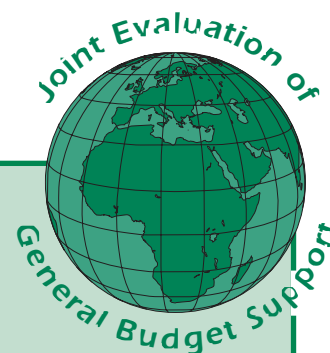


# Partnership General Budget Support Support: Malawi Brief



**The Joint Evaluation of General Budget Support 1994–2004** was commissioned by a group of 24 aid agencies and 7 partner governments to assess to what extent and under what circumstances GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth.

This independent study was led by the International Development Department of the University of Birmingham. Its outputs are a Synthesis Report, and seven country case studies, for Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam.

## Origins and organisation of PGBS in Malawi

During the 1990s, the IMF and World Bank led the aid dialogue with Malawi, which focused on economic stability, the liberalisation of trade and structural reforms.

In 2000, Malawi prepared an interim Poverty Reduction Strategy Paper (PRSP) and began to benefit from debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. This was also the basis for the first Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF. The full PRSP followed in 2002.

From 2000 to 2004, there was greater emphasis on public finance management and support for Malawi's poverty reduction strategy. In this period a group of donors established a joint working arrangement – the Common Approach to Budget Support (CABS).

The rationale for adopting a joint approach in Malawi was to harmonise donor efforts, improve donor–government and donor–donor dialogue and reduce transaction costs.

The CABS group of donors was originally made up of the UK, Norway, Denmark and Sweden. The European Commission joined later, but Denmark withdrew from Malawi in 2002.

The funds provided under the CABS arrangement were identified as PGBS for this study.

Because of frequent suspensions, there was not a steady flow of PGBS funds during the evaluation period. This meant PGBS could not be expected to have the long-term and

institutional effects that were hoped for.

This country evaluation therefore focused more on the initial conditions for PGBS, drawing lessons from early experiences in a difficult context.

## How much PGBS did Malawi receive?

Disbursements of PGBS-type budget support began in 2000/01, but were suspended in 2002/03. Even at their peak, PGBS funds were only a small proportion of total official development assistance (see Table 1).

The combined volume of PGBS and other unearmarked programme aid, even when PGBS has disbursed, has been less than the annual flows of unearmarked programme aid prior to PGBS.

The team concluded that PGBS in Malawi was a new label for unearmarked programme aid, of which there is a long history in Malawi.

## What were the results?

Budget support was suspended when government failed to control public expenditure. In the short term, this increased economic instability. The suspension was a surprise to some in the Malawi government, especially at the political level, even though it was based on the conditions agreed between government and donors.

There was no improvement in fiscal discipline as a result of the suspension in funding. Nor, despite donors' efforts, was there a shift towards pro-poor expenditures. The interaction of donor conditionality and government fiscal indiscipline made funding less predictable.

Given the problems with PGBS in Malawi, no contribution was found to improving government performance in public service delivery, and no tangible effects on poverty reduction could have been expected. In any case, Malawi lacks good time-series data from which trends in poverty could be established.

## What is Partnership General Budget Support?

General Budget Support (GBS) is aid funding to government that is not earmarked to specific projects or expenditure items. It is disbursed through the government's own financial management system. Although the funds are not earmarked, they are part of a package which includes dialogue and conditions, technical assistance and capacity building, and donor efforts to harmonise their aid and align it with government strategies and procedures.

Partnership GBS emerged in the late 1990s to support national poverty reduction strategies. By channelling funds through national systems, it also aims to strengthen national planning and implementation capacity, increasing the effectiveness of all public expenditure, including aid.

**Table 1: Partnership General Budget Support and Total Aid in Malawi**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Total ODA (actual) (USDm)</b>	488	464	530	375	477	489	489	455	423	571	555
<b>Total Partnership GBS disbursements (USDm)</b>							58	48	0	14	28
<b>PGBS as % total ODA (%)</b>							12%	11%	0%	3%	5%
<b>ODA as % GNI (%)</b>	41%	32%	22%	13%	25%	26%	26%	24%	21%	31%	27%

To date PGBS has not brought about a significant change in Malawi's relatively weak planning and budgeting systems.

On the positive side, PGBS reinforced harmonisation and alignment, especially among the CABS donors themselves.

In parallel with PGBS funding, the CABS donors did play a significant role in the development of domestic accountability and transparency systems – particularly anti-corruption, where PGBS donors were the main financial supporters of the Anti-Corruption Bureau.

### How did Malawi compare with other countries studied?

Malawi and Nicaragua were the two countries in the sample where PGBS did not really become established during the study period. In Nicaragua's case this was mainly because a joint funding agreement was still being developed.

The other five countries – Burkina Faso, Mozambique, Rwanda, Uganda and Vietnam – showed that PGBS could be an effective aid instrument in a variety of different contexts. In all these cases, however, there was a higher degree of trust between government and donors than there was in Malawi. Trust was reinforced by their governments' track records in controlling public expenditure and pursuing poverty reduction strategies.

### What was the evaluation's overall assessment?

Malawi's first effort at PGBS was a false start based on over-optimistic expectations concerning macroeconomic discipline.

Ownership of pro-poor strategies has been weak. As with other aid to Malawi, PGBS donors have tried to use conditions as a substitute for ownership, but with little success. Suspending PGBS undermined its potential benefits in terms of predictability, discretionary spending and transaction costs, and resulted in severe macroeconomic problems. Neither disbursement nor suspension of PGBS served as an effective incentive for changes in government behaviour during the evaluation period (although it may have influenced the subsequent government's approach).

The Malawi case suggests that the political context is crucial. Moreover, the government's intentions with respect to sound financial management and poverty reduction need to be established rather than assumed.

### Is there a role for PGBS in Malawi?

Although the first effort at PGBS in Malawi was a false start, there are signs of regrouping, drawing on lessons learned.

The change of government in 2004 resulted in improved donor-government trust, and PGBS restarted. The CABS donors developed a performance assessment framework and introduced a joint framework agreement with the Malawi government. Some donors also released previously suspended budget support as an incentive to improve fiscal management. (The PRGF also later resumed.)

PGBS prospects are now more promising, based on more limited objectives and signs of improved governance and fiscal discipline. While the focus of this "new" PGBS is on macroeconomic stability, the rationale is to prevent the potential poverty impacts of a severe economic crisis.

### Main Recommendations

#### Political Governance and PGBS Design

- Base decisions to use PGBS on an assessment of political governance, fiscal performance and financial management capacity.
- Focus on capacity development, as well as policy formulation and implementation.
- In designing PGBS conditions, consider carefully the potential impact of suspension of PGBS on macroeconomic stability.
- Donors assisting in difficult policy contexts (like Malawi) should commit to the medium to long term.

#### Harmonisation

- Seek to use PGBS as a vehicle for harmonisation among a wider group of donors.

#### Monitoring

- Develop a baseline and effective monitoring system at the outset of the PGBS arrangement.

#### Feedback

- Strengthen feedback to all country stakeholders, including parliament and civil society.

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The full report (and a longer summary) can be obtained from the OECD DAC website at:  
[www.oecd.org/dac/evaluation](http://www.oecd.org/dac/evaluation) or from the DFID website at  
[www.dfid.gov.uk/aboutdfid/performance/evaluation-news.asp](http://www.dfid.gov.uk/aboutdfid/performance/evaluation-news.asp)