

Department for International Development

The Department for International Development (DFID) is the UK Government department responsible for promoting sustainable development and reducing poverty. The central focus of the Government's policy, based on the 1997 and 2000 White Papers on International Development, is a commitment to the internationally agreed Millennium Development Goals, to be achieved by 2015. These seek to:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

DFID's assistance is concentrated in the poorest countries of sub-Saharan Africa and Asia, but also contributes to poverty reduction and sustainable development in middle-income countries, including those in Latin America and Eastern Europe.

DFID works in partnership with governments committed to the Millennium Development Goals, with civil society, the private sector and the research community. It also works with multilateral institutions, including the World Bank, United Nations agencies, and the European Commission.

DFID has headquarters in London and East Kilbride, offices in many developing countries, and staff based in British embassies and high commissions around the world.

WHAT ARE COUNTRY ASSISTANCE PLANS?

Country Assistance Plans set out how DFID aims to contribute to the achievement of the Millennium Development Goals in various countries. Country Assistance Plans start from the basis of our partner country's poverty reduction strategy and set out in detail how DFID will work as part of the international development effort to support a country's strategy for reducing poverty. They include a framework for annual assessment of DFID's performance in implementing the plan. These annual updates of CAPs will be available electronically at www.dfid.gov.uk. Major reviews of Country Assistance Plans leading to new printed documents are expected to be undertaken every three to four years.

Department for International Development

April 2003

Malawi: Country Assistance Plan 2003/04 – 2005/06

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**Part 3 is available electronically on the DFID website, www.dfid.gov.uk. Enquiries can be sent by email to enquiry@dfid.gov.uk*

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Part I – Context

A. Summary

- A.1 Malawi has among the lowest per capita income in Africa. Poverty is chronic and widespread; growth is disappointing. Life expectancy at birth has fallen to below 40 years, mainly due to AIDS and malaria. Malawi has few natural resources; agriculture currently provides what little growth there is, but production is beset by degraded soil, erratic weather conditions and a system of land ownership and inheritance that does not encourage investment.
- A.2 Since 1994 – when Malawi held its first multi-party elections – there has been considerable progress in establishing the institutions and systems of democracy, including a new constitution. However, government have not dealt vigorously enough with critical issues such as land reform and corruption or to restoring macroeconomic stability. Nor have they implemented past policy commitments. The challenge for the Government of Malawi is to move beyond populist policies and make the hard social and economic choices necessary to advance pro-poor objectives articulated in the impressive Poverty Reduction Strategy Paper (PRSP).
- A.3 The Government plans to bolster the agricultural sector by increasing utilisation of land, intensifying production and shifting to higher value crops. They also plan to develop micro-, small- and medium-scale enterprises (MSMEs) and improve the legal framework within which they operate. It is hoped that key reforms in land and credit markets will allow growth in other areas: natural resources, manufacturing, tourism and small-scale mining. Success will depend on a number of factors, not least – improved governance.
- A.4 DFID will support the Government to achieve its PRSP goals, to better equip it to deliver sustainable services to the poor and to help mitigate risks that threaten to derail these processes. A significant part of UK assistance will be aimed at improving systems so that over time government will be better equipped to deliver

sustainable services to poor people.

- A.5 Progress against DFID's Country Assistance Plan (CAP) will be reviewed annually against change forecasts set out in Part III of this document. We do not expect to have achieved all of the objectives set out in the CAP as soon as March 2006. However within this time we should have contributed to establishing effective systems to help deliver sustainable services to the poor. Success will be measured including by reference to PRS monitoring systems.
- A.6 DFID will focus on three core areas over the CAP period:
- measures to enable sustainable growth and improve livelihoods
 - better service delivery to the poor
 - pro-poor governance
- A.7 We will hope to provide budget support; contribute to harmonised donor approaches (in health, education, rural livelihoods, and Safety Security and Access to Justice); maintain a small number of learning projects; pro-poor governance programmes to support reform of political and economic governance; cross-cutting programmes to address HIV/AIDS and environmental sustainability, and strategic partnerships with like minded donors and civil society. The DFID programme will be appropriately 'risk-balanced'. Its composition will shift more rapidly to budget support if risk mitigation measures prove effective.
- A.8 In the short to medium term, DFID will help to ensure the spectre of food shortage is minimised. Beyond inputs for food production we will contribute to a National Food Security Strategy and continue to provide humanitarian assistance as needed.
- A.9 At all times DFID will work closely with government, civil society organisations, other donors and key multilateral institutions in order to promote PRSP delivery.

- A.10 In consultation with Government and others in the Malawi Poverty Reduction Budget Support Group (PRBSG), DFID will handle budget support differently [always subject to International Monetary Fund (IMF) and PRBSG satisfaction that the Government is back on track with its programme]. This will involve an approach to poverty expenditure linking budget support to performance in key sectors and will be consistent with PRSP monitoring indicators.
- A.11 The CAP was produced following consultations with DFID headquarters and Whitehall departments, and with a wide range of local stakeholders (civil society organisations, the Government, private sector, donors, academia) in Lilongwe, Blantyre, Zomba and Mzuzu.

B. The challenge

- B.1 To realise its potential for growth Malawi faces significant challenges. Weak economic and political governance has resulted in erratic performance over the last decade. Growth in 2001 declined by 4.1% and is forecast at only 0.1% for 2002. This is well below the estimated 5–6% required to make a real dent on poverty. While Malawi is not formally classified as 'a country under stress' by the World Bank, it possesses the key defining characteristics: serious shortcomings in policy management; weaknesses in basic service delivery; and institutional shortcomings in responding to the interests of its citizens.
- B.2 Beyond tobacco, Malawi has not yet found a sector or activity of comparative advantage. While agriculture currently provides what little growth there is, production is adversely affected by reoccurring floods and drought, and systems of land ownership and inheritance which do not encourage investment and sustainable or increased production. Because the country is landlocked with poor international communications, much of Malawi's produce is uncompetitive for export purposes.
- B.3 Poor performance at the macro level has worsened social indicators. The average total fertility rate (6.3) gives rise to a 2% per annum population increase. Already densely populated, Malawi is depleting its natural resources at an alarming rate. Life expectancy at birth was 48 years in 1990 and has fallen to 38 years in 2002 mainly due to AIDS and malaria. The country has a young and largely dependent population.
- B.4 While progress has been made since 1994 in primary education enrolment, there is a low ratio of qualified teachers to pupils (1:88), inadequate provision for teaching and learning materials, and too few classrooms. For every thousand pupils entering primary education, only two qualify for tertiary. The prevalence of AIDS in the economically active 15–49 age group is 16.4% and rising. Malawi therefore suffers severe and worsening human capacity constraints.
- B.5 Excessive government spending and borrowing has driven up interest rates to 40%. Government failure to restore macroeconomic stability has created a miserable climate for foreign investment, and has depressed private sector activity.
- B.6 Prospects for successful implementation of development policy are also threatened by an increasingly difficult political environment. Malawi held its first multi-party elections in 1994. During the first Parliament there was notable progress in establishing the institutions and systems of democracy, including a new constitution. The general elections of 1999 and the local elections of 2000 produced a working majority for the ruling United Democratic Front (UDF). The party has subsequently used its control of the machinery of government to strengthen its power base through patronage and populist policies. This has weakened Malawi's institutions of accountability and made sound economic and financial management more difficult to achieve. It has also exacerbated regional and religious tensions.
- B.7 Recent attempts to change the constitution in order to secure a third presidential term in 2004 have further narrowed the political debate and diverted attention away from key areas of reform and the food crisis (caused by drought and mismanagement). Regardless of whether these attempts succeed, the period leading up to the elections in June 2004 is likely to see continued political turbulence, which in turn will impact negatively on standards of governance and the operating environment for cooperating partners.
- B.8 In response to these many challenges, and consistent with the PRSP, DFID's overarching objective will be to support poverty reduction through sustainable and equitable growth. Within this we will focus on three core areas over the plan period:

- measures to enable sustainable growth and improve livelihoods
- better service delivery to the poor
- pro-poor governance

B.9 These provide support for delivery against the Millenium Development Goals – which are the starting point for DFID's Service Delivery Agreement (SDA) – for more effective and equitable government-led education and health sector programmes, better economic and political governance and a more attractive climate for foreign investment, private sector development and market access to the poor. These targets are nested under the DFID Public Service Agreement (PSA) objective to: reduce poverty in sub-Saharan Africa. DFID will also work with its central policy departments on contributions to PSA objectives to increase the impact of key multilateral agencies in reducing poverty and to develop evidence-based innovative approaches to international development. Further details of linkages to the SDA are in Annex 2.

PRSP analysis of poverty

- B.10 At \$230 (2001) per capita income, Malawi's is among the lowest in Africa. Poverty is chronic and widespread. In 1998, Integrated Household Survey (HIS) poverty data indicated that 65.3% of the population (6.3 million people) were poor; 28.7% living in extreme poverty. Judged by any of the key socio-economic indicators, Malawi compares badly with the average for Africa. Recent trends point to a deepening of poverty and inequality. The poorest 20% consume only 6% of total goods and services. Poverty is more prevalent in rural areas and there are strong regional variations. The South has the highest proportion of poor households due to shrinking per capita size of cropland holdings (further statistical data is in Annex 3).
- B.11 The most vulnerable people include AIDS orphans, labour constrained female headed households, land constrained smallholders, tenants and estate workers,

casual labourers and disabled people. These groups are characterised by high dependency ratios, low literacy rates and educational opportunity, higher maternal and child mortality, greater food insecurity, and poor access to productive assets, land, and the cash economy. HIV/AIDS is highlighted in the PRSP as a cross-cutting theme but analysis of how higher rates of ill-health and death affect the core pillars could be strengthened.

B.12 Women and children are particularly vulnerable. Women are weighed down by social, parental and marital obligations which reduce their opportunities. Within households, they have unequal access and control over income, assets and production. Infant and child mortality rates (104 per 1000 live births and 189 per 1000 births respectively) are extremely high. The maternal mortality rate (1120 per 100,000 live births) has increased by 80% since 1992. Both child and maternal mortality are HIV associated. In the 14-25 age group, female HIV infection is four to five times that of males. AIDS has also impacted heavily on another vulnerable group – the elderly, who carry the major burden of AIDS orphans.

B.13 There has been a dramatic improvement in the poverty policy environment since 1994 [when the United Democratic Front (UDF) came to power]. However the PRSP – launched in April 2002 – and recent social policy research, indicate that most people's basic needs at household and community level have not been addressed due to underlying failure to implement past policy commitments.

Four pillars for poverty reduction

- B.14 Based on this analysis of poverty the PRSP is built around four central pillars:
1. sustainable pro-poor economic growth
 2. human capital development
 3. improved quality of life for the most vulnerable and
 4. good governance

The donor community is unanimous that the Government has achieved much in driving the strategy from inception and producing a comprehensive document in good time, especially considering existing capacity constraints.

Prospects for growth and poverty reduction

- B.15 Although in theory there are reasonable prospects for boosting growth in Malawi, there remain significant concerns about the willingness of government to adopt the measures required to achieve this. Present growth is well below that required to sustain ambitions in the PRSP and to stop the number of people in poverty growing. A crucial first step to higher growth is restoration of macroeconomic stability. Only then will a more conducive environment for private sector led growth emerge.
- B.16 The PRSP identifies agriculture as the main engine of growth for the medium term. Pro-poor and more equitable growth will also depend on further development of rural enterprise, in particular micro, small and medium scale enterprises and an improvement in the regulatory and legal framework within which they operate. There are three quarters of a million such enterprises in Malawi, a third of which are owned by women: 83% are located in rural areas; 75% conduct off-farm activities and provide employment in manufacturing, commerce, trade and services. Given the potentially key role of agriculture, urgent attention will be required by government and donors to address major constraints such as rural insecurity, poor rural infrastructure, limited access to credit and markets, and to take into account the impact of AIDS on subsistence agriculture and the estate sector.
- B.17 Government's longer-term vision for growth identifies natural resources, manufacturing, tourism and small-scale mining as having potential. Success in any of these areas will depend on government – in the medium term – deepening liberalisation efforts and pushing ahead with key reforms, especially on land and credit

markets. It will require an expansion of the industrial base focusing on the development of textiles and apparel, agro-based food products; resource based industries; engineering and consumer manufactures. All of this is proposed in the PRSP. Success will also require improved efficiency within key government departments and a more sustainable approach to natural resource management. Improved public-private dialogue around the PRSP will be critical. The private sector will also need to adopt better prevention, care and management strategies to mitigate present and future impact of AIDS.

- B.18 The PRSP notes that measures to tackle structural constraints – faster parastatal reform and privatisation, infrastructure development to reduce high transport costs and improving the reliability of utilities – will be needed, and quickly, to enhance competitiveness, relieve supply and marketing bottlenecks and to attract greater domestic and foreign direct investment. There has been disappointing progress in implementing this commitment.
- B.19 Malawi's domestic savings ratio is well below the average for sub-Saharan Africa. This is linked to a lack of savings experience, particularly in rural areas where limited access to small-scale credit for consumption and production undermines economic development. It is compounded by rates of interest that are almost impossible to repay from agricultural production. This underscores the importance of introducing appropriate incentives to promote domestic savings, to attract foreign investment and to strengthen the financial infrastructure for mobilisation of domestic savings. Government's on-going review of trade and investment policies, tax regime and fiscal incentives will help, and should lead to expanded opportunities for inter- and intra-regional trade. The Malawi Investment Promotion Agency (MIPA) intends a key role in identifying new sources of growth and assessing the level and appropriateness of technology transfer from possible overseas investors. The PRSP is no more specific about

foreign direct investment than this. There is potential for more foreign investment in small-scale mining and agro-processing sub-sectors, but further analysis of how best to secure this will be required.

B.20 Sustainable growth needs productivity enhancement. Recognition in the PRSP of the importance of investment in health and education under Pillar 2, and the Government's associated policy initiatives are fundamental.

B.21 From a growth perspective, the PRSP needs strengthening in three critical areas:

- prioritising public expenditure to maximise potential for economic growth and development through, for example, investment in health and education. Political commitment to making tough choices over competing demands for scarce resources has yet to be tested in the context of the PRSP.
- Taking fuller account of the need to integrate trade throughout the four pillars of the strategy. This will need early attention as PRSP implementation proceeds.
- Better understanding of the linkages between medium-term measures proposed in the PRSP and long-term growth.

DFID will work with government throughout the implementation phase in addressing these issues.

Implementing the PRSP

B.22 Successful implementation of the PRSP will rest on government, civil society and donors working together to deepen understanding and analysis of poverty, inequality and vulnerability as a platform for joint action. It will hinge on supporting poor people to have a greater voice in defining their experience of poverty and realising their basic rights.

B.23 Remaining implementation hurdles include:

- the need to identify and protect high priority pro-poor expenditure (the 2002/03 Budget goes some way towards this), and to link it to clear output and outcome indicators. In relation to this, further work is needed to articulate the Medium Term Expenditure Framework (MTEF) and translate the PRSP into a detailed funding plan for the early stages of implementation;
- the human resource crisis. The PRSP does not tackle conditions of service in the public sector, the lack of progression through the education system, or AIDS attrition in both public and private sectors;
- the need to improve the quality of poverty analysis. The PRSP uses poverty line data supported by information on regional disparities, consumption inequality and selected sectoral indicators. This is not underpinned by qualitative data sources or participatory poverty assessments;
- the need for further gender analysis and more emphasis on vulnerability and insecurity. The Safety Net strategy should be informed by better poverty analysis on short- and long-term impacts of AIDS at community and household level, to promote a shift from exclusively welfare-oriented social protection strategies to broader risk reduction including productive activities;
- the need for further clarification on the role of non-governmental partners in service provision, especially the private sector;
- the need at district level for consultations with poor people, and for their greater involvement in analysis of and planning solutions to poverty. Discussion of exclusion has been limited. Mechanisms for accountability, voice, and realisation of basic human rights need to be strengthened;

- the need to better integrate trade into each of the PRSP's four pillars.
- Pillar 3 is presented largely as a welfare issue and does not emphasise linkages with pillars 1 and 2.
- Trade has still to be integrated sufficiently into each of its four pillars.

B.24 These challenges are not insurmountable. They will require an effective partnership with government to make inroads on poverty reduction, and peer pressure among donors to ensure that all externally financed programmes are tightly woven into PRSP plans. The DFID plan has been configured to strengthen this partnership and mitigate the risks in so doing.

B.25 A summary of the Malawi Government's external revenue and borrowing requirements during the PRSP period is given in Annex 4.

Monitoring implementation of the PRSP

B.26 A comprehensive approach includes links to the Public Expenditure Review (PER) and a focus on a range of indicators. Further refinement is required to develop a robust and cost effective monitoring system that is fully consistent with the four pillars and in synergy with the Millennium Development Goals. Support is also required to strengthen mechanisms to include poor peoples' voice in the monitoring process, including a role for civil society organisations. The CAP consultation process revealed that civil society organisations in Malawi lack access to information. Information dissemination needs to be taken into account within PRSP monitoring. Poverty monitoring also needs to take account of how higher rates of morbidity and death are affecting poverty at an individual, household and macroeconomic level.

C. Risk analysis

- C.1 There are a number of significant risks to successful implementation of the PRSP. These cluster around issues of political commitment, economic and financial governance, weak voice and accountability, the handling of AIDS and regional pressures particularly in respect of Zimbabwe. A further factor will be the efficiency with which government deals with the current and reoccurring food crises. Left unchecked these will exert a negative influence on Malawi's prospects for growth and poverty reduction.

Weak political commitment

- C.2 An overarching concern with implications for economic stability. Levels of corruption and accountability may deteriorate further between now and the presidential and parliamentary elections in June 2004. There is a risk that the Government may divert development resources for purely political purposes. In managing these risks, DFID will intensify policy dialogue with government and regional bodies [New Partnership for Africa's Development (NEPAD), the Southern Africa Development Community (SADC), and the Common Market for East and Southern Africa (COMESA)], and bolster efforts in concert with other donors to strengthen poor people's voice. We will ensure rights based initiatives in our sector programmes. We will introduce safeguards in our delivery of budget support to ensure pro-poor linkages (see F3) and we will channel funds through agencies better placed to work on gender and rights based issues.

Corruption

- C.3 Linked to weak political commitment. Left unchecked it will exert a seriously negative impact on PRSP outcomes. It remains a key contributory factor to economic instability and poverty. Safeguards include further measures to strengthen public financial accountability and continuing assistance to the Anti-Corruption Bureau (ACB). The ACB has not been as

effective as hoped. A review of the Corrupt Practices Act aimed at providing the ACB with greater freedom to prosecute cases of high-level corruption is now complete and awaiting parliamentary approval. Unless government tackles corruption more aggressively, donors may conclude that scarce resources should be channelled elsewhere. The people of Malawi will also lose faith in government anti-corruption pronouncements.

Macroeconomic instability

- C.4 There is a medium probability that macroeconomic instability will persist. We will deepen our policy dialogue with government, civil society, the international financial institutions and other donors to try to influence improved economic and financial management. We will encourage improved productivity of public expenditure and reduced wastage to ensure sustainable fiscal deficits. The Medium Term Expenditure Framework (MTEF) provides an important entry point.

Pro-poor expenditures not adequately protected

- C.5 The PRSP does not clearly specify the pro-poor programmes that will be protected should shocks require adjustments to the budget. This together with capacity constraints and the weaknesses in public expenditure management, pose a major risk. It will be important that government develops a timetable for improvements in public expenditure management, including tracking budget execution. DFID's planned assistance through the MTEF programme will help in this effort (see Box 1).

Lack of leadership on HIV/AIDS crisis

- C.6 PRSP and longer-term Millennium Development Goals for Malawi will not be met unless there is a sustained effort on the part of government and donors to deal with the AIDS crisis. Estimates suggest that AIDS will depress growth by 1.5-2% each year between now and

BOX 1: FINANCIAL MANAGEMENT AND PUBLIC EXPENDITURE PLANNING

Public expenditure productivity must be improved and tough political choices must be made if expenditure is to be poverty-efficient while remaining within fiscal parameters consistent with the restoration of macroeconomic stability. A critical aspect of the government's plans to improve the efficiency of public expenditure has been adoption of the MTEF. This has enabled government to programme expenditure within a resource envelope that is consistent with aggregate fiscal discipline. MTEF is the key vehicle for translating PRSP objectives into costed, prioritised sector programmes. PRSP has been partially successful in achieving this, but prioritisation remains a key concern. While expenditure controls remain weak, budgeted priorities may not be reflected in spending. Furthermore, pro-poor expenditures need to be protected against shocks.

2010. The impact on demographic structures and the poverty profile at national, community and household levels is not fully understood and remains an area for significant engagement in national economic planning, public sector reform and as part of the National Strategic Framework for AIDS. A key risk is lack of leadership and capacity to implement a genuinely multi-sectoral HIV/AIDS strategy which comprehensively addresses prevention, care and mitigation in the health and non-health sectors. Arrival of resources provided by the Global Fund for AIDS will place additional burdens on the National AIDS Commission and could weaken health systems generally by drawing away resources required for other forms of care and treatment. The high expectations regarding anti-retro virals may also undermine HIV/AIDS prevention and other mitigation strategies. A key challenge will be to work with donors, government, faith-based community, civil society and local leaders to bring about behavioural change and mobilise resources to address HIV/AIDS.

Weak institutional and human resources capacity

C.7 DFID will participate in a multi-donor effort to reform the public sector, address incentive issues and help to fill key gaps in government over the short to medium term. HIV/AIDS impacts on staff capacity, welfare and productivity across all sectors. It is placing an intolerable strain on an already stressed health service. DFID will help ensure that analysis of weakened capacity

in the public sector feeds into the reform agenda. Through donor harmonisation processes it will be important to support sector ability to cope with high rates of attrition and ensure that core businesses respond to changing poverty dynamics in the communities they serve.

Ineffective monitoring and evaluation systems

C.8 Poor monitoring and evaluation make it almost impossible to track the efficiency and effectiveness by which pro-poor outcomes are delivered. We will manage this by ensuring that monitoring and evaluation frameworks are demand driven reflecting a coherent and cost-effective set of indicators. A first step will be agreement to a set of baseline data on which all stakeholders have been consulted. Wherever possible we will ensure performance monitoring builds on national systems and does not create parallel processes. Support to the PRSP monitoring framework will be provided in close consultation with other donors, ideally as part of a joint donor response.

Injustice: voice, accountability and rights

C.9 On the importance of poor people having their say in matters of government, there are reassuring remarks in the 2002/03 budget speech about the need to ensure their empowerment. But continuing government controls over, and sensitivity with respect to, civil society engagement on accountability and rights issues cast doubt over their commitment. Donor support to civil society, voice and accountability is fragmented. A

common framework is needed. Access to information at all levels and an open media are vital. Opportunities are presented through the requirements for donor support to elections and to enhance the work of parliamentary committees and civil society scrutiny, specifically on PRSP implementation.

Exogenous shocks

C.10 Droughts, floods and commodity price shocks all have potential to threaten PRSP objectives. The 2001/02 food crisis posed obstacles to government/donor efforts to reduce poverty, requiring diversion of resources which would otherwise have gone into development. DFID is helping government to produce a food security strategy and an improved early warning system. The worsening situation in Zimbabwe needs careful watching. An estimated two million Malawians live and work in Zimbabwe. Their ejection could have serious effects on the Government's poverty reduction efforts.

framework. Failure to improve co-ordination will put at risk the donor community's ability to formulate a consistent and effective response to key issues. This could have a medium negative impact on Malawi's potential for development. We will manage this risk by pressing for greater transparency and harmonisation in the context of the Aid Co-ordination Group, continuing to play an active role in other donor groups and by intensified dialogue with the World Bank and the IMF. Support to PRSP monitoring, the MTEF, on-going participation in the CABS group and harmonisation in the context of sector programmes will also underpin this.

C.12 Overall, DFID considers there is a medium to high risk that the Government may not deliver its pro-poor objectives satisfactorily. We will target our assistance in a way that helps to mitigate the risk. DFID will design a programme that is 'risk-balanced' – the composition of which will shift over time as risk mitigation measures

RISK MATRIX		
Probability → Impact ↓	Medium	High
Medium	<ul style="list-style-type: none"> • Ineffective monitoring and evaluation • Injustice: voice, accountability & rights • Poor donor co-ordination 	
High	<ul style="list-style-type: none"> • Macroeconomic instability • Pro-poor expenditure not protected • Exogenous shocks 	<ul style="list-style-type: none"> • Weak political commitment • Corruption • Lack of leadership on HIV/AIDS • Weak institutional and human resource capacity

Poor donor co-ordination

C.11 A number of active donor groups meet to discuss general and sector specific issues. However, there is a need for better consultation and dialogue, especially with the international financial institutions, on important policy issues. The PRSP offers opportunities to harmonise donor flows under a common poverty

take effect. If such measures are unsuccessful, DFID may reduce its development programme until improvement occurs. A concerted government effort on issues of corruption, macroeconomic reform, and encouragement of civil society voice would in turn lead to consideration of an increased programme.

D. What we have learnt

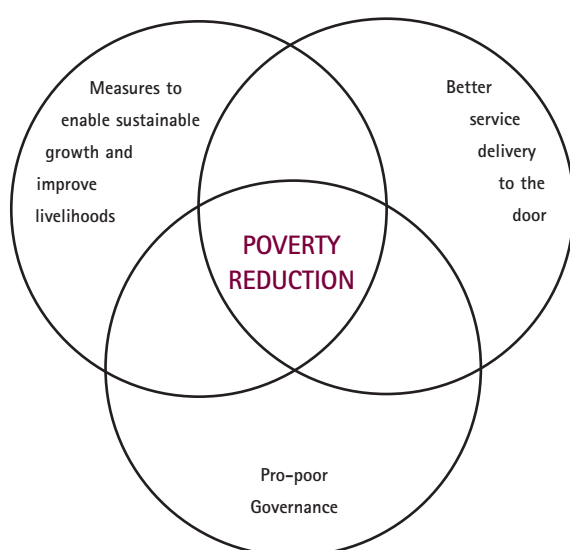
- D.1 Since establishing the new DFID country office in June 2001, we have steadily built up staff capacity to work more effectively on programme delivery. But we have not done this with enough speed (especially in terms of support staff) to enable a greater concentration of effort on upstream influencing. We will intensify this important area of work now that we are close to our full complement of staff.
- D.2 A large office now managing the biggest donor programme in Malawi gives other donors a strong impression of limitless DFID capacity. We have been working with the Dutch (who have no presence in Malawi) and act as the vehicle for delivering their funding to the education sector (where we have a recognised comparative advantage). By agreement with the Norwegians we have used their resources to deliver agricultural inputs using systems we have long established with government. But we must also consider opportunities to use others' comparative advantage, for the example the United States Agency for International Development (USAID) and the Canadian International Development Agency (CIDA) in the delivery of the proposed Voice, Accountability and Responsive Governance Programme.
- D.3 Closer and more regular consultation has built greater cohesion with like-minded donors. The PRBSG process (paragraph F.2) has emerged as a model for open and frank dialogue with government, as a catalyst for change, and in binding donors to common policy. Suspension of Budget support in 2001/02, while posing problems for the Government, has had the effect of crystalising thinking around measures necessary to strengthen economic and financial management. This has been underpinned through collective donor support for the Country Financial Accountability Assessment (CFAA) and progress on the MTEF.
- D.4 While we are moving towards integration with some donors in key areas [the European Community, World Bank, CIDA, USAID, Norwegian Aid (NORAD)], others are more constrained and lack flexibility. We need to find ways of increasing their flexibility including by more effective contact between top management in respective capitals. Donor support is far more effective where there is a shared vision and where donors and government agree upon priorities.
- D.5 We are deeply concerned about weakened government capacity. Where the personnel exist, capacity can be developed to strengthen management of accounting for donor resources. But Malawi is in a more difficult position than Uganda or Tanzania. Its financial management systems are weak or in some instances non-existent. Uganda's HIV prevalence is decreasing, down to 6% and falling in some locations; Malawi's is 16% and rising.
- D.6 Our efforts in moving progressively towards a programme based around harmonised donor approaches has no early benefit in reducing in-house transaction costs. At the front end, efforts devoted to negotiation and procedure harmonisation are highly time consuming.
- D.7 Additional resources will be required to ensure analysis of changing poverty as a result of HIV/AIDS, and how this feeds into implementation of PRSP and sector strategies. DFID is exploring ways of strengthening capacity of multilateral agencies to contribute more effectively to the national HIV/AIDS response, including supporting new positions in the Joint United Nations Programme on HIV/AIDS (UNAIDS) and the World Bank. We will also boost our capacity to mainstream HIV/AIDS in the programmes we support by recruiting an in house specialist to work across the sectoral teams and build on synergies between them.
- D.8 DFID is well placed with resources at its disposal, to hold a central position in policy dialogue with government.

We recognise that we have limited knowledge. We are fortunate to have the flexibility to bring in extra skills when needed; and because we have good networks with civil society [church groups, the Malawi Economic Justice Network (MEJN) and international non-governmental organisations] we can and do learn from their experience as well. We are spearheading a number of important programmes (MASSAJ, support for ACB, and strengthening the interface between parliament and civil society), which are now acknowledged as cutting edge.

Part 2 – UK assistance plans over poverty strategy period

E. UK development partnership

- E.1 The PRSP sets out a strategy for achieving poverty reduction through sustainable and equitable growth. This provides the overarching framework for our development partnership with Malawi. Our vision is to have made an effective contribution to its implementation by the end of this country plan period. DFID's programme will concentrate on three core areas: see diagram below.



- E.2 DFID's ability to make a difference in these core areas is based on comparative advantage. Our programme has a clear strategic focus consistent with the Government's poverty reduction strategy.
- E.3 In delivering the programme our choice of financial aid instruments has been partly determined by the results of a recent Country Fiduciary Assessment. Malawi is a high fiduciary risk environment. Our risk-balanced portfolio will have implications in particular, for budget support modalities and the safeguards required to ensure resources are used efficiently in supporting poverty reduction outcomes.

- E.4 We hope the programme will include a significant element of budget support; harmonised sector approaches; a small number of learning projects; pro-poor governance and cross-cutting programmes; and strategic partnerships with like-minded donors and civil society. This still constitutes quite a spread of activity, placing heavy demands on staff time. However, we feel such effort is justified given DFID's prominence as the major donor in Malawi. As confidence grows in government's financial management systems we will aim to increase the proportion of our programme delivered through direct budget support.

- E.5 If there is sufficient appetite in government and among donors, we will negotiate a memorandum of understanding (MoU) during this plan period, in line with those already signed in Tanzania and Ethiopia. The MoU would set a clear framework for future partnership and make transparent shared commitments on the part of donors and government including in respect of future budget support. For the latter the MoU would specify DFID's commitment to avoid in-year disruption to the Budget, for example suspension of budget support without due notice.

F. The programme 2003 – 2005

Overview

F.1 DFID's core themes relate directly to the four pillars of the PRSP. Budget support impacts on all core areas and is potentially DFID's primary financial instrument for supporting the PRSP. Harmonised approaches in health and education are aimed at improving service delivery to the poor, and through productivity enhancement should contribute to sustainable growth. Improved livelihoods are linked to growth, especially through land reform; better security to growth and governance. Pro-poor governance programmes and cross-cutting programmes will impact on all core themes.

Budget support

F.2 The existing £75 million (2000-2003) General Budget Support (GBS) agreement with government is intended as part of a joint donor mechanism – PRBSG. As well as providing a means for delivery of significant financial support for the Government's poverty reduction strategy, PRBSG enables a more intensive dialogue on macroeconomic policy issues pertaining to growth and on measures necessary to improve the productivity of public expenditure and service delivery to the poor. PRBSG addresses issues of governance which are having an adverse impact on fiscal control. It is an increasingly effective forum for dialogue. The collaborative approach is helping to reduce transaction costs for both the Government and participating donors.

F.3 In early 2003, DFID will start preparations for a new budget support agreement. However DFID intends handling future budget support differently. We propose an approach to poverty expenditure, linking some budget support to performance in key sectors. Indicators of achievement under this approach will be consistent with key PRSP monitoring indicators. DFID support would build on an agreed Ministry of Finance 'expenditure floor' and thus act as an incentive (to government) for key pro-poor budget lines to be fully

funded and spent. In parallel with this means of delivering budget support, DFID will continue to work with government and other donors to improve The Malawi Government's standards of financial management and accountability (without which it will be impossible to achieve a longer-term CAP objective of increasing budget support over time). This will involve buttressing systems with appropriate technical assistance, including support for anti-corruption measures, progressing the MTEF, and conducting expenditure tracking studies. Sound public financial management will be informed by recommendations from the Country Financial Accountability Assessment (CFAA) Public Expenditure Management Action Plan.

F.4 In taking this forward, DFID will work closely with other like-minded donors. We, and the European Union are interested in drawing up a joint budget support agreement. DFID also plans to commission research on the political economy of the budget so that our budget support can be better linked to incentives for improving the budget process.

Harmonised sector programmes

F.5 These will continue to be the main mechanism for rationalising our project portfolio. The proposed health programme will absorb twelve projects. The Livelihoods, MASSAJ, and Education programmes will also provide a single framework for previously disparate projects. We will retain a small number of strategic projects. These will be limited to activity with a demonstration effect and value in testing new approaches. For example, we are supporting community based programmes involving local NGOs and district-level structures. These will test interventions which may improve rural livelihoods and community level rights based approaches to inform sector programme design and monitoring processes. A new phase of assistance to the Malawi Revenue Authority is planned because of the contribution this will make to domestic resource mobilisation.

F.6 Under each harmonised approach, DFID will develop financing arrangements that rely increasingly on the Government's own systems for managing and accounting of resources. In this way we will migrate programmes to direct budget support over the life of the CAP.

F.7 We envisage other safeguards such as sector audits, tracking studies, support to voice and accountability mechanisms through civil society and parliamentary committees, and technical assistance to strengthen sector financial management and delivery systems.

F.8 **Specific approaches under key sectors:**

- **Food Security:** DFID's global Food Security Strategy 'Eliminating Hunger' emphasises access and availability of food, not merely production. It indicates how DFID will support the Millennium Development Goal of halving the number of hungry people in the world. This has resonance in Malawi where DFID will continue to provide assistance to improve food production, marketing and distribution through partnerships with government, other donors, civil society and the private sector. DFID will also provide support to longer term development of the national safety nets strategy and work with partners through the various working groups towards the development of a comprehensive long-term national Food Security Strategy. In addition to this long-term support DFID will continue to provide assistance to meet emergency needs. We will also maintain essential dialogue with other DFID offices in the region and in particular the humanitarian adviser to be based in Pretoria.
- **Livelihoods:** Move away from stand-alone projects towards an influencing role in land policy reform, National Safety Nets Programme (NSNP), Forestry Sector Support Programme (MFSSP) and

Agricultural Sector Investment Programme (MASIP). NSNP and MASIP will strengthen moves towards harmonised donor programmes, funding partnerships linked to the PRSP. Land policy reform will support implementation of a policy based on principles of equity and transparency. Through development of a DFID rural livelihoods strategy, we will have better knowledge of how AIDS is deepening poverty in rural areas and respond, including through MASIP and support for safety nets.

- **Health:** Aim is a harmonised approach working in partnership with all the major bilateral and multilateral development partners, including strategic use of current support to the Ministry within the framework of the National Sexual and Reproductive Health Programme (SRHP) and basket-funding of the National TB Programme and of the National Aids Commission. Support for government recognition of a more plural way of working, i.e. public-private mix, strengthening the development of public-private partnerships and encouraging private sector partners to collaborate more with government.
- **Education:** Whole school improvement – through enhanced capacity of teachers and communities to implement a reformed national primary curriculum. District involvement – through the building, rehabilitation and resourcing of school classrooms, increased community responsibility and capacity to manage these schools, combined with better district capacity to deliver education. System change – through improved planning and management capacity at district and central government levels. Co-ordinated efforts to support improved education service delivery via sector wide funding.

- **Safety, security & access to justice:** An emerging area for donor harmonisation supporting the Government's decision to address all aspects of SSAJ through a single co-ordinated programme. Immediate aims are to strengthen individual institutions (15 in total) and co-ordination between these, to provide rapid improvement in delivery of services, particularly to the vulnerable. Emphasis will be placed on working with traditional authorities, strengthening access, fairness and compliance with human rights, as well as looking at linkages between formal and informal systems of justice. In the longer term, assistance will enhance joint decision-making, providing a platform for the provision of national co-ordinated and mutually supportive SSAJ policies and guidelines.

Pro-poor governance programmes

PRSP implementation/poverty monitoring

- F.9 DFID will work with government and other partners (donors, civil society, private sector, the media) to strengthen capacity to monitor and evaluate implementation of the PRSP. The Government is committed to developing a Poverty Monitoring Master Plan which will include input, output, outcome and impact monitoring, plus information dissemination. It is intended that civil society organisations will be key partners in this process. DFID will provide help, and encourage others to support both scoping and implementation of the plan. A first step will be to engage in a peer review of DFID performance, lessons from which will enhance donor harmonisation under the PRSP framework. We will encourage the World Bank to take the lead.

Public financial management

- F.10 DFID's programme will include well-targeted technical assistance to help strengthen public financial

management. In due course the MTEF programme and the Integrated Financial Management Information System (IFMIS) will be rolled into a multi-donor Public Financial Management Programme. These activities cut across all areas of the PRSP and DFID's core themes. Strengthened financial management systems will improve fiscal control. Better fiscal discipline is critical if the Government is to restore macroeconomic stability and enhance the chances for sustainable growth.

Voice, accountability and rights

- F.11 Government acknowledges that Malawi is a young democracy. Mistakes can and will be made. In a democratic society governments encourage freedom of expression. Since 1994 there have been substantial improvements in the Malawi media's ability to speak freely. But poor people's voice and their capacity to question the state and press for change, remain underdeveloped. In the run up to 2004 elections it will be important to achieve greater donor harmonisation around support for democracy (including support to elections), enhancing poor people's voice and strengthening institutions of accountability. An appropriate programme of DFID/USAID/CIDA support is being developed.
- F.12 DFID will maintain its support to strengthen civil society's capacity to work with government at the policy level including through regional and centrally funded civil society initiatives (such as DFIDSA's Civil Society Support Programme). We will work with other donors to encourage accountability within government through support for institutions tasked with holding the Executive to account (Parliament, Anti-Corruption Bureau, Malawi Human Rights Commission, Ombudsman's office); and we will support means for poor people to bring their concerns to the attention of those institutions and to government. This will be underpinned by support to PRSP monitoring in collaboration with other donors.

Public sector reform

- F.13 Public Sector Reform (PSR) is key to poverty elimination and to the effective implementation of the PRSP. As part of a joint donor programme DFID will provide technical and financial support for PSR. The programme will have a strong focus on measures designed to ensure responsiveness and accountability to poor citizens. Incentive systems will be structured so that they reward better service delivery to the poor. A more efficient and effective public sector should contribute to a more conducive environment for private sector development and thus enhance Malawi's prospects for growth. PSR has the potential to make an important contribution to all three of DFID's core themes.

Trade

- F.14 Expanding Malawi's opportunities for trade especially in agriculture is crucial for sustainable growth and enhanced livelihoods. DFID will continue to support the Malawi Trade and Poverty Programme (MTPP). This should enhance capacity in appropriate Malawian institutions to formulate, negotiate and implement trade reform strategies that are inclusive and pro-poor; and increase Malawi's economic integration and participation in regional and international trading systems. We will also support Malawi's participation in the Integrated Framework so that its trade development strategy enables sustainable pro-poor growth by embedding trade expansion into national development strategies.

Decentralisation

- F.15 DFID's engagement with the decentralisation process recognises that other donors are already leading support for reform at national level. DFID will focus effort in areas of its existing comparative advantage – supporting the decentralisation of effective service delivery to poor people through sector programming, such as health and education. This will include underpinning PRSP monitoring that links poor people,

via decentralised structures, to the national policy process.

Cross-cutting programmes

HIV/AIDS

- F.16 HIV/AIDS cuts across all sectors and impacts on all of DFID's core themes. A sustained attack on its causes will be needed for the next decade or more. It will be essential to ensure top level government engagement if the enormous social and economic cost of the disease is to be arrested. DFID will implement an HIV/AIDS mainstreaming strategy to promote an effective multi-sectoral response to HIV/AIDS in Malawi covering prevention, care and impact mitigation. All DFID programmes will be adjusted to deal with the impacts of higher levels of morbidity and death. In particular, there is an urgent need to respond to attrition in institutions responsible for delivering services, and to review strategies to respond to changing vulnerabilities within households and communities
- F.17 DFID will contribute to the implementation of the National Strategic Framework for HIV/AIDS through continued substantial support to sexual and reproductive health programmes, and through harmonised donor support for the National AIDS Commission. DFID will contribute to the strengthening of the bilateral and multilateral response by financing new positions in UNAIDS, the World Health Organisation (WHO) and the World Bank to help Malawi gear up to maximise the impact of increased fund flows from the Multi-sector AIDS Programme (MAP) and the Global Fund for AIDS, Tuberculosis and Malaria (GFATM).

Environmental sustainability

- F.18 This cuts across all sectors and is recognised in the PRSP as being crucial to achieve pro-poor economic growth. DFID will consider how best to work with other donors to ensure capacity development of Malawian partners, environmental sustainability and poverty-environment linkages.

Strategic partnerships

- F.19 Over the CAP period DFID will work more closely with the key multilateral institutions to promote more effective upstream influencing on PRSP delivery. In recognition of the importance of IMF and World Bank flows to Malawi and influence on policy, we will work more closely with the international financial institutions and UK Delegation in Washington to ensure our concerns are adequately reflected in these institutions' country programmes.
- F.20 Maintaining a close dialogue with IMF representatives in Malawi and Washington is already paying dividends in terms of consistent messages on required policy and reform measures. DFID is considering how to strengthen engagement in the Poverty and Social Impact Assessment (PSIA) and the Integrated Framework to improve understanding of the poverty and social impact of key reforms.
- F.21 The World Bank is in the early stages of developing a Poverty Reduction Sector Credit (PRSC). DFID has signalled strong interest in close engagement with this process. We maintain regular dialogue with the Bank in particular on livelihoods issues, on private sector development and on HIV/AIDS.
- F.22 UK support to the Cotonou Agreement is in part delivered through our contribution of 345 million under the 9th European Development Fund (EDF). DFID contributes 19% of non-EDF funds for food aid and humanitarian assistance provided by the EC. Priorities for continuing dialogue with the EC Delegation include land reform, livelihoods, food security and budget support. Currently, dialogue occurs both with Brussels and the in-country Delegation. Deconcentration will facilitate a more streamlined approach.
- F.23 The African Development Bank (ADB) programme in Malawi focuses on some key areas of concern to DFID (HIV/AIDS, land and livelihoods). The Bank does not have permanent representation in Malawi. We intend to improve engagement through our UK representative in Abidjan. In concert with other donors we will provide collegial support to ADB to help counterbalance their absence of staff in Lilongwe.
- F.24 UN agencies are of strategic importance. They are at the centre of MDG implementation; they also act as a useful interface between government and bi-lateral donors. DFID recognises their importance and will develop deeper partnerships where appropriate. Current and planned funding co-operation includes agreements with the United Nations Children's Fund (UNICEF), WHO and UNAIDS.
- F.25 We recognise the importance of NEPAD as a major initiative on the part of regional governments. The Government is engaged in this process. We will pursue with DFIDSA and DFID's Africa Policy Department, how to make our ideas for engagement in NEPAD consistent with wider office thinking.
- F.26 There are other areas of development work in Malawi which DFID regards as important, but does not have the resources to handle. In each of these, we will help those donors having a clear commitment to PRSP priorities, to increase their capacity to work more effectively to address policy and implementation. And we will stand ready to transfer funds to help support their own programme efforts. For example:
- Private Sector Development (PSD): Crucial for Malawi to attain PRSP growth ambitions through improved policy, strengthened government, donor and private sector partnerships. DFID will (i) recruit and second a PSD expert to the World Bank for three years, (ii) underpin that organisation's own PSD programmes, (iii) consider similar collaboration with USAID. DFID will maintain financial support for the National Action Group and through World Bank or USAID consider assistance to the Privatisation Commission on development of an appropriate privatisation strategy.

- Transport: The EU Delegation in Lilongwe have now rationalised their programme to concentrate on only two sectors: agriculture and transport. We will second a transport engineer to help with implementation of their substantial roads programme.

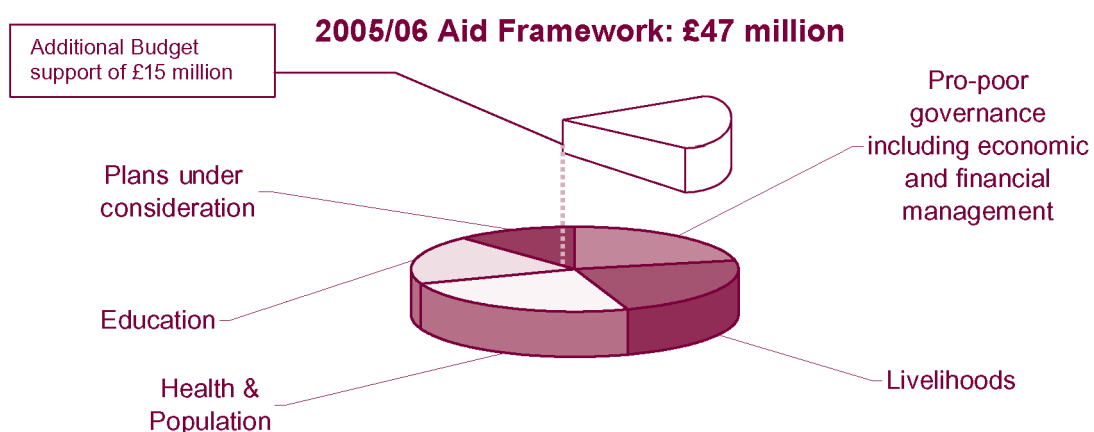
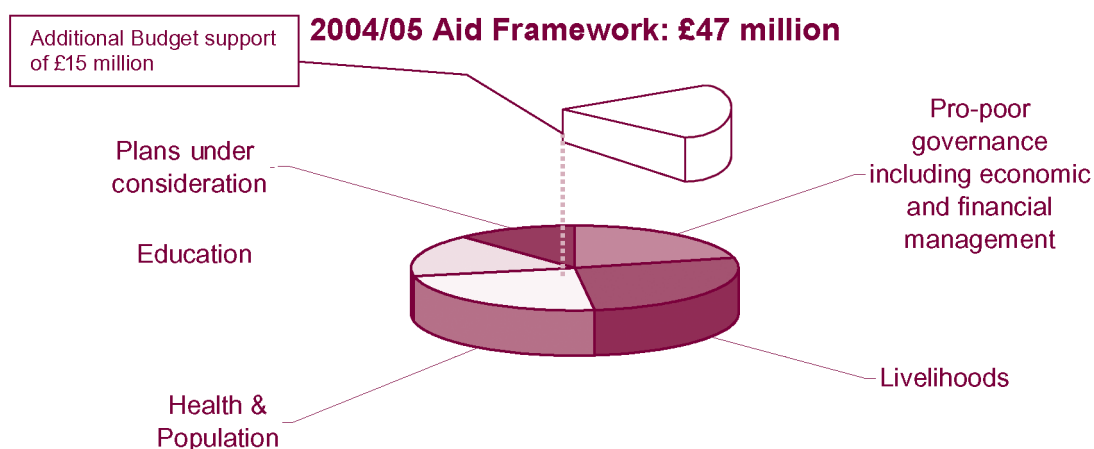
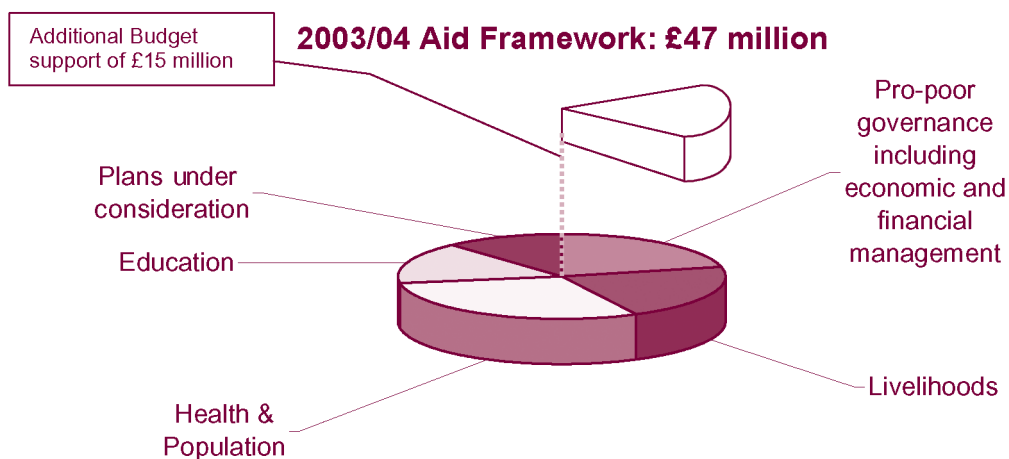
F.27 DFID recognises civil society organisations as important partners for implementation and advocacy and will be working towards clarifying their role further within a Civil Society Strategy. The need for this was highlighted during the CAP consultation process. The Strategy will place particular emphasis on PRSP monitoring, civic education and a rights-based approach.

F.28 Recognising the positive role of reform minded elites in social transformation, DFID will work harder to identify such individuals and to engage with them in policy dialogue.

G. Programme resources

G.1 The pie charts on page 21 illustrate planned expenditure over the next three years. Project and programme work (including provision of technical assistance) will absorb up £47 million per annum. An additional £15 million per annum is allowed for budget support, but should not be regarded by the Government of Malawi as an entitlement. The availability of this additional money will depend on government staying on track with the IMF programme and the PRBS group remaining satisfied with progress. Should the Government's performance prove exceptional in any given year, DFID (Malawi) can bid for additional budget support funding from the DFID headquarters Director-General's Performance Fund.

CAP EXPENDITURE PLANS



Annex 1

Summary of consultation process

1. The Country Assistance Plan (CAP) is built around the Government of Malawi's Poverty Reduction Strategy Paper which was formally launched by President Muluzi in April 2002. The PRSP itself was subject to substantial consultation between government ministries, donors and civil society. The private sector was consulted late in the process but do now make a regular contribution to policy debate through the DFID-sponsored National Action Group.
2. A first draft of the DFID Malawi CAP was discussed in London in October 2002 with key Palace Street departments and representation from within Whitehall. Unfortunately the Foreign and Commonwealth Office did not attend but the High Commission in Lilongwe have contributed to CAP drafting.
3. In December 2002, DFID (Malawi) held a series of consultative meetings with donors, government and civil society organisations in order to inform stakeholders about DFID's planned direction over the next three years and to gather feedback on the draft. These consultations were held in the main centres of Lilongwe, Blantyre, Mzuzu and Zomba. DFID also received written comments from important groups such as Parliamentary Committees and academics.
4. The consultation process contributed to increasing stakeholders knowledge of DFID policies and gave DFID staff a valued opportunity to listen to stakeholder comments, concerns and suggested priorities for DFID action. The meetings were well attended and very much appreciated. DFID Malawi will take steps to involve the same group of stakeholders in discussion about progress with CAP implementation.

Main issues raised during stakeholder meetings

1. The role of civil society organisations in implementing the CAP
2. Decentralisation
3. How DFID sees civil society organisations and government working together
4. DFID's food security policy
5. Support to the private sector
6. Budget support interruption
7. UN partners
8. Role of the media
9. Lack of exposure to the PRSP

Annex 2

DFID Service Delivery Agreement: Malawi PSA activities linked to targets on sub-Saharan Africa

PSA OBJECTIVE 1: REDUCE POVERTY IN SUB-SAHARAN AFRICA

- A. A sustainable reduction in the proportion of people living in poverty from 48% across the entire region.

TARGET	ACTIVITY
<i>DFID and the Treasury will work internationally to ensure that countries accessing International Development Association (IDA) resources and their key donors are committed to and supporting effective and sustainable poverty reduction strategies. DFID will provide bilateral support to this end in at least 30 countries.</i>	DFID (Malawi) aims to increasingly use its Poverty Reduction Budget Support as the primary instrument for supporting PRSP implementation. Our plan is to increase the proportion of our programme delivered through budget support from 37% in 2002/03 to 50% in 2005/06. We will continue to develop the joint donor mechanism through which our budget support is provided. Complementary to this, we will provide £2 million in technical assistance to government for the development of PRSP monitoring and evaluation indicators.
<i>DFID will provide increased support to contribute to better economic and political governance in 50% of Public Service Agreement (PSA) countries</i>	<p>Consistent with our Poverty Reduction Budget Support objectives, DFID (Malawi) will provide technical assistance to the Government for strengthening economic and financial management. This includes support for: the Government's MTEF Consolidation and Revitalisation Programme; capacity building of Internal Audit; development of the CFAA Public Expenditure Management Action Plan; and for an institutional capacity building programme with the Malawi Revenue Authority. Total funds for this over the PSA period are £10 million.</p> <p>DFID (Malawi) will strengthen SSAJ institutions and co-ordination between them to provide improvement in delivery of services, and a platform for the provision of mutually supportive national policies and guidelines. We will work with Traditional Authorities to strengthen access, fairness and compliance with human rights in informal systems of justice, and developing linkages with formal system. Total funds for these activities over the PSA period are to £15.3 million.</p>
<i>DFID will provide increased support to contribute to sustained improvements in the climate for foreign investment, local private sector development and market access for the poor.</i>	<p>We will provide technical assistance to the World Bank to enable them to take forward a Private Sector Development Programme. We will support the National Action Group Secretariat which pursues private sector development policy and related economic growth issues, involving senior players in government, the private sector and donors. We will continue our work with civil society and government partners to improve the poor's access to financial services and improved opportunities for business development in the SME sector. We plan to spend £7 million on this target over the PSA period.</p> <p>DFID (Malawi) will continue to provide technical assistance and funding support for the implementation of the National Safety Nets Strategy as one of the four pillars of the Malawi PRSP. We plan to spend £26.8 million on this over the PSA period.</p>

- B. An increase in primary school enrolment from 58% to 72% and an increase in the ratio of girls to boys enrolled in primary school from 89% to 96%.**

TARGET	ACTIVITY
<i>DFID will provide increased support to contribute to more effective Government-led education sector programmes, related to national expenditure plans, focusing on primary education and including explicit objectives on equitable access for girls and boys in 50% of PSA countries.</i>	DFID (Malawi) is the main contributor to effective implementation of the Malawi Government's Education sector strategy, which is based on the Policy Investment Framework (PIF)/PRSP by strengthening system reform at all levels. Access gains will be evidenced through 300 primary schools having been targeted for infrastructure improvements and communities actively participating in school management. The contribution to the quality dimension of the system will be the conceptualisation of the primary curriculum and a national network of teacher development and support fully operational across the country. Total funding allocated to this activity is £61 million over 2001-07.

- C. A reduction in under-five mortality rates for girls and boys from 158 per 1000 live births to 139 per 1000; and an increase in the proportion of births assisted by skilled birth attendants from 49% to 67%; a reduction in the proportion of 15-24 year old pregnant women with HIV from 16%.**

TARGET	ACTIVITY
<i>DFID will provide increased support to contribute to more effective and equitable health sector programmes, related to national expenditure plans, tackling communicable diseases and HIV/AIDS, and reducing child and maternal mortality in 50% of PSA countries.</i>	By 2005/06 DFID (Malawi) will be spending up to £11 million per year as a contribution, joining other partners to support a harmonised Health programme for government and civil society to implement the National Health Plan and programmes designed to reduce the prevalence of HIV and other communicable diseases and to lower maternal and child mortality.

Annex 3

Malawi statistical data

Malawi Country Profile	1990	1995	1999	2000
1. Eradicate extreme poverty and hunger	<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>			
Population below \$1 a day (%)	..	..	..	..
Poverty gap at \$1 a day (%)	..	..	..	..
Percentage share of income or consumption held by poorest 20%	..	..	..	..
Prevalence of child malnutrition (% of children under 5)	27.6	29.9	..	..
Population below minimum level of dietary energy consumption (%)	..	..	..	..
2. Achieve universal primary education	<i>2015 target = net enrollment to 100</i>			
Net primary enrollment ratio (% of relevant age group)	49.7	102.6	..	..
Percentage of cohort reaching grade 5 (%)	64.5	34.2	..	..
Youth literacy rate (% ages 15-24)	63.2	67.3	70.3	71.1
3. Promote gender equality	<i>2005 target = education ratio to 100</i>			
Ratio of girls to boys in primary and secondary education (%)	78.9	85.0	..	..
Ratio of young literate females to males (% ages 15-24)	67.6	71.4	74.5	75.2
Share of women employed in the nonagricultural sector (%)	10.6	..	..	..
Proportion of seats held by women in national parliament (%)	..	5.6	5.6	..
4. Reduce child mortality	<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>			
Under 5 mortality rate (per 1,000)	234.0	188.6	..	193.0
Infant mortality rate (per 1,000 live births)	127.8	111.5	..	102.8
Immunization, measles (% of children under 12 months)	80.0	90.0	83.2	..
5. Improve maternal health	<i>2015 target = reduce 1990 maternal mortality by three-fourths</i>			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	580.0	..	..
Births attended by skilled health staff (% of total)	50.0	..	..	..
6. Combat HIV/AIDS, malaria and other diseases	<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>			
Prevalence of HIV, female (% ages 15-24)	..	..	15.3	..
Contraceptive prevalence rate (% of women ages 15-49)	13.0	22.0	..	30.6
Number of children orphaned by HIV/AIDS	..	..	390.0 thousand	..
Incidence of tuberculosis (per 100,000 people)	..	..	443.0	..
Tuberculosis cases detected under DOTS (%)	..	..	42.0	..
7. Ensure environmental sustainability	<i>2015 target = various (see notes)</i>			
Forest area (% of total land area)	35.2	..	..	27.6
Nationally protected areas (% of total land area)	..	11.3	11.3	..
GDP per unit of energy use (PPP \$ per kg oil equivalent)	..	..	..	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	..
Access to an improved water source (% of population)	49.0	..	..	57.0
Access to improved sanitation (% of population)	73.0	..	..	77.0
Access to secure tenure (% of population)	..	..	..	..

Malawi statistical data *continued...*

Malawi Country Profile	1990	1995	1999	2000
8. Develop a Global Partnership for Development	<i>2015 target = various (see notes)</i>			
Youth unemployment rate (% of total labour force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	3.1	3.6	6.2	9.0
Personal computers (per 1,000 people)	..	..	1.0	1.2
General indicators				
Population	8.5 million	9.2 million	10.1 million	10.3 million
Gross national income (\$)	1.7 billion	1.6 billion	2.0 billion	1.7 billion
GNI per capita (\$)	200.0	170.0	190.0	170.0
Adult literacy rate (% of people ages 15 and over)	51.8	55.9	59.3	60.1
Total fertility rate (births per woman)	7.0	6.6	6.4	6.3
Life expectancy at birth (years)	44.6	41.9	..	38.8
Aid (% of GNI)	27.4	31.5	25.1	26.8
External debt (% of GNI)	84.8	162.4	155.0	163.6
Investment (% of GDP)	23.0	17.0	14.8	13.1
Trade (% of GDP)	57.2	76.8	69.5	64.5

Source: World Development Indicators database, April 2002

Note: In some cases the data are for earlier or later years than those stated.

- Goal 1 targets:** Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.
- Goal 2 target:** Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.
- Goal 3 target:** Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.
- Goal 4 target:** Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.
- Goal 5 target:** Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.
- Goal 6 targets:** Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.
- Goal 7 targets:** Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.
- Goal 8 targets:** Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Annex 4

Malawi: external revenue and borrowing requirements during PRSP period 2002/3–2004/5

The table below shows the external financing requirements for the PRSP. The data for loans and grants is forecast and does not reflect firm commitments. For each year the gross resource envelope is consistent with the respective PRSP costing.

GROSS RESOURCE ENVELOPE (MK)	2002/03	2003/04	2004/05
Total Revenue and Grants	41,528.44	44,390.80	49,920.92
Domestic Revenue	27,370.60	31,360.60	34,326.80
<i>Of which non-tax revenue</i>	2,686.70	3,090.10	3,402.70
<i>Of which tax revenue</i>	24,683.90	28,270.50	30,924.10
Grants	14,157.84	13,030.20	15,594.12
<i>Of which project</i>	3,010.24	3,099.51	3,656.25
<i>Of which Budget support</i>	8,423.20	6,200.82	7,312.41
<i>Of which HIPC</i>	2,724.40	3,729.87	4,625.46
Overall financing	- 194.26	- 410.12	- 356.70
Foreign financing (net)	3,124.38	1,028.18	1,694.75
<i>Borrowing</i>	7,872.88	5,857.38	7,188.75
<i>of which project</i>	5,010.88	3,424.23	3,769.29
<i>of which Budget support</i>	2,862.00	2,433.15	3,419.46
Repayment	4,748.50	4,829.20	5,494.00
Domestic financing (net)	3,320.64	1,443.30	1,346.05
Gross resource envelope	41,332.18	43,975.68	50,269.62

The gross resource envelope envisaged for the fiscal year (1 July–30 June) 2002/03 is K41.3 billion. For 2003/04 and 2004/05, the projected resource envelopes are K44.0 billion and K50.3 billion respectively. In 2002/03, external revenue in the form of grants (K14.2 billion) accounts for a significant share (34%) of available resources. The bulk of the grant component (59%) is provided through budget support. HIPC accounts for 19% (Malawi is currently on a floating completion point and is expected to reach this around June 2003). Looking below the line, foreign borrowing in 2002/03 is estimated at K7.9 billion. Taken with repayments at K4.7 billion, net foreign financing is therefore estimated at K3.1 billion or some 7.5% of gross available resources. Hefty repayment of domestic debt in the first year of the PRSP means that net domestic financing is negative at K3.3 billion in 2002/03. This falls to K1.4 billion and K1.3 billion in 2003/04 and 2004/05 respectively. In 2004/05 below the line financing becomes positive at K0.3 billion.