Government of Malawi

INTEGRATED PLANNING AND BUDGETING MANUAL

Ministry of Finance, Economic
Planning and Development
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Contents

ABBREVIATIONS

AMP	Aid Management Platform
BPFP	Budget Policy Framework Paper
CSOs	Civil Society Organisations
DEAP	Development Effectiveness and Accountability Programme
DHRMD	Department of Human Resource Management and Development
GRB	Gender Responsive Budgeting
IFMIS	Integrated Financial Monitoring Information System
IPMIS	Integrated Performance Monitoring Information System
MASEDA	Malawi Socio-Economic Database
MDAs	Ministries, Departments, Agencies
MoFEPD	Ministry of Finance, Economic Planning and Development
M&E	Monitoring and Evaluation
MGDS	Malawi Growth and Development Strategy
MIS	Management Information System
MSP	Ministry Strategic Plan
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Financial Framework
NDS	National Development Strategy (currently Malawi Growth and Development Strategy)
NGOs	Non-Governmental Organisations
OPC	Office of President and Cabinet
OVP	Office of the Vice President
ORT	Other Recurrent Transactions
OBB	Output Based Budgeting
PAC	Public Accounts Committee
PED	Performance Enforcement Department
PE	Personal Emoluments
PC	Performance Contract
PFMA	Public Finance Management Act
PIs	Performance Indicators

PBB	Program Based Budgeting
PBBs	Program Based Budgets
PSIP	Public Sector Investment Program
RBM	Results Based Management
SSP	Sector Strategic Plan
UNDP	United Nations Development Programme
ZBB	Zero Based Budgeting

FOREWORD

The Ministry of Finance, Economic Planning and Development (MoFEPD) has implemented a number of reforms to improve budget planning and documentation. From 2000 to 2015, the Malawi Government introduced Output Based Budgeting (OBB) with the objective of shifting from line item budgeting to result based budgeting which focuses on outputs and outcomes from the resources spent. To further improve budget planning and execution, the Government made a commitment in 2013 to migrate from OBB to Programme Based Budgeting (PBB). For smooth implementation of the reform, PBB was piloted for 3 years until 2016-17 when all Ministries, Departments and Agencies (MDAs) were introduced to the reform.

The introduction of PBB has necessitated the Ministry to review the 2009 Budget Manual and develop the Integrated Planning and Budget Manual. This takes into account principles of result based budgeting (RBM). The manual outlines general budget concepts, result based management, program based budgeting concepts, integrated planning and budgeting, budget monitoring, reporting and evaluation.

This manual is useful to everyone who wants to have an in-depth understanding of the Malawi Government budgeting process. The Manual is particularly useful to Officials in MoFEPD as well as other stakeholders such as line Ministries, Local Authorities and Subvented Organisations, Civil Society Organisations (CSOs,) and Non-Governmental Organisations (NGOs).

Hon. Goodall E. Gondwe

MINISTER OF FINANCE, ECONOMIC PLANNING AND DEVELOPMENT

PREFACE

The Integrated Planning and Budgeting Manual is the second budget manual that the Ministry of Finance, Economic Planning and Development has published. The first manual, which was developed in November 2009, did not include principles of result based management and program based budgeting. Therefore, this manual aims at incorporating principles in the budget process and to illustrate linkages between policy planning and budgeting.

It is my sincere hope that the manual will provide the necessary information to various stakeholders on the government budget and how the Ministry of Finance links with various institutions on budget formulation, approval and implementation. The manual is a living document which may be modified from time to time to respond to emerging issues, knowledge expansion and changes in capacities.

Let me thank all Budget Division Officers and other stakeholders who worked hard to ensure that this manual was prepared and published. Let me also thank Egle Rimkute, the consultant who was tasked to lead the Team in preparation of the manual. Appreciations also extend to the UNDP Malawi Office who financed activities relating to this manual through the Development Effectiveness and Accountability Programme (DEAP).

Ben Botolo

SECRETARY TO THE TREASURY

INTRODUCTION

The Integrated Planning and Budgeting Manual (The Manual) guides the application of Results Based Management (RBM) and Program Based Budgeting (PBB) across the Government of Malawi. It highlights the importance of results in the policy and budget preparation process. In addition, this manual seeks to promote Gender Responsible Budgeting (GRB) in the public sector as a means of ensuring an equitable distribution of the national budget.

The Manual guides Ministries, Departments and Agencies (MDAs), line Ministry Program Managers and Planning, Monitoring and Evaluation Divisions throughout the process of policy planning and budget preparation. It explains the interconnection between different policy and budget documents and how they interact in the budget preparation process.

The Manual makes references to various other guidelines, manuals and handbooks related to planning and budget preparation to ensure a coherent and integrated budget process. Therefore, this manual serves as a framework against which other guidelines, handbooks and tools related to planning and budget preparation will be developed or revised. This manual also serves as a guiding resource for the elaboration or revision of training programs for capacity building in policy development and budget preparation.

Chapter I outlines general budget concepts and the legal framework, Chapter II introduces result based management. Chapter III highlights the integrated planning and budgeting system. Chapter IV discusses planning and budget calendar. Chapter V covers the medium-term expenditure framework (MTEF). Chapter VI discusses the Program Based Budgeting. Chapter VII covers result oriented monitoring, reporting and evaluation and finally Chapter VIII outlines change management.

CHAPTER 1: GENERAL BUDGET CONCEPTS

1.1 National Budget

A national budget is simply a national financial plan covering expenditure and receipts, usually for a period of one year. It outlines the major sources of revenue, and how such revenues are to be expended as well as the overall budget surplus or deficit and how the budget deficit will be financed. It is also typically a document for spelling out the government's economic and social aims, and ways to achieve these over the coming year. It also identifies revenue collection measures in form of amounts and revenue generation sources and by extension promotes the kind of goods and services the nation consumes.

1.2 Functions of the Budget

Budgeting is an essential element in the sound financial administration and economic management of a country. Through the budget, the government can put its annual plan into action.

Budgeting serves several important functions and these are:

1. It administers national finances in an orderly manner, matching revenue with spending. This ensures that there is no haphazard or unplanned expenditure. Every department has its allocation and therefore knows its spending limits.

2. The executive places proposals and estimates of public revenue and expenditure before the legislature for approval. The budget thus provides a good way of presenting and discussing public revenue and expenditure.

3. The budget is a legal instrument of control: it is embodied in laws or decrees. This gives the executive authority to raise funds and incur expenditure.

4. The budget is a means of implementing policies. A good budget guides administrators on the policy framework and financial environment within which they have to carry out their respective roles and responsibilities.

5. The budget is a guide for financial management, and provides details for the disbursement and accounting of funds.

6. The budget provides a review of past accomplishments, as it contains revenue and spending figures for the previous financial year. It shows how far promises have been kept and objectives achieved.

1.3 Methods of Budgeting

There are several methods of budgeting. These include amongst others; incremental budgeting, zero based budgeting, activity based budgeting, performance based budgeting, cash based budgeting and accrual based budgeting methods.

1.3.1 Incremental Budgeting

Incremental budgeting is the process of adjusting the budget incrementally from one financial year to the other. Usually, the increment of the budget is in percentage terms based on specific policies or criteria. For example, salaries for civil servants could be increased by 20 percent to offset for inflation. Other macroeconomic variables considered are GDP growth, exchange rate, interest rate, population growth, unemployment rate and many others.

1.3.2 Zero Based Budgeting (ZBB)

Zero Based Budgeting (ZBB) is an approach to budgeting that starts from the premise that no costs or activities should be factored into the plans for the coming budget period, just because they were included in the costs or activities for the current or previous periods. Rather, everything that is to be included in the budget must be considered and justified.

ZBB requires that the existence of a government program or programs be justified in each fiscal year, as opposed to simply basing budgeting decisions on a previous year's funding level. Zero-based budgeting is often encouraged by fiscal watchdog groups as a way to ensure against unnecessary spending.

1.3.3 Activity Based Budgeting (ABB)

This budgeting method entails costing activities under each Ministry or Department. However, each Ministry is given a ceiling so that only prioritised activities are included in the budget estimates.

1.3.4 Performance Based Budgeting (PBB)

Modern budget practices today are based on the performance of an organization. In both public and private institutions, the current focus is that performance is the key. Performance budgeting is often referred to as program based budgeting, output based budgeting, or results based budgeting. Whatever the title, the overall objective is to ascertain whether the desired objectives are being achieved.

Detailed information on program based budgeting (PBB) has been provided in the subsequent chapters.

1.3.5 Accrual Based Budgeting

Under this method, transactions are recognized as the underlying economic events occur, regardless of the timing of the related cash receipts and payments. Revenues are recognized when income is earned, and expenses are recognized when liabilities are incurred or resources consumed. This contrasts with the cash accounting basis under which revenues and expenditures are recognized only when cash is received and paid respectively. Accrual accounting, therefore, provides a broader measure of the burden of government financial commitments than cash accounting does.

1.3.6 Cash Based Budgeting

This method is based on the principle that cash is released to MDAs to finance budgeted activities based on the approved budget. The executive arm of Government, through the Ministry of Finance, disburses funds based on submitted cash flows from MDAs. In cases where government expenditure is more than its inflows, money is borrowed from the central bank to finance programs and projects. The domestic borrowing levels are closely monitored to ensure that there is a stable financial market. Foreign borrowing is also done to finance specific projects and activities

1.4 Gender Responsive Budgeting (GRB)

Gender Responsive Budgeting (GRB) is an approach designed to mainstream the gender dimension into all stages of the budget cycle. It is therefore, the analysis of the impact of any form of public expenditure or method of raising revenues on women and girls as compared to men and boys. It can also take into account other categories of inequality such as age, religious or ethnic affiliation, or the place of residence (urban/rural, different provinces), which can then be incorporated into gender responsive analyses.

1.5 Structure of National Budgets

The budget structurally has two sides: revenue and expenditure sides. The budget outlines the different sources of financing on the one hand and the estimates of expenditure, on the other. In ideal circumstances, the two are supposed to balance in that all expenditure is supposed to be financed by revenue in a particular financial year. However, in reality this is not the case. Governments run on deficit or surplus budgets. A budget deficit occurs when government spending exceeds its revenue. Conversely, a budget surplus occurs when government revenue exceeds its expenditure.

1.5.1 Government Revenue

In order to finance the recurrent and development expenditures, the government generates revenue from a wide variety of sources. The five main sources of government revenue are:

1. Taxes on income and profits of companies and individuals. For individuals, the taxes include Pay as You Earn (P.A.Y.E), Withholding Tax and Fringe Benefits Tax.

2. Taxes on goods and services that are bought. Such taxes include:

   i) Domestic surtax: charged at the retail level.

   ii) Excise duties

   iii) International trade taxes, notably import duties, import surtax, excise duties and miscellaneous duties

3. Non-tax Revenue: notably rent for properties let out by government, departmental receipts, levies, parastatal dividends, treasury fund receipts, licenses, business and professional fees, stamp duties, etc

4. Grants or donations from foreign governments and international financial institutions

5. Loans from local and foreign institutions

1.5.2 Government Expenditure

The expenditure side is broken into two categories: recurrent and development budgets. Recurrent expenditure comprises the costs of running the services of the government such as salaries. The recurrent budget is further divided into other recurrent transactions (ORT) and personal emoluments (PE). ORT budget is meant for paying for goods and services such as pensions and gratuities, servicing public debt, goods and services, subsidies, transfers, compensations, utilities, etc and PE is the budget for salaries and wages.

Development Expenditure, on the other hand, refers to the cost of implementing projects such as constructing new roads, bridges and hospitals. Development budget is further categorised into two: domestic financed projects (sometimes referred to as Part 2 budget or expenditure) and foreign financed projects (sometimes referred to as Part 1 budget or expenditure).

Public expenditures are also classified into two: functional classification and economic classification. Functional classification refers to the categorization of expenditures by institution while economic classification refers to the categorization of expenditures according to the type of activity. This classification is guided by the Government Financial Statistics (GFS) which aims at standardized capturing of data in all countries.

The Table 1 below shows the broader categories in the structure of the Malawi government budget for the financial years 2016-17, 2017-18 and the two outward years.

Table 1: Summary of National Budget Framework

Category	2016/17 Approved Estimates	2016/17 Revised Estimates	2017/18 Approved Estimates	2018/19 Projection	2019/20 Projection
Revenue and Grants	978,017	984,065	1,127,743	1,269,667	1,439,818
Revenue	783,291	840,463	980,157	1,122,082	1,292,233
Tax revenue	708,837	754,909	900,714	1,034,694	1,196,107
Non-tax revenue	74,454	85,554	79,444	87,388	96,127
Departmental receipts	20,054	22,930	25,233	27,756	30,532
Receipts from PIL for NRA	22,660	22,622	26,229	28,852	31,737
Parastatal dividends	26,240	27,863	20,649	22,714	24,985
Storage Levy	1,375	1,595	1,851	2,036	2,240
Road Tax	4,125	4,733	5,482	6,031	6,634
Grants	194,726	143,602	147,586	147,586	147,586
Program	13,583	7,500	55,752	55,752	55,752
Dedicated grants	53,822	43,544	32,539	32,539	32,539
Project Grants	127,321	92,558	59,295	59,295	59,295
Total expenditure and Net Lending	1,149,211	1,137,465	1,323,313	1,413,701	1,521,891
Recurrent expenditure	823,279	884,091	966,318	1,054,181	1,028,626
Wages and salaries	272,269	264,889	309,576	334,342	364,568
Interest on debt	143,519	197,078	177,319	178,707	180,233
Foreign	11,408	14,175	13,880	15,268	16,795
Domestic	132,111	182,903	163,439	163,439	163,439
Goods, services and transfers	239,866	252,244	278,965	327,345	258,155
Generic goods and services	93,441	116,156	128,246	110,216	107,354
Storage Levy	1,375	1,595	1,851	2,036	2,240
Roads Maintenance	19,160	22,622	16,229	21,737	21,737
Other Statutory Expenditures	5,417	5,417	2,000	5,500	5,500
Agriculture Sector	3,961	3,923	4,984	5,237	5,373

Health Sector	35,025	35,397	36,635	77,118	41,042
Education Sector	22,686	23,945	25,255	47,669	23,520
Elections	1,500	887	10,850	10,133	10,639
PFEM	8,995	-	7,007	-	-
NAC	12,807	12,807	7,669	1,700	1,750
of which NAC grants	*11,307*	*11,307*	*6,169*	-	-
Winter Cropping (Irrigation)	6,000	-	-	4,000	4,000
Maize Purchases	29,500	29,500	35,000	35,000	35,000
Housing and Population Census	-	-	3,240	-	-
Subsidies and Transfers	162,625	166,882	196,459	203,787	215,670
Pensions and Gratuities	50,155	52,247	68,601	72,404	76,435
Transfer to Revenue Authorities	20,631	22,647	27,021	31,041	35,883
FISP	33,150	33,000	33,150	33,150	33,150
Transfer to public entities	48,340	50,140	57,326	60,192	63,202
Iron Sheet Subsidy	7,000	5,500	7,000	7,000	7,000
WB reconstruction (PIU &DODMA)	3,349	3,349	3,360	-	-
Legume Purchases		1,789	-	-	-
Arrears (Small scale)	5,000	3,000	4,000	10,000	10,000
Development expenditure	322,472	249,913	352,995	354,520	488,265
Domestically financed projects (Part II)	38,581	32,084	134,856	166,902	290,443
Foreign financed projects (Part I)	283,891	217,829	218,139	187,618	197,821
Net Lending	3,460	3,460	4,000	5,000	5,000
Overall balance	(171,194)	(153,400)	(195,570)	(144,034)	(82,072)
Total financing	171,195	153,400	195,570	144,034	82,072
Foreign (net)	111,194	76,602	167,761	90,132	90,132
Borrowing	136,715	105,123	196,282	111,127	111,127
Program Loans	23,731	31,937	71,290	11,290	11,290

NAC	7,538	8,092	-	-	-
World Bank	16,193	16,193	60,000	-	-
Malawi Floods (Disaster) - WB	-	-	6,450	6,450	6,450
Agriculture	-	7,653	4,840	4,840	4,840
Project Loans	112,985	73,186	124,992	99,837	99,837
Amortisation	(25,521)	(28,521)	(28,521)	(20,995)	(20,995)
Domestic Borrowing (Net)	60,000	65,473	27,809	53,902	(8,060)
Domestic Borrowing	92,110	108,909	78,842	53,902	(37,789)
Amortisation (Promissory Notes)	(32,111)	(32,111)	(51,033)		

1.5.3 Budget Deficit

Budget deficit occurs when expenditure exceeds revenue. In such cases, Government finances its expenditure in three main ways:

1. **Issue of new currency** – The government can finance a deficit by selling securities to the central bank, which prints currency for the purchase. This increases the money supply, and tends to cause inflation.

2. **Domestic borrowing** – The government can borrow from banks or the general public, usually by selling them new government securities (like treasury bills and bonds). This will not increase the money supply, but it reduces the amount of money available for borrowing by the private sector and hence if not controlled crowds out private investment. The more the government's demand for such borrowing, the higher interest rates will tend to rise.

1. **Borrowing from abroad** - Budget deficits can also be financed by borrowing from abroad. This will not crowd out private investment. But large, unwise borrowing can lead to a debt trap.

4. **Grants from external sources** – In the face of shortfalls in domestic revenue and limited borrowing capacity, governments also obtain grants or donations from other governments and international agencies.

CHAPTER 2: BUDGET LEGAL FRAMEWORK

2.1 Legal Framework

The budget requires more than just technical expertise to put together; it also has to follow certain prescribed procedures and processes. The legal framework is largely responsible for outlining the political process that the budget needs to follow, defining who are the key actors and their roles and responsibilities. It also spells out what should be the format and content of various budget documents.

There are many laws and regulations in Malawi that govern national budget design, approval, implementation and evaluation processes. The major laws are the Constitution of the Republic of Malawi, Public Finance Management Act (PFMA), 2003; Public Audit Act, 2003; and the Procurement Act, 2003.

2.1.1 Constitution of the Republic of Malawi

The supreme law in Malawi that governs the national budget is the Constitution of the Republic of Malawi, which contains various provisions in Chapter XVIII. Sections 171 to 183 of the Constitution include some of the following issues: Revenues, consolidated fund, withdrawal of money from the consolidated fund, expenditure charged on the consolidated fund, annual estimates, appropriation bills, supplementary appropriations, raising of loans by the Government, development fund and protected expenditure. Specifically, section 178 states that no public money shall be expended unless the expenditure has been authorized by an Appropriation Act. This necessitates the presentation of the budget to Parliament by the Minister of Finance.

2.1.2 Public Finance Management Act, 2003

The Public Finance Management Act 2003 aims at fostering and enhancing effective and responsible financial management by Government. This is achieved by ensuring adherence to policy objectives, requiring government to produce statements of proposed budget policy and adhere to fiscal discipline.

Some of the issues contained in the PFMA, 2003 are as follows:

- Responsibility for financial management
- Economic, fiscal and financial policy;
- Parliamentary appropriation and the budget;
- Public money and the consolidated Fund;
- Trust money and unclaimed money;
- Borrowing, loans and guarantees;
- Statutory bodies;

- Financial reporting;
- Offences and discipline; and
- Miscellaneous provisions

2.1.3 Public Audit Act, 2003

The Act ensures that at all times Government documents, books, accounts, public funds, public securities, contracts are subject to audit.

Some of the issues contained in the Public Audit Act, 2003 are as follows:

- Appointment, powers and duties of the Auditor General;
- Conduct of audits;
- Audit procedures;
- Purposes, objectives and functions of the Public Accounts Committee (PAC);
- Evidence before PAC;
- Reports of PAC; and
- External audits.

2.1.4 Public Procurement Act, 2003

The Public Procurement Act, 2003 provide for the principles and procedures to be applied in, and to regulate, the public procurement/buying of goods, works and services.

Some of the issues contained in the Public Procurement Act, 2003 are as follows:

- Establishment of the Office of the Director of Public Procurement;
- Procurement Committees and Specialised Procurement Units;
- Methods of procurement and their conditions for use;
- Main principles and procedures for methods of procurement;
- Procurement audit; and
- Miscellaneous provisions.

2.1.5 Treasury Instructions, 2013

Treasury Instructions are issued pursuant to Section 92 of the Public Finance Management Act, 2003. Under this Section, the Secretary to the Treasury is authorized to issue instructions to Ministries, Departments and Agencies (MDAs) setting out procedures and requirements which would bring about better control and management of public money and public resources.

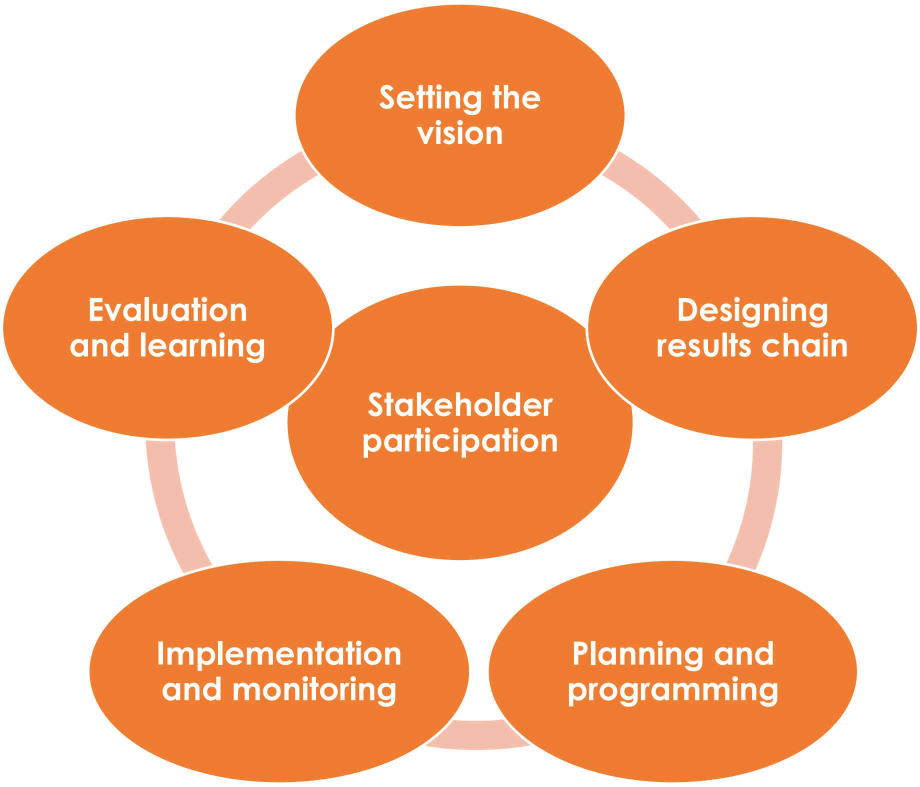
CHAPTER 3: RESULTS BASED MANAGEMENT

3.1 What is Results Based Management?

Results Based Management (RBM) is a management strategy by which a Ministry, Department, Agency (MDA) ensures that its processes, products and services contribute to the achievement of desired results. It rests on a life-cycle approach where 'results' are central to planning, implementation, monitoring and evaluation, reporting and decision-making (see Figure 1).

Public service managers are expected to define strategic outcomes, identify and manage risks, continually focus attention on achieving results, measure performance regularly and objectively, learn from this information and adjust to improve efficiency, equity and effectiveness.

Figure 1: The RBM life-cycle approach



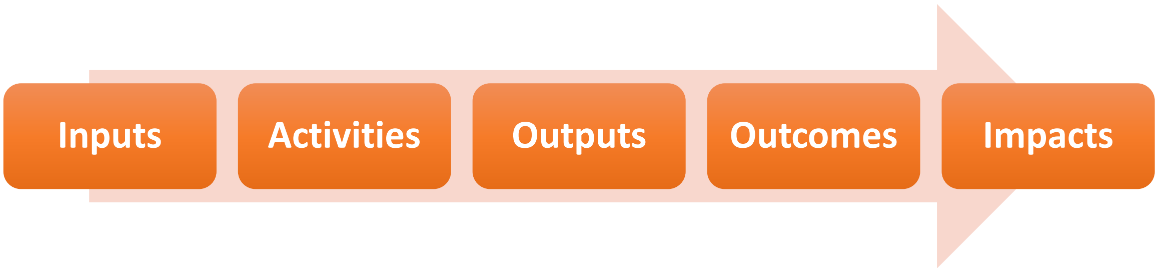
A focus on results entails looking at the desired change - outcome or impact - after the completion of a project or programme.

RBM focuses on the goals the organisation would like to achieve as well as further integrating lessons learned into the management process to inform decision making and future performance.

3.2 The Results Chain (Program Logic Model)

Programs and policies can be designed with the use of a results chain. All the components in the results chain are connected by "if-then" relationships: if the program has the necessary inputs, then certain activities can be implemented, if activities are implemented successfully, then certain results – outputs, outcomes and impacts - are expected to occur. Results should represent the change caused through the causal relationship between inputs, activities and their outputs, and outcomes and impact. An illustration is provided in the Figure 2 below:

Figure 2: Results Chain (Program Logic Model)



- **Inputs**: all the resources that contribute to the production and delivery of outputs. Inputs include finances, personnel, equipment and buildings. Inputs are "what we use to do the work".

- **Activities**: the processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. Activities describe "what we do".

- **Outputs**: the final products, or goods and services produced. Outputs may be defined as "what we produce or deliver".

- **Outcomes**: the intended or achieved short-term and medium-term effects of an intervention's outputs. These are changes in institutional performance or behaviour among individuals or groups triggered by the outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we intend to achieve".

- **Impacts**: the overall and long-term effect of achieving specific outcomes. They express the ultimate improvement or changes in people's lives, such as reducing poverty.

Activities should not be confused with outputs. They are work processes performed to produce outputs.

For example, in primary education school enrolment by girls and boys is an output. Classroom construction, house construction, school feeding, and school transportation are activities because they are a mix of components of the teaching service.

Outputs are usually under the control of the program while outcomes and impacts are often under the influence of factors external to the program. The development of a results chain provides an opportunity to identify outcomes in the logic model that are beyond the direct influence or control of the policy or program, but to which the policy or program contributes.

There is no specific number of levels of outcomes that need to be included. While many logic models show three (immediate, long-term outcomes and impact), some may only have two, while others may have just one. The determining factor is whether the logic model appropriately depicts the sequence of events resulting from the activities and outputs.

The output of logic model development process is a one-page visual picture. While the narrative part of policy or program is included in the document itself, the logical model is a useful stand-alone picture that Ministry and department managers can use to explain the necessary context and rationale of their program or policy to the beneficiaries and public.

Much of the work required to complete a results chain must be carried out during the development of planning documents such as Sector Strategic Plans or Ministry Strategic Plans.

3.3. Measuring Performance

3.3.1 Introduction

Performance information is used to make decisions on policy interventions and resource allocation. Such information is produced with the help of performance indicators. All planning documents – Medium Term National Development Strategy (currently Malawi Growth and Development Strategy), Sector Strategic Plans, Ministry Strategic Plans, Program Based Budgets (PBBs) and Performance Contracts (PCs) - must have performance indicators. Performance indicators should reflect results that are useful for:

> A **Performance indicator** is a means by which the achievement of objectives or outcomes and outputs can be judged.

- **Program managers and program staff** to see if resources are used efficiently and the activity mix leads to desired results;
- **Government** to show if the public expenditure is improving the quality of life and services; and
- A **Wider audience** to show if the quality of life and services is improving.

3.3.2 Types of Performance Indicators

Suitable indicators need to be specified to measure performance in relation to:

- inputs;
- activities;

- outputs;
- outcomes; and
- impacts

The challenge is to specify indicators that measure things that are useful from a management and accountability perspective. This means managers need to be selective when defining indicators.

Most policies and programs have two types of performance indicators, **outcome performance indicators and output performance indicators;** these ensure accountability and delivery. For internal efficiency, delivery and control, program managers and staff develop activity and input performance indicators. Activity and input performance indicators are specified in annual planning documents and these should reflect balanced resource use.

In measuring performance of policies and programs, it is important to look at different dimensions of policy: quality, quantity, efficiency and equity. It is thus recommended to develop performance indicators showing these dimensions interventions. They are explained in Table 2 below.

Table 2: Policy Dimensions Reflected by Performance Indicators

• Number of farmers supported by FISP (female vs. male headed households) • Number of classrooms built • Percentage of children vaccinated	• Percentage of clients satisfied with the service • Average waiting time for disease treatment • Percentage of requests processed in time
QUANTITY – volume of services provided	**QUALITY** of service - client satisfaction, time
EQUITY – gender, urban/ rural, etc.	**EFFICIENCY** – cost per unit of output
• School enrolment rate of girls • Poverty rate in rural/ urban areas • Access to drinking water in rural areas	• Cost per vaccination • Average time taken to process visa application (executive vs. ordinary visa) • Cost / litre of water delivered to household

For some policies or programs, it will be possible to develop performance indicators to reflect all four dimensions while for the others only some dimensions will be relevant. When developing performance indicators, it is important to think of which dimensions are relevant and should be measured.

3.3.3 Performance Targets

When a set of key indicators has been defined for a policy, program or project, the next step is to specify what level of performance the institution will strive to achieve. This involves specifying suitable performance targets relative to current baselines. **Performance targets** express a specific level of performance that the institution, programme or individual is aiming to achieve within a given time period.

A baseline is the starting point used for comparison just before or at the outset of a new program, project or operation against which progress is measured as part of M&E. Care should be taken to ensure that baseline targets accommodate relevant gender groups at the earliest stage (at performance indicator specification stage) to avoid problems in tracking whether equitable achievements have been attained at a later stage.

> **No Baseline** = No performance measurement = Poor monitoring. If you can't find data for the baseline, use a different indicator.
>
> If you cannot agree on targets/milestones, redesign the specific component.

> **Performance standards** express the minimum acceptable level of performance, or the level of performance that is generally expected.

The first step in setting performance targets is to identify the baseline. In most instances, it is the level of performance recorded in the previous year. Once the baseline is established, the next step is to define the target. It is usually set taking into account priorities, past performance and resources available. Targets can also be set using **performance standards**. Often standards and targets are complementary.

> *For example, the standard for processing passport application is 22 working days, and a target may be to process 95 per cent of applications within this time.*

Standards are informed by legislative requirements or they can be benchmarked against performance levels in other institutions, or according to accepted best practices.

When selecting performance indicators MDAs should use "SMART" criteria:

- **Specific:** the nature and the required level of performance can be clearly identified;
- **Measurable**: the required performance can be measured;
- **Achievable:** the target is realistic given existing capacity;
- **Relevant**: the required performance is linked to the achievement of a goal; and
- **Time-bound**: the time period or deadline for delivery is specified.

The MDA should specify in its planning documents a set of performance indicators and targets it will report against. The set of indicators selected for reporting should provide a holistic view of the institution's performance.

Since often policies, programs or projects contain different elements (objectives, outcomes, outputs, performance indicators and targets), they should not be confused. An example of the elements of policies, programs or projects is illustrated in Table 2.

Table 3: Examples of Program or Policy Elements

Program or Policy Element	Example
Objective **is a statement of what one is trying to achieve**	Increase household income in rural areas
Outcome **is the actual or intended change in development conditions that interventions seek to support.**	Increased household incomes in rural areas
Outcome performance indicator **shows the measurable achievement of the outcome**	% of annual growth on Household income in rural areas from agricultural activity
Outcome performance indicator target **is the expected level of performance attached to the indicator**	5% annual growth of household income in rural areas from agricultural activity
Output **are goods and services delivered**	Support to farmers in rural areas provided
Output performance indicator **is the measurable achievement of the output**	No. of farmers benefiting from the agriculture diversification scheme
Output performance indicator target **is an expected level of performance attached to the indicator**	5000 farmers benefiting from agriculture diversification scheme in 2015[1]

3.3.4 Monitoring and Evaluation Plan

Once a policy, program or project has been prepared, it is necessary to prepare a Monitoring and Evaluation Plan. The M&E Plan is annexed to the policy document. It will ensure that performance information is collected on a regular basis and that it allows for real-time, evidence-based decision-making. The M&E plan incorporates key elements such as indicators, targets, and baselines. In addition, it provides information on frequency and responsibility as well as methods used for data collection. With regard to methods for data collection, the provision of gender disaggregated data should not be over-looked to ensure that progress on distributing benefits more equitably is well tracked. Frequency refers to the period that the M&E will cover: e.g. once or twice a year, midterm and/or end of cycle.

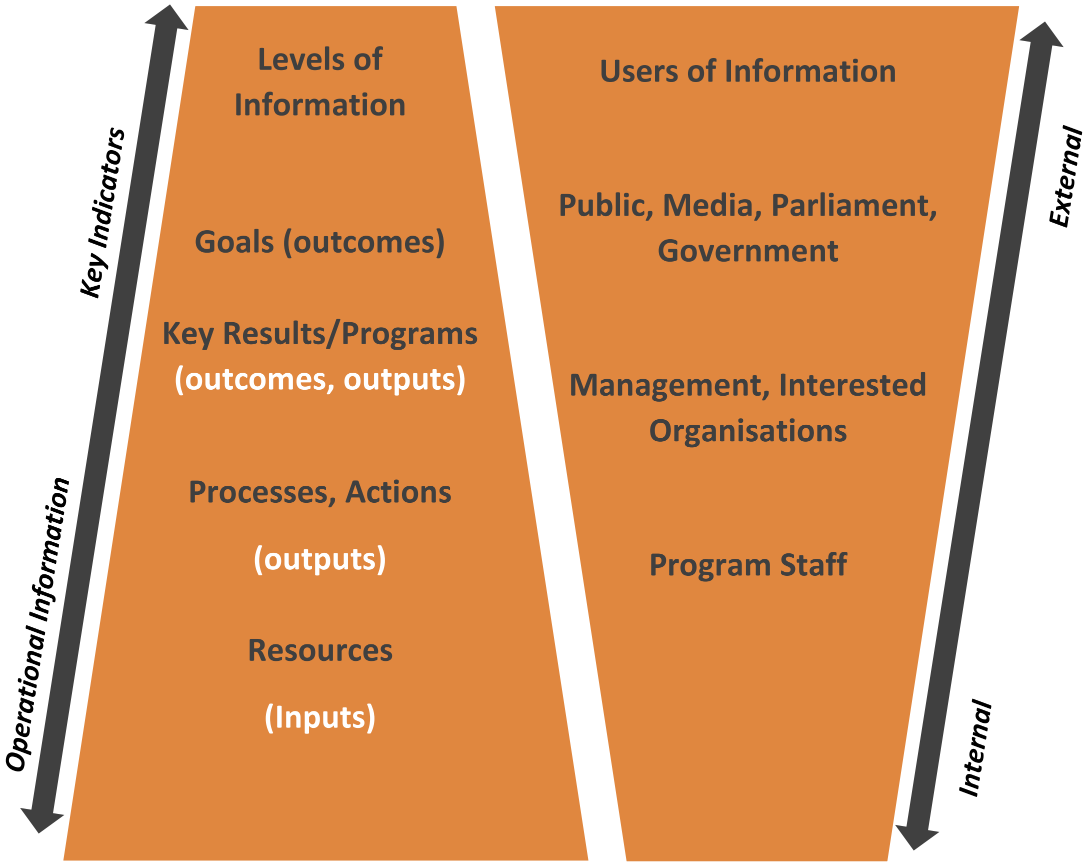
[1] 5000 farmers benefiting from agriculture diversification scheme in 2015 (3,200 male farmers; 1,800 female farmers) 2,500 youths supported enrolled in youth farmers grant (1,400 male youths, 800 female youths; 300 youths with special needs

Finally, responsibility refers to the person or entity (unit or organization) responsible for collecting the information. The M&E plan template is provided in Annex 1.

3.4. Use of Performance Information

A crucial stage in RBM is the use of performance information by politicians, senior managers and program staff in decision-making, implementation, policy design and the budget preparation processes. Information on how MDAs are performing ultimately helps management identify results. This information is often used by others, such as the public, the media and other interested organisations. It is therefore important that this information is displayed in a "user friendly" way. The needs of information users must be respected to ensure effective use of information. The higher the level of management the more aggregate and concise information should be. Figure 4 illustrates the users of information and their needs.

Figure 4: The Users of Information and Their Needs



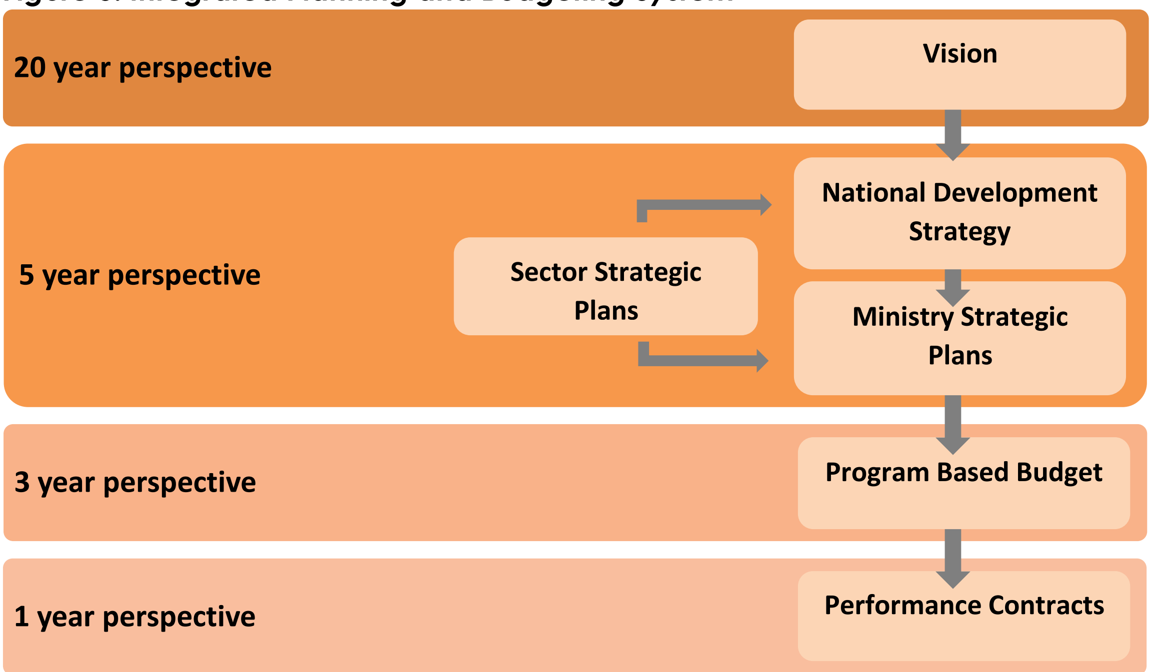
CHAPTER 4: INTEGRATED PLANNING AND BUDGETING SYSTEM

The national agenda can be successfully achieved if national priorities are backed by realistic budgets. Policy planning and budget preparation are not isolated processes, they have to inform each other. An integrated planning and budgeting process is the key national decision-making system for determining strategic direction and the equitable allocation of resources. The aim is to provide a broad planning framework within which the Government's core policy and financial planning processes are able to function in a coherent, efficient and integrated manner.

In Malawi, policy planning and budgeting is shaped by different policy and budget documents. The main documents will be briefly discussed in the sub-sections below; National Vision; Medium Term National Development Strategy (NDS); Sector Strategic Plans (SSPs); Ministry Strategic Plans (MSPs); Program Based Budgets (PBBs); and Performance Contracts (PCs).

Short and mid-term policy and budget planning processes are informed by the longer-term policy framework allowing implementation of the long-term vision and priorities through realistic budgets (see Figure 5 below). Policy and budget planning in the medium term is also informed by the Medium Term Expenditure Framework (MTEF) described in Chapter IV.

Figure 5: Integrated Planning and Budgeting System



4.1 National Vision

4.1.1 Contents

National Vision is a document that sets the long-term development perspective for the country. It emphasizes long-term strategic thinking, shared vision and visionary leadership, all-inclusive participation of the population, strategic management and national learning. It outlines key challenges and strategic objectives for the country for a period of 20 years.

4.1.2 Preparation

National Vision is prepared in consultation with the Government, civil society organizations, NGOs, academia and other important stakeholders. The fundamentals of the NDS must be based on the shared Malawi Vision. The MoFEPD mobilizes the key stakeholders in the Government, non-governmental and private sectors to agree on the vision for the country. The National Planning Commission is expected to champion formulation of the new Malawi's vision. Discussions and consultations with society is a key preparation strategy for the National Vision.

4.1.3 Monitoring and Reporting

Implementation of National Vision is monitored by the MoFEPD and in the final year of the NDS, they prepare a statement on the progress on the vision. It must be short and concise and report on the progress made in addressing strategic challenges and meeting vision aspirations. This report has to inform the formulation of the successor national development strategy. The statement is included as part of the NDS review process, presented and discussed by the Malawi Government and made available to society in all forms as per their respective needs

4.2 Medium Term National Development Strategy

4.2.1 Contents

NDS is a five-year country growth policy framework which guides preparation of Ministry Strategic Plans (MSPs), Program Based Budgets and Performance Contracts. NDS has the following structure:

1. Introduction
2. Key Priority Area, themes, objectives, implementation strategies to achieve these objectives, medium-term outcomes, outcome performance indicators with mid and final year targets
3. Monitoring and Evaluation provisions
4. Budget estimates for Key Priority Areas based on sector costing (including budget and off-budget resources)
5. Annexes: NDS Monitoring and Evaluation Plan, Sector Classification.

NDS covers sectors and policies that are critical to the achievement of growth and development in an equitable and sustainable manner. The approach sets the direction for national growth and development and establishes the key milestones for achieving it in the five-year period. Currently, Government has developed the third Malawi Growth and Development Strategy (MGDS III).

4.2.2 Preparation

Currently, the NDS is coordinated by the MoFEPD. Preparation of NDS starts with an analysis of past experiences implementing Malawi Vision, previous NDS, Sector Strategic Plans (SSP) and other policy documents. Malawi Cabinet holds a strategic discussion to decide on Key Priority Areas based on the discussion material produced by MoFEPD and consultations with key stakeholders.
Based on Key Priority Areas approved by the Cabinet, responsible sectors produce profiles containing:

1. A situation analysis of respective sector
2. Objectives and key implementation strategies/ arrangements
3. Key outcome performance indicators with mid and final year targets
4. Sector costing (including budget and off-budget resources)

MoFEPD analyses and aggregates information from sector inputs (sector profiles) and prepares the draft of the NDS. NDS structure is provided in Annex 2.
Each successor NDS strategy is prepared and approved six months before the expiration of the current NDS.

4.2.3 Monitoring and Reporting

Implementation of NDS is monitored by the MoFEPD. NDS reporting and monitoring is done annually to determine the progress against objectives and performance indicators. The MoFEPD prepares an NDS Annual Review Report based on annual sector reviews and other ministry inputs, if needed. The Report must be prepared within three months from the beginning of the fiscal year.
The NDS Annual Review Report must be concise and report on:

1. Progress against objectives, implementation strategies, outcome performance indicators. Progress should be reported with evidence and a description of main achievements in undertaking implementation strategies. Reasons for non-achievement should be explained;
2. Key budgetary issues (budgets execution, effective use of resources);
3. Progress on development aid effectiveness indicators;
4. Challenges in implementing strategies and outcomes;
5. Recommendations for better delivery of key priority area; and
6. Overall conclusions and recommendations.

NDS Annual Review Report is presented and discussed by the Principal Secretaries, Malawi Cabinet and made available to Parliament and civil society. It informs strategic dialogue with development partners through the structures under the Development Cooperation Strategy. NDS Annual Review Report structure is provided in Annex 3.

4.2.4 Quality Assurance

The MoFEPD is responsible for ensuring that the quality of sector inputs is in line with recommendations and requirements. It has to ensure that NDS objectives are clear and performance indicators are SMART. The MoFEPD should have realistic macro projections backing the medium term NDS and must ensure that sectors formulate their budgets based on realistic medium-term forecasts. It also has to ensure that the total annual budgets for NDS and MTEF are aligned.

4.3 Sector Strategic Plans

4.3.1 Contents

Sector Strategic Plans are five-year documents prepared for the implementation of NDS and to foster sector **equitable** growth and **sustainable** development in a coordinated way. They are sector specific documents and each sector may take a tailored approach to the structure of the document. However, each Sector Strategic Plan must contain:

1. Situation analysis
2. Objectives and key implementation strategies
3. Outcome and output performance indicators (including baseline and final-year targets)
4. Sector costing (including budget and off-budget resources).
5. To implement SSP, sectors must prepare an Annual Work Plan.

4.3.2 Preparation

The SSP is prepared by a Sector Working Group (SWG), which is comprised of relevant ministry officials, development partners and other actors in development such as private foundations and major international NGOs, as well as relevant domestic stakeholders from civil society and private sector. SSPs are inputs in NDS preparation and are finalized once the NDS is approved, or aligned with it in case the SSP is already in place. SSPs inform preparation of Ministry Strategic Plans. Preparation of SSPs is facilitated by the SWGs Secretariat subject to guidance from the MoFEPD.

4.3.3 Monitoring and Reporting

Implementation of SSPs is monitored through the SWGs and reported annually (semi-annually in some cases). Each sector must prepare a Joint Sector Review Report, which is submitted to the MoFEPD. This report is also made available to the wider public. Based on Joint Sector Review Reports the MoFEPD prepares the NDS Annual Review Report.

Detailed Guidelines for the preparation, structure of SSPs, their monitoring and reporting approaches and templates are available in Sector Planning and Management Guidelines issued and revised by the MoFEPD.

4.3.4 Quality Assurance

MoFEPD ensures that the quality of SSPs is in line with requirements. It has to ensure that objectives are clear, performance indicators are SMART and that sectors adhere to the minimum requirements for the format and contents. The MoFEPD issues an indicative calendar for joint sector reviews to ensure that sector reports are produced on time for the annual NDS review. MoFEPD should have realistic macro projections backing the medium term NDS and ensure that sectors estimate their sector costs based on realistic forecasts in line with MTEF. MoFEPD provides all necessary support to the sectors in the preparation of SSPs.

4.4 Ministry Strategic Plans

4.4.1 Contents

Ministry Strategic Plans (MSPs) are five-year documents prepared by all MDAs for the implementation of the NDS and SSPs as well as to fulfill the mandates of MDAs. Strategic plans must be aligned with NDS. They should be either developed for the NDS time frame or updated once a successor NDS is in place.

MSPs set mandate, mission, vision and strategic objectives, core outcomes, outcome performance indicators and final year targets, outputs to achieve outcomes and their performance indicators and targets for 3 years to correspond to the MTEF. Output performance indicator targets will be reviewed each year as part of the program based budgeting process.

The number of core outcomes should not be more than 6 and the number of outputs per outcome should not exceed 10. The objectives and core outcomes must be fully aligned with programs in the Program Based Budget.

4.4.2 Preparation

Preparation of MSPs is coordinated by the Department of Human Resource Management and Development (DHRMD). However, MDAs are required to consult MoFEPD to ensure that these plans are aligned to the NDS. In addition, a gender audit is to be included to check if gender specific issues are addressed. MSPs must be prepared or updated within 3 months after NDS is approved. MDAs that do not have a strategic plan for the current NDS should prepare it as a matter of priority. Timely preparation and quality of the Ministry Strategic Plan (MSP) is very important because it is the basis for the preparation of PBB and PCs.

The key element of a MSP is outcome and output performance indicators and their targets. This element is reviewed annually as part of the PBB and PC preparation process. The changes to performance indicators and their targets, if any, must be reflected back into the MSPs once the Budget is approved by Parliament. As MSPs inform the PBB and PC preparation process, all outcome and output indicators and targets for relevant years must be aligned between all three documents.

If a new MDA is established or mandates between MDAs are reallocated, a new MSP must be prepared or revised within three months. Detailed Guidelines for the preparation and structure of ministry strategic plans are available in the Integrated Strategic Planning Handbook

4.4.3 Monitoring and Reporting

Implementation of MSPs is monitored through quarterly and annual PC reports. The PC reporting process is described under section 2.6 below.

4.4.4 Quality Assurance

DHRMD and MoFEPD must ensure that the quality of MSPs is in line with requirements and NDS, by looking at the following:

1. plans are in line with NDS and relevant sector plans;
2. strategic objectives are clear and reflect MDA mandate,
3. core result areas or key priority areas are clear and reflect MDA mandate;
4. performance indicators are SMART

The quality of MSPs is very important for the reason that their key element is "carried over" to the other main documents – PBB and PCs. MoFEPD and DHRMD has to play a proactive role in urging the preparation of MSPs in time and in good quality.

4.5 Program Based Budget

4.5.1 Contents

PBB is a complement to the Medium-Term Expenditure Framework which is a three-year rolling document prepared annually. It contains mission, strategic objectives, major achievements, challenges, programs including outcome and output performance indicators and targets and 3-year expenditure projections. Expenditure projections and performance targets are set taking into account the MTEF.

4.5.2 Preparation

PBB is prepared after MDAs receive indicative MTEF ceilings. PBB is submitted to the MoFEPD to be scrutinized and analyzed and discussed during budget hearings. The deadlines for the preparation and submission of PBB must be in line with the issued budget guidelines

4.5.3 Monitoring and Reporting

PBB is monitored through quarterly budget performance reports.

4.5.4 Quality Assurance

To a large extent the quality assurance of PBB is done during the preparation of MSPs. During budget hearings, the MoFEPD is in charge of assessing whether:

1. Strategic objectives and budget programs reflect the core result areas of MDA;
2. Performance indicators and targets are achievable/ ambitious in relation to planned budget, priorities and past performance;
3. Outcome and output performance indicators are aligned across documents (Ministry Strategic Plans); and
4. Resource reallocation is needed to implement priorities.

Budget hearings are conducted by MoFEPD and the Performance Enforcement Department (PED) of the OPC should be involved.

4.6 Performance Contracts

4.6.1 Contents

Performance contracts (PC) are one-year contracts signed between the Controlling Officer of an MDA (implementing entity) and the Chief Secretary to the Government who signs on behalf of Government. PC processes aim to drive improved organizational performance and delivery. PC contains mandate, vision, mission, strategic objectives, outcomes and outputs, performance indicators and targets. The mandate, vision, mission and strategic objectives are aligned with MSPs. The objectives and core outcomes are also fully aligned with programs in PBB.

Performance indicators in the PC are categorized into five areas, namely: Finance and Stewardship, Service Delivery, Non-Financial, Operations, Dynamic/Qualitative and Corruption Eradication. Outcome and output targets are no longer presented separately for capital and recurrent budgets. Both capital and recurrent expenditure aim for the same objectives and should not be separated.

4.6.2 Preparation

PCs are prepared by MDAs and coordinated by the PED of the OPC. PCs are finalised after the Budget has been approved by Parliament and after account targets set in PBBs have been taken into account.

4.6.3 Quality Assurance

To a large extent the quality of PCs in terms of outcome and output indicators and their targets is achieved during preparation of MSPs and PBBs during Budget Hearings. The Independent Evaluators are supported by a Technical Committee to ensure the final quality of PCs before signing the agreements. The Independent Evaluators comprise of academics, former principal secretaries, retired senior civil servants and chief executives, hence bringing in a sense of independence and credibility to the evaluation. The independent evaluators are supported by ex-officio members from Government which constitute a Technical Committee.

The technical committee comprises members from the Department of Human Resource Management and Development (DHRMD), Ministry of Local Government and Rural Development (MoLGRD), Ministry of Finance, Economic Planning and Development (MoFEPD), Office of the President and Cabinet (OPC), Office of the Vice President (OVP). The Secretariat is provided by PED.

The focus of the quality assurance is to check if annual and quarterly targets are in line with PBBs and if MDAs have complied with budget appropriations. Additionally, quality assurance needs to ensure that the gender mainstreaming aspects in the performance contract are clearly audited and monitored.
OPC, through the Independent Evaluators, assesses the overall quality of PCs. Based on this assessment, MDAs are ranked in terms of their overall performance and recommendations for better delivery are formulated.

4.6.4 Monitoring and Reporting

Performance Contracts are monitored and reported for on a quarterly and annual basis. Each MDA must prepare a quarterly report and submit it to the OPC to be evaluated by Independent Evaluators.

4.7 Use of Performance Indicators across Documents

In RBM and PBB terms, the key elements are results and budget. The integrated policy and budget planning system aims to ensure consistency in the use of performance indicators and targets across different levels of documents. Scarce budgets cannot fund implementation of fragmented agendas and unrelated results. Performance indicators must be integral across NDS, Sector Strategic Plans, Ministry Strategic Plans, PBBs and PCs to guide the selection and prioritization of activities. Unplanned activities can be funded if they are more efficient and effective than planned and can be substituted to achieve the same or better results. Targets must be set taking into account NDS priorities and the MTEF.

For example, NDS performance indicators and targets inform the preparation of MSPs which in turn inform the preparation of PBBs. Later the targets in the NDS and MSPs are adjusted annually through three-year rolling PBBs taking into account a realistic budget and MTEF. PC preparation is informed by PBB.

To facilitate the integration of performance indicators across different documents, a unified template for planning and presenting of performance indicators and targets in MSP, PBB and PC will be used. It is provided in Annex 4.

4.7.1 Summary

The integrated planning and budgeting process is a top-down and bottom-up approach and has to ensure integration of:

1. Policy and budget planning. The budget preparation process is informed by medium-term policy priorities of the Government. Targets in plans and programs are set taking into account the Medium-Term Expenditure Framework which provides for a realistic budget and hence realistic policies.

2. Performance indicators and targets across documents. Outcome and output performance indicators and targets have to be aligned across different documents, especially in MSPs, PBBs and PCs. This ensures mobilizing scarce resources and efforts for better delivery of key results.

CHAPTER 5: PLANNING AND BUDGET CALENDAR

The Policy and Budget Calendar integrates major policy planning and budget preparation activities and sets the timeframes for their implementation and responsibilities. The Calendar includes a number of activities, which lead to the preparation and timely delivery of major outputs in the budgeting process:

1. Cabinet Budget Retreat
2. Preparation of Budget Policy Framework Paper
3. Preparation of budget ceilings (for capital and recurrent expenditure)
4. Preparation of PBBs
5. Preparation of Consolidated Budget
6. Preparation of PCs.

The Policy and Budget process is both a top-down and bottom-up approach. The top-down approach involves a strategic phase, preparation of the Budget Policy Framework Paper (BPFP) and budget ceilings. In contrast, the bottom-up approach consists of the preparation of PBBs, detailed budget estimates and draft budgets.

Top-Down Approach

The top-down policy and budget planning process starts with a strategic phase (the Cabinet budget retreat) where ministers discuss the macro-economic outlook, policy priorities and development of the following year's Budget. The MoFEPD are in responsible for preparing any necessary discussion papers for this Retreat. The annual PC report, sector reviews and NDS Review should serve as a starting point for discussion of policy priorities for the following year. The Cabinet budget retreat informs the preparation of the Budget Policy Framework Paper (BPFP) and MDA program reviews in terms of policy and budget priorities.

The MoFEPD prepare the Macroeconomic Framework and Medium Term Financial Framework. Based on these and MDA program reviews, the MoFEPD prepares the BPFP. It sets out the medium-term fiscal framework and indicative budget by key priority areas for a high-level discussion by Cabinet. Based on BPFP, the MoFEPD prepares a Budget Circular and indicative ceilings for the MDAs. The MDA resource ceilings are inclusive of both recurrent and capital expenditure. The Circular sets instructions for the MDAs to prepare PBBs and detailed budget estimates based on the NDS, sector priorities and indicative ceilings.

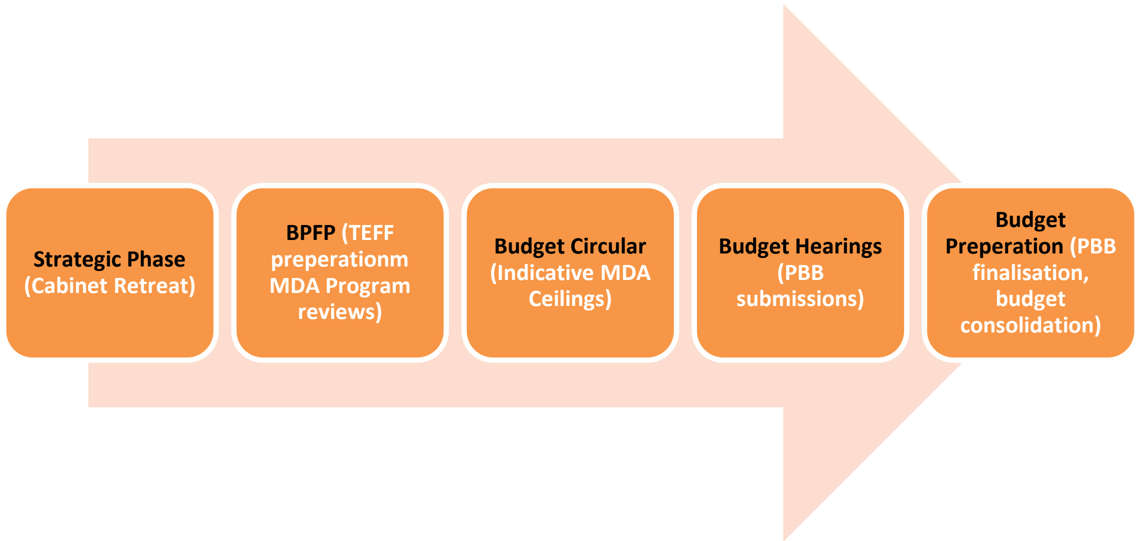
Bottom-Up Approach

The bottom-up approach starts with the MDAs reviewing their programs against their functions and priorities. They analyse past performance and expenditures and prepare their PBBs and detailed budget estimates in line with indicative ceilings. PBBs are submitted to the MoFEPD for Budget Hearings. Budget Hearings provide a chance for the MoFEPD to analyse MDAs Budgets, they are not a chance for MDAs to appeal for more resources. It is expected that final ceilings will reflect indicative ceilings, unless (i) more or less resources become available as per the most recent macroeconomic estimates, and/or (ii) due to a strategic decision to reallocate resources between Ministries or Programs. During Budget Hearings, the MDAs are given the opportunity to justify and defend their priorities and budget requests.

After Budget Hearings, MDAs review and finalize their PBBs. Final PBB drafts are submitted to MoFEPD for the preparation of a consolidated budget. The draft Budget is submitted to the National Assembly for approval.

The Policy and budget preparation calendar applies to both capital and recurrent budgets expenditure in one integrated formulation and approval process. The budget preparation process is explained in the Figure 7 below.

Figure 7: Budget preparation process



See Annex 5 for the Policy and Budget process. A more detailed Policy and Budget Calendar, key players and timeframes are presented in Budget Manual.

CHAPTER 6: MEDIUM TERM EXPENDITURE FRAMEWORK

STEP 1: Preparation of Medium Term Fiscal Framework.

This step involves forecasting key macroeconomic variables (for example GDP and inflation) for the next three years. Exchange rates, changes in the balance of trade, implications of government policy decisions or government reforms are important factors also taken into consideration. Based on the above, revenue targets in the current and medium term are projected. Revenue projections include tax and non-tax revenues. Revenue targets are provided as a share of GDP to show the scope of the tax burden and its scope in the future. Revenue projections help to define aggregate expenditure trends, including capital and recurrent expenditures. Expenditure control measures should be outlined, such as wage bill control, waste reduction or efficiency initiatives. The key activities in this step are macroeconomic analysis and modelling. MoFEPD is in charge of preparing macroeconomic and fiscal forecasts which are used to prepare ceilings for MDAs. The macroeconomic forecast and medium term fiscal framework are presented to and discussed by the Economic Management Committee. It discusses not just the previous, current and first year of the medium-term expenditure, but also two outer years of forecasts.

STEP 2: Preparation of ceilings.

Setting of the expenditure ceilings for MDAs is a top-down and bottom-up exercise. They are based on a compromise between top-down availability of resources from the MTFF and bottom-up resource priorities to finance sector needs. Bottom-up resource priorities are set by analyzing sector or ministry programs. The MDAs have to assess and submit to the MoFEPD information on the following:

1. What policies/ programs/ projects will be continued and need funding (baseline) and which ones will be terminated (reductions)

2. What are new policy/ program/ project proposals to implement policy priorities and where should funding come from (new initiatives)

3. What resource reallocations should be done to fund policy priorities

Based on this information, MoFEPD add up all funding requirements using the input from Desk Officers, compare them with available resource envelope and government priorities and set the ceilings for the MDAs making trade-offs, if necessary.

STEP 3: Preparation of PBBs.

Based on expenditure ceilings, MDAs start prioritizing their activities and projects against strategic objectives and priorities. If needed, outcome and output targets are reviewed to meet pressing priorities. A budget submission is prepared to show the expenditure by programs and sub-programs. PBBs are prepared by MDAs and submitted to the MoFEPD for Budget Hearings.

STEP 4: Budget hearings.

Budget hearings are discussions on budget estimates between the MoFEPD and individual MDAs. The aim is to discuss the allocation of resources against priorities, appropriateness of outcomes and output. Budget Hearings are chaired by the MoFEPD and support is provided by Desk Officers who make analysis and recommendations on the submitted budget estimates. Final ceilings are agreed as a result of budget hearings.

STEP 5: Finalisation of PBBs.

At this stage, PBBs are adjusted consistent with final budget ceilings. If needed, revisions are made to reflect changes in estimates and results (outcome and output targets). Final PBBs are submitted to the MoFEPD for budget consolidation.

STEP 6: Submission of budget to Parliament.

Revised PBBs are reviewed by the MoFEPD to prepare a consolidated budget which is presented to Parliament for approval.

A successfully implemented MTEF will result in:

1. Public expenditure being limited by the availability of resources;

2. Budget allocations reflecting spending priorities;

3. Public goods and services delivered cost effectively

CHAPTER 7: PROGRAM BASED BUDGETING

7.1. What is PBB and Why?

Program Based Budgeting (PBB) is a structured approach to budget preparation which links inputs to results within a program. Each program has a defining objective, inputs to be utilized, and outputs and outcomes to be achieved.

PBB is prepared according to the PBB Template and Guidelines enclosed in Annex 6.

The program approach is followed in budget execution, monitoring and reporting. A Program Logic Model is used to develop and evaluate programs. The Program Logic Model is described in Section 3.2.

The difference between PBB and OBB are the following:

- PBB programs have a defining objective against which activities are prioritised
- PBB programs set out outcomes to be achieved
- Resources are pooled into a program in PBB
- PBB combines capital and recurrent budget
- Departments and cost centres are mapped to programs within PBB.

The program approach will improve policy and budget processes and deliver better services through improving the following:

1. Effectiveness – activities in programs are planned to achieve national objectives in line with a ministry's mandate. Budgets are executed to achieve this objective. Monitoring and evaluation is carried out to report on progress against this objective.
2. Efficiency – activities are prioritised against the approved budget and expected objective. The best mix of activities is selected.
3. Accountability – controlling officers, program managers and program staff are made accountable for the use of program resources and achievement of results (outcomes and outputs).

7.2. Preparation of Program Based Budget

7.2.1. PBB structure

PBB is a 3-year fiscal rolling document prepared annually alongside MTEF. PBB consists of:

1. Performance information: mission, strategic objectives, achievements, challenges, program structure, program objective, program outcome and output indicators and targets;
2. Financial resources: budget allocations by programs and sometimes sub-programs, program budgets by economic classification and capital budget by projects;
3. Staffing levels: staffing levels and estimates on personal emoluments.

7.2.2 Program

A program is a budget structure reflected in both the Budget and in the Chart of Accounts; it is not an organisational structure. Programs must be aligned with core result areas and strategic objectives outlined in a ministry's strategic plan. Programs cover all types of expenditure directed towards program objectives. This includes capital and recurrent expenditure. A Ministry should have no more than 6 programs inclusive of Management and Administration Program.

Most programs are service delivery programs and reflect core ministry mandates and results. A Ministry may have just one 'Management and Administration' Program. Such a program shall be confined to management and support services such as internal finance, auditing, information technology and communication, human resources management and cross cutting issues. Recommendations for the preparation of Management and Administration program are provided in Annex 7.

Programs usually reflect core mandates of the MDA and are designed to solve problems or improve service delivery and results. Therefore, programs should not change often. Programs can change when the mandate of the MDA changes or when a problem which was being addressed by the program is solved and does not need further funding.

A program can have up to 2 levels – program and sub-program. Each program consists of objective, outcome and output indicators and targets.

7.2.3 Program Title

The program title must be short, clear and convey the mandate of the ministry in a particular policy area/core result area. It should show how the Ministry is different from other Ministries.

Examples of program titles:

- Agriculture: (1) Agriculture Productivity and Risk Management;; (2) Livestock and Fisheries Production; (3) Water Resources Development Management and Supply
- Education: (1) Primary education; (2) Secondary education; (3) Tertiary education
- Finance: (1) Public Resource Management; (2) Resource Mobilisation; (1) Planning and Development
- Health: (1) Primary Health Care; (2) Secondary Health Care; (3) Tertiary Health Care;

7.2.4 Program objective

A program can have just one objective. It has to be short, not to exceed one sentence, and reflect the key benefits the program seeks to achieve.

The following are examples of program objectives:

Education: Ensure equitable access to quality primary education

Agriculture: (1) Increase productivity of crops and livestock

(2) Increase the use of new crop varieties and new technologies of crop production

(3) Improve Food Security

Economy: Diversify economic activity and develop new markets

Finance: Enhance revenue collection through a fair, efficient, and equitable tax system

7.2.4 Program Performance Indicators and Targets

A program has outcome and output performance indicators and targets for past, current year and 3 future years. Outcome and output indicators in budget programs must be aligned with the ones in the ministry strategic plan and PC. Performance indicator targets in budget programs are reviewed annually with the budget. Any changes in outcome and output indicator targets must be reflected in the Ministry Strategic Plan and PC after the budget is approved by Parliament.

7.2.5. Preparation of PBB

Preparation of the PBB in an MDA is coordinated by the Planning Division (or other relevant officers in other votes) which consult with other technical divisions in preparation of the PBB. PBB is prepared annually after MDAs receive indicative ceilings. Controlling Officers have to discuss and ensure the best mix of activities to achieve outputs and outcomes. The Controlling Officer submits the draft PBB and cash flow to the MoFEPD for Budget Hearings. Desk Officers of the MoFEPD analyse the draft PBB to check:

1. Its consistency with indicative budget ceilings, including those for capital budget, and ministry strategic objectives

2. If performance indicator targets are realistic and achievable with respect to budget, priorities and past performance

3. The quality of performance indicators to conclude if they are Specific, Measurable, Achievable, Relevant and Time bound.

Desk Officers of the MoFEPD must provide a briefing on this to the Chairperson of the Budget Hearing.

After Budget Hearings, the MDAs update their PBB following Budget Hearing results in line with the final ceilings and send it to the MoFEPD for budget consolidation. MDAs finalise their PBB after the approval of appropriations act by Parliament to take into account issues raised during deliberation of the budget. MDA strategic plans and PCs are revised accordingly. The PBB, strategic plan and PC must be aligned.

The deadlines for the preparation and submission of PBB must be in line with requirements in the budget guidelines.

7.2.6. Program Estimates and Appropriations

Under PBB, ministries must map all recurrent and capital expenditure to appropriate programs or sub-programs. Under capital expenditure, MDAs are obliged to include only "pure" capital investment in assets such as buildings, infrastructure, facilities, equipment, machinery, etc. Recurrent items of expenditure currently found in the development budget must be reclassified appropriately as recurrent expenditure. This is to show true costs of the program following international good practice.

Program estimates shall also include a breakdown by economic classification. However, under PBB the detail of budget control by economic classification shall be reduced significantly. Program estimates will require appropriations for the following items:

1. under recurrent expenditure: (10) Salaries, (11) Other allowances, (21) Internal travel, (22) External travel, (23) Public utilities, (24) Office supplies and expenses, (25) Medical supplies and expenses, (26) Rents, (27) Education supplies and services, (28) Training expenses, (29) Acquisition of technical services, (31) Agricultural inputs, (32) Food and rations, and (33) Other goods and services, (34) Motor Vehicle running expenses, (36) Agricultural Subsidies, (39) Grants to international organisations and (40) Grants and subventions.
2. Under capital expenditure – (41) Acquisition of fixed assets and (35) Routine maintenance of assets.

Details on how to fill in the program estimates are provided in PBB Template and Guidelines enclosed in Annex 6.

Under PBB, parliament will approve budgets at program level within each vote and funding will be released accordingly. However, this will be implemented after amendments have taken place in the Public Finance Management Act, 2003.

Budgets by organisational units and items can still be planned by MDAs for internal use and control, but will play a much lesser role in policy and budget decision making at the higher level. Under PBB, Program Managers will be given greater flexibility to manage and shift resources within programs as is necessary to achieve objectives and targets. However, the Controlling Officer and Program Manager will be held accountable for the program and sub-program results agreed in PBB. This will limit their discretion to divert from sub-program allocation agreed in budget preparation process.

7.3. Budget Execution

7.3.1 Funding

Funding will be done according to cash flows per program. This will require the MoFEPD to disburse funds per program per cost centre. This approach will strengthen application of PBB not just in budget planning, but also in budget execution. The funding should enable financing of the agreed quarterly targets in the PCs.

7.3.1 Virement

PBB increases flexibility of budget transfers during budget execution keeping the Controlling Officer and Program Manager accountable for results. The Controlling Officer will be obliged to obtain prior approval from Treasury for virements. The PFMA (2003) and Treasury instructions are the major guiding regulations on issues of virement.

There are some budget lines in which transfers of resources are restricted, these are:

1. Virement to and from Personal Emoluments from other items
2. Virement from capital expenditure to recurrent expenditure.

7.4. Monitoring and Reporting

Ministries will regularly monitor and report on financial performance. Non-financial monitoring and reporting will be carried out in accordance with Chapter VIII of this Manual.

Budget monitoring is a systematic collection, analysis and use of budget implementation data to; verify actual expenditures against planned expenditures; actual progress made on physical targets against planned targets; actual timing of accessing resources against planned timing; and spot problem areas and recommend corrective actions. It is essential to monitor budget implementation because:

1. MDAs may incur unexpected expenditure from the implementation of activities that were left out during budgeting;
3. Initial assumptions in preparing the annual budget could have been wrong or changed;
4. MDAs may divert funds to other unplanned areas other than those that are priority of the Government;
5. Shortfalls in expected income, such as donor funding or local revenues, may necessitate reprioritisation of programs.

Budget monitoring can be done at four levels, namely; Input, Output, Outcome and Program:

1. Input level includes funds allocated, material resources and human resources allocated to the program. Monitoring involves tracking how much resources were deployed to achieve planned outputs;
2. Output level monitoring is directly linked to the efficient and effective use of inputs. Monitoring will basically look at targets delivered compared to the planned outputs in relation to the budget;
3. Outcome level monitoring is linked to the effectiveness of the programs. It will look at results delivered compared to the planned outcomes in relation to the budget; and
4. Program level monitoring will look at how much resources were deployed at program level to achieve program results in relation to the budget.

Each MDA, using the information provided by IFMIS, will prepare monthly and quarterly financial reports and submit to the Budget Division in the MoFEPD. Monthly and quarterly financial reports will serve to:

1. Inform the MoFEPD on the budget execution and programs' progress against plans in relation to financial expenditures, constraints and any remedial actions required;
2. Provide formal documented record of achievements during the reporting period against planned outputs; and
3. Inform MoFEPD on Government revenues (tax or non-tax revenues) progress during the reporting period against planned revenues.
4. All MDAs produce monthly and quarterly reports including the following information:

Monthly report:	Quarterly report:
Detailed expenditure and revenue reports against budgeted monthly expenditures and receipts at program level	Revenue and expenditure performance at program level including a statement of donor inflows and corresponding uses of such funds Capital project implementation reports should provide a detailed analysis of actual project expenditures against budget allocations and sources of funding. The reports should also include progress, major constraints and recommendations.

These reports will assist the Treasury in mid-year budget reviews as well as provide supporting information during ceiling formulation.

7.5. Budget Review

The MoFEPD produces a mid-year budget review to take into consideration changes that were made during the budget implementation for the first half of the financial year. During this period, some votes experience increases or decreases in their program allocations.

7.6. Performance Audit

The Auditor General will undertake financial (regularity) and performance audits. Performance audit becomes especially important under PBB. The Auditor General will select the programs (or part of the program) to undertake performance audit for each year. The performance audit will look at:

1. Economy, which is concerned with minimising the costs of resources used to deliver the same quality or quantity of services or goods;
2. Efficiency, which analyses relationships between outputs or results and the inputs (resources) used to deliver them;
3. Effectiveness, which analyses if results and objectives have been achieved compared to planned ones.

Performance audit reports, including recommendations to improve economy, efficiency and effectiveness, will be submitted to a respective ministry for implementation and the Public Accounts Committee for consideration. The Controlling Officer of a respective vote will take immediate actions to implement recommendations.

7.7. Programs and Organisational Divisions

Under PBB, all ministry internal organisational units or bodies contributing to the achievement of program results will be mapped to appropriate programs and not vice versa. A program may cover one or more internal units.

In many cases it will be rather simple to identify and map internal units to programs.

For example, Ministry of Education may have "primary education", "secondary education" and "higher education". These programs have separate divisions managing these programs already and therefore mapping will be straightforward.

However, in some cases it is not straightforward as some internal units may serve other programs and do not create outcomes or even outputs by themselves.

For example, the Ministry of Education may have a separate Teacher Training Centre or Education Inspectorate, which contribute to the results of several programs in the form of inputs or outputs.

It is inappropriate to have separate programs for such services as they are inputs to the achievement of primary, secondary and higher education results. Under full-fledged PBB the costs of these cross-cutting services would be split among all three programs.

Alignment of organisational units to programs will require looking at the mandates of various divisions and bodies within programs to eliminate duplication of efforts and functions or to improve coordination. The DHRMD and the Public-Sector Reform Unit in the OPC will take an active role in guiding the ministries to review their mandates and functions.

7.8. Management of Programs

Under, PBB it is expected that each program will have a Program Manager. The Program Manager will be in charge for the overall management (including preparation) of a program. He/ she will also be accountable for the achievement of results and efficient use of resources. Program Managers will be a delegated responsibility for results and efficient use of program resources and will not affect the functional responsibilities and grades of the managers. In some cases, responsibilities of the Program Manager will go across the organisational hierarchy. Program Managers must be assigned and held responsible by the Controlling Officer for the performance of their program. The reporting structure for PBB may not necessarily be the same as the current organizational structure as programs are not mapped to organizational units.

Responsibilities of Program Managers:

Coordinate the preparation of the program: The Program Manager will mobilise the staff of the program (divisions that fall under relevant program) to discuss and identify priorities, appropriate mix of activities, and outcome and output targets for the following three years.

Prepare program budget: The Program Manager, in consultation with the Planning Division or Officer, will be in charge of preparing a three-year rolling budget for the program.

Vire funds within program: The Program Manager will have the authority to suggest options for the virement of funds between sub-programs, Cost Centres and items within his/her program and in compliance with virement provisions in the Public Finance Management Act.

Preparation of monthly/ quarterly/ annual financial and non-financial reports: The Program Manager will coordinate preparation of all necessary financial and non-financial reports. Based on these reports the Program Manager will assess the progress against outcome and output targets as well as budget execution, and identify any risks associated with the delivery. In case of risks, the Program Manager will take any necessary actions to ensure results are met or otherwise inform the Controlling Officer.

Seek support for the delivery of program results: The Program Manager will seek any necessary support from the management of the ministry, Planning Division (or Planning Officers for smaller Votes), Budget Divisions and other units to ensure successful achievement of results.

7.9 Summary

The following are five key principles to a successful implementation of PBB:

Alignment	Program structure should be aligned to core policy/ result areas of the ministry's mandate
	Program performance indicators and targets should be well aligned with those in the MSPs and PCs
	Organisational units must be mapped to programs and not vice versa
Adherence	The program approach should be followed in budget execution and reporting not just planning
Authority	Program Managers must assume responsibilities which might cut across organisational hierarchy
Accountability	Program Managers should be held accountable for results

CHAPTER 8: RESULTS ORIENTED MONITORING, REPORTING AND EVALUATION

Introduction

Monitoring, reporting and evaluation is the last stage in the policy and budget cycle which ensures learning within the organisation. This stage informs strategic policy and budget decisions. Monitoring, reporting and evaluation is useful if it is timely, focused, relevant and user friendly. Very often in many countries, MDAs complain about too many reports being produced for different users and occasions with little impact on decision making.

In Malawi, the monitoring, reporting and evaluation system is built on the belief that it has to be integrated and simple. Integrated means that monitoring, reporting and evaluation is a bottom-up approach where information on implementation of short-term documents is used to report on mid-term documents and long-term documents. This is based on the integrated planning and budgeting system in which longer-term documents inform shorter-term documents. The integrated approach increases the efficiency of monitoring, reporting and evaluation (for example, through a reduction in the quantity of reports duplicated). Simple means that information in the reports (monitoring or evaluation) should be focused and suit the needs of its users.

8.1. Integrated Monitoring and Reporting Process

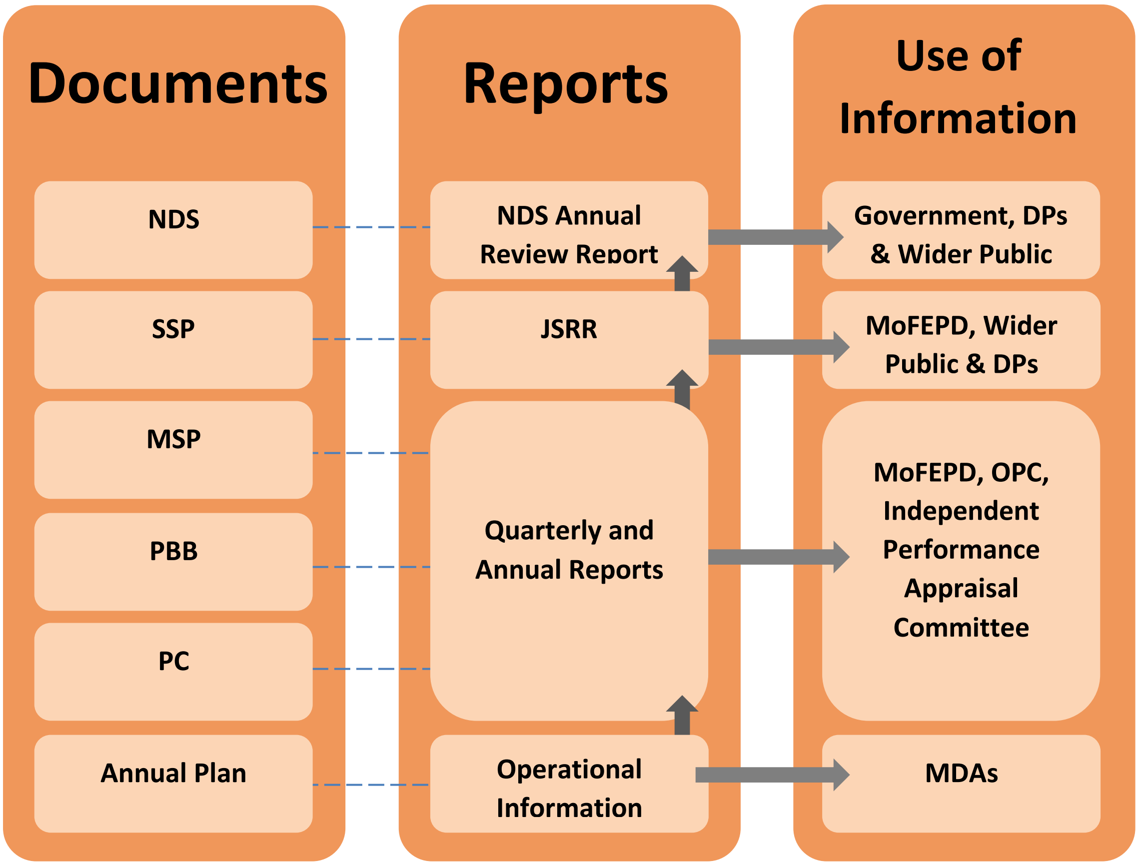
Monitoring is a continuous process of gathering and analysing data on achievement of performance indicators. Controlling Officers are in charge of putting in place internal control systems which would ensure efficient and effective use of public resources and timely financial and non-financial reporting.

Monitoring is done on an on-going basis. Program staff are in charge of implementing the activities and reporting on the achievements and problems to the Program Managers on a regular basis. Program Managers have to take actions to solve problems or consult with Controlling Officers if needed. Regular monitoring information is used by Program Managers in everyday decision-making to improve performance delivery and budget execution.

For accountability and information purposes, managers have to produce regular financial and non-financial reports. Financial reporting is done on a monthly and quarterly basis while performance reporting is done on a quarterly and annual basis. Financial and non-financial reports are used internally to inform and advise Senior Management in decision making and externally to account on the progress and budget execution.

Performance monitoring and reporting in Malawi starts with MDAs monitoring the implementation of PC quarterly targets and budget. The integrated reporting flowchart is presented in Figure 9 below.

Figure 9: Integrated reporting flowchart



The guiding principle of integrated monitoring and reporting is that operational information must inform quarterly reporting which in turn informs annual reporting. At each level, the information is aggregated providing consolidated conclusions and recommendations. Aggregation may be in terms of time or across sectors.

For example, the annual PC report will be prepared based on 4 quarterly PC reports summarising the achievements and challenges over an annual perspective. The Joint Sector Review Report will be prepared based on annual ministry inputs (PC reports) summarising achievements and challenges across sub-sectors. The NDS Annual Review Report will be prepared based on sector reports aggregating and summarising achievements across sectors. Integrated reporting reduces duplication and conflicting information.

Integrated monitoring and reporting must be results-focused. It requires strong coordination and leadership as well as capacity to develop analytical reports. When preparing reports, it is important to keep in mind the report users. The higher the level of the user, the more aggregate and systematic the information will be. The following table outlines leadership and coordination roles and the focus of information in the reports.

Table 4: Reporting responsibilities and focus of reports

Vision	Every 5 years	MoFEPD National Planning Commission	Statement on progress towards the vision (in the final NDS cycle year)
NDS	Annual	MoFEPD SWGs National Planning Commission	Major achievements (against performance indicators) Development effectiveness indicators Challenges Recommendations (Overall and Key Priority Area level)
SSP	Annual (or semi-annual)	SWG Controlling Officer Planning Division	Major achievements (against performance indicators) Resource use at sector level Challenges Recommendations (Overall and sector level)
MSP **PBB** **PC**	Quarterly and Annual reports	Controlling Officer Planning Division	Annual: Achievements against output and outcome performance targets Budget execution by output and programs Challenges ahead Next steps for better delivery (Overall and program level) Quarterly: Achievements against quarterly targets (reasons for over or non-achievement) Budget execution by output and program Next steps
Annual plans	Ongoing	Controlling Officer Planning Division	Achievement of targets Activity implementation Budget execution Problems

Based on these principles, respective ministries will issue annual guidance/ circulars to MDAs on the required reports.

Integrated monitoring and reporting can only be implemented if the information across different levels of documentation is compatible. To achieve this, the integrated policy and budget planning approach and integrated performance information will be used.

Results can be achieved by implementing activities, which utilise public expenditure. All public expenditure is to be found in budget programs, which specify outputs and outcomes to be achieved. For this reason, all MDAs must follow a performance framework (outcome and output performance indicators and targets) agreed during the budget preparation process in the implementation, monitoring and reporting processes. The Unified Template for Performance Indicators and Targets provided in Annex 4 must be used as basis for quarterly and annual reporting at all levels.

8.2. Management Information Systems

Management Information Systems (MIS) are developed and applied to make collection, monitoring and use of information more reliable and efficient. The MIS include:

1. Centralised monitoring information systems, and
2. Line ministry databases

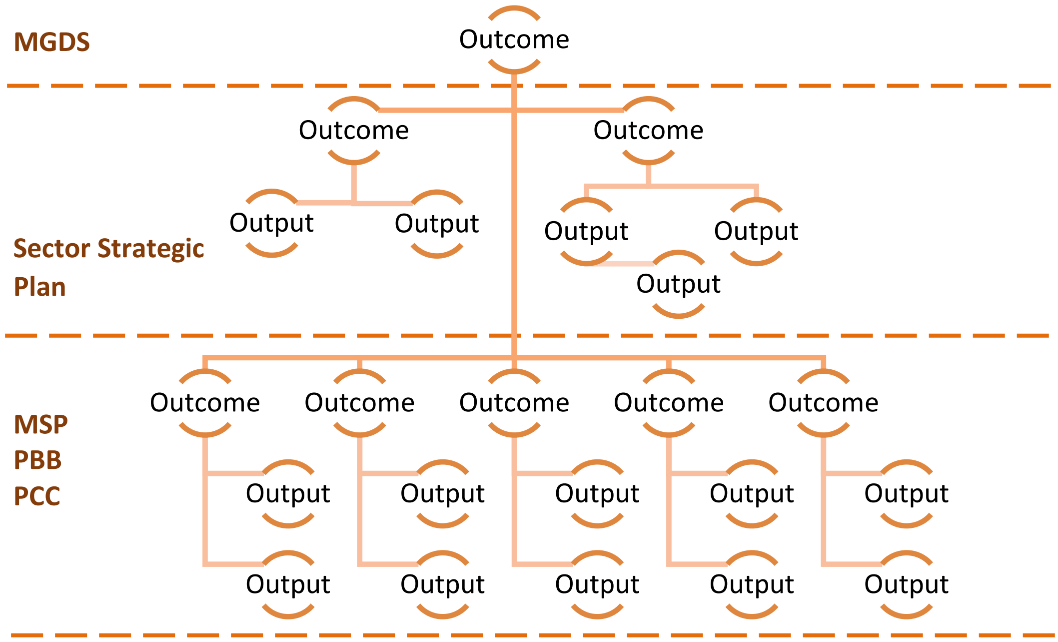
Centralised management information systems include Integrated Financial Management Information System (IFMIS) and Integrated Performance Management Information System (IPMIS) (under development). IFMIS is managed by the Accountant General's Department and IPMIS – by the Department of Economic Planning and Development.

IPMIS contains and tracks down the achievement of performance indicators and targets of major planning documents – NDS, Strategic Sector Plans, Ministry Strategic Plans, Program Based Budgets and Performance Contracts. IPMIS contains logic models of the above documents (outcome and output performance indicators, their targets, budget allocations) to allow necessary data entry or import data from other Monitoring Information Systems or databases.

IPMIS draws on other information systems and data sources, including IFMIS, Public Sector Investment Program database (PSIP), National Statistics Office database and line ministry databases (e.g. Health Information System, Education Monitoring Information System, etc.).

IPMIS can also monitor budget execution against budget programs (outcomes and outputs) in PBB. It is therefore compatible with IFMIS and able to import data from IFMIS. The principle IPMIS logical model is visualised in Figure 10 below.

Figure 10: Principle IPMIS Logic Model

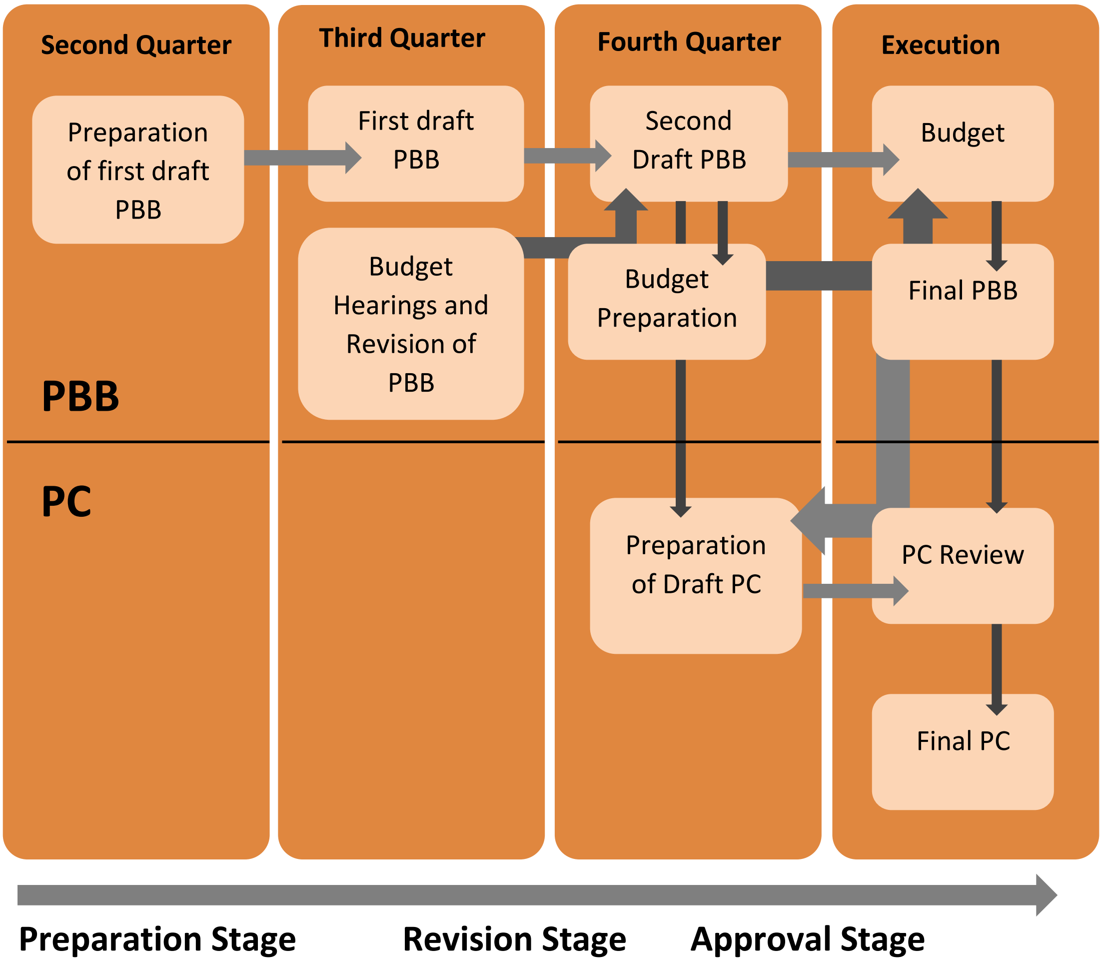


IPMIS has the following functionality:

1. Planning: data entry and notifications system for the preparation and review of PBB and PCs
2. Monitoring: data entry, export, visualisation
3. Reporting: geographical view, reports, graphs.

Preparation and review of PBB and PCs has several stages which are explained in Figure 11 below.

Figure 11: PBB and PC preparation stages



The crucial stages in the IPMIS for the preparation of PBBs and OPAs will be:

1. Finalisation of the 1st draft of the PBB
2. Finalisation of the 2nd draft of the PBB
2. Final draft of the PBB
3. Final PC

The MDAs will be obliged to respect the deadlines for data entry in the policy and budget preparation and monitoring processes.

The MoFEPD will be the manager of the IPMIS and will ensure the development and maintenance of the IPMIS. The MoFEPD, OPC and DHRMD will be the administrators of the IPMIS. They will ensure timely data entry and quality of data in the IPMIS for the documents they are in charge of. All MDAs will be the users with access to the system. From the beginning access will be provided to at least Planning, Monitoring and Evaluation Divisions in all MDAs. In the longer-term user rights should be provided to all divisions representing core functions in the MDAs to ensure broad access and use of performance and budget information.

The establishment of IPMIS is in progress and is planned to be completed by 2017.

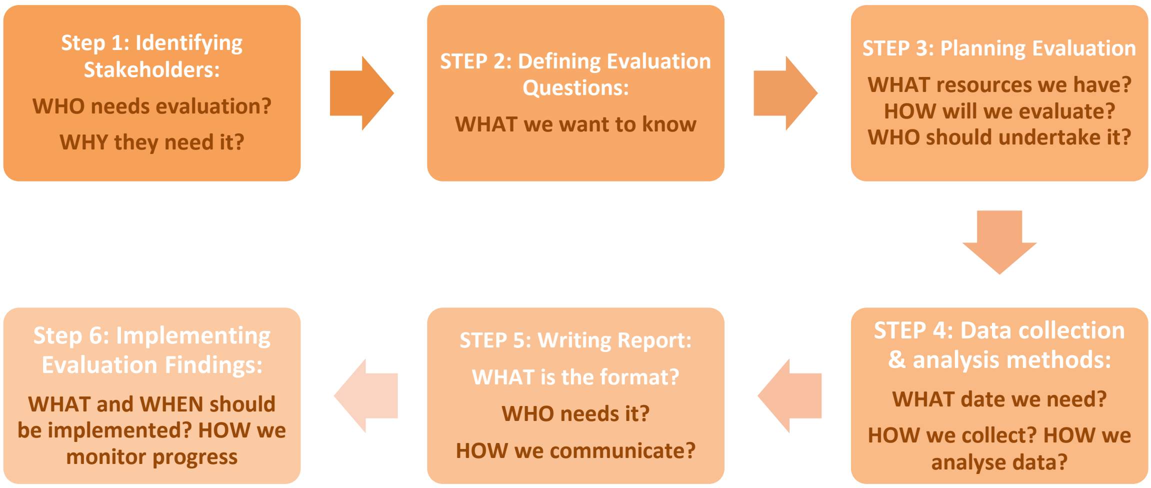
Line ministry databases are systems created and managed to collect data in various sectors. These systems are integrated into IPMIS.

8.3. Evaluation

Evaluation is a deeper process of analysing the problem, forming evaluation questions, collecting and analysing data to get answers to these questions and from this, formulating conclusions and recommendations.

Decision on which programs to evaluate and what aspects to evaluate will depend on the data generated through monitoring processes and other external sources. Ideal evaluation has to follow several steps shown in Figure 12.

Figure 12: Evaluation Steps



Evaluation can be carried out internally by program staff or it can be commissioned to external providers. Evaluation requires analytical skills and expertise in various data collection and analytical methods. Often evaluation uses statistical analysis methods which may not be available internally.

Internally undertaken evaluations in Malawi will be implemented gradually, starting with simple questions when discussing the programs, such as:

1. What are the priorities of the Government and are the objectives and outcomes/outputs of the program aligned with Government priorities?
2. What are the problems and challenges that Program Managers encounter? What are the reasons for these problems and challenges?
2. Will the program activities and outputs lead to the achievement of outcomes and objective?
3. Can program objectives and outcomes be better achieved implementing a different mix of activities?

Evaluation can be ex-ante, interim and ex-post. Ex-ante evaluation is done to design a program; interim evaluation is done during the implementation; and ex-post after completion of the program.

The scope of evaluation is another issue that Program Managers and staff have to decide. The scope of evaluation is decided applying 5 evaluation criteria and selecting the most relevant depending on the timing of evaluation, duration and needs:

	Ex-ante	**Interim**	**Ex-post**
Relevance	Is the intended intervention going to solve the problem To what needs does it respond?	Has the original need changed Does the change require a corresponding adjustment of the intervention	Has the intervention reached intended target group
Effectiveness	Are the foreseen activities likely to lead to objectives being reached? What are costs relative to effectiveness? Is there a way to deliver the program in a more cost-effective manner	Do the results obtained so far ensure that the objectives will be achieved? What are the particular elements that have been affecting the effectiveness of part x of the intervention	What were the reasons for the high success in achieving objective x
Efficiency	Is the chosen approach the most cost-effective	How can the efficiency of process be increased	Was activity x achieved using the optimal cost – effective approach
Implementation	Is the implementation mechanism – structures and processes – well justified Is the timetable realistic	Is the program implemented in the ways specified Is the performance of the process below target? What institutional procedures must be simplified so that implementation becomes more efficient	How good was the performance of the institution or process? What lessons can be learnt?
Impact	What is the expected impact of the	Does the intervention during implementation	What is the impact of the activity

	intervention? What are the impact target groups?	bring some unintended effects?	against expectations? What is the impact of the new procedure, compared with the old procedure? Why was the impact lower than expected?
Sustainability	Is the impact likely to be long-lasting? What are the elements that will ensure this?	Are the pre-requisites for sustainability of objectives in place? What can be done to ensure that they are? What factors are affecting adversely the sustainability of achievements?	What are the chances that results will last long-term? What are anticipated future costs for the program? What were the reasons for the low sustainability of results?

Data collection and analysis is the most time-consuming step in evaluation. It requires good analytical and statistical techniques. There are two types of data collection and analysis depending on the evaluation questions – qualitative and quantitative.

	QUANTITATIVE APPROACH	**QUALITATIVE APPROACH**
Objectives	To assess causality and reach conclusions that can be generalized.	To understand processes, behaviours and conditions as perceived by the groups or individuals being studied.
Use	To numerically measure "who?", "what?", "when?", "How much?", "How many?", "How often?".	To analyze how and why.
Data collection methods	Standardized interviews; • Formal, pre-designed questionnaires; • Surveys using closed-ended questions.	In-depth, open-ended interviews; • Direct observation; • Focus group discussion; • Written documents (program /

	QUANTITATIVE APPROACH	QUALITATIVE APPROACH
		subprogram records, personal diaries, etc.)
Sampling	Probability sampling (a probability sampling selects its subjects randomly; that is, each member has an equal opportunity of being selected).	Purposive sampling (a purposive sampling attempts to be representative of the population and will usually try to ensure that a range from one extreme to the other is included).
Methodology for analysis	Predominantly statistical analysis.	Triangular analysis (simultaneous use of perception, validation and documentation to analyse information).

CHAPTER 9: CHANGE MANAGEMENT

For successful implementation of RBM and PBB, the following groups have to be involved:

1. **Reform leadership** – senior management in the MoFEPD, OPC and DHRMD to drive the reforms.

2. **Reform support** – senior management in central institutions such as National Audit Office, Accountant General's Department and OPC Public Service Reforms Unit to support the reforms.

3. **Reform implementation** – RBM and PBB Core Teams to drive the reforms at technical level and line ministry Planning (including Monitoring and Evaluation) Divisions to appreciate and implement the reforms.

Lead institutions will assume the following responsibilities in the implementation of RBM and PBB reforms:

Lead institution	**Responsibilities**
OPC	Overall support to RBM and PBB reforms
	Guidance to redefine mandates and scope of work for central and line MDAs in the implementation of RBM and PBB reforms in the short and medium timeframes
	Timely and quality preparation, monitoring and reporting of PCs
National Planning Commission / MoFEPD	Timely and quality preparation, monitoring and reporting of Malawi Vision, the NDS and sector strategic plans (through coordination)
	Establishment and maintenance of the integrated performance monitoring information system (IPMIS)
	Alignment of Ministry Strategic Plans with NDS
MoFEPD	Timely and quality preparation of Program Based Budgets
	Application of the Budget Calendar
DHRMD	Application of functional reviews to ensure proper leadership and implementation of RBM and PBB reforms in the short and medium-term perspectives
	Timely and quality preparation of ministry strategic plans

The above lead institutions will assume the responsibility to pursue strategies that will strengthen the buy-in and appreciation of the reforms, including:

1. **Briefing and sensitisation** of senior managers across public sector, from legislative to judicial and executive and from central to local governments

2. **Capacity building** to strengthen capacities of civil servants to apply policy development and budget preparation.

The success of RBM and PBB reforms will be measured using the following success indicators:

Area	Performance indicator	Baseline (2013)	Target (2016)	Target (2020)
RBM	% of MDAs having clear and well defined strategic plans			
	Effective performance monitoring system in place: (i) quarterly and annual OPA reports produced in time; (ii) annual NDS report produced in time; (iii) IPMIS in place and functional			
PBB	Credibility of the forward estimates (MTEF ceilings)			
	Funding out-turn compared to original approved budget			
	Draft Budget Tabled to the National Assembly X days before the Budget Day			

ANNEX 1: Monitoring and Evaluation Plan Template

Performance indicators	**Baseline**	**Target FY N**	**Target FY N+1***	**Methodology of Data Collection**	**Person/ Entity Responsible**	**Schedule/ Frequency**	**Level of Disaggregation****

*The number of years to be indicated in the table will depend on the timeframe of the document. There should be as many columns as many years is the timeframe of the document.

**Disaggregation of indicators can be by level of administration (e.g. state, district, zone), gender, geographical areas, age, etc.

ANNEX 2: Recommended NDS Strategy Structure

1. Introduction

1. Preparation of the NDS

2. Situation analysis. Overall goal including impact performance indicators and final-year targets

3. A list of Key Priority Areas (including a brief description of the rationale for KPAs)

2. Key Priority Areas

1. Key Priority Area 1

2. Themes

3. Objectives

4. Implementation strategies

5. Outcome performance indicators including mid and final year targets

3. Monitoring and Evaluation provisions

1. Annual Review

2. Mid-term review

3. Final Evaluation

4. Annexes

1. Projected NDS Budget (including budget and off-budget resources)

NDS Key Priority Area	**Year N**	**Year N+1**	**Year N+2**	**Year N+3**	**Year N+4**
1.					
2.					

	…
	Total:

2. NDS Monitoring and Evaluation Plan
3. NDS Results Matrix (PIs and mid and final year targets)

ANNEX 3: NDS Annual Review Report Structure

5. Introduction

6. Progress and challenges

1. Key Priority Area 1:

1. Progress against objectives, key implementation strategies, projects and outcome indicators

2. Key budgetary issues (budget execution, efficiency)

3. Progress on development aid effectiveness indicators

4. Challenges

5. Recommendations

2. Key Priority Area 2:

1. Progress against objectives, key implementation strategies, projects and outcome indicators

2. Key budgetary issues (budget execution, efficiency)

3. Progress on development aid effectiveness indicators

4. Challenges and

5. Recommendations

7. Conclusions and overall recommendations (recommendations should include issues related to policy and budget, if, for example, there is a need for making offsets)

8. Annexes

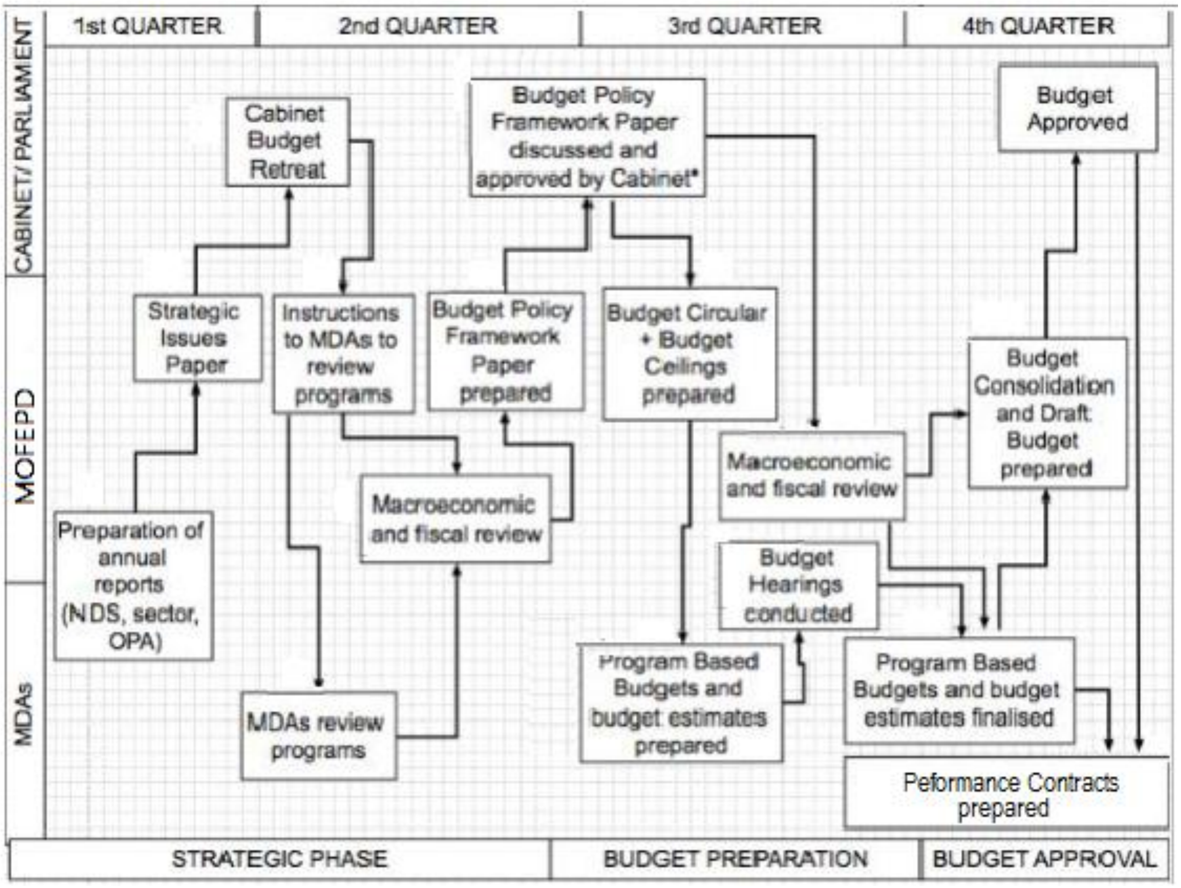
ANNEX 4: Proposed Unified Template for Performance Information

Additional information can be added depending on the type of the document (e.g. PC will add columns to show NDS linkages, funds, etc.). However, the format for presenting performance indicators and targets should be maintained. NOTE that after full-scale implementation of PBB strategic outcomes will be mapped to programs in PBB.

Strategic Outcome 1:

Performance indicators	Targets (per financial year)				
	N	N+1	N+2	N+3	N+4
1. *(Strategic outcome performance indicator)*					
Output 1.1:					
1.1.1. *(Output performance indicator*					
1.1.2. *(Output performance indicator)*					
Output 1.2:					
1.2.1. *(Output performance indicator)*					
1.2.2. *(Output performance indicator)*					
2. *(Strategic outcome performance indicator)*					
Output 2.1:					
2.1.1. *(Output performance indicator)*					
2.1.2. *(Output performance indicator)*					
…					

ANNEX 5: Policy and Budget Calendar



ANNEX 6: Program Based Budget Template and Guidelines

[Vote name]

Vote number: *[Provide the number of the Vote]*

Controlling Officer: *[Provide the position of Controlling Officer]*

1. MISSION

This section should state the main purpose of the ministry – why a ministry exists, whom it serves, what benefits it brings, etc. Mission is the most constant element of a program budget and changes when the formal mandates change. Mission should be short and clear. Your mission should be in line with the mission in your strategic plan, if there is one.

2. STRATEGIC OBJECTIVES This section should state the main strategic objectives the ministry is planning to achieve in the next 3 to 5 years. The objectives should be related to the strategic plans of ministries, if any. Strategic objectives should clearly indicate the issues/ areas that will be improved. It is recommended to provide up to 7 strategic objectives.

3. MAJOR ACHIEVEMENTS

This section should discuss the main achievements in the 2013/2014 financial year. Achievements should be related to high level policy or impact changes within programmes and be supported by evidence (positive trends, changes in outcomes, etc.). Major achievements can be related to improved services, increasing inclusion, etc. Administrative or process achievements should be avoided. The explanations should be short, clear, concise and in bullet points. It is recommended to limit the number of achievements to one major achievement per program.

[Example: *Immunization coverage as a percentage of live births was 99% in the public and private sectors and this is 5% more than the previous year.*]

4. PROGRAMME ISSUES

State any challenges or constraints experienced in implementation of policy during 2013/2014 financial year. Challenges should be related to policies rather than budget or human resources constraints. Discuss any measures or actions that are being undertaken or proposed to address these challenges. Challenges will provide the justification for the interventions within your programs. The text should be short, clear, concise and in bullet points. It is recommended to provide up to 5 or 7 main challenges.

[Example*: Increasing stigma and discrimination resulting in poor uptake of HIV voluntary testing, community resistance to methadone programme and to the decentralization of methadone dispensing. Lack of interest and motivation for rehabilitation on the part of clients.*

5. *Awareness campaigns*

6. *Field visits by a mobile team to trace 'loss to follow up' patients.*

7. *Reinforcement of counselling and involvement of more Peer Leaders for harm reduction services.*]

8. SUMMARY OF BUDGET ALLOCATIONS BY PROGRAM AND SUB-PROGRAM

In this table indicate budget allocations by program and sub-program and the total budget for all programs. The summation of all programs must equal the total expenditure of the Vote.

The columns "**Year 2013/2014 Approved", "Year 2014/2015 Estimates", "Year 2015/2016 Projection" and "Year 2016/2017 Projection"** should include information on total program cost (inclusive of transfers to Local Authorities), allocation to the Vote specifically, and then amounts for transfers to avoid underestimation of the funds allocated to the achievement of program objectives and outcome indicators.

Table V

No.	**Program/ sub-program title**	**2016/2017 Approved**	**2016/2017 Revised**	**2017/2018 Estimates**	**2018/2019 Projection**	**2019/2020 Projection**
1.	**Programme**					
1.1	Sub-Programme					
1.2.	Sub-Programme					
1.3	Sub-Programme					
1.4	Sub-Programme					
2.	**Programme**					
2.1	Sub-Programme					
2.2	Sub-Programme					
2.3	Sub-Programme					

2.4	Sub-Programme
20.	**Management and Administration**
20.7	Administration, Planning and Monitoring and Evaluation
20.8	Financial Management and Audit Services
20.9	Human Resource Management
20.10	Information and Communication Technology
Total	
	Of Which:
	Appropriation in Aid
	Treasury Appropriation

9. PROGRAM AND PERFORMANCE INFORMATION

Objective

State the overall objective of the program. The objective should reflect intentions and direction of a respective policy area. The objective should be SMART. Avoid abstract and complicated sentences. Do not use abbreviations or specialised terms. Each program should have one objective.

Outcome indicators

Identify suitable outcome indicators and expected targets that need to be achieved for each program. Avoid having too many outcome indicators. Select a few (2 – 3 per objective) most important outcome indicators that capture the main aspects and dimensions (quality, time, access, equity, etc.) of the program objective.

Outcome is the impact of the actions and interventions undertaken to achieve the objective. Outcome is broader impact on social, economic, cultural or other environment which can significantly be influenced by other actors such as other ministries, districts, development partners, private sector actors. For this reason, the achievement of outcomes may require close coordination and collaboration with external partners.

Output indicators

Define suitable output indicators for each program and sub-program. Avoid having too many output indicators. Select a few (3 – 4 per program or sub-program) most important output indicators that capture the main activities and interventions within program or sub-programs.

Outputs are the products, goods and services, which are direct results from an activity or intervention (e.g. number of vaccinations, social benefits paid, teaching hours provided, etc.). Outputs should clearly show what services or products a ministry will deliver during the financial year with the resources it would get. Output indicators should lead to the achievement of outcome indicators.

Table 2a

Programme No. and Description

(i.e. Programme 20: Management and Administration)

Programme Objective:

Indicators	2015/16	2016/17		2017/18	2018/19	2019/20
	Actual	**Target**	**Prelim**	**Targets**	**Projection**	**Projection**
Programme Outcome:						
Indicator(s)						
Output Indicators						

Sub-programme No and Description i.e. Sub-Program 20.7: Administration, Planning and Monitoring and Evaluation
Output 1:
Indicator(s):
Output 2:
Indicator(s):
Output 3:
Indicator(s):
Output 4:
Indicator(s):

10. PROGRAMS BY ECONOMIC CLASSIFICATION

In this table information on program expenditure by economic classification and both recurrent and capital should be provided. The ministry is free to add additional lines if there are particular items it wants to highlight in the table (e.g. drugs, training, etc.). Provide total expenditure for each program. The summation of all programs must equal the total expenditure of the Vote.

The ministry has to make sure it assigns capital expenditure correctly. Capital expenditure in the program based budgeting context means investment in assets such as buildings, infrastructure, facilities, equipment, machinery, etc. For this reason, part of the expenditure under the development budget might no longer be qualified as investment/ capital expenditure and will be considered as recurrent. All recurrent expenditure currently under the development budget should therefore be moved to the recurrent section of the program.

Table 7.1: Programme Budget by Item ***(MK 000'000s)***

Code	**Description**	**Year 2016/2017**		**2017/18 Budget Estimate**
		Approved	**Revised**	
01	Domestic Interest Payments			
02	Foreign Interest Payments			
05	Pensions			
06	Gratuities			
07	Compensations			
08	Refunds			
10	Salaries			
11	Other allowances			
12	Foreign allowance and benefits			
21	Internal travel			
22	External travel			
23	Public Utilities			
24	Office supplies and expenses			
25	Medical supplies and expense			

…	Other Items			
Total:				

Table 7.2: Programme Budget by GFS ***(MK 000'000s***)

Code	**Description**	**Year 2016/17**		**2017/18**
		Approved	**Revised**	**Budget Estimate**
201	Wages and Salaries			
202	Goods and Services			
203	Routine Maintenance of Assets			
206	Grants			
401	Acquisition of fixed Assets			
Total:				

11. BUDGETS BY COST CENTRE

In this table, budgetary information provided at cost centre level. The Ministry should give a breakdown of recurrent and capital for each cost centre under the Vote.

Cost Centre Code	**Cost Centre**	**Year 2016/17**		**Year 2017/18**
		Approved	**Revised**	**Estimates**
001	**(Cost Centre) total:**			
	Of which: Appropriation in Aid			
	Treasury Appropriation			
	Recurrent			
	Capital			

002	**(Cost Centre) total:**
	Of which: Appropriation in Aid
	Treasury Appropriation
	Recurrent
	Capital
Total	

12. CAPITAL BUDGET BY PROJECTS

In this table, information on capital expenditure projects should be provided. The ministry has to outline all undergoing and planned capital investment projects.

Table 5 (MK 000'000s)

Project title	**Start date** (Month /Year in digits)	**End date** (Mont/ Year in digits)	**Total Estimated Cost**	**Total Costs To Date**	**2016/17**		**2017/18**	**2018/19**	**2019/20**
					Approved	**Revised**	**Estimates**	**Planned**	**Planned**
Programme No. and Description									
Project Code:									
Project Name:									
Dev Part I									
Dev Part II									
Programme No. and Description									
Project Code:									
Project Name:									
Dev Part I									
Dev Part II									
Total:									

13. STAFFING LEVELS AND ESTIMATES ON PERSONAL EMOLUMENTS

In this table indicate authorized, filled as at July 2013 and estimated posts for 2014/2015 by grade. In cases where detailed staffing information is considered to be sensitive, provide either aggregate (total) numbers or numbers for certain grade clusters.

Table 6

Grade	Authorised Establishment	Filled Posts as at 1st July 2016			Estimated Posts as at 30th June, 2017			Cost of Estimated Posts 2017/18
		Male	Female	Total	Male	Female	Total	
A								
B								
C								
D								
E								
F								
G								
H								
I								
J								
K								
L								
M								
N								
O								
P								
Q								

R	
Total	

14. MGDS ALLOCATION SUMMARY

In the following table ministries list and cost all Themes under MGDS that are relevant for a particular ministry. The total should match the total expenditure for the Vote.

Table 7 (MK 000'000s)

Theme	**2013/14 Approved**	**2013/14 Revised**	**2014/15 Estimate**
Total:			

ANNEX 7: Recommendations for Management and Administration Program

Management and Administration program groups together Ministry's corporate and internal support services provided to the Ministry, such as:

15. planning, monitoring and evaluation

16. human resources management and development

17. information technology and communication services

18. internal finance management, accounting and audit

19. procurement

20. top ministry management and administration.

This program may also cover Ministry's crosscutting issues such as HIV, gender mainstreaming, environment and similar.

Recommended Management and Administration Program structure

It is recommended for the MDAs to have the following sub-programs under Management and Administration Program: (a) Management, Planning, M&E (b) Finance and Audit (c) HR Management and Development (d) IT and Communication (e) Cross cutting issues' services (if any). MDAs will provide output performance indicators to measure implementation of each cross-cutting issue in sub-program.

Recommended performance indicators for Management and Administration Program

Areas	**Performance indicators**
Management, Planning and M&E	Number of Quarterly performance contract progress reports submitted within 30 days after each quarter
	Percentage of funding allocated to budgeted activities
	Quarterly M&E reports produced
	Number of procurement plans prepared
	Percentage of procurements included in annual procurement plan
	Number of asset registers
	Percentage of procurement contracts managed

Finance and Audit	Percentage of invoices honoured as per the service charter
	Number of Monthly financial reports submitted on time
	Monthly commitment returns submitted by the 10th of the following month
	Percentage of audits completed in the annual audit plan
HR Management and Development	Percentage of personnel records up to-date
	Percentage of staff appraised on their performance
	Percentage of staff trained on job-related skills
	Percentage of vacant posts filled
	Percentage of personnel records up to-date
IT and Communication Services	Percentage of ICT infrastructure safeguarded against security risk
	Percentage of ICT service requests resolved