therefore perceived by Malawian officials as a purely donor-driven "add-on" introduced via a partial intervention, supported only with insufficient resources and missing concerted efforts (CABRI 2004, 39).[37]

The MTEF was introduced as a pilot in four ministries (Education, Health, Agriculture, and Public Works) in financial year 1995/1996. Like in other African countries, the exercise was initiated by donors to improve medium-term budget planning. Nevertheless, the MTEF was never operational as a rolling medium term planning tool in Malawi. If used at all, figures were rather adapted to the new estimates each year and the focus was only on the first year while the two outer years were neglected. Donors failed to create genuine government ownership for the instrument, but also failed to support its effective use, e.g. by changing from yearly pledges for financial aid to predictable medium-term commitments. Thus, the government does not appear to be genuinely committed to the MTEF, instead, it uses only a semi-functional version to satisfy donor requirements.[38]

6.4 Coordination

6.4.1 Horizontal coordination at central level (MoF, MEPD, sectors)

A remarkable feature of the institutional setup in Malawi is the distribution of key PFM responsibilities between two ministries, namely the Ministry of Finance (MoF) and the Ministry of Economic Planning and Development (MEPD). The MEPD is mainly responsible for the elaboration of strategic policies and plans, for example, the PRSP and short-term und medium-term development strategies, such as the Public Sector Investment Programme (PSIP). The MoF is mainly responsible for the allocation of resources, both for the recurrent and for the capital budget. Other joint responsibilities include macroeconomic forecasting and the monitoring and evaluation of projects. Therefore, strong coordination links are necessary between MoF and MEPD.

37 Durevall / Erlandsson (2005, 17–21) provide a detailed historical account of the MTEF in Malawi.

38 There is, for example, no clear link between the MTEF and the Public Sector Investment Programme (PSIP).

In principle, the responsibilities of MoF and MEPD are therefore clearly defined. However, coordination problems arise as MoF sometimes tends to impose its own priorities. The following section presents the coordination mechanism between MoF, MEPD and the sectors, by using PSIP as an example to illustrate where coordination problems arise..

The **Public Sector Investment Programme (PSIP)** was introduced in the early 1980s as a 5-year rolling plan. Its main aim was to enable the MEPD to better exercise policy formulation, planning and prioritisation between different development objectives and activities. When the MoF and the MEPD were merged into the new Ministry of Finance and Economic Planning (MoFEP) in 1997, the PSIP was abolished because it was assumed that it would be replaced by the MTEF (Durevall / Erlandsson 2005, 21). However, planning functions to necessary to implement the programme were never fully developed in the new ministry. Sector ministries started to sign contracts directly with donors without informing the MoFEP. Consequently, many projects were not included in the capital budget and the MoFEP knew little about ongoing investment projects in line ministries. As a result, development planning became difficult and intransparent and resources were not allocated in line with strategic priorities.

Once the MoFEP was split up again for political reasons in 2003/2004, the PSIP was re-introduced to improve development planning. Today, the aim of the PSIP is to present a comprehensive list of all public projects in a five-year rolling plan. Line ministries are required to submit a prioritised list of project proposals to the MEPD for the next years. It is the responsibility of MEPD to select projects, prioritise them according to the resources available and to ensure that they are in line with national priorities as stated in the MPRSP. The PSIP is then sent to MoF to translate the ranked project list into the budget. The capital budget of the respective financial year should be identical with the first year of the PSIP.

Cabinet guidelines state that only projects recorded in the PSIP should receive funding in order to ensure a clear link between the capital and the recurrent budget. In reality, however, the PSIP does not always provide the most important reference point for the allocation and prioritisation of the capital budget. Interview partners revealed that presidential orders or other political interferences from the top have in the past led to the implementation of projects that were not originally included in the PSIP. In the development budget for the fiscal year 2004/05, for instance, some PSIP projects were missing, while other projects were included although not stated in the PSIP. One reason for this besides political interference from the top might be communication difficulties between the MoF and the MEPD. More important, however, seem to be institutional rivalries between the two institutions as well as personal ones between higher cadres.

Consequently, the capital budget is not identical to the first year of the PSIP as the formal framework would require. In the past, therefore, individual projects could not be considered in the resource allocation phase. A reliable macroeconomic forecast and exact revenue projections are needed to guarantee that PSIP can be translated into the capital budget without modifications.

Furthermore, the formal communication chain established when the MoFEP was split into the MEPD and the MoF is still not always followed by all sector ministries. During the preparation phase of the budget 2004/05 some line ministries still submitted their project proposals to MoF instead of sending them to the MEPD. However, stakeholders underlined that during the preparation phase for the budget year 2005/06 the coordination of information flows had improved and most duplication was eliminated.

6.4.2 Vertical-sectoral coordination in the education and health sector

Most sector ministries in Malawi are composed of headquarters in Lilongwe and several deconcentrated units or representatives at district level. This also applies to the Ministry of Education and the Ministry of Health, which were analysed more closely for this study. Both ministries have extensions in every Malawian district. Although in the course of ongoing devolution the situation concerning the distribution of competencies and the cooperation between headquarters and deconcentrated units of sector ministries is constantly changing, communication and coordination do not seem to be major problems for now.

In the 1990s, different ministries in Malawi began to follow a decentralisation policy. Both the health and education sectors were deconcentrated. As described in Section 4.3.2., the health sector now has a two-tier structure, which is composed of the. ministry headquarters at central level, and District Health Officers (DHOs) at district level. DHOs are the administrative and medical heads of the district hospitals and several health centres. Coordination between these levels do not seem to be a major problem.

The education sector is organised in a different way. It is designed as a three-level-system with Education Division Managers at the intermediate level between headquarters and District Education Managers (DEMs). There are reportedly occasional problems with the construction, registration and staffing of schools. The districts, together with the communities concerned, are responsible for school construction, after approval by the MoE.[39] However, communication and coordination failures have in the past repeatedly led to a situation where newly constructed schools would not be registered by the MoE and thus not be staffed with teachers. However, these appear to be only isolated cases, as in general, relations in the sector are highly hierarchical and responsibilities rather clearly defined. The deconcentrated units are mere implementers, whereas headquarters are responsible for policies, guidelines, recruitment of most of the staff and disciplinary measures. Headquarters issue ceilings for the districts in the budget planning and formulation phase. The districts prepare their budget estimates and submit them back to headquarters where they are consolidated into the sector budget.[40]

It remains to be seen, whether coordination problems gain importance in the course of further devolution of sector responsibilities in the future.

6.4.3 Vertical coordination

Coordination between central and local government level is characterised by a highly hierarchical system. This is especially evident in the way information flows and how new PFM tools are introduced as well as in the dependency on transfers from the central level. This system leads to delays and uncertainty in the budget process and finally to informal practices at local government level.

This section analyses what in this study is described by the term *vertical coordination*, i.e. coordination between the central and local level of govern-

39 School construction is usually financed by donors. The DAs are responsible for applications.

40 In the education sector, the district budgets are first consolidated into division budgets, which are then consolidated into the sector budget.

ment. The section outlines the efficiency of coordination of governmental institutions such as the Decentralisation Secretariat (DS), the Ministry of Local Government and Rural Development (MoLGRD) and the National Local Government Finance Committee (NLGFC). Finally, it discusses the necessity of an operational link between strategic plans of central and local governments.

Vertical coordination in general

Vertical coordination of PFM between central and local government level is relatively well established and legally institutionalised in Malawi. Central-local coordination can be characterised as a system of hierarchy and dependency. It is not a system of coordination between central and local level of government in the sense of cooperation between equals, mutual agreement and information. Sometimes coordination between the two levels of government does not work well. These deficits then have severe consequences for the functioning of the PFM system of the local authorities.

Local governments depend heavily on central governmental transfers such as the General Resource Fund (GRF) to finance their administrations. According to the Financial Reporting Guidelines for Local Authorities transfers are withheld when the local authorities do not submit financial reports to the NLGFC on time. On the other hand, central government sometimes withholds the transfers due to lack of financial resources or political reasons. Therefore, the link between performance and financial transfers is not always clear to local authorities. Sometimes they do not receive funds, although they fulfilled all formal requirements. Consequently, the sanctioning mechanism of withholding funds does not work as an effective incentive mechanism. If transfers are cut back or delayed, the dependency of the local PFM system on central government funds becomes visible: District secretariats are responsible for training committees at sub-district levels in planning processes required for preparing the DDPs. However, frequently such training cannot take place because the central government does not transfer the required resources. In other cases, the DA stepped in and deviated funds from other sources for TAs to receive the needed training.

Local authorities depend on receiving important information from central level on time. When central government informs local authorities about ceilings later than the PFM Act requires, the districts still need to submit their budgets on time in order to avoid sanctioning mechanisms to apply. However, the time to formulate their budgets is then shorter than actually provided for by law and they may not be able to adhere to all formal procedures. Instead they resort to informal rather than formal procedures as a pragmatic solution. A common solution is for example that the budget committee decides on the budget instead of the full Assembly. Another result might be that the local authority is forced to formulate a tentative budget without knowing the actual ceilings for the coming financial year. This normally has the consequence that the districts have to adjust their budget, once they receive the actual ceilings. Thus, receiving ceilings too late generates more work and harder time constraints for the districts. It also costs more money for additional meetings and adds to uncertainty about resources available during the budget year.

Furthermore, the central government has repeatedly introduced new PFM tools at local level such as activity-based budgeting for district assemblies without providing the necessary support for their implementation or ensuring the predictability of funding required to make activity-based budgeting a useful PFM instrument.

Coordination of the institutional links between central and local government level, MoLGRD, DS and NLGFC

Coordination between the DS on the one hand and the MoLGRD and the NLGFC on the other hand was determined by the different roles each institution plays and the decision to phase-out the DS. Originally, planning and budgeting of DA was to be coordinated by different institutions. The DS was assisting the DAs in the planning process (to be taken over by the MoLGRD) while the NLGFC was responsible for the coordination of budgeting and the allocation of financial resources to local governments (GFA 2005, 41).

Officially, the DS was planned to stop its operation by the end of the year 2005. This actually happened. However, when this research was conducted in early 2005, many interview partners were not quite sure whether it would take place. Either, they did not know about the official decision, or they were not sure, whether it was a definitive one because the discussion about terminating the DS had been going on for quite some time and the deadline had often been postponed.

The tasks of the DS were to be transferred from the DS to the MoLGRD and NLGFC. This transfer influenced the effectiveness of coordination efforts. It was a widespread phenomenon in the NLGFC and MoLGRD that there was no clear understanding about what tasks had already been transferred to the MoLGRD or the NLGFC. Interviews revealed that people were wondering why there were planners in both the DS and in the MoLGRD. In addition, it was evident that both institutions did not have the necessary capacity to take over the transferred tasks. This was especially true for the NLGFC. This problem possibly became less relevant as staff was transferred from the DS to the NLGFC. Nevertheless, the lack of clarity about the actual process and timeframe for the DS termination lead to considerable uncertainty about roles and tasks of actors in PFM.

Conflicts between the DS and the MoLGRD have had a negative impact on the coordination between the institutions and the implementation of the decentralisation policy. From the MoLGRD's perspective, the strong role donors played in the DS tended to undermine the ministries leading role in overseeing the implementation of the NDP. In fact, the effectiveness of coordination between the MoLGRD and the DS appears to have been negatively influenced by the fact that the DS received such strong donor support. Donors tended to use information they got from the DS in negotiations with the MoLGRD. They were thus undermining the formal institutional system, weakening the MoLGRD's steering position. As a result, the DS in various instances refused to accept guidance from the ministry.

As mentioned before, in 2005 there were important changes in the local institutional set-up. Probably the most important change was that transfers to each district were made individual votes in the national budget. The District Commissioners act as controlling officers for these budget lines. Since these changes took place after the field research was conducted for this study, the effects of this on accountability relations at the local assembly level could not be systematically examined. However, the general feeling seems to be that these changes may impact negatively on accountability relations between DCs and local assemblies as DCs are now required to submit monthly expenditure returns directly to the MoF, and cash controls to the Accountant General.

Coordination between NLGFC and local authorities

The analysis shows that coordination and cooperation between the NLGFC and local authorities are working rather well. Nevertheless, the research team gained the impression that some elements regarding the role of the NLGFC as well as elements regarding advice and transfer of funds are seen critically.

In some district secretariats, the attitude seems to dominate that the NLGFC as an institutional link between central and local government level is not necessary, but that the local authorities should cooperate directly with central government (i.e. MOLGRD). This feeling stems from the fear that the NLGFC might not always pass on complaints from the districts to central level, e.g. regarding insufficient funding. Interviews also revealed that there was lack of understanding why the treasury did not transfer funds directly to the districts. This shows that the role of the NLGFC is sometimes not quite clear and is sometimes regarded with suspicion by local authorities. Plans and budgets are approved by the assembly but are to be reviewed by the NLGFC. However, it is questionable how well the NLGFC can fill this function if it is not involved in the planning process itself.

In general, however, it the NLGFC's support and advice is judged positively. However, there is still room for improvement. For example, the NLGFC only visits local authorities twice a year due to lack of time and lack of funds. In addition, the NLGFC frequently withholds transferring funds. Often, this is due irregularities or unmet reporting requirements at local level. It can also result from scarce resources at central level. These deficiencies combined with poor communication lead to an unclear picture for the district assemblies of the link between performance and funding (GFA 2005, 47). Consequently, the DAs often do not know or understand why the NLGFC holds back funding. This in turn increases the level of uncertainty under which they operate.

Operational link between central and local strategic planning for development

No operational link exists between strategic plans of the local and central government levels (i.e. between District Development Plans and the MPRSP or the Vision 2020). In particular, there is no coherent poverty monitoring system at local government level and monitoring and evaluation activities at central and local government level are not coordinated. In addition, weak capacity for monitoring and evaluation at local level makes the coordination of poverty related data collection and consolidation difficult. This is further complicated by the multiplicity of data collection points below the Assembly level, which tend to be different for each sector ministry (GFA 2005, 46 et seq.). A more consistent monitoring and evaluation system is urgently needed to consolidate local and central monitoring efforts. At the planning stage, national and local processes are also poorly coordinated as there is no operational mechanism linking DDPs to national strategies and plans, in particular the MPRSP and the PSIP. Such a link, which needs to be both bottom up as well as top down at the same time, is indispensable if decentralisation is taken further ahead. However, a certain trade-off does exist between further devolution of government functions and concerted efforts by donors and central government to implement national development strategies such as the MPRSP.

6.4.4 Horizontal coordination at local government level

This section analyses local institutions and stakeholders and their involvement in the PFM process. It pays special attention to procedures of financing mechanisms how they are coordinated with local institutions.

Although the Government of Malawi and the donor community welcome decentralisation as an important reform, severe difficulties in Malawi's public administration make local governance more vulnerable to informal procedures and render its institutions less credible.

In-depth analysis of the qualitative data collected of local stakeholders involved in the PFM process suggests the following:[41]

First, sound PFM at the local government level has not yet developed due to a poorly institutionalised local governance system, in which local stakeholders and PFM procedures are characterised by a high degree of uncertainty. In the course of decentralisation, new organised institutions collide with existing ones. This leads to undefined fields of responsibility and sometimes arbitrary and informal procedures.

Second, uncertainty of local institutions and procedures is boosted by uncoordinated financing mechanisms of government and foreign donor funds.

41 Stakeholders involved in the analysis are: The District Assembly (DA) and its elected councillors, including committees; the DAs administrative body, the District Secretariat and its senior and minor staff; the Traditional Authorities (TAs) that have to be distinguished into Paramount Chiefs, Senior Chiefs, Chiefs, Sub-Chiefs, Group Village Headman, and Village Headman; local NGOs; donor agencies; and other influential stakeholders such as business people.

Especially the Malawi Social Action Fund (MASAF) does not adhere to the formal local government structures and thus undermines transparency, accountability and sound PFM at local government level. This is illustrated in the following section.

Coordination with vertical funds – the case of MASAF

The Malawi Social Action Fund (MASAF) was established by the government of Malawi in 1995. The World Bank funded the first two phases from 1995 to 1998 and from 1998 to 2003 with a credit of US$ 122 million. Because MASAF was introduced three years ahead of the Local Government Act and the National Decentralisation Policy the World Bank's initial approach was to support the community level directly, circumventing the central state.

Thus, like most social action funds, MASAF management units administer most processes related to identifying and financing community projects in a parallel structure to planning authorities of local governments.[42] In the case of Malawi this practice has in the past resulted in undermining local planning and budgeting processes and accountability mechanisms. In its latest phase MASAF III has realigned its institutional setup in order to provide a backstopping system for local Assemblies as they take over functions previously managed by MASAF itself. However, inadequacies in accounting for funds are frequent: financial queries remain unanswered, justification of funds takes a long time, and irregularities in the procurement processes occur (GFA 2005, 66 et seq.). All this leads to delays in the disbursement of subsequent project funding.

42 For example, MASAF has not used the DDPs and their Annual Investment Plans (AIP) as a basis to select activities and allocate resources to identified priorities. Instead, MASAF staff from MASAF zone offices and MASAF Justification Officers in the districts undertake a separate planning and identification process together with DEC members, in particular the District Planning Director, replicating planning activities.

Box 15: MASAF III
In 2003, MASAF III has started with substantial changes compared to the previous phases, running until 2015. Again, it is divided into three phases. The World Bank approved a so-called Adaptable Lending Programme (APL) line amounting to US$ 240 million.[43] This financial stimulus is intended as a contribution to reaching the Millennium Development Goals (MDGs). However, the new approach is also a response to the MPRSP and the decentralisation reform to strengthen the new structures of local government, improve accountability and empower communities as the fund itself states: "The underlying and ultimate goal of MASAF III is to institutionalise community empowerment and accountability within the framework of the community driven approach." (MASAF 2003, 4). MASAF III consists of four different components: 1. Community Development Programme (CDP), formerly known as Community Managed Projects (CMP) and Local Authority Managed Project (LAMP); 2. Social Support Programme (SSP), which corresponds to the third pillar of the MPRSP; 3. Community Savings and Investment Promotion Programme (COMSIP); and 4. Transparency and Accountability Programme (TAP). Each component is equipped with a certain amount of money, decided by the MASAF board (MASAF 2003, 2–16). The amount of every component is allocated to the various districts according to a certain key of distribution similar to the GRF.

The following are major procedural weaknesses in the vertical coordination with local institutional and planning structures:

Formal local planning procedures have had little or no relevance for MASAF. Furthermore, MASAF failed to provide for effective cooperation with local institutions and it widely ignores local government structures; In addition, perverse incentive structures led to a proliferation of instrumental community-based organisations (CBOs) and non-governmental organisations (NGOs). Finally, MASAF has failed to initiate any serious cooperation or harmonisation with other local funds such as the DDF.

The evidence from the rural districts shows that the MASAF framework widely ignores local planning procedures. As demanded in the MPRSP, local

43 The APL is a combination of a credit and a grant.

assemblies and their administrative bodies have managed to start their own costly and time-consuming planning procedures. The District Development Plans (DDP) are, in principle, formulated in a bottom-up and participatory planning process, supported by the main administrative staff of the district assemblies. Although MASAF III has acknowledged that eligible projects *"[…] will be within the approved Local Authority Development Framework built on Village Action Plans (VAP) reflecting priority community needs"* (MASAF 2003, 6), it has widely carried out its own planning procedures and project identification. Especially for its Community Development Programme (CDP), MASAF has not used the DDPs and their Annual Investment Plans (AIP) as a source to select activities and allocate resources to the identified and prioritised fields. Instead, the staff from its respective zone offices[44] and their justification officers in the district work together with the staff from District Secretariat: This forces DEC members, in particular the district planning directors (DPD) to duplicate planning processes. Although district staff complain about this additional workload, allowances from MASAF are an incentive to suppress their protest and to follow MASAF procedures.

In addition to MASAF's own planning procedures, the fund has so far not achieved its goal to strengthen local government structures. Some examples illustrate this failure: i) for its own planning procedures, the fund does not necessarily cooperate the legal representatives of the community at sub-district level, i.e. with the Village Development Committees (VDC) and the Area Development Committees (ADC). This is in stark contrast to the important role these committees play in the planning procedures for the Village, Area and District Development Plans. ii) the same can be said about the fund's cooperation with the elected members of the DA- the councillors. MASAF does not provide a comprehensive pattern of cooperation. This becomes obvious in the case of the Community Savings and Investment Promotion Programme (COMSIP). Because MASAF was under pressure to launch COMSIP after a series of delays, it relied primarily on traditional authorities (TAs) for the distribution of application forms. This is comprehensible given that TAs are widely recognised as influential dignitaries in the districts. However, this happened without the knowledge of the DAs and their representa-

44 For its third phase, MASAF III has changed its organisational structure. Several district offices were replaced by only three regional zone offices in Lilongwe (center); Blantyre (south); and Mzuzu (north), the largest regional cities.

tives and was thus contrary to the declared objective of MASAF to strengthen accountability and transparency of local institutions.

The Social Support Programme (SSP) aims at providing technical assistance to NGOs and CBOs to work directly with vulnerable groups at the grass roots level. To apply for projects, the communities need to identify a civil society organisation in order to receive support. This has provided an incentive to establish many new organisations to access funding from the SSP. However, letterbox organisations abused the funds and local authorities could not provide accurate information about correctly operating CBOs. The result has been confusion and frustration among local communities.

Finally, MASAF follows a somewhat different approach from other funding mechanisms that leave local authorities entirely responsible for the resources. One reason is that the MASAF was established before the approval of the NDP; therefore, before local governments were actually established in Malawi. However, another reason might be that the MASAF has been conceived as a country-wide development effort within the same logic as the PRSP and the MDG debate, i.e. as a processes at a national scale and not as a tool for local intervention.

However, with the establishment of a new Local Development Fund most of the observed coordination failures should cease to exist since the fund is aimed at consolidating existing financing mechanisms into a common system.[45]

6.5 Commitment

Lack of political commitment to sound PFM used to be a critical source of uncertainty in the PFM process in Malawi. At the time of this research, there was a commonly shared feeling among donors and observers in Malawi that the new leadership, showed positive signs of a much stronger commitment to accountability and effective PFM, giving hope that substantial improvements in Malawi's PFM performance would soon materialise. For example, the IMF reported about the staff monitored programme (SMP): *"The overall performance under the SMP reflects a high degree of commitment by the government*

45 For a detailed presentation of the proposed mechanism, see GFA (2005).

to adhere to its budget. This is a noteworthy turnaround from experience in previous years" (IMF 2005).

Shortly after the new government was elected, a number of measures were taken as symbolic steps to indicate commitment to budgetary discipline and sound debt management. One such step was moving government offices from Blantyre to Lilongwe. In addition, to limit travelling expenditures, approval procedures for travels made by ministers and PSs were transferred from line ministries to the Office of the President.

In an attempt to improve cash planning in line ministries, the treasury gave back the responsibility of utility costs to line ministries, from which it had originally been taken away to avoid accumulation of arrears. This measure includes sanctioning mechanism, withholding cash transfers in case of new arrears.

The new government also introduced a sanctioning mechanism in order to achieve better budget control at local level. The new Financial Reporting Guidelines for Local Authorities state that funds for local authorities may be withheld in case financial reports are not submitted to the NLGFC on time. Finally, funding was increased for the National Audit Office (NAO) and Anti Corruption Bureau (ACB). The initial anti-corruption drive saw a number of senior officials, including some former ministers, arrested. Yet, the most prominent case was the one of Minister of Education Yusuf Mwawa, who in May 2005 was dismissed and later convicted for using government funds for a private wedding celebration.

However, most elements of the old system of inappropriate power distribution and perverse incentives remain in place. In addition, during the field research most observers agreed that the current political commitment depended heavily on very few people at the top, above all the new President and the Minister of Finance. This created a certain degree of uncertainty about the sustainability of the apparent commitment to sound PFM of the new administration. Even a genuinely well-intentioned President, within such a system, may lack support and may be threatened by a coalition of those who previously profited from the old system (IDD and Associates 2005, 28).

The role weak political commitment might still play in creating a parallel PFM system of informal rules and procedures in Malawi should thus not be underestimated. Nonetheless, the evidence collected and observations made during the field study suggest that at this time, the absence of political will to manage government finances efficiently and transparently is not the most important cause of poor PFM performance in Malawi. Instead, commitment to sound PFM for poverty reduction appears to be a necessary but by no means sufficient condition to ensure PRSP implementation through a PFM system as in Malawi.

Part III: Analysis and Recommendations

7 Public Financial Management under Uncertainty: The Case of Malawi

This section draws together the empirical findings in each of the key areas described in the preceding section and presents some more general results regarding actual PFM practice in Malawi. The main finding shows that actual PFM practices and, in particular, the budget process differ significantly from formal rules and procedures. Instead of being guided by this generally well designed framework, the actual PFM process is characterised by three main features. These are:

— *Ad hoc mode of planning and budgeting*: Malawi's PFM is not characterised by routinised and standard bureaucratic procedures but rather by an ad hoc mode of action throughout the system.

— *Informal practices*: Apart from deliberate manipulation of processes for personal gain, informal practices are often used as pragmatic solutions to cope with unexpected problems and shortcomings.

— *Uncertainty*: Uncertainty has many dimensions in Malawi's PFM system. The two most important ones are uncertainty with regard to financial resources and formal rules. Uncertainty in terms of financial resources denotes the fact that various actors in Malawi's PFM system do not know the amount of money they will have at their disposal for implementing policies during the next financial year. Even after their budgets have been approved, cutbacks occur frequently. Furthermore, various actors do not know *when* they will be told how much money they will receive as the official schedule is not being adhered to (ceilings and time of disbursement). Uncertainty in terms of formal rules thus refers to a twofold problem: For one, it describes the problem that stakeholders do not know formal rules and procedures, or are uncertain which rules apply in a particular situation. In addition, the term refers to the fact that given the constant non-adherence to formal rules, most actors cannot be sure that others adhere to the rules and thus do not know whether they themselves will be able to follow formal procedures in fulfilling their functions.

These features are pervasive throughout Malawi's PFM system and the budget process in particular. The following section discusses them in more detail and shows how they relate to each other.

All actors involved in the PFM process contribute to these outcomes to varying degrees and are at the same time its victims. How each of the key areas and factors analysed in the last chapter contributes to this outcome is analysed in Section 7.2.

The results of this study are then looked at in the context of recent literature on PFM in general and institutional development and public administration in sub-Saharan Africa in Section 7.3. Section 7.4 concludes the study by looking at the consequences of uncertainty for PFM in Malawi.

7.1 Central features of Malawi's PFM: uncertainty, ad hoc planning and budgeting and informal practices

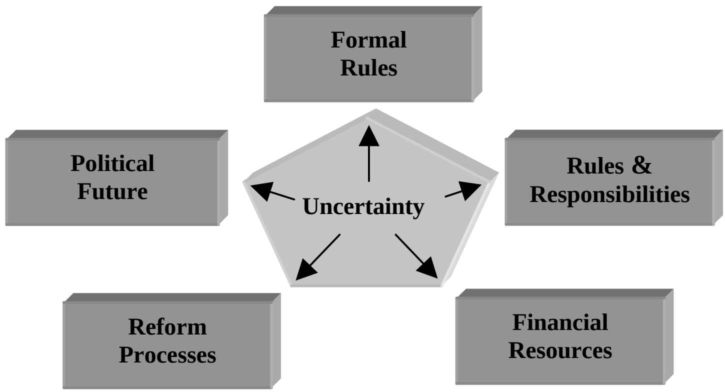
Uncertainty, an ad hoc mode of planning and budgeting as well as the use of informal practices are common features of PFM in Malawi. The three phenomena are closely linked to each other as shown in this chapter. To make the argument clear, the three analytical concepts are briefly introduced in the next sections.

7.1.1 The overriding feature: systemic uncertainty

A very prominent and pervasive finding of this empirical research on PFM in Malawi is a high level of uncertainty, which impacts negatively on PFM at all levels of government. 'Uncertainty' is the analytical term chosen by the research team to sum up all evidence and comments collected on this phenomenon. Thus, the term refers to a systemic kind of uncertainty, which. cannot be ascribed to the lack of information or knowledge of individual actors only. Systemic uncertainty is created because the rules, procedures and institutions of a governance system (here: the PFM system of Malawi in its particular context) are not entirely reliable and, therefore, do not provide long-term predictability. At the same time, the actors involved do not receive relevant information timely and systematically. However, these features are preconditions for the establishment of routine standard bureaucratic procedures in an effective and efficient law-based public administration.

According to this analysis, uncertainty has five major dimensions as far as PFM in Malawi is concerned: a) formal rules, b) financial resources, c) roles and responsibilities, d) future political developments and e) the progress of reforms. Together, they form what could be termed an uncertainty pentagon as illustrated in Figure 9. The remainder of this section briefly outlines these five dimensions.

Figure 9: The uncertainty pentagon of Malawi's PFM system



Source: own illustration

Uncertainty with regard to formal rules

Uncertainty about formal rules has two aspects. The first stems from deficient information about and/or understanding of formal rules and relates to the *content* of rules. The second, and probably the more important one with regard to the observed weaknesses of PFM in Malawi is consists in uncertainty about the *relevance and reliability* of formal rules. This concerns the question for each actor in the PFM system, whether – given the constraints regarding information and financial resources – he or she can fulfil his/her functions according to formal rules and regulations without negative consequences (personally or with respect to the effectiveness of their work) and expect others in the system do so as well. In other words, the critical question is whether the existing formal rules actually serve as a mechanism for "uncertainty absorption".[46] As the collected evidence suggests, this is routinely not the case with regard to rules and procedures for PFM in Malawi.

Uncertainty with regard to financial resources

This is a common problem for almost all actors involved in PFM in Malawi at the various levels. It is also prominent at all stages of the budget cycle. In the strategic planning phase, for example, MEPD and MoF frequently do not know how much funding they will receive from donors in the medium term. This often is also the case in the annual budget formulation phase. Sector ministries at central level are sometimes required to formulate budgets without having received their respective ceilings before. This leads to cutbacks when the amount of money that the sector ministries finally receive is below the budget proposal. If sector ministries should receive more funds than expected, additional activities have to be included in an ad hoc mode. Therefore, sector ministries as well as other government bodies plan, formulate and execute budgets under a high degree of uncertainty. Even in the budget execution stage, it is often not clear, e.g. for local government levels, when and how much money will be disbursed by donors and central government. The two most important components of uncertainty with regard to financial resources are the amount of money and the time of disbursement.

Uncertainty with regard to roles and responsibilities

Another common feature seen is that actors are not well informed about which institutions or actors are formally responsible for specific tasks and how labour should actually be divided. This is understandable in a context where many large reforms are being implemented at the same time, e.g. decentralisation and PFM reform. Uncertainty with regard to responsibilities and roles often result from either insufficient or unsystematic dissemination of information on new regulations or from the fact that the new division of responsibilities is not considered practical by actors or is not in their interest.

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46 Uncertainty absorption as defined by Luhmann (2002, 41–44, 238–240) and based on March / Simon (1958) takes place, for example, if the following happens: an organisation processes information, considers risks, alterations and alternative solutions, assumes the responsibility for all mistakes made in this process and in the end draws conclusions and comes up with a decision. Uncertainty absorption has been successful if only the final decision but not the various elements of the process of arriving at this decision serve as starting point for further decisions and processes (adapted and translated from Luhmann 2002, 238).

A telling example is the role of the TAs at local level. Donor agencies and government frequently rely on TAs for mobilisation and information dissemination purposes; however, this sometimes blurs their role in the administrative system when compared to local councillors and MPs.

Uncertainty with regard to reform processes

The various actors involved in the PFM process often lack information about the various reform processes, even if their institutions are key stakeholders in reform. The information they do not know is for one the content and reform details and secondly the very reform process itself – will there be a reform at all or not? The whole process of decentralisation is a good example for this feature.

Uncertainty with regard to the political future

As political programmes and their implementation depend on a number of factors, among them the personal commitment of the president and other key political figures, as well as on donor support, many actors in the PFM process in Malawi are aware that the political situation could change from one moment to another. Such a change could alter the context of work for all actors involved and could completely change the relevance and binding force of formal rules and procedures. Even if the initial phase of the new president Bingu wa Mutharika's government was assessed quite positively by most interview partners, they were all very well aware that this could change any time.

7.1.2 Ad hoc mode of planning and budgeting

Various actors involved in the PFM process in Malawi act according to an ad hoc mode of action, particularly in the planning and budgeting process. Planning as well as budgeting are closely interlinked processes. That means that actors routinely depend on each other fulfilling their respective tasks as a precondition for the next actor to be able to fulfil his or her task. If there are delays or any other kind of procedural disturbance in this chain of action, it has an impact on all following steps. Disturbances, particularly frequent delays in Malawi's PFM process occur so that formal procedures are frequently not be adhered to. However, as time pressure and deadlines cannot simply be adapted or new ones are set which are very tight, many actors find themselves in a permanent ad hoc mode of planning and budgeting instead of a routine and standardised mode of action. Box 16 provides illustrations.

7.1.3 Informal practices as pragmatic solutions

The incidence of informal practices in terms of deliberate political influence on administrative decision-making appears to have decreased under the new government according to the perception of most interview partners. However, it was a very dominant mode under the Muluzi government and still occurs in certain cases today.

The second type of informal practices that were identified in the analysis are more prominent. They occur when formal rules and procedures cannot be followed because of delays in the process. For example, actors that are further down in the chain of action often have no choice but to pragmatically adapt to the situation they find themselves in. These informal practices are often a compromise between what is legally required and what actors can do in the respective situation. They are informal practices in the sense that they are not formally defined by the legal and institutional framework. That does not mean that all of them are necessarily illegal or “bad” per se. They are not even inefficient in all cases, although many are. Box 16 illustrates some examples of how informal practices are created.

How the three features uncertainty, ad hoc mode and informal practices are linked to each other in Malawi’s PFM system and how uncertainty is created in the first place is discussed in the following section. Selected illustrations are also given.

7.2 How uncertainty is created in Malawi’s PFM

Malawi’s formal institutional and legal framework for PFM is seen as sound and adequate. Nevertheless, PFM and the budget process in particular are considered to be weak. But why is there such a discrepancy between the formal PFM framework and actual practice? This section draws together the findings and concludes the argumentation.

7.2.1 How formal PFM rules are undermined

To be effective, the formal institutional and legal framework for PFM needs to be adhered to in actual PFM practice. Particularly in the context of a very poor country with few professionals, a high degree of donor dependency and a long history of political authoritarianism it is obvious that this is a very challenging task. During the field, research five key areas were identified that are critical for implementing this framework.[47] The major problems in each of these key areas were identified and respective reasons for as well as effects of these problems analysed. Problems in each of these five key areas contribute to the PFM process in Malawi being characterised by uncertainty, an ad hoc mode of planning and budgeting and the use of informal practices through two different channels:

— The direct link where certain problems become explicit triggers[48] for an increased ad hoc mode of planning and/or budgeting and thereby increase overall uncertainty.

— A more indirect way that does promote but in itself does not cause ad hoc behaviour, informal practices and uncertainty;

One example for a typical trigger event would be the delay of disbursement of funds or detailed announcements by donors. This delay will be transmitted throughout the entire budgeting process from each stage to the next one. Reliable budget ceilings will be issued too late and the resulting time pressure will make it impossible to adhere to formal rules and procedures (e.g. there is no time to get the budget approved by the full district assembly at the local level), leading to ad hoc planning and/or budgeting at the various levels. This again increases uncertainty with regard to the relevance of formal rules and procedures, even more so when informal practices that are not in line with formal regulations are not sanctioned accordingly. If ad hoc planning and budgeting or informal practices are already taking place, the weaknesses in these areas tend to reinforce those negative features further, increasing the overall level of uncertainty in the system. Figure 10 illustrates this self-

47 The authors do not claim to cover all relevant key areas for PFM in Malawi. However, there are reasons to believe that these are probably the most important ones.

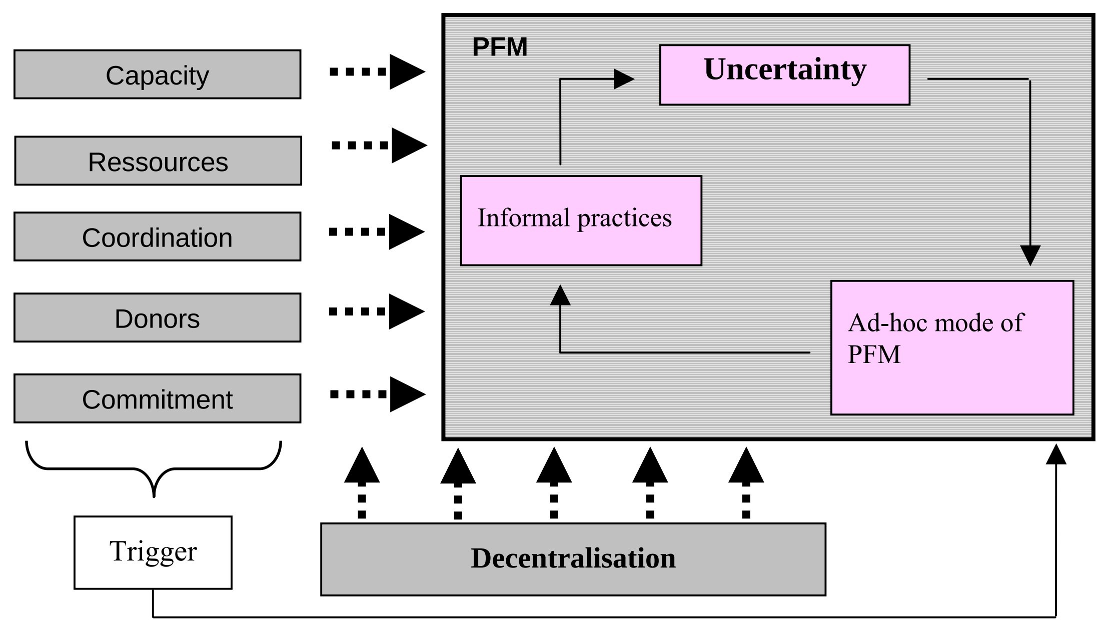
48 A "trigger event" is directly linked to an ad hoc mode of action although it might not always be easy to clearly identify the single most important event as several factor do often work together, leading to a situation where ad hoc planning and/or budgeting is practiced.

reinforcing cycle. It also illustrates how decentralisation may reinforce the described process by adding complexity to the entire PFM system and exacerbating weaknesses in the five key areas.

Over the long-run, there is even the danger that formal rules and procedures are no longer being taken serious as relevant guidelines of PFM if they are regularly not being adhered to. Informal practices that serve as pragmatic “emergency” solutions might become institutionalised as the standard mode of action. Once this has occurred, it may prove extremely difficult to change the established routines. The illustrations in Box 16 show the role systemic uncertainty plays in Malawi’s PFM system and suggest that such a process is indeed observable in Malawi.

However, high levels of uncertainty might also have other negative effects on the effectiveness of the PFM system: it could reduce the commitment of actors at all government levels to these formal rules and procedures. It can also undermine the legitimacy of newly established institutions, particularly at local government level, such as the DA. Furthermore, these practices can undermine capacity development of local councillors as well as effective coordination between central and local level institutions. Throughout the PFM process uncertainty is an outcome as well as a cause of an ad hoc mode of planning and budgeting and the use of informal practices.

Figure 10: PFM under uncertainty



Source: own illustration

Box 16: Illustrations for PFM under uncertainty

This box presents several examples of how formal rules have been undermined and uncertainty created in Malawi's PFM system. It is a selection of cases based on the field research conducted in Malawi and is intended to illustrate the more abstract considerations above.

Delays of ceilings for budgeting

This is one of the most prominent examples for how uncertainty (with regard to financial resources) is created in Malawi. The formal schedule for budgeting in Malawi gives clear deadlines for when ceilings have to be communicated and budgets handed in and approved. However, this schedule is frequently not being adhered to. A frequent "trigger event" is that donors are late with communicating their commitments for the following financial year to the government. Therefore, the MoF is late with announcing the ceilings. In order not to delay the entire budgeting process too much, the ministry asks all other government bodies to submit the budget as quickly as possible. This high time pressure induces an ad hoc mode of budgeting. It frustrates those who have already prepared a budget and now have to reduce or redo it again. Comments like the following made by staff of government bodies that suffer from these delays were frequent:

> *"Sometimes you wonder why you make budgets! If in the end, you only get a fraction of what you planned and budgeted. You can't plan."* (Government body at central government level)
>
> *"If we start budget planning we should have an idea of how much money we have. But it is unclear how much donors put in. Normally this information does not come. Some do give it - there we can plan. The government knows numbers too late. So, they also send the ceilings very late. Too late, let me tell you - that frustrates us and the operational. … The budget planning process is frustrating and unrealistic."* (Ministry of Health)
>
> "*No, we normally get the ceilings late. If you do not get the ceilings on time, it is difficult to know the limitations of the budget. We do a budget without knowing the exact figures and then, finally, we have to cut them back*." (Government officer at local government level)
>
> *"In Uganda they get ceilings nine months in advance. In Malawi, we get them only when the budgeting is finished. We blindly do our budgets."* (District Health Officer)
>
> *"Budgeting is useless."* (District Health Officer)

Actors use a number of strategies to deal with this problem. Some of them are formal while others are informal but all are pragmatic solutions to this uncertainty in budgeting due to the delays. The first example is a formal and very official solution. The introduction of activity-based budgeting (ABB) even at local government level is one of the most recent reforms in PFM in Malawi. A government official at central level stated that ABB is a good instrument for dealing with delays of ceilings or uncertainty in the budget process as it makes it much easier to cut back certain activities according to the prioritisation when the actual ceilings are finally given. This is much more complicated with line-item-based budgeting. Another more informal solution is that ministries advise their respective budgeting units to take the previous budget as reference for budgeting: *"We give the districts a rule of thumb: 10 % more than the last year, the treasury supports that idea. The problem is it makes the planning a bit theoretical and not flexible."* (Ministry of Health).

In the health sector an informal solution has become institutionalised: while anticipating that ceilings might come too late and that the proposed health budgets coming from the districts might have to be cut back, the Ministry of Health advises the DHOs to prepare two budgets, budget A and budget B: one of them is the 'normal' budget while the other one is a worst case scenario. Both are then submitted to the ministry and based on the ceilings it is then decided which one will be used – over the last years the worst-case plan has been used more often.

Another strategy to deal with the delays of ceilings and high time pressure at local government level is to skip certain legally required steps in the budget process. Normally, after the District Secretariat has prepared the budget, the full District Assembly has to approve it. If the ceilings come too late and the NLGFC (which has also received the ceilings late) requests districts to submit budgets within a few days, this step is often skipped. To call for a full assembly meeting in a rural district would require much more time and is very expensive for the District Secretariat. As a pragmatic compromise, the District Budget and Finance Committee are called to approve the budget. The full assembly is then informed about that in the next meeting. There is the danger that this informal solution becomes institutionalised and that formal regulations that require the full assembly to approve the budget are routinely neglected. In some districts, the full assembly had been circumvented for two years in a row when the field research was conducted.

All these procedures create significant uncertainty in the budgeting process. However, most government officials at all levels know that this delay is a chain reaction and do not blame the authority above them. A local government official puts it as follows: "*We got the ceilings only on Friday. But they [the authority immediately above them] got it late from MoF. And they got it late from the donors. Now we have two days to give them the budget. They just pass on the ball*."

Local government elections and the dissolution of District Assemblies

Local government elections are provided for in the constitution of Malawi. However, at least officially due to budget reasons, GoM did not budget for the local elections that would have been due in May 2005. The "trigger event" therefore is the lack of money provided for local elections in the budget 2004/2005. Following the constitution, the minister therefore announced on April 14, 2005 that the local assemblies stand dissolved by law effectively by March 20. Instead of elected councillors, the district commissioners and local chief executives with the support of the traditional authorities should run the district until the next elections, now planned for 2006. Soon after that message, the city assembly of Lilongwe appealed against this decision at the High Court, arguing that local councillors have been elected for five years in November 2000. On April 22, High Court ordered that the ministry should not start acting as if assemblies were dissolved until a judicial review on the matter was carried out. The official reason given subsequently for not holding the elections was that any available money was needed to buy maize in order to compensate the effects of the extremely poor 2005 harvest, stifling any serious protest.

It is easy to imagine how much uncertainty this affair must have caused at local level, particularly under conditions of weak capacity and coordination. Again, an ad hoc mode of action characterises this affair. Nobody, particularly not at local level, has really thought about this problem before. Uncertainty about the exact date of new local elections has been more or less accepted. Therefore, the order to dissolve the assemblies came very surprisingly and local councillors perceived it as an ad hoc decision.

The fact that district councillors, chief executives and traditional authorities should take over the responsibilities of elected councillors can be considered as an informal practice, although it has been officially announced. This practice is likely to dramatically increase uncertainty for local stakeholders and the local population about hierarchy and responsibility of the different actors at local level and therefore have a negative impact on the decentralisation process in Malawi.

Temporarily government seemed to intend to postpone local elections until 2009. However, by the end of 2006, preparations for local elections seemed finally to be under way, with seven billion Kwacha set aside for the purpose.

The introduction of PFM reforms

Although this illustration refers to the introduction of PFM reforms at local government level, the same phenomenon is also common at central government level. As a pilot project in terms of sector devolution, the responsibility for the payroll of teachers should be devolved to the districts. This time the "trigger event" was less an event, but it was the fact that coordination and communication between central and local government level was completely lacking. The training measures for preparing the devolution of the payroll was very much ad hoc from the perspective of the district education managers who were going to be responsible for managing the teacher's payroll. Although informal practices have not yet arisen from this process, it has created a lot of uncertainty. This is not a very positive context for such an important reform. The acting DEM of Dedza district, one of the three pilot districts in Malawi, clearly illustrates that:

> *"[On the devolution of the payroll for teachers] we got the first information in November last year. This year there was a week when we have been told what exactly this means and we have been trained on how to use the computers for that. Three districts will start, seven have been trained. I don't know whether we fall into the first three or the last four. We have been told that we will be informed, there will be more training. We are still waiting to see. … The problem is: other people are planning, the implementers are somewhere else. We're only told: come here. We will tell you when to continue. So, we are waiting, we have not yet been told."*

7.2.2 Why formal PFM rules are undermined

As has been discussed in the last chapter, the causes for current PFM practice in Malawi being characterised by uncertainty, ad hoc mode of planning and budgeting and informal practices have their roots in five key areas. In order to understand the mechanisms at work, it is, however, necessary to take a closer look at the inner workings of this phenomenon. This analysis cannot be comprehensive due to the manifold interrelations between the various shortcomings in the five areas identified above and between the features of uncertainty, ad hoc behaviour and informal practices, Therefore, only the most relevant relations impacting on PFM performance are presented.

Capacity

The ways in which the capacity problems outlined above contribute to ad hoc behaviour, informal procedures and uncertainty are manifold. For example, a shortage of qualified staff, particularly in key positions for PFM, leads to a situation in which existing staff tend to suffer from work overload. This strongly increases the likeliness of the long-term planning and the preparation of key tasks being neglected and that an emergency or ad hoc mode of action becomes the rule rather than the exception. This might also increase the likeliness that 'shortcuts' are used instead of formal procedures.

Insufficient equipment and financial resources also lead to a situation where staff cannot perform their routine duties but have to work in an ad hoc manner when they receive the required resources or equipment.

High staff turnover also increases uncertainty and informal practices because institutional memory is not established and administrative routines are not being developed. Professional knowledge, specific training efforts and familiarity with local stakeholders for coordination purposes are also lost and take a lot of time and resources to be re-established.

Long and unpredictable recruitment processes also contribute to ad hoc planning and budgeting by acting staff and increase uncertainty as strategic and long-term decisions are simply not made if senior positions are not filled.

Resources for PFM

If funds are insufficient to pay adequate salaries qualified PFM staff cannot be attracted to and retained in rural districts. This will most likely exacerbate the negative effects at local government level of procedural disturbances originating from higher levels. More importantly, if no funding for meetings of service committees (at both central and local government level) and the full DA is available, formally required consultation procedures with these bodies cannot be followed. Inevitably, this leads to informal procedures. If the resources are missing on a regular basis, uncertainty is created about the relevance of formal procedures undermining the entire PFM process, including its democratic control and legitimacy.

Donor impact on PFM

One of the most critical factors contributing to the high degree of uncertainty in Malawi's PFM is the lack of predictability of donor funds, which includes actual amounts, time of disbursement and possible reductions. If donor commitments are not well coordinated with the Malawian budget process, this might cause delays or additional financial resources after the budget has been approved. If no supplementary budget is set up, both cases lead to increased ad hoc planning and budgeting.

The MoF tends to send out the budget ceilings to sector ministries and local government bodies late if donors are also late in confirming their contributions to the GoM. This delay then propagates throughout the budget process and leads to sometimes hectic ad hoc planning and budgeting activities at both levels of government. Again, this increases the likeliness of using informal practices instead of the formal procedures and in the end increases uncertainty throughout the system.

If donors do not adequately support the introduction of new PFM instruments, such as the MTEF, it will only increase the use of ad hoc mode of planning and budgeting and other informal practices. Reforms are then only introduced superficially instead of embedding them systematically and in a sustainable manner in the entire PFM system.

Coordination

Missing or insufficient coordination between the numerous actors involved in PFM increases uncertainty substantially, in particular so when informal and intransparent communication channels are used instead of formal coordination mechanisms. Although this might sometimes be more efficient, it usually does not strengthen but often undermines the formal institutional and legal infrastructure. Information is thus not distributed systematically and evenly to all relevant actors in the system but rather selectively according to personal relations. This adds to uncertainty for all actors involved.

Commitment

Lack of political commitment to sound PFM is another critical source for uncertainty in PFM processes in developing countries. This applies to uncertainty about the validity of formal rules as well as to the question as to whether observed commitment is indeed genuine and can be sustained. However, currently it seems that the political commitment of top government officials as well as personal commitment of civil servants at technical levels do not provide the most important source of uncertainty triggering the observed ad hoc mode of planning and budgeting and use of informal practices in Malawi's PFM. This argument is elaborated in more detail in the following section.

7.2.3 The budget as a theatre, continued – How important is political commitment?

As previously quoted in Chapter 5, a recent study on Malawi's formal and informal PFM institutions commissioned by DFID finds that "the budget process [in Malawi] is a theatre that masks the real distribution and spending" (Rakner et al. 2004, iv). Another recent study on Malawi's PFM comes to the conclusion that although capacity constraints in implementing PFM reforms must be recognised, the main limiting factor for sound PFM in Malawi in the past appears to have been a lack of commitment of political leaders (Durevall / Erlandsson 2005, 35). This point of view, however, would imply that by substantially improving political commitment of senior government officials, the quality of PFM could be improved significantly. In Malawi, such a change appears to have taken place with the election of the new government in May 2004. So far, most donors agree that there is evidence that the new leadership is committed to fiscal discipline and tackling corruption (Durevall / Erlandsson 2005, 37).

Consequently, one could expect substantial improvements of PFM and the adherence to formal rules and procedures in Malawi. However, as the evidence collected for this study suggests, even with good formal institutions and regulations in place, political commitment alone will not suffice to ensure adherence to PFM rules and procedures in a country like Malawi. This is because there are various limiting factors inherent to the public sector in a typical African developing country like Malawi that undermine adherence to formal rules and regulations, lack of commitment by political leaders being only one of them. Some authors suggest that disorder and uncertainty in fact serve as political instruments for African elites to maintain their power base (c.f. Chabal / Daloz 1999), and are as such intended consequences of actions undertaken by political leaders lacking commitment to development and poverty reduction. However, evidence suggests that there are other important factors as well, leading to the rather unintended establishment of informal and parallel PFM systems. This means that even though political commitment may have improved significantly in Malawi, the PFM system's main features of uncertainty, ad hoc behaviour and informal practices will continue to exist. They must be considered as systemic problems themselves, rather than intended consequences of the elite's lack of political commitment to development only. The reflex to blame neo-patrimonial and clientelistic structures alone wherever good formal institutions and regulations are not adhered to, must therefore be challenged to a certain degree.

Although commitment is an essential precondition for reforming PFM; it cannot solve systemic problems that consists of a severe lack of resources and capacity as well as poor coordination and donor behaviour. In brief: although the budget may no longer be a mere theatre in Malawi, the old stage still exists.

7.3 Uncertainty in PFM and institutional development in Africa

How unique is the case of Malawi with a PFM system that is characterised by the central features of uncertainty, ad hoc behaviour and informal practices? Many of the conditions that were identified as leading to these problems can also be found in other developing countries. It is likely that similar phenomena can also be discovered there. Therefore, Malawi is certainly not unique in the developing world and some generalisations regarding other countries in sub-Saharan Africa seem justified.

But what if these central features of PFM in Malawi are compared to PFM in consolidated Western democracies with a strong public administration? Surprisingly, similar features are found in these countries as the following quote shows:

> *"Instruments of public financial management that have been established for emergency interventions become institutionalised as instruments for the maintenance of the budget cycle. … [Informal] bilateral negotiations between finance- and sector administration divisions are no longer the exception but are an important instrument of budgeting itself."* (Peters 2000, 135; own translation.)

These findings do not refer to a developing country but to PFM in the German capital, Berlin, in the late 1990s. An informal 'second budget cycle' had been established and was almost completely separated from the official budget cycle in response to the severe financial constraints the municipal administration was facing.

In organisational sociology literature, it is a well-established phenomenon that administrative systems in modern democracies tend to increase their autonomy and discretionary space for informal practices when the political and administrative system suffers from work overload (Luhmann 1987, 142–151). Therefore, the question is legitimate in how far PFM in Malawi really differs from other, well-consolidated and in general sufficiently well functioning PFM systems in developed countries. This study would argue that what makes the case of Malawi special is not the mere existence of uncertainty, an ad hoc mode of planning and budgeting and informal practices in general but rather the quality of these problems as well their occurrence in a typical sub-Saharan African institutional context. Therefore, the major differences to PFM in developed countries apart from the lack of qualified staff are the following:

— *The extent of uncertainty:* In addition to relying on a narrow and highly vulnerable tax base, Malawi heavily depends on donors to finance its state and most other public expenditure. As donor behaviour is identified as one major source of uncertainty in PFM, this dependency implies that the extent of uncertainty with regard to financial resources in the budget process is also extraordinarily high.

— *Institutional context:* Formal institutions as well as laws and regulations are not yet consolidated and habitualised as relevant and dominant guidelines for administrative action. They often do not serve the purpose of "absorbing" uncertainty (see Section 7.1.1). To institutionalise procedures and establishing routines is a long-term process that is still ongoing.

The effects of uncertainty, ad hoc mode of planning and budgeting as well as informal practices in such a context are completely different from those of consolidated democracies with strong administrative systems. While these features also affect the public perception of administrative procedures negatively in the context of developed countries, they do not jeopardise the system and the procedures as such. This is completely different in a context where institutions and formal rules and procedures are not yet consolidated and habitualised. In such a context, there is the danger that these features of PFM are attributed to the system as such and therefore the formal institutions, rules and procedures on which the whole process should be based are de-legitimised and undermined in the process.

These reflections go far beyond the purely administrative system: administrative action in modern democracies is democratically legitimised exclusively through its rule-boundedness. In the words of Luhmann: modern administrations generate "legitimation through procedures" (1969). If this process of genuine institutionalisation and habitualisation of formal rules and procedures is threatened, it is not only a risk for the administrative system, but threatens the base of democracy in a country. This can happen, for example, through the prevalence of uncertainty, ad hoc behaviour and informal practices in PFM. It is important to keep this wider context in mind when assessing the features identified in PFM in Malawi. Schedler (2001) argues that institutional uncertainty is a constitutive element of the transition process towards democracy. Therefore, uncertainty of the observed form in Malawi's PFM can also be interpreted as a central feature of the much wider phenomenon of democratic transition in sub-Saharan Africa.

7.4 Conclusions: Consequences of uncertainty in Malawi's PFM

What are the consequences that result from these findings regarding PFM in Malawi? Among the most important consequences of uncertainty, ad hoc behaviour and informal practices at the different government levels of PFM are the following:

— The effectiveness of the PFM system is limited; therefore, the implementation of strategic policies (e.g. PRS) through this system is unlikely.

— Enforcing accountability is extremely difficult in a PFM system such as Malawi's.

— The relevance of formal rules and procedures for PFM in Malawi is limited and is being undermined in the process.

Particularly in a context of political transition, decentralisation tends to further complicate the PFM system and procedures, thereby increasing the likeliness that the problems identified in this study are exacerbated to a considerable extent.

8 Recommendations

Establishment of an operational link between PRSP and local planning and budgeting procedures

Currently, there is no operational mechanism linking local planning and budgeting procedures to priorities set at the national level. Although some stakeholders doubt the need for such a link, if devolution is taken forward, in particular in the sectors covered most prominently in the PRSP (health and education), such a link is indispensable. Particularly so when at the same time a meaningful PRSP approach is to be pursued.

Such a link could be established either at the planning stage, e.g. by means of binding guidelines derived from the PRSP for the formulation of district development plans; or in the execution phase, e.g. via protected sector transfers or conditional grants to the local level, which can ensure allocation of local expenditures according to national PRSP priorities.

Obviously, there is a clear trade-off between full-fledged political, administrative and fiscal decentralisation of sector responsibility and the PRSP approach. Therefore, a clear recommendation as to what exactly such a link should look like in order to not undermine the decentralisation process while at the same time ensuring the effective implementation of the Malawi PRSP will require careful research and extensive discussion of all stakeholders involved (including local government level). To strike the right balance between the two strategies is one of the numerous difficult tasks the Government of Malawi needs to tackle over the next years.

Improved donor coordination

The government should take the lead in donor coordination. The responsibility of coordination, however, should not be left to the Malawian side alone. Donors should encourage, support and actively empower the GoM to take its lead in donor coordination by coordinating their activities as well as by harmonising their modes of aid delivery and reporting

Better alignment of donor support to Malawian PFM processes

In order to strengthen Malawian institutions and the formal PFM processes and to reduce uncertainty in the system, donors should align their procedures more consequently to the Malawian PFM processes. This is especially important for the adherence to timeframes and deadlines throughout the budget cycle, particularly in the budget planning and execution phase.

Binding medium-term commitments to improve the predictability of donor funding

Considering the dependency of Malawi on donor funding, donors should make detailed, binding and long-term pledges. This will increase the credibility and relevance of the budget as cash shortfalls in approved budget votes can be avoided. Apart from that it enables sound medium-term planning.

Pooling technical assistance for capacity development for PFM

Donors play an important role in financing and organising capacity development. However, donor-financed capacity building measures are not always well communicated to and coordinated with activities of the Malawian government. The Department of Human Resource Management and Development (DHRMD) in the Office of the President does not have a comprehensive overview of ongoing training measures, as donors tend to cooperate directly with sector ministries or the local government level, in part deliberately circumventing the DHRMD. In order to improve coordination and align donor activities to Malawian priorities, donors should pool their technical assistance and support a comprehensive and prioritised catalogue of systematic training measures that are closely connected to PFM reforms and instruments. The pooled fund should be under the supervision of the DHRMD. For this purpose, capacity building in the DHRMD might be necessary.

New modalities to deliver capacity building for local authorities

Donors should consider pooling resources to support capacity development of local authorities directly, especially for the local level, where the need for capacity development is even more pressing and uncoordinated donor approaches have undermined existing capacity in the past. For this purpose establishing a fully or partly donor financed mini-basket based on an elaborated and prioritised catalogue of capacity building activities should be considered. These activities should be (i) systematically linked to PFM reforms, (ii) evenly distributed among districts and (iii) executed in a timely manner. They should include measures for both the executive and legislative branch of government. At the same time there is a need to effectively address specific and sometimes very different capacity development needs of individual districts. While MoLGRD should assume the overall responsibility for the mini-basket, the management of funds and activities could be assigned to the NLGFC.

Strengthened support for the National Assembly to improve budget scrutiny and control

Malawi's National Assembly is severely underfunded. Currently very few donors are supporting the National Assembly, not least because in the light of modern development approaches such as PRSPs, budget support and other programme-based approaches most international donors tend to focus on the executive. In order to increase parliament's relevance and its ability to contribute to a sound PFM by executing its oversight functions, it is recommended that more development assistance be directed towards the National Assembly. In order to minimize coordination needs, it is suggested that donor agencies pool their funds and delegate the programme implementation to one lead donor. This could be done in a similar fashion as DFID is currently contributing funds to the CIDA-run parliamentary programme.

Provision of equipment and financial resources for administrative processes

One important capacity shortcoming in Malawi's PFM system is insufficient equipment and financial resources in government institutions, especially at local level. Donors should continue to assist local authorities by providing equipment. For good reasons, maintenance of equipment is not always a priority for donors, who argue that in the interest of sustainability recurrent costs of development investments should be covered by the recipient government. However, it must be kept in mind that local authorities often simply do not have enough own resources to cover operational costs and central government may have few incentives to provide the necessary resources. Therefore, there is a role for donors to ensure that the responsibility for operational costs is clearly assigned and enforced. Nonetheless, as the resource envelope of local government institutions is usually thin, donors should also consider financing recurrent costs by providing some form of budgetary support. Donors should also take into account that spare parts for special equipment and technologies are not always available or affordable in Malawi. They should therefore rely more on domestic procurement in order to allow local authorities to acquire equipment and technologies that are locally available.

Reduced salary gap between the public sector and private entities or donor organisations for middle-level staff

High staff turnover in Malawian government and oversight institutions both at central and local level is an important factor that hampers the PFM process. This is partly due to relatively low salaries for middle-level staff. Therefore, it is important to reduce the salary gap between the public sector and employees working for the private sector or donor organisations in order to attract and retain qualified employees in the public sector. The GoM should continue to implement the Civil Service Pay and Employment Reform to render middle-level positions in public institutions more attractive for qualified personnel.

Reduced payment of allowances and their transformation into a fixed component of civil servants´ salaries

The payment of allowances for the attendance of workshops and meetings is a common way to top up salaries in Malawi's civil service. Allowances were initially intended to improve the performance of civil servants, but in fact this system creates perverse incentives and delivers an opaque salary scheme. Therefore, the government should consider raising salaries by fixed sums and in exchange reducing allowances to a refund of the actual cost of transport and catering. Donors should support this policy and avoid creating adverse incentives by paying high allowances for workshop attendance.

Better incentives for civil servants to work in remote areas

The GoM faces serious difficulties to attract qualified staff for jobs in remote districts, where living and working conditions are poor. Therefore, it is necessary to create more and better incentives for civil servants to work in these districts (e.g. salary top-up for remote areas or other compensatory measures) in order to compensate for less attractive living conditions.

Merit-based and transparent recruitment and promotion of civil servants

Insufficient professional knowledge of PFM procedures and instruments is identified as a relevant disturbing factor for PFM in Malawi. In order to guarantee that adequately qualified candidates are recruited for vacancies, the government should ensure that recruitment und promotion of civil servants is transparent and strictly merit-based. Donors should pay particular attention to this as well and follow up on government's commitments.

Generating multiplier effects for sustainable capacity development

The introduction of new PFM tools should always be accompanied by systematic, long-term and timely capacity development. It has to be ensured that the capacity of institutions is developed and not only the capacity of individuals. This involves establishing mechanisms to disseminate specific knowledge acquired by individuals to all relevant stakeholders in order to preserve the gained knowledge and capacity for the institution.

Improved coordination between MoF and MEPD

The coordination between MoF and MEPD is not always satisfactory, in particular with regard to ensuring the consistency of the PSIP and the capital budget. The government should consider establishing a mechanism that guarantees that the first year of the PSIP and the capital budget are consistent. This is a necessary precondition to increase transparency within the system, enforce the accountability of MoF and MEPD and to ensure that national investment projects are really selected according to national priorities as stated in the MPRSP. For this it is necessary, for example, that sector ministries follow formal procedures in submitting their proposals to MEPD and not only to MoF.

Better involvement of local stakeholders in the recruitment of District Secretariat staff to strengthen accountability between local entities

The recruitment process for key positions is still very long, unpredictable and centralised, above all for the local government level. In the medium term, it may prove useful to increase the participation of local authorities in the selection of candidates for District Secretariats so that candidates feel more accountable to the local stakeholders. This could be achieved, for example, by changing the composition of the recruitment commission in the MoLGRD, giving more weight to local stakeholders such as the DC and representatives of the DEC and DA. In the long run, the GoM could take into consideration whether responsibilities for the recruitment of local level staff should be transferred to the districts in order to reduce bureaucracy and increase the accountability of local civil servants to local government.

Performance based resource allocation to local assemblies

Local assemblies that are more committed to own revenue generation should benefit from central government transfers, based on the "performance matrix", created by the NLGFC. This benchmark tool can be used to strengthen the awareness and creativity among local assemblies to become more autonomous in financial matters.

Donors support for revenue generation capacity at local level

More attention needs be paid to revenue generating abilities of the state and the rural districts in particular. One possible option to broaden the local revenue base would be to assist districts with the costly and time-consuming activity of valuing and rating areas to levy property tax.

Better alignment of donor support to DDPs

Donors financing projects at district level must make sure not to undermine local structures and procedures. In particular, local planning procedures have to be taken serious. As a rule, only projects emerging from local District Development Plans should receive substantial donor support.

Consequent support to and use of the new Local Development Fund

Existing financing mechanisms to fund local development projects should be consolidated into the proposed Local Development Fund (LDF) with the objective to

— support planning and management of development resources at the assembly and community levels;
— provide resources which ensure that development investment respond to the priority development needs;

— facilitate the implementation of the National Decentralisation Policy; and

— enhance the accountability of local authorities to their constituents (cf. GFA 2005).

All donors supporting Malawi’s decentralisation policy should support the establishment and implementation of the LDF and align their activities and procedures accordingly.

Continued donor support to the NLGFC in order to ensure effectived decentralisation

The NLGFC is an appropriate institution for supporting local government in financial management issues, capacity building and local development planning. Its staff is highly committed and adequately qualified. Therefore, donors should support the work of NLGFC in a coordinated manner with a medium to long-term perspective. The most pressing need of NLGFC is additional manpower rather than technical training of existing staff. Taking a medium to long-term perspective in supporting NLGFC requires that regular evaluations are carried out to enquire whether the structure and responsibilities of NLGFC are still adequate for facilitating decentralisation or whether they have to be adapted. At the same time, it is critical that donor’s support to NLGFC is evaluated regularly and, if necessary, adapted to changing needs.

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Annexes

Annex 1: Methodology

This annex presents the research design and schedule, including methods of data collection and analysis this study is based on. It provides some background information on grounded theory and introduces the theoretical and analytical background of the study.

The literature that exists on PRS implementation, decentralisation, and PFM in the development context is already vast and continues to grow. However, the existing literature exhibits three major shortcomings that should be addressed in this study:

1) Most literature to date addresses the issues at hand separately rather than looking at them as interrelated subjects. PFM at local government level is particularly often left out.

2) Most authors focus on the technical dimension of PFM and – albeit to a lesser extent – of decentralisation without taking into account the political environment in which these processes are taking place.

3) Most of this literature takes a normative and conceptual rather than an empirical approach.

The research question of this study already indicates that it primarily intends to address the first of these three shortcomings. However, the focus is on the PFM process as such. The specific context in which this occurs is decentralisation and the PRSP implementation. They are relevant for this study but cannot be analysed in more detail. The strong focus on PFM at the local government level is intended to offer a new perspective that is often neglected by analyses of PFM systems and decentralisation in developing countries.

The way the second and the third shortcoming are addressed is closely linked to the analytical framework and the research approach of this study. With regard to the second shortcoming, this study explicitly takes the political dimension of PRS implementation, decentralisation and PFM reform into account. All these are processes to which the redistribution of power, responsibilities and resources is central. In order to understand why certain organisational and procedural changes work while others do not, it is essential to understand the context and the involved actors' perceptions and interests. Therefore, analytical categories such as political commitment and incentives are employed, in addition to others, such as capacity or the distribution of responsibilities.

The third shortcoming is the subject of a large body of literature that lays out conceptual and/or normative frameworks for PRS implementation, decentralisation and PFM respectively. These documents are often very sophisticated but equally often fail to acknowledge the specific contextual conditions within a particular country and to adapt the proposed strategies to this particular situation. In order to avoid this shortcoming, this study consists of a detailed case study on the interrelations of PRS implementation, decentralisation, and PFM in a particular developing country (Malawi). However, general conclusions that apply to other developing countries going through similar processes are carefully drawn from this case study.

There are two reasons for examining these shortcomings. First, the study seeks to contribute to the current debate in international development cooperation. Second, by arriving at a better understanding of the issues under research, it aims at informing about relevant problems for decision-makers from the government and donor side.

Research design

The case study approach is used as overall design for this study as mentioned in the main text. As the interrelations between PRS implementation, decentralisation and PFM are very complex, the best results can be gained by studying a particular case in detail. Nevertheless, the overall aim of this study is to identify typical challenges and to arrive at careful generalisations, which could apply to similar processes in other developing countries as well. See Chapter 4 for the reasons why Malawi was selected as a case and how the two districts for the fieldwork were identified. The research project was divided into three broad phases: the preparation of the preliminary report in Bonn (14 weeks), fieldwork in Malawi (11 weeks) and finalisation of the report in Bonn (4 weeks). The second phase in Malawi can be subdivided into the periods in Lilongwe, in the districts, for data analysis and again in Lilongwe for the presentation and discussion of preliminary findings (see Table A1).

Table A 1: Research Schedule

Phase	Duration	Location	Research activities
1)	14 weeks	Bonn	• Extensive review of literature and official documents • Expert interviews • Collection of ‘grey literature’ • Contacting organisations and planning fieldwork in Malawi • Drafting and presentation of preliminary report
2)	4 weeks	Lilongwe	• Expert interviews • Document and data collection, research and analysis • Collection of ‘grey literature’ • Newspaper analysis • Contacting organisations and researchers
3)	3 ½ weeks	Districts	• Ethnographic and expert interviews • Observations • Informal conversations • Collection of documents
4)	3 weeks	Mangochi	• Data analysis and drafting of final report
5)	1 ½ weeks	Lilongwe	• Follow-up research activities • Presentations and discussion of preliminary results with stakeholders in Malawi
6)	4 weeks	Bonn	• Finalisation of a draft report • Presentations and discussion of findings with German stakeholders

During the first phase, relevant organisations in Malawi and Germany had been contacted and the first expert interviews with staff of German development agencies were conducted (for a list of sources, including people interviewed, see Annex 2). A representative of the Malawian partner organisation, the National Local Government Finance Committee (NLGFC), accompanied this phase in parts.

In phases 2 to 5, fieldwork was carried out in Malawi at central government level (Lilongwe) and local government level (two districts). Furthermore, the collected data was analysed and preliminary findings presented and discussed with stakeholders in Malawi. The methods used for data collection as well as analysis are introduced below.

Phase 6 comprises further detailed analysis of data for individual chapters as well as the drafting, presentation and discussion of the results.

Methods of data collection

— The methods used for conducting this case study are mainly qualitative in nature. The most important methods of data collection were the following:

— semi-structured interviews (expert interviews, ethnographic interviews)

— literature and official document review

— non-participant observations (e.g. assembly meetings)

— informal conversations

The most important source of data were semi-structured interviews with varying degrees of openness. The interviews range from more open ethnographic to expert interviews. As the actors interviewed all come from very different context there were no standard interview guidelines. Based on the results from the preliminary report and the analytical focus of the study, teams of two to three people developed individual interview guidelines for every person in the days before the interview. These guidelines covered the responsibility each person had in the relevant fields of PFM, decentralisation and PRSP. There was also space for more open comments and assessments of interviewees. In the course of the research process, the guidelines increasingly included open questions or new issues that have come up in other interviews. In total 141 interviews have been conducted (see annex 2). In most cases, the interviews were conducted in teams of two people. While one person conducted the interview, the other person took extensive notes. Based on these notes an electronic transcript has been produced as soon after the interview as possible. For minimising mistakes the person who conducted the interview cross-checked the transcript and if necessary, added information.

Official documents as well as academic, policy and ‘grey’ literature are used as the second source of data. These documents were reviewed and analysed. Non-participatory observations and informal conversations complement the data gained through interviews and documents. Although these methods have only been used to a limited extent, they provided valuable information that could not have been gained otherwise. Observation reports and conversation transcripts were produced on every event.

Interview partners as well as the documents come from various contexts, among them politicians and administrative personnel at various government levels, staff of multi- and bilateral donor agencies, Non-Governmental Organisations (NGOs), the media, traditional authorities and ordinary citizens (see Annex 2 for a list of people interviewed). Research was conducted in close coordination with the Malawian counterpart organisation, the National Local Government Finance Committee (NLGFC) as well as GTZ experts based in Germany and Malawi. Both, NLGFC and GTZ have been very supportive by introducing the research team to various actors as well as arranging contacts and appointments.

Methods of qualitative data analysis

The data was analysed qualitatively using theoretical coding and triangulation techniques (see Box A1). For coding and organising the large amounts of data collected, the research team used the software Atlas/ti® for qualitative data analysis, which is based on the coding principles of grounded theory.

Atlas/ti ® allows attaching analytical codes that have been developed according to the phenomena that occur in the text to these text segments. The process of coding is already the first step of the analysis. The research team started by coding transcripts together, then split into groups of two or three and later also coded transcripts individually.

Box A 1: Triangulation and Theoretical Coding

Triangulation means that data are compared with each other that have been generated on the same case or issue either by different researchers (investigator triangulation), by using different methods for data collection (between-method triangulation) or by using different kinds of data (data triangulation) (Flick 2000). Triangulation serves three different purposes in qualitative analysis. It helps to validate the data to some extent, it supports the careful generalisation based on the data and finally, it helps to differentiate the analytical findings.

The process of **'theoretical coding' al**so involves the constant comparison of data for the purpose of analysis. 'Coding' refers to the analytical process of structuring raw data in categories of analysis by attaching codes to certain sections of text, e.g. transcripts. Although these codes can also be deducted from theory, an open qualitative analysis usually starts with developing codes at an analytical level according to what phenomena can be found in the text. Three different steps of coding are usually distinguished in grounded theory (Strauss 1998; Böhm 2000):

- *Open coding*: The researcher starts with this mode of coding. It is the procedure by which preliminary categories are developed based on the constant comparison and examination of data. The same codes are attached to the same phenomena and attributes that constitute the phenomena are defined. Open coding is used to structure the data into categories.
- *Axial coding*: The researcher continues to code but by paying particular attention to the relations between selected categories. Categories and sub-categories are identified and related to each. A preliminary theoretical framework begins to emerge from this system of categories.
- *Selective coding*: The researcher identifies and concentrates on one or more 'core categories' and relates all the other categories to them. This mode of coding often contains a significant refinement of the other categories. The core categories identified usually form the central concepts of the analysis.

Researchers often switch from one mode of coding to another during analysis. Furthermore, coding starts as early as the first data is collected, data collection and analysis are therefore not separate processes but connected with each other in a circular process. In the course of data, a network of categories develops, 'grounded' in empirical data, but forms an analysis at a more theoretical level.

If the process of coding is finished, it is possible to see all statements and comments that various stakeholders have made on a certain phenomena (that was analytically coded accordingly). This allows for a very systematic and detailed comparison of statements. The quotations for every code can be looked at and compared with each other. However, at the same time it is still possible to go back to the original transcript and see in which context the person concerned made this statement. In the process of looking at the quotations for each code, one can develop the various dimensions as well as the reasons and effects of a particular phenomena that has been coded. The research team decided to draw networks on the various relations it found. Again, it is very helpful to conduct this analysis, which already involves a certain degree of analytical discussion in teams. For most of the central codes, the quotations were discussed by the team. By doing so, it was possible to control each other's interpretations and analysis of data and develop a shared understanding of the data.

After or even while analysing each code the team also began to draw interrelations between the various categories. The whole process of qualitative data analysis is thus an analytical bottom-up process. It starts with very concrete statements and by comparing, differentiating and interrelating them ends up at a much higher analytical level. Inductive as well as deductive elements are combined with each other in this process. The findings that are presented in this report are all based on this systematic and detailed process of qualitative analysis. It is important to keep in mind that the examples or concrete cases only illustrate the analytical findings. They do not have the function to 'prove' the findings, but rather to make the reader understand the information easier. The analytical findings themselves are based on a detailed analysis of the data in its entirety.

Analytical framework

Before the team went to Malawi to do fieldwork there, it developed a rough analytical framework to guide its analysis, based on the preliminary results from the literature review. This framework proved to be useful. Therefore, it is briefly outlined here. In a first step, the tam decided that the political economy of transition should serve as the theoretical background for the analysis. The second step was to develop some preliminary ideas and categories that might be relevant for analysing the data in Malawi.

The political economy of transition

Malawi is a country in transition. The first democratic multiparty elections only took place in 1994, after almost 30 years of authoritarian rule under Dr. H. Kamuzu Banda. Societies in political transition share a number of key features all over the world. The features are, for example, unconsolidated and young democratic institutions, administrative staff with little experience with working in democratic and legal-bureaucratic environments, high expectations of the population for material as well as legal improvements and a lack of 'democratic culture'. Another key characteristic is the high dynamic of formal and informal bargaining for power and interests. 'Old elites' try to retain or transform their positions, while 'new elites' try to join or replace the old elites. Political conditions in transition countries are often shaped by rapidly changing coalitions, the sudden accumulation of power or the loss thereof by individuals and groups. Furthermore, in recent years academic work on institutions and path-dependency has made clear that new structures and procedures do not just replace the previous ones. As Bratton and van de Walle (1997) conclude in their study on transition processes in sub-Saharan Africa: "the institutional heritage of neopatrimonial rule has shaped regime transitions in much of Africa" (Bratton / van de Walle 1997, 269).

Processes such as PRS implementation, decentralisation and the reform of PFM imply decisions about the redistribution of power, responsibilities and resources. As this study explicitly takes the political dimension of these processes into account, the theoretical background of the political economy of transition is highly relevant, although it is not the main focus.

Analytical approach and preliminary categories

A study on the major challenges in PFM at central and local government level for implementing the MPRSP is a study on institutional and organisational change and on the factors that inhibit this change. Based on the theoretical background provided above, it seemed to be promising to focus on actors and institutions for analysing PFM practice and its change – or the lack thereof. While actors can be individuals or groups who have the ability to act in a coherent manner, institutions can generally be defined as structures of expectation that determine what in a given society is regarded as appropriate social action and decision-making (Hasse / Krücken 1999, 7).[49]

In order to understand and explain how actors act and how institutions enable and restrict them in their social action, the research team identified several preliminary categories as particularly promising for analysis. Before taking up with field work in Malawi these were following ones: capacity (human, technical), resources (financial, material), interests (political, material), formal institutions and procedures (overlap, lack of coordination), information flows, political commitment, informal institutions (rules, actors, etc.). However, as the genuine development of categories from the data is a constitutive element of the chosen qualitative research style, these categories only provided some guidance without structuring the process of analysis too strongly. Most categories identified turned out to be useful for analysing the data, however, not always in the way initially thought of. Nevertheless, new categories were also developed, based on the data.

49 This definition includes organisations that have significant norm-setting power but primarily focuses on formal as well as informal rules and expectations.

Annex 2

Table A 2: List of Interview Partners

Name	Position	Institution
Stakeholders at Central Government Level		
Banda, Victor Charles	Assistant Director	ACB
Liwonga, Arthur	Deputy Director for Human Resource Development	DHRMD
Mogra, Ismail	Human Resource Planning Officer	DHRMD
Mjojo, Mr.	Director of Finance and Administration	DS
Mtemba, Peter	IT Manager	DS
Likwingi, Friday	Principal Accountant	Kamusu Central Hospital Lilongwe
Vmasanda, Harod	Senior Assistant Human Resource Management Officer	Kamusu Central Hospital Lilongwe
Mwenpin, Mr.	Director	LASCOM
Chilunga, Kizito J.R.	Research, Information Officer	MALGA
Khungwa, Blessings W.B.	Training Officer	MALGA
Mughogho, Brussels	PRA/IEC Officer	MASAF
Kubwalo, Hudson Wenji	Development Communication Specialist	MASAF
Botolo, Ben	Monitoring and Evaluation Division	MEPD
Kambauwa, Charles	Head Planning Division	MEPD

Nyirongo, Clement	Deputy Chief Economist	MEPD
Bonga, Mr.	Controller of Human Resource Management	MoE
Kachingwe, Mr.	Chief Accountant	MoE
Makalande, Mathew	Deputy Director of Planning	MoE
Mwale, Mr.	Director of Planning	MoE
Nkhoma, Mr.	Director of Finance	MoE
Nthenda, Mr.	Training Division Staff	MoE
Sumais, Mr.	Deputy Controller	MoE
Chadimba, Mr.	Deputy Accountant General	MoF
Chingeni, Margeret	Controller of Human Resources	MoF
Mphande, Julie	Director for Debt & Aid Management	MoF
Nyasulu, Alfred	Assistant Director Disbursement & Debt Servicing	MoF
Perebamoyo, Richard	Principal Budget Officer	MoF
Sitima-wina, Ted	Director Economic Affairs Division	MoF
N.N.	Deputy Budget Director	MoF
Araru, Trish	Health Planning Technical Officer, SWAPs Secretariat Advisor to the MoH, SWAPs Secretariat	MoH
Kalanje, Mr.	Director of Planning	MoH

Mayesa, Mr.	Director of Finance	MoH
O'Carroll, Michael	Senior Technical Advisor	MoH
Watchi, Mr.	Human Resource Officer	MoH
Bota, Hastings	Chief M&E Officer	MoLGRD
Ligomeka, Mr.	Director of Local Government Services	MoLGRD
Samute, Willie W.	Principal Secretary	MoLGRD
Sikwese, Luckie Kanyamula	Deputy Director Planning and Development	MoLGRD
Kalongonda, Mr.	Auditor General	NAO
N.N.	Auditor General Northern Region	NAO
Chimango, Louis	MP	National Assembly
Kalebe, Teddy	Chair BFC	National Assembly
Kapenda, Henderson M.	MP Dedza West	National Assembly
Malamba, Steven	Chair Parliamentary Committee on Education	National Assembly
Chilungo, Adil	Finance and Administration Manager	NLGFC
Kadewere, Felix	Senior Planning and Economic Advisor	NLGFC
Mbewe, Sidi	District Desk Officer	NLGFC
Mfune, Mr.	District Desk Officer	NLGFC
Mwamondwe, Syak'inongwa	District Desk Officer	NLGFC
Chikoti, Ms.	Regional Officer	NSO
Machinjili, Charles	Commissioner of Statistics	NSO

Local Stakeholders Dedza		
Kalino, E.D.	Chairman	District Assembly Dedza
Kamunga, Mr.	Chair of Education Committee	District Assembly Dedza
Kanyumbu, D. R.	Chair of Development Committee	District Assembly Dedza
Sosten, Peter	Vice Chairman	District Assembly Dedza
Chiwayo, Peter	Revenue Collector Mayani Sub Office	District Secretariat Dedza
Chibwe, Joseph	UNV Planning Advisor	District Secretariat Dedza
Jere, Masawani	District Commissioner	District Secretariat Dedza
Kumwanje, Samual	Justification Assistant, Department of Finance	MASAF Dedza District/ District Secretariat Dedza
Kumwenda, Oscar	Director of Public Works	District Secretariat Dedza
Livuza, Collins	Technical Supervisor Roads	District Secretariat Dedza
Mhone, Charles G.P.	Director of Finance	District Secretariat Dedza
Mumba, Patricia	Director of Administration	District Secretariat Dedza
Mzamu, Felix F.	Director of Planning	District Secretariat Dedza
Santhe, H.	Internal Auditor	District Secretariat Dedza

Thole, Pamela	UNV Financial Advisor	District Secretariat Dedza
N.N.	Market Agent Mayani	District Secretariat Dedza
Kachindamoto, Thereza	Senior Chief in Mtakataka	Traditional Authority Dedza
Chitedze, Doris	Acting District Education Manager	District Education Office Dedza
Lungama, Mike Joan	Headmaster	Elia Chimtengo Primary School Dedza District
Kankota, Florence	Sister in Charge	Mtendere Health Centre Dedza District
Mwakasungula, Dr.	District Health Officer	District Hospital Dedza
Local Stakeholders Rumphi		
Chihana, Peter	Councillor, Vice Chair of the District Assembly	District Assembly Rumphi
Chisi, Mr.	Councillor (nominated-business)	District Assembly Rumphi
Gondwe, Dominc	Chair of the District Assembly	District Assembly Rumphi
Gondwe, Patrick	Councillor; Chair of Development Committee	District Assembly Rumphi
Kumuwenda, Khumbi	Councillor, Chair of Finance Committee	District Assembly Rumphi
Mfune, Gofrida	Councillor women affairs (nominated)	District Assembly Rumphi

Mnthali, Simeon	Councillor, Chair of Education Committee	District Assembly Rumphi
Gausi, Wezi	Director of Planning	District Secretariat Rumphi
Longwe, Mr.	Director of Administra-tion	District Secretariat Rumphi
Lupwayi, Moses	Data Entry Clerk	District Secretariat Rumphi
Mambo, James	Internal Auditor	District Secretariat Rumphi
Muhango, Mr.	Acting Director of Fi-nance	District Secretariat Rumphi
Nyrenda, Mr.	Market Master, Rumphi Boma	District Secretariat Rumphi
Phiri, Harold	Director of Public Works	District Secretariat Rumphi
Simwaka, Rodney	District Commissioner	District Secretariat Rumphi
Chapinduka, Themba S. T. A.	Sub-Chief in Tcharo Area	Traditional Authority Rumphi
Chiculamayembe, Themba Ra Ma Themba	Senior Chief	Traditional Authority Rumphi
N.N.	Sub-Chief in Bolero, Rumphi District	Traditional Authority Rumphi
5 Committee Members	Village Development Committee (VDC)	VDC Chitimba, Rumphi District
25 Committee Members	ADC, VDC	ADC, VDC Zolokere, Rumphi District
5 Committee Members	ADC, VDC	ADC, VDC Chin-yolo & Bumba Tim-bambika, Rumphi District

6 Committee Members	VDC	VDC Nkomkos & Kakolora
6 Committee Members	ADC, VDC	ADC, VDC Mzokoto & Bale, Rumphi District
Chirambo, Mr.	District Education Manager	District Education Officer
N.N.	Head Teacher	Zolokere Primary School
Msiska, Mr.	Education Division Manager	Education Division Office, Mzuzu
6 Committee Members	Primary School Committee	Chitimba Primary School
Chavinda, Bernard	District Health Officer	District Hospital Rumphi
Harawa, Kalulet	Accountant	District Hospital Rumphi
Msiska, Edwin C.	Health Inspector/ Assistant Environmental Health Officer	Zolokere Hospital
Sichinga, Steven S.	Senior Medical Assistant	Zolokere Hospital
Mbewe, Aficki	Chair	Young Politicians
Walita, Moir	Principal Secretary	Young Politicians
Local Stakeholders Lilongwe		
Sibande, Mr.	Director of Finance	City Council Lilongwe
Msewa, Edwin	Director of Planning	District Secretariat Local

Donors		
de Waal, Jan	Project Manager	CIDA
Mothes, Dr.	Surgeon, Central Hospital Zomba	CIM
Siegmund, Frank	Technical Advisor, Rumphi District Secretariat	DED
Whitworth, Alan	Economist	DFID
Pons, Jerôme	Head of Section, Economics and Public Affairs	EU
Zambezi, Feston	Project Manager, Micro Projects	EU
Goertler, Wilfried	Programme Coordinator	GTZ
Immink, Bodo	Programme Coordinator, Malawi German Programme for Democratic Decentralisation (MGPDD)	GTZ
Kruse, Claus	Consultant	GTZ
Latim Lawrence	Fiscal Decentralisation Advisor	GTZ
Pritze-Aliassime, Susanne	Programme Advisor	GTZ
Scek, Aues	Macroeconomic Advisor MEPD	GTZ
Joana Henseler	Macroeconomic Advisor MEPD	GTZ
Mhango, Bhatupe	Acting National Coordinator	Konrad-Adenauer-Foundation e.V.
Rustad, Asgeir	Diplomat at the Norwegian Embassy	Norad

Chanza, Bill	Programme Officer Decentralisation	UNCDF
Kulemeka, Peter	Assistant Resident Representative	UNDP
Kimes, Christina E.	Senior Operations Officer	World Bank
M'Buka, Francis	Senior Agricultural Services Specialist	World Bank
Nucifora, Antonio	Country Economist	World Bank
NGOs/CSOs		
Mandere, Hetherwick	Deputy Programme Manager	Concern Universal, Dedza Sustainable Livelihoods Programme
Kebabe, Donald	Assistant Coordinator	CSCQBE
Nsapato, Limbani	Coalition Partner	CSCQBE
Bamusi, Mavuto Nelson	Director of Programmes	MEJN
Kampanikiza, Gelald	Member of Committee	MEJN, Dedza Chapter
Kwataine, Martha Taziona	Programme Manager, Budget Participation Initiative	MEJN
Maida, Hope	Member of Committee	MEJN, Dedza Chapter
Nyirenda, Kenneth	Secretariat	NGO Network Dedza
Isaac, Sangweni	District Coordinator	Save the Children, Dedza
Chilumpha, Sosten	HIV/AIDS coordinator	Self Help International Dedza
Nchingama, Patrick	Agricultural Development Officer	Self Help International Dedza

Informal Conversations		
Soleo, Mr.	House Keeper	Chef's Pride Hotel Rumphi
Kalimbuka, George	Police Officer	Community Policing Project
Kunga, Ruth	Chair, Health and Development Committee	District Assembly Rumphi
District Secretariat Staff	Finance Committee (Revenue Collection Supervision, Mayani Market)	District Secretariat Dedza
Jere, Masawani	District Commissioner	District Secretariat Dedza
Mangartz, Thomas	Chargé d'affaires	German Embassy
Böhringer, Gabriele	Country Director GTZ Office Malawi	GTZ
Nyasulu, Gloria	Administrative Secretary	GTZ
Silungwe, Mr.	Health Manager	Health Center Nyrenda, Rumphi District
Observations		
Area Development Committee (ADC) Meeting	ADC	Bolero, Rumphi District
Full Assembly Meeting	District Assembly	Dedza District (29.03.2005)
Human Resource Committee	District Assembly	Dedza District (11.03.2005)
Development Committee Meeting	District Assembly	Rumphi District (16.03.2005)

Full Assembly Meeting	District Assembly	Rumphi District (18.03.2005)
Full Assembly Meeting	District Assembly	Rumphi District (19.03.2005)
Full Assembly Meeting	District Assembly	Rumphi District (23.03.2005)
Interview Partners in Germany		
Förster, Andreas	Desk Officer Malawi	BMZ
Scholz, Anke	Advisory Project „State and Democracy, Public Finance Reform“	GTZ
Witt, Matthias	Head Advisory Project „State and Democracy, Public Finance Reform“	GTZ
Hansert, Christoph	Project Manager	InWEnt
Siege, Hannes	Consultant	InWEnt
Huber, Isabel	Senior Project Manager	KfW
von Schwerin, Philip	Project Manager Education	KfW

Annex 3:

Sources of Local Revenue Mobilisation

Ground Rent

The ground rent is a flat tax on land that is leased from the government. This ground rent is payable on all leased land irrespective of agriculture, commercial and residential use. Ground rent is mostly collected from agricultural estates. The Ministry of Lands administers this rent.

Fees and Service Charges

Local assemblies levy fees for services rendered to the local populace. These fees and service charges include the following:

Box A 2: Local Fees and Service Charges

- Market fees	- Car park fees
- Marriage certificates	- Clinic fees
- Ferry fees	- Sale of firewood
- Slaughter fees	- Plot development fees
- Bus depot fees	- Water charges
- Motor vehicle hire charges	- Garbage collection
- Building plan fees/ plan scrutiny fees	- Solid waste collection
- Certificate of ownership fees	- Sewer charge
- Application fees (Birth certificate)	- Fire brigade
- House rent	

Business Licences

Business licenses are levies in form of licenses from small and medium business, groceries, retail and wholesale shops, garages, motels, private schools and clinics. The Local Assemblies collect these licenses fees from Malawian owned businesses. For foreign owned business the central government collects the licence fees through the Ministry of Trade and Private Sector Development.

Commercial Undertakings

Local Assemblies also directly participate in commercial undertakings. These typically include operating rest houses, bars, restaurants and taverns.

Source: Decentralisation Secretariat (2005, 2–3)

Annex 4:

Map of Malawi

Courtesy of the University of Texas Libraries, The University of Texas at Austin

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