REPUBLIC OF MALAWI

UNITED NATIONS DEVELOPMENT PROGRAMME

REPORT ON THE EVALUATION OF MLW/95/001:CAPACITY BUILDING FOR FINANCIAL MANAGEMENT

Paris, July 23, 1999

00/02-9
Lvg + PEIS
17/2/2000

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I. EXECUTIVE SUMMARY

Project ML W1951001 is an institution and capacity building project, focusing on the fiscal, monetary, external development assistance and statistical fields that are key areas of the Enabling Environment for Public Policy and Management programme. Its purpose is to strengthen the capacity of the government to formulate and implement macroeconomic policies appropriate to the global and regional economic environment and consistent with, and supportive of, Malawi's development objectives. Its implementation was to take place within the context of a comprehensive economic and financial reform programme supported by substantial balance of payments and project financing from multilateral and bilateral donors. Through structural improvements in public spending and increased and economically more efficient government revenue mobilisation, the increased resources freed by the project implementation are expected to be more effectively directed to human resource development in the education and health sectors. This should contribute to creating the primary conditions for high and sustained growth needed to reduce poverty and to improve living standards. Adopted in August 1996, the original project was substantially revised and strengthened in September 1997 to cover the period through 1999. Project ML W1951001 is executed by the Government of Malawi, with the Ministry of Finance (MoF) and the Reserve Bank of Malawi (RBM) as implementing agents, and the IMF as the co-operating agent. To achieve these objectives, the project provides a mix of external technical advisory and supporting services with a view to, facilitate the transfer of expertise and technical skills that have proved efficient and effective in countries in similar situations.

Because the current phase of the assistance is due to end this year, it was decided that the evaluation of the project should take place just before the last Tri-Partite Review (TPR) and that the evaluation's findings, conclusions, and recommendations should be used as an input for 1999 TPR discussions. However, for various reasons, the TPR was postponed to August 1999. The evaluation team is concerned that this delay is detrimental to taking urgently needed decisions on the use of remaining project resources. In particular, a project budget revision was processed in April 1999 reducing the budgeted resources for the project by some $150, 000. The

team considers that such an important decision, as in the past, should normally take place within the context of a TPR discussion and strongly recommends that these budgetary resources he reinstated immediately to enable project operations to continue uninterrupted through 1999/early 2000, pending the Government's, UNDP's and the IMF's consideration of this evaluation report's findings.

Mission's main findings

The evaluation report finds the project design quite appropriate considering the alarming fiscal situation prevailing in 1994 and the very weak administrative and managerial capabilities of the Malawi new democratic government at the time. One of the strengths of the program was its front-loaded policy package that identified *revenue and expenditure issues and contained detailed and well-adapted policy responses, accompanied with work programs. The strategy adopted in the project, which concentrated resources on UNDP/IMF technical and f nancial cooperation, rightly focused on capacity building through skill transfer to local counterparts, training activities and other technical support. The project rightly identified the immediate objectives to be pursued and the various components that deserved attention, including the reinforcement of agencies responsible for the collection of revenue, the preparation, execution, and control of the recurrent and development budgets, a strengthening of the banking sector, and the development of a reliable statistical base needed for the conduct of macroeconomic policies.*

*On the basis of its findings, resulting from interviews conducted in the, field, the evaluation report concludes that, **overall, the performance** under the Capacity Building for Financial Management Project has been quite satisfactory and that actual results have come, fairly close to programmed outputs:*

- *This is clearly true in the case of the **revenue component** of the project where quantitative as well as qualitative results are remarkable indeed. Revenue collections almost consistently exceeded targets in the last years of the project. Institution building has been realised to a large extent and transfer of skills has taken place, though perhaps not as much as was anticipated mainly because capacity constraints on the recipient side. The evaluation also wishes to emphasise that the success of this part of the project reflects, to some extent, the support provided by UK/DFID, through the provision of five technical assistant officers. Another important contributing element has been the financial support provided by EU in the area of customs infrastructure, as well as the software and training. for the ASYCUDA project provided by UNCTAD, and financed by UK/ DFID.*

- *The second and equally crucial objective of the project, namely the building of capacities to formulate manage and control **the budget process,** has been largely successfully achieved albeit less measurably in terms of concrete results. Recent events, especially expenditure overruns during the election year, have demonstrated, if need be, that institutional reforms and new techniques are not in themselves sufficient to ensure a lasting improvement in the budget area. Much remains to be done in that area in the coming years and progress will continue within the broader framework of the World Bank and UK/DFID-supported programmes.*

- *Progress in the* **statistical component** *of the project, while real, have been hampered* *by the long gap between the first visit of the IMF multipurpose mission in 1995 and the effective posting of the IMF/UNDP long-term advisor in October 1998. Nevertheless despite a late start, work is under way, especially in the field of balance of payments statistics, which should bear fruit in the non-too-distant future. It appears that the effective delivery of advisory services and transfer of skills in the field of national accounts statistics has been marred due to a combination of a lack of response from some staff and inadequate supervision at the top level of management. But this should be quickly remedied and progress is expected to resume at a faster pace in the near, future.*

- *Lastly, the* ***banking supervision*** *component has resulted in durable and substantial improvement in that area due to a conjunction of high quality advice from IMF and very responsive cooperation on the part of the RBM.*

With regard to ***institutional arrangements,*** *the project design did not fully address the issue of co-ordination. This has impaired, to some extent, a smooth co-ordination between the different elements of the project. For the future, there is a clear need for a full-time project co-ordinator (or assistant co-ordinator). In the meantime, the immediate needs, for equipment and, facilities, if justified, should be satisfied. For any future project, proper Terms of Reference for the NPC should be prepared.*

On the issue of a ***proper mix between long-term and short-term*** *assignments, the team is of the opinion that, in its original design, some gradual phasing out of the long-term component of technical assistance might have been called for. But, given the very weak management capacity when the project started, it was appropriate to provide for long-term resources to jump start project implementation. Moreover, this was done at the specific request of the authorities. It should also be said that the technical advice that was provided proved very effective, particularly in the last years of the project. Short-term assignments and staff visits proved to be efficient and of excellent quality. IMF diagnostic missions and other follow-up visits left reports and recommendations of high standards, on which a considerable part of subsequent advice rested.*

As regards ***training,*** *the evaluation team feels that, given the emphasis on capacity building where the needs are tremendous, although a lot was achieved, perhaps more could have been done qualitatively as well as quantitatively. Indeed, a critical mass of capacity needs to be built up for the sustainability of progress. The main factors that militated against effectiveness of training and skill transfer have clearly been the lack of counterparts in key positions of the departments concerned. Insufficient management support and lack of interest by some staff were also a significant obstacle to skill transfer.*

On the question of ***equipment needs,*** more consultation between the Project Co-ordinator and **beneficiaries** might have eased the identification and delivery processes. *There were also a few problems with the procurement of office equipment and supplies, especially during the latter part ofproject implementation, mainly resulting in excessive delays in delivery. These could have*

been minimised if the local administrative arrangements and support for° the project had worked more efficiently.

*The **delivery of technical assistance** was, in the main, adequate. However, the use of technical assistance could have been optimised had counterparts been more consistently assigned to work with the experts, or when appointed, been made effectively available. Moreover, as in many other developing countries, insufficient work and other related incentives have made it difficult to retain qualified, or potentially performing, staff in their position, for srrff ciently long periods of time.*

Conclusions

The evaluation report concludes that, considering the dire state of management capacity in some institutions prevailing before the project started and the lack of a core of skilled executive staff, project implementation has been undeniably very successful in most key areas of the project.
Nevertheless, sustainability of improvements remains uncertain mainly because the training of counterparts needs to be further strengthened. More resources and renewed efforts are needed in this area if capacity building is to take place within a reasonable timeframe and is to be sufficiently durable. Furthermore, capacity building efforts were and continue to be seriously hampered by an exceptionally high attrition rate. Notwithstanding factors that are beyond the scope of this report, the evaluation team believes that more stringent recruitment policy should be quickly adopted to check excessive turnover by attracting and retaining capable and motivated people. In that respect the establishment of the Malawi Revenue Board should go a long way achieving this goal. Furthermore, institutionalised training could also come a long way toward solving the problems raised by excessive turnover.

Lessons to be learned

As the raison d'être of this project was the building of institutional capacity, and as the needs for it arose in the midst of a rapidly deteriorating fiscal situation and very weak administra-live environment, the role plaid by both UNDP and IMF has proved to be very effective. Firstly, in
making sure that a front-loaded policy package was adopted covering both revenue mobilisation and expenditure control areas; secondly, in concentrating UNDP/IMF

resources on technical support in key financial institutions; and thirdly, in mobilising and, as concerns UNDP's field office, in co-ordinating other donors' assistance, including the World Bank, UK, Denmark and EU This catalytic role has also proved to be very successful, judging by the generous response of the donor community.

Recommendations

For all these reasons, the evaluation report recommends that the current project should continue for at least 12 to 18 months to ensure a smooth transition into the next millennium. This is necessary to consolidate the considerable achievements to date and to plan a gradual shift from long to short-term advisory assistance. This project would then be replaced by a new project, of two to three years' duration, consisting of short-term UNDP/IMF experts and IMF staff

missions, primarily responsible for ensuring the sustainability of the administrative reforms. The nature of the successor project will be such that it will require much closer monitoring and management, underlining the need for the appointment of a strong project coordinator, since the task of managing a large number of expert visits, seminars, workshops, and other training activities will be far more time consuming than overseeing the work of resident advisors. The role of national training institutions should be amplified. The build-up of an economic statistical base should be accelerated. Lastly, all the necessary steps should be taken so, as the Malawi Revenue Authority is put in place no later than October 1999. MRA should apply human resources policy f exibly with a view to facilitate the recruiting and the promotion of staff more on the basis of skills and competence than seniority; this should help resolve the issue of counterparts and contribute to improve project sustainability.

As for the future, all point to the need for continued assistance. On the revenue side, it would seem essential to maintain a high level of technical support for a relatively short period to enable the newly established MRA to make a good start and confirm its credibility as a new, better equipped, and more flexible, instrument to raise revenue_ fairly, equitably, and efficiently. The months that will follow MRA commencement of operations will be crucial in that respect. On the expenditure side, as explained above, much remains to be done to reach the project objective. There again, technical support will be needed. In both areas, long-term assistance should gradually give way to periodic follow-up visits by experts. As concerns capacity building in the field of statistics, given the late start, it is unlikely that the project's ambitious objectives will be attained by the end of the project period. Technical support will therefore need to be continued, probably with new funding. Lastly, on the banking side, RBM officials have requested continued co-operation with IMF in the same form that has proved efficient so far, i. e. staff and expert's visits, and a staff mission is expected to come shortly.

1. INTRODUCTION

1. This report has been prepared by a team composed of Mr. J. Baldet (Team Leader), Dr. Kandoole, and Mr. Libamba. The team was mandated jointly by the MoF of Malawi, the UNDP and the IMF to conduct an independent evaluation of the UNDP project MLW/95/001. The evaluation took place in Malawi during the period June 17-25. The team interviewed representatives of all the principal stakeholders of the project in Lilongwe, as well as a national officials and experts involved in the project, in the capital, in Blantyre and in Zomba. The team leader visited Washington D.C. during June 7-9, to obtain the views of IMF officials concerned with the project. The main findings and recommendations of the evaluation mission were presented and discussed at a wrap-up meeting organised by the MoF for all parties concerned with the project, on June 25.

History and Project's Purpose

2. At the time MLW/95/001 project was conceived, Malawi's fiscal situation was a source of major concern. The revenue performance, as measured by the tax to GDP ratio, was declining rapidly, with actual customs receipts substantially below potential, mainly due to weak and inefficient administration. On the expenditure side, the situation was characterised by chronic overspending, with recurrent outlays' largely exceeding budgeted expenditures and a rising amount of unclassified expenditure. Budgeting and medium-term financial planning were virtually non-existent. Budget reporting suffered long lags and was therefore ineffective.

3. In early 1996, the Malawi authorities launched the so-called National Capacity Building Programme for Economic and Financial Management (CBPEFM), a multi-donor and multisector programme and one of several' Public Sector Reform initiatives. The need for such a programme arose from the recognition that a significant part of Malawi's economic and financial difficulties was due to poor and untimely policy responses as well as weak implementation capacity, principally in the Ministries of Finance (MoF) and Economic Planning and Development, the Reserve Bank, (REM), and the National Statistical office (NSO). The CBPEFM, therefore, aimed at building the capacity required to effectively carry out and sustain long-term economic and financial management in support of national development, with poverty alleviation as a priority objective.

a 4. MLW/95/001 is essentially an institution and capacity building project, focusing on the fiscal, monetary, external development assistance, and statistical areas. These areas figured among the key areas identified in the CBPEFM." In August 1996, UNDP and the Malawian authorities pproved an initial one-year phase 2 of MLW/95/001, with the intention of continuing to implement the project for a period of three years through 1999, depending upon the progress made and resources available.

Following a Tri-Partite Review in April 1997, the project was strengthened and a substantive revision of the initial Programme Support Document was approved in November 1997. In the interim period, project operations were financed on the

'Project MLW/95/001 is an integral part of the Enabling Environment for Public Policy and Management programme component of the Government of Malawi/UNDP's First Country Co-operation Framework for 2 UNDP had already provided financing for a senior customs advisor starting in 1995, under a preparatory assistance arrangement, to assist the Minister of Finance in kick-starting the government's revenue reforms.

basis of temporary budget authorisations issued by UNDP. MLW/95/001 is executed by the Government of Malawi, with MoF and RBM as implementing agencies, and the IMF as the cooperating agent.

5. As noted above, the project's purpose is to strengthen the capacity of the government to formulate and implement macroeconomic policies appropriate to the global and regional economic environment and consistent with, and supportive of, Malawi's development objectives. The implementation of MLW/95/001 was to run parallel with a comprehensive economic and financial reform programme supported by an IMF Enhanced Structural Adjustment Facility (ESAF), World Bank credits, and strong balance of payments support and project funding by bilateral donors. A number of activities to be implemented within the framework of this project have been incorporated as ESAF benchmarks that are subject to monitoring by the IMF.

Development Objectives of the Project

6. By strengthening the policy formulation and institutional capacities for financial management this project was intended to contribute to the CBPEFM development objectives, which aim at achieving sustainable levels of economic growth within a stable macro-economic environment. Thus, through reform measures designed to improve public spending and to raise revenue more efficiently, transparently, and fairly, the project provides the means whereby resources can be more effectively directed to human resource development in the education and health sectors. In so doing s, the project should contribute to creating the primary conditions for high and sustained growth that are needed to reduce poverty and improve living standards.

Project Support Objectives

7. MLW/95/001 project support objectives are:

- To enhance institutional and operational capacities to manage public funds and implement fiscal policies.
- To strengthen institutional and operational capacities of the Reserve Bank of Malawi (RBM) to facilitate a competitive and well-regulated commercial banking and insurance sector.
- To strengthen national capacity to co-ordinate and manage external development assistance for effective macro-economic management purposes and effective implementation of the development programmes.

•To strengthen the capacity of the National Statistical office (NSO)

Project strategy

8. The project strategy is to provide an appropriate mix of external technical advisory and supporting services in the fiscal, monetary and statistical areas, with the aim of facilitating the transfer of know-how, expertise, and the techniques, which have proved to be efficient and effective in countries in similar situations.

Main Beneficiaries

9. The direct beneficiaries of the project are the central agencies responsible for macro-economic policy formulation and implementation, namely the Ministry of Finance, the National Economic Council (until July 1997, the Ministry of Economic Planning and Development), the Reserve Bank of Malawi, and the National Statistical Office. Ultimately, the entire population of Malawi is also expected to benefit from the project results through more equitable and sustained economic growth and also through increased and higher-quality government spending in key social sectors such as education, health, and infrastructure.

Institutional Arrangements

10. The project document stipulated that a Government Steering Committee would be established to provide guidance for the execution of National Programme of which this project was a component. The Steering Committee was to be chaired by the Minister of Finance, with the Governor representing the Reserve Bank. Other members of this Committee would include senior officials of the Ministries of Finance and of Economic Planning and Development, of the Reserve Bank, and of the National Statistical Office. A senior official of the Ministry of Finance was to be appointed by the Minister of Finance to serve as national project coordinator and secretary to the Steering Committee. Each agency concerned with the project was made responsible for executing its own project components, working directly with the external agencies. The latter were expected to assist in project implementation and, for that purpose, designate a focal point for each of the main areas i.e. budget, customs, inland tax, statistics, and central banking.

End-of Project Evaluation

11. As agreed between the signatories of the MLW/95/00 1, to conform to UNDP policy and practice, an evaluation of the project was to be conducted in the course of the last year of its implementation. Such an evaluation was to be conducted by three independent experts designated jointly by the Government of Malawi, the UNDP and the IMF. The evaluation's conclusions and recommendations were to be presented at the last Tri-Partite Review and possibly be used for the design of the second phase of the current project, if it was so decided by the parties involved.

12. The content of the evaluation report does not cover activities undertaken, or

infrastructures and equipment funded, by other donors, including the World Bank, UK, Denmark and EU. These institutions, through their own projects also designed to support capacity building in financial management, have greatly contributed to the success of the UNDP/IMF project which has played a central role in coordinating such assistance.

13. Because the current phase of the assistance is due to end this year it had been decided that the evaluation of the project should take place just before the last Tri-Partite Review (TPR). This was originally planned to take place in April/May according to the report of the 1998 TPR, but, because of the national elections, had to be postponed until late June. It was further agreed that the evaluation mission's findings, conclusions and recommendations would be used as an input for 1999 TPR discussions. However, the evaluation mission was informed, very late in its work, that the TPR had been postponed to August 1999. The team is concerned that this would be too

late to take urgently needed decisions on the use of remaining project resources. In particular, the financing of the budget advisor needs to be provided for the remaining six months of his contract, and the continuation of the work just started in the national accounts and balance of payments areas with the NSO will certainly need to continue beyond September 1999. It has been noted that a project budget revision was processed in April 1999 reducing the budgeted resources for the project by some $150,000. The evaluation team considers that such an important decision, as in the past, should normally take place within the context of a TPR discussion and strongly recommends that these resources be reinstated immediately to enable project operations to continue uninterrupted through 1999/early 2000 pending the Government's, UNDP's and the IMF's consideration of this evaluation report's findings.

II. FINDINGS

A. Project design

14. This section evaluates the functional design of the project, the relevance of the project components to meet the development objectives and identifies areas that should have been included but were missed during the project design stage, and also areas which were included but were not necessary.

15. The mission finds the project design quite appropriate, considering the alarming fiscal situation prevailing in 1994 and the very weak administrative and managerial capabilities of the new democratic government of Malawi at the time. It was indeed necessary and urgent to put in place an ambitious program that addressed

weaknesses in financial management and mobilised resources from institutions well equipped to provide the necessary financial and technical support. One of the strengths of the program was its front-loaded policy package that identified revenue and expenditure issues and contained detailed and well-adapted policy responses, accompanied with work programs.

16. Therefore, the strategy adopted in the project, which concentrated resources on UNDP/IMF technical and financial cooperation, focused on capacity building through skill transfer to local counterparts, training activities and other technical support, was well conceived.

17. The project rightly identified the immediate objectives to be pursued and the various components that deserved attention. These included a considerable reinforcement of agencies responsible for the collection of revenue, the preparation, execution and control of the recurrent and development budgets, a strengthening of the banking sector, and the development of a reliable statistical base needed for the conduct of macroeconomic policies.

B. Project performance

18. In order to assess the project's overall performance properly, the evaluation report must first review the results actually achieved as the project reaches completion, and compare them with the various outputs provided for in the original project. These results will help assess to what extent capacity building has been realised so as to enable the authorities to formulate and manage fiscal, monetary and economic policies more effectively.

1) Expected Outputs at the End of the Project

19. The main project outputs were formulated as follows:

Fiscal Affairs

(i) Financial planning:

20. The recording and monitoring of the financial operations of the Government will be fully functional, encompassing all government transactions as well as all types of foreign financing, including loans, grants and technical assistance. Debt and foreign aid management will have been improved. The MoF's analytical capacity to track macroeconomic developments and gauge government operations' impact on the rest of the economy will have been strengthened in close cooperation with the Reserve Bank and the Ministry of Economic Planning and Development. A flash reporting system based on Treasury and Reserve Bank providing monthly data on the execution of government finance operations will be established.

(ii) Government budgeting and expenditure control:

21. A computerised and integrated fiscal reporting system will have been established (

with World Bank assistance), linking central data bank in the Ministry of Finance with regional subtreasury offices, the Reserve Bank and headquarters of the line ministries. The government accounting system will be improved to permit timely monitoring and control of both commitments and disbursements, and classification of government operations by major program and economic categories. Treasury cash management will have been built to provide timely information of cash flows. Effective expenditure control mechanisms by spending ministries will also be in place.

(iii) Revenue enhancement

22. Customs administration will have been significantly strengthened by expanded customs training, improved customs clearance control and duty collection procedures, completion of computerisation of customs procedures (ASYCUDA), reformed practices regarding bonded warehouses and duty drawback procedures, and a renewed focus on organisational and management issues.

23. The capacity of the authorities continuously to review tax policy issues will have been improved. The surtax will have been extended to the retail stage, a tax-inclusive budget will have been adopted and the pay-as-you-earn system strengthened. Tax administration will have been considerably strengthened through a restructuring of its functions, further computerisation

in the income tax and surtax areas, improvement in the capacity to train staff, especially in income tax collection, and verification visits.

Central Banking

24. The institutional and administrative apparatus will have been strengthened with the support of a strong and appropriate regulatory framework. The financial sector will be fully competitive with several new competing banks, making the commercial banks' interest rate structure more responsive to interest rate signals from :he monetary authorities. Deposit and loan concentration will be within the regular prudential exposure limits, which will be enforced effectively. An active market in treasury bills will be fully established. Monetary policy will mainly be implemented using indirect monetary instruments. A computerised book-entry system for government securities will be in place as well as a fully computerised financial data reporting system linking commercial banks, the Reserve Bank and the Ministry of Finance.

Economic and financial statistics

25. An effective capacity to produce timely and good statistical data on the national accounts and the balance of payments will be created... Periodic and desegregated international trade statistics will also be available as a by-product of ASYCUDA. The capacity to prepare timely and reliable government statistics will also be insured; these

statistics would permit proper assessment of Government operations.

2) Actual results and their impact on the Government capacity to formulate and implement fiscal policies, and manage public funds

Revenue enhancement

26. Revenue enhancement, which is the core objective of this capacity building project, is also clearly the area that has met with the highest degree of success so far, particularly with respect to improvements in customs administration and the establishment of an integrated revenue authority. Progress in the area of domestic taxation has also been substantial, though the path of reform implementation has been slower, in some cases due in part to the delayed appointment of technical advisors. A good measure of success is the remarkable revenue performance recorded in recent years. Thus, revenue from customs and excise duties has exceeded annual programme targets, rising from 4.9 percent of GDP to 5.5 percent during the project period. This was achieved despite an erosion of the base reflecting an increase in exempted foreign-financed imports, a lowering of duty rates in line with World Bank recommendations, and a decline in the volume of dutiable imports.

27. In the customs area, a major reform has been introduced and implemented during the project period, with the help of UNDP funded, IMF supervised long-term TA.' and in close cooperation with other donors, including EU and DFID. The reform is based on a strategy and a reform plan

' Three IMF panel experts advised the customs authorities during this period, including Mr. Cunningham (1995- 199 Mr. Ledrew (199 -199), and Mr. 1. Laycock (199 -to date). 13

developed by an IMF mission that visited Malawi in.December 1994.' As a result, since the onset of the project, the main improvements in customs administration have included: (1) streamlining of systems and procedures prior to their computerisation; (2) preparatory work and introduction of an automated customs clearance system (ASYCUDA) that is be tested at Chileka airport in September 1999 prior to being extended to the rest of the country; (3) improved clearance and control procedures for goods in transit and bonded warehouses; (4) introduction of an internal audit programme to detect and curb mismanagement and strengthen investigation capability, (5) improved regional customs offices, and in particular the introduction at the Mwanza office of a automated traffic control system that will be used to cover other important border posts; (6) introduction of an incentive scheme to encourage productivity and compensate for low salary levels; (7) recruitment of 110 new staff partly to compensate for the exceptionally high attrition rate (resulting from deaths and interdictions of staff) and partly to enhance operational capacity; and (8) implementation of management and technical training programmes for human resource development.

28. The evaluation mission wishes to emphasise that the success of this core part of

the project is also due, for a significant part, to the much appreciated support provided by UK/DFID, through the provision of five on-line technical assistant officers (TCO) that reportedly have performed their operational duties, for the most part, with efficiency and professionalism. Another important contributing factor to the success of the reform program and the enhancement of revenue has been the financial support provided by EU in the area of customs infrastructure, including the financing of a number of building and facilities, housing for customs staff, as well as computer hardware for the ASYCUDA project. It should also be noted that software and training for the ASYCUDA project has been provided by UNCTAD, financed by UK/DFID.

29. The reform process has also extended to other revenue categories, including the surtax (levied on imports and domestic production of goods and services) excise duties and income taxes. [2] The surtax administration was reviewed extensively by an IMF expert that did three successive one-month missions over a nine-month period extending through March 1999. ' To follow up on his recommendations, a DFID financed expert was appointed for a six-month period. As a result, the surtax administration has been strengthened, and revenue collections have increased by close to 50 percent. The IMF expert provided follow up advice on a previous IMF study on VAT introduction, including proposals for an extension of the surtax to the trade sector. ° Excise duty rate structure was reviewed and some duties were raised. In the area of income tax policy and administration, an IMF team reviewed the legislation and recommended a number of important changes to improve efficiency and compliance. The recruiting of 35 graduates and improved procedures and processes has reinforced the Income Tax Department. The Danish government has recently provided, through DANIDA, an expert in audit techniques,

' The reform proposals of the December 1994 customs mission, led by Mr. J Walsh, built upon the work of an earlier IMF diagnostic mission, led by Mr. R. Hemming, which visited Malawi earlier in 1994, and which covered other fiscal areas.

[2] A number of tax measures introduced during the project period were also inspired by the Hemming mission's recommendations.

' Mr. D. Hope

[4] Completed in March 1996 under the leadership of Mr. J Walsh : *Malawi: Introducing a Value-Added Tax*.

who is expected to strengthen the audit capacity of the department and train his counterpart and staff, including 6 new recruits.

30. A very important achievement of the project for capacity building to mobilise additional domestic revenue more efficiently has been the establishment of the so-called Malawi Revenue Authority (MRA). After intensive preparatory work that benefited from the advice of the IMF advisor, work that is now at an advance stage, the MRA Board has been appointed last January. The appointment of the Commissioner General is expected to be announced in the coming days. The top ten

management positions were advertised and applications were received. It is expected that interviews and short listing of candidates will be completed in the near future. On the organisational side, detailed charts have been worked out; recruitment, staff appraisal, and compensation policies have been defined; financial management regulations, code of conduct, and staff manual have been drafted. In the early part of this year, a team of DANIDA consultants made an assessment of office automation needs, and DANIDA will be providing funds to help in the implementation of the study. In addition, funding requirements have been studied. Finally most of the legal aspects have been covered, including transfer of assets.

Public expenditure management reform

31. Since the project started, significant progress has been made in strengthening the budget formulation processes, within the Medium Term Expenditure Framework (MTEF) sponsored by the World Bank. A three-year forward budget is being prepared. Prioritisation of government expenditures within a consolidated medium-term framework has only been partially achieved. Full integration of the recurrent and development budgets within a rolling three-year framework has been postponed to next fiscal year pending further work on the MTEF and the Integrated Financial Management Information System (IFMIS).'

32. The MoF has developed a new budget classification and coding pattern for revenue and expenditure classifications. The composition of the 1999/2000 budget document has been improved, to make budget allocations and correspondingly the monitoring of expenditure more meaningful. A new format has been suggested to improve cash flow projections, showing all the inflows and outflows on a weekly basis.

33. In the area of training, expenditure prioritisation workshops were conducted in line ministries to help identify priority programs requiring adequate funding and low priority programs that need to be scaled down. Budget Circular for 1999-2000 has provided guidelines for preparing forward estimates. During the reporting period two short-term consultants sponsored by the World Bank assisted the MoF on these matters, and an UK Government-financed resident expert is expected to help address these problems

34. The Budget Department's Expenditure Monitoring Unit has been adequately staffed and strengthened. A system of monthly expenditure reports from the line ministries to the MoF has

'The IFMIS project is funded by an IDA credit under Institutional Development Project II (IDP-lI). The objective is the development of reliable and timely recording and reporting of **government transactions.**

been established. Monthly expenditure reports are analysed by the MoF and submitted to the Special Cabinet Committee on Economy. Following the introduction of a new budget classification to the 1999/2000 budget, the Government Chart of Accounts for integrating the accounting aspects of recurrent and development budgets has been changed which will also be incorporated into the IFMIS.

35. As part of efforts to improve budgeting and fiscal reporting, and in view of the importance of foreign-financed expenditure, MoF's External Debt Management Division has also been upgraded to cover both aid and debt management functions. This unit is to develop a central database for the financial aspects of external grants and participate, with the RBM, in the preparation of the domestic debt management database.

36. A number of expenditure control measures have been introduced, including economy in travel outlays. Government has disallowed procurement of goods and services on a credit basis. Steps have been taken to liquidate arrears of expenditure. A close watch is being kept on the arrears of expenditure and Controlling Officers of the ministers have increased enforcement of fiscal discipline.

37. A network linking RBM with the branches of various commercial banks, AGD and the MoF, with a view to settling government transactions in a shorter time period, is being slowly put in place. In the meantime, to minimise the financial cost of the current system, proposals are being considered to replace the existing practice of remitting cash into the accounts of the spending agencies held in the commercial banks by a Letter of Credit with monthly ceilings and subsequent reimbursement by RBM. Moreover, a weekly fiscal flash reporting system has been proposed to monitor revenues and expenditures drawn from banking transactions on a weekly basis.

38. Throughout the project period, albeit with sometimes relatively long interruptions between assignments, the IMF has provided high quality advice to help design and implement the reform. This has mainly been done through advisory services provided by UNDP-funded resident advisors. Thus, in the first part of the project, an UNDP/IMF Advisor contributed to developing MTEF and IFMIS activities ' A new expenditure classification was prepared, which has been used in the preparation, presentation, and execution of the 1999/2000 recurrent and development budgets. Since October 1998 another UNDP/IMF Advisor' has, among other things, contributed to improving cash flow projections, reconciliation of fiscal and monetary data, and streamlining government banking arrangements. These advisors have helped organise and participated in a number of training activities, including in-country workshops for government budget preparation and execution staff. At the time of this evaluation, an IMF mission was visiting Lilongwe to review the advisor's activities and make proposals for future actions.

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NA and BOP Statistics

39. An IMF diagnostic mission visited Malawi in 1995 to identify needs to improve the collection, compilation and reporting systems for macroeconomic statistics. The original CBPEFM programme document included provision for technical assistance for the NSO to help implement the recommendations of the IMF mission.' However, it was decided to postpone implementation of this component of the programme until the government gave a clear signal that it was ready to support a substantial strengthening of the NSO. Thus the UNDP/IMF statistical advisor was not fielded until October 1998, in coor4dination with a UK/DFID project to assist in the restructuring of the NSO. So far, the advisor, who is doing an excellent job and is appreciated by his able counterpart, has been assisting NSO in the area of national accounts and balance of payments statistics. A complete review of NA methodology and experimental work on estimating quarterly GDP has been initiated. Improvements in NA data collection procedures are being made as well as on price and volume indices. Work and research programs for the BOP staff have been launched with a reasonable degree of success, and a review of BOP compilation methodology has been done. Hands-on training of staff in compilation techniques is being provided on a continuing basis.

Banking Sector

40. The Monetary and Exchange Affairs Department of the IMF has been providing continuous support to the RBM to enhance its capacity in the field of bank supervision. RBM officials have expressed deep satisfaction with regard to the quality and effectiveness of the advice received. Institutional and administrative apparatus have been strengthened within a strong and appropriate regulatory framework. This should contribute to making the financial sector more competitive with several new competing banks, and to making the commercial banks' interest rate structure more responsive to interest rate signals from the monetary authorities.

3) Overall performance

41. On the basis of the review conducted in the preceding paragraphs, the evaluation concludes that overall the performance under the Capacity Building for Financial Management Project has been quite satisfactory and that actual results have come fairly close to programmed outputs. This is clearly true in the case of the revenue component where quantitative as well as qualitative results are remarkable indeed. As stated before revenue collections have almost consistently exceeded targets in the last years of the project. Institution building has been realised to a large extent and transfer of skills has taken place, though perhaps not as much as was anticipated mainly because of capacity

constraints on the recipient side

42. The second and equally crucial component, namely the building of capacities to formulate manage and control the budget process, has been largely successful albeit less measurable in terms of concrete results. Recent events, especially expenditure overruns during the election year, have demonstrated, if need be, those institutional reforms and new techniques are not in

i The National Statistical office (NSO) is mandated. inter alia, to collect data and compile statistics on National Accounts and Balance of Payments.

themselves sufficient to ensure a lasting improvement in the budget area. Much remains to be done in that area in the coming years and progress will continue within the broader framework of the World Bank and UK/DFID-supported programmes.

43. Progress in the statistical component of the project have been hampered by the big gap between the first visit of the IMF multipurpose mission in 1995 and the effective posting of the IMF/UNDP long-term advisor in October 1998 of this year. Nevertheless despite a late start,
work in under way, especially in the field of balance of payments statistics, which should bear fruit in the non-too distant future. It appears that the effective delivery of advisory services and transfer of skills in the field of national accounts statistics has been marred due to a combination of a lack of response from some staff and inadequate supervision at the top level of management. But this should be quickly remedied and progress is expected to resume at a faster pace in the near future.

44. Lastly, the banking supervision component has resulted in durable and substantial improvement due to a conjunction of high quality advice from IMF and very responsive cooperation on the part of the RBM.

4) Areas where improvements have not been made, and reasons for lack of progress

45. The evaluation mission has not identified areas where improvements provided for in the project document have not been at least partially realised. Even in the statistical area, notwithstanding the long lag between the IMF diagnostic mission and the sending of a long-term
advisor to help implement its recommendations, results obtained so far can be qualified as satisfactory, particularly in area of BOP statistics. In fact, concrete results were achieved thanks to an effective and good working relationship between the expert and his counterpart, and despite insufficient and poorly qualified staffing and, in one occasion, non co-operative staff, combined with lack of NSO management support at the top. These problems, which have been brought to the attention of the authorities, if not rapidly dealt with, could seriously jeopardise the production of the expected output of the project, particularly in the national account statistics area, within the timeframe provided for in the project document. However, a recent review of NSO functions and

reporting duties within the government, particularly as concerns NSO capacity to conduct its own human resource program, should contribute towards improving overall performance as well as more effective and efficient use of the expert advice.

C. Modalities for project

implementation 1) Institutional

Arrangements

- **Steering Committee**

46. A Steering Committee was established to oversee the implementation of the broader project:
"Capacity Building Programme for Economic and Financial Management (CBPEFM). " It
appears that no Steering Committee was established for the project that is being evaluated

- **Project Coordinator**

47. The project design did not fully address the issue of coordination. Terms of reference were prepared for the Project National Coordinator (NPC) of CBPEFM but not for this project. Moreover it seems that the budget line that was created for the NPC in the original budget was subsequently removed.

48. Despite the above, the MoF has been trying, unsuccessfully, to achieve some degree of coordination between the different elements of the project. Initially the Debt and Aid Management Division had been given responsibility for project coordination; it was later moved to the Tax and Tariff Policy Unit. Without proper terms of reference and no budget per se, the Unit has found it difficult to effectively carry out its duties. Moreover, no individual officer of the unit has been assigned to this task.

49. The mission therefore recommends that, should the project continue, a full-time project coordinator or assistant coordinator is appointed. In the meantime, the immediate needs for equipment and facilities, if justified, should be satisfied within the budgetary limits of the current project. For any future project, TORs for the NPC should be formulated, which should include
responsibility for updating work plans and monitoring performance indicators. To improve efficiency, basic training on project management might be called for.

2) Balance between long-term and short-term assignments

50. This is a difficult and controversial subject on which opinions differ. The mission, however, shares the view that the project, in its original design, might have provided

some gradual phasing out of the long-term component of TA. It is clear, given the very weak management capacity and, in some cases, the dire state of some departments or divisions concerned at the time the project was designed, that it was appropriate for long-term resources to be injected to jump start project implementation. The mission admits that it is easy to say, ex post, that in the event the balance was too much in favour of long-term assistance, given the bias imparted to project execution by the substantial presence of on-line TCOs funded and supervised by DFID. It should also be noted that the large input of long-term TA was provided at the request of the authorities. Moreover, it is fair to say that long-term advisors were on the whole of very high calibre, and that their assistance and advice proved very effective, particularly in the last years of the project. Short-term assignments and missions proved to be very efficient and of excellent quality. IMF diagnostic missions left reports and recommendations of high standards, on which a considerable part of subsequent advice rested and on which follow-up was based.

3) Appropriateness of equipment.

51. Discussions with participants in the various components of the project revealed that there was need for more consultation between the Project Coordinator and the beneficiaries in order to discuss and agree on equipment requirements. Equipment purchased, when delivered without undue delay, was judged adequate, but frustration was expressed over the many occasions when there was delay in purchase and delivery of project equipment. The supply of only one project vehicle proved inadequate when the statistical component of the project was reinstated in

October 1998, because of the physical separation o` the three main project components in three locations (Lilongwe, Blantyre, and Zomba).

4) Adequacy of training and capacity building activities of the project

52. The mission feels that more could have been achieved in this area, simply because this project is centred on capacity building and that the needs in this area are tremendous. As pointed out in the conclusions, sustainability cannot be ensured without a given amount of national capacity having been created. However, one of the main factors that militated against optimal realisation of the training and skill transfer objectives has been the lack of counterparts, at the appropriate level in key areas of the concerned departments, particularly in the Customs Department. Despite this, the project has made an important contribution to the successful implementation of the customs and excise reform and the work done at the Reserve. Bank, through the delivery of structured training programmes for national staff by short and long-term experts. Moreover, the Customs and Excise training centre has, in the past three years, trained over four hundred officers in various fields such as, valuation, classification, origin, surtax management and accounting. It was noted that for the Budget Department (BD), training plans had been prepared and that the Malawi Institute of

Management would run the training programs, but these plans have not yet been implemented. Insufficient management support and lack of interest by some were also a significant obstacle to skill transfer. Needs for computer training was expressed in the BD.

5) Procurement and deployment of inputs

53. It was not clear to the mission why a number of problems arose with the procurement of equipment, office equipment and supplies, and general administrative support. Experts often had to spend a considerable amount of time dealing with administrative matters, when they needed to devote full attention to their new professional environment and the technical work associated with their assignment. Considering that the focal point for a UNDP's nationally executed project is in the Ministry of Finance and that the UNDP field office is in a position to provide adequate advice and support, the local administrative arrangements for the project could have been smoother. In the team's view, there appears to be a need to pay more attention to ensuring that the national project co-ordinator is well-briefed on UNDP's administrative and financial procedures. An alternative solution would be for the NPC office to undertake these tasks itself, bearing in mind that knowledge of such procedures would be only of temporary interest and use to project staff who have many important substantive responsibilities to undertake.

6) Delivery of Technical Assistance

54. A large proportion of activities originally envisaged under the Capacity Building for Financial Management Project have been supported, initiated or undertaken by project personnel working as a team, both experts and counterparts. On the whole, this has resulted in most of the outputs being produced and objectives being met, or on their way to being met. However, optimal use of technical assistance has been hampered by several factors, which may be summarised as follows:

• **Experts tilling line positions**

55. In some instances, no counterparts were assigned to work with the experts. Because the positions remained vacant, the advisors have often been used for operational work instead of advising or training staff. This has created a "dependence syndrome", especially when the TA is provided in the form of a long-term assignment. In at least one case this has resulted in a vacuum remaining and lack of skills transfer when the long-term expert departed.

• **Other demands of departments**

56. In instances where counterparts are assigned to an expert, because of other demands from their department, these counterparts are liable to be called upon to perform a large number of other, sometimes unrelated, tasks which hamper their ability to absorb skills and knowledge from the expert.

•**High staff turnover**
57. This is also an important obstacle to the transfer of skills, because when counterparts have been trained, they may be moved to another department or leave the Civil Service .altogether. In one instance the evaluation team was told that the counterpart that had just been designated was about to retire.

- **Lack of willingness of the counterpart to learn**

58. In principle, counterparts are expected to receive advice from experts, assuming that the latter have the required skills. However, there have been instances when counterparts showed little desire or inclination to learn, and were away from the office more than necessary. (This has been particularly the case at NSO) Such an attitude was explained by the fact that, due to poor compensation packages in the civil service and relatively generous travel allowances, counterparts might want to supplement their earnings by maximising opportunities to travel on trips that were not always fully work-related.

- **Attitude of the Expert**

59. The expert may not be interested in, or predisposed to, or qualified for, the transfer of skills. Although the mission has not gathered evidence of such behaviour or lack of training skills, it is a fact that training requires special skills and considerable investment. In addition, experts that are otherwise fully occupied in operational duties may not be in a position to devote enough time to train counterparts and other staff.

- **Suitability of Counterparts**

60. In isolated instances we found that the counterparts did not have the required knowledge or qualification for the job they were assigned to. This considerably limited their ability to absorb anything from the technical assistance in any effective manner.

61. All of these factors described above may have affected different components of the project at varying degrees. The following is a review of the matter for the main project components.

In the Department of Customs and Excise

62. This is the department that has benefited most from the TA provided under the project. The contribution of the project has been reviewed in detail in the section devoted to actual results. Customs management admits that not all the UK/DFID experts have counterparts, but this was recognised from the beginning, which is why these experts were filling operational positions in the customs service. With the exception of the UNDP/IMF Senior Advisors, all the other TCOs occupy line positions. Although this evaluation does not extend to the work of TCOs that are employed under the DFID umbrella, it should be noted that, as a result of this situation, the department

may inevitably develop a "dependency syndrome" and performance is likely to suffer once these experts are gone. Of course, replacing TCOs in line positions by nationals with a proper background would be a preferable solution, even if this required close assistance in an initial phase. However, the mission has been made to understand that the senior managers are too few in numbers and are absorbed by other duties. Due to existing regulations, junior managers cannot be promoted sufficiently rapidly even though some of them are qualified and good performers and could perform the duties a senior level efficiently and effectively. The evaluation team hopes that policies will be amended and practices be made more flexible in the near future, when the Malawi Revenue Authority (MRA) is put in place and this important issue can be resolved reasonably quickly.

In the Department of Income Tax

63. A counterpart has been assigned to the income tax advisor who has been provided by DANIDA following the recommendations of the October 1998 income tax mission fielded under the UNDP/IMF project. There appeared to have been some confusion in the minds of the department's senior management regarding the expert's qualifications for this assignment. However, the evaluation team considers that his background and experience is well suited to the tasks and is pleased to note that lie is working very effectively with the counterpart assigned.

In the Budget Department

64. The Government is engaged in an ambitious programme aimed at the establishment of a budget process that has well defined programmes/activities based on sector objectives, policies and strategies, prioritising programmes and activities, developing reliable cost estimates, improving the allocation of resources by restructuring the budget allocations and scaling down non priority activities. To this effect, two IMF/UNDP technical advisors were successively assigned to the Budget Department since the inception of the project. It appears that, at least as far as the former TA was concerned, the work done has been more of an operational nature than skill transfer. Granted, several workshops were conducted for budget officers in several key line ministries, focusing on budgetary reforms, particularly on modified budget coding and expenditure and revenue classifications. But, in view of the major reforms that are being implemented this type of training ought to be intensified. Furthermore, it is important that skills transfer not be confined to BD and associated offices, but cover, if not the whole civil service, at least the key ministries and departments that are the principal spenders of public funds.

65. While on-the-job transfer of skills by experts to a few individuals within the MoF. including counterparts when they exist, as well as other vehicles of skill transtèr such as overseas training, undeniably constitute an important part of their duties. the evaluation mission feels that organisation of or /and participation in seminars and

workshops, are as important and should
receive increased attention and resources. The mission also feels that effective transfer of skills can be achieved through the collaboration of in-the-field or foreign-based experts with existing local training institutions such as the Malawi Institute of Management (MIM). Training modules could be designed and delivered at MIM with the assistance of the project's experts. This recommendation applies to all components of the project. Institutionalised training within the civil service could greatly contribute toward solving the problems raised by excessive turnover. The training institutions could also provide training of trainer's courses to some key civil servants that will then act as a kind of "in-house" faculty.

In NSO

66. As indicated earlier, the National Statistical office (NSO) collects data and compiles statistics on National Accounts and Balance of Payments. However, other government departments collect their own statistics. In order to ensure that data between different sources is consistent, a Technical Committee has been established, comprising officials from the Treasury, the RBM, the NSO and National Economic Council. This committee meets regularly, especially just before the parliamentary budget session; in order to streamline data sources and come up with one agreed set of statistics. The technical expert currently posted at NSO is doing a professional job in close cooperation with his very able counterpart. However they need improved cooperation and response from other NSO staff, especially those officers working on National Accounts statistics. Moreover, the mission feels that NSO management should provide effective support services to the expert and his counterpart, including adequate staffing, IT equipment and vehicles. Requests were formulated and substantiated in this respect. They do not yet seem to have received sufficient attention. It would be most regrettable if the expert assignment were to end before these legitimate requests are satisfied.

IV. **CONCLUSIONS**

67. This project's purpose was to strengthen the capacity of the government to formulate and implement fiscal and monetary policies appropriate to the global and regional economic environment and consistent with, and supportive of, Malawi's development objectives. The evaluation concludes that the project has been very successful in key financial areas --including enhancement of revenue raising capacity and strengthening of the banking sector-and that significant progress was achieved in strengthening the budget formulation processes. However,
sustainability of these improvements remains uncertain. Because in some project components the
experts have often been used more for operational purposes than for skills transfer, the latter has not been accomplished in a fully satisfactory manner, with the result that the recipients have tended to develop a dependency syndrome. This may be explained in

part due to the difficulty to satisfy concomitantly two very different objectives: the somewhat short-term goal of revenue raising to meet government targets and more the long-term objective of capacity building.

68. These shortcomings ought to be corrected in an organised way if capacity building is to take place within a reasonable timeframe and is be durable. There are no easy and quick solutions that can ensure sustainability. The dire state of management capacity in some institutions prevailing before the project started and the lack of a core of skilled executive staff were such that priority actions needed to focus on redressing the fiscal situation quickly. Furthermore, capacity building efforts were and continue to be seriously hampered by a very high attrition rate, due to the prevalence of AIDS, and a too rapid turnover of staff. While there is regrettably little hope, in the short-term, to solve the first problem, proper incentives and a more stringent recruitment policy should be quickly adopted to check excessive turnover by attracting and retaining capable and motivated people. In that respect the establishment of the Malawi Revenue Board, which is expected to commence operations in October 1999, should go a long way toward providing an appropriate environment for capacity building. The mission believes that a properly managed MRA would greatly contribute to boost the country's credibility in its efforts to mobilise additional domestic revenue.

69. On-the-job transfer of skills to a few individuals within the MoF undeniably constituted an important part of the budget expert's work. However, the evaluation mission is of the view that training of a wider range of staff is important. Discussions with donors have shown that funding could be made available for well-focused training programs. The mission also feels that an effective transfer of skills can be achieved through the collaboration of experts, in the field or foreign-based, with existing local training institutions. Institutionalised training within the civil service could also come a long way toward solving the problems raised by excessive turnover.

V. LESSONS TO BE LEARNED AND RECOMMENDATIONS

70. As the raison d'être of this project was the building of institutional capacity, and as the needs for it arose in the midst of a rapidly deteriorating fiscal situation and very weak administrative environment, the role played by both UNDP and IMF has proved to be very effective. Firstly, in making sure that a front-loaded policy package was adopted covering both revenue mobilisation and expenditure control areas; secondly, in concentrating UNDP/IMF resources on technical support in key financial institutions; and thirdly, in mobilising and, as concerns UNDP's field office, in co-ordinating other donors' assistance, including the World Bank, UK, Denmark and EU. This catalytic role has also proved to be very successful, judging by the generous response of the donor community.

On the basis of the above, the evaluation mission makes the following recommendations:

1) 71. The team believes that the current project should continue for at least 12 to 18 months to ensure a smooth transition into the next millennium. This is necessary to consolidate the considerable achievements made to date and to plan a gradual shift from long to short-term advisory assistance. The team envisages that this project would then be replaced by a new project of two to three years duration consisting of short-term UNDP/IMF experts and IMF staff missions, primarily responsible for ensuring the sustainability of the administrative reforms.

2) 72. The nature of this successor project will he such that it will require much closer monitoring and management underlining the need for the appointment of a strong project coordinator, since the task of managing a large number of expert visits, seminars, workshops and other training activities will be far more time consuming than overseeing the work of resident advisors.

3) 73. Training should receive the highest priority in the next project. The role of national training institutions should be amplified. Training modules could be designed and delivered with the assistance of experts. The training institutions could also provide a training of trainer's course to some of the project counterpart staff who could then become a kind of inhouse training faculty.

4) 74. The building up of a statistical base should also receive high priority. The team welcomes the recent counterpart personnel changes in the balance of payments division of the NSO and recommends that the national accounts division be also reinforced by the recruitment of at least two staff and properly equipped with computers and vehicles. The expert and his counterpart will need strong support and cooperation from top NSO management if the project s objectives are to be met.

5) 75. In the area of procurement of equipment, office equipment and supplies, and general administrative support, the UNDP's field office should make sure that local administrative arrangements for project execution are upgraded so that experts spend less time dealing with administrative matters and devote full attention to their advisory assignment.

6) 76. The team recommends that all the necessary steps are taken so as the Malawi Revenue Authority (MRA) be put in place no later than October 1999. It also recommends that MRA applies human resources policy flexibly with a view to facilitate the recruiting an the promotion of staff more on the basis of skills and competence than seniority; this should help resolve the issue of counterparts and contribute to improve project sustainability.

IX. THE WAY FORWARD

77. The review of activities performed so far, results achieved, and unfinished tasks, all point to the need for continued assistance in practically all the components of the project, though in different degrees. On the revenue side, it would seem essential to maintain a high level of technical support for a relatively short period to enable the newly established MRA to make a good start and confirm its credibility as a new, better equipped and more flexible instrument to raise revenue fairly, equitably and efficiently. The months that will follow MRA commencement of operations will be crucial in that respect. On the expenditure side, as explained above, much remains to be done to reach the project objective of real budgeting in a macroeconomic environment, as well as effective and efficient expenditure control management. There again, technical support will be needed. In both areas, long-term assistance should gradually give way

to periodic follow-up visits by experts. As concerns capacity building in the field of statistics, given the late start, it is to be expected that the project's ambitious objectives will not be attained by the end of the project period. Technical support will need to be continued, probably with new funding. Lastly, on the banking side, RBM officials have requested continued co-operation with IMF in the same form that has proved efficient so far, i.e. staff and expert's visits, and a staff mission is expected to come shortly.