



**Ministry of Economic Planning and Development (MEPD)
The Republic of Malawi**

Technical Report 1

**The Project for Capacity Enhancement in Public Sector Investment
Programming Phase II (CEPSIP-II)**

April 2014
Japan International Cooperation Agency (JICA)
KRI International Corp.



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Executive Summary

Country' development must be conducted under a well-organized and rationally operated public management system. The public management system for development is a cyclical management process comprising "Policy Making," "Planning," "Budgeting," "Implementation," "Evaluation" and "Feedback" phases. The Public Sector Investment Programme (PSIP) of Malawi is a multi-functional management device for "Projects" that institutionally embody all the development activities of the country within a framework of the total public management for development defined above. In addition to its main function to bring planned development activities into execution by securing development budget to be provided by the Ministry of Finance, PSIP also oversees state of implementation of the development projects and takes part in their performance evaluation as well.

Different from most of other countries' PSIPs which normally deal only with physical capital or infrastructure investments, the Malawi's PSIP uniquely manages all the development activities involving not only physical investments but human capital and institutional development projects as long as they are regarded as "development" in nature.

In order for the PSIP to fulfill its assigned mission above, all the development activities shall be projectized and captured in PSIP comprehensively, and on the other hand, all the projects contained in PSIP are supposed to be genuine in terms of development nature. In order to ensure that comprehensiveness and genuineness to carry out its mandated function, PSIP must clear several requirements as follows.

Primarily, all the development activities have to be projectized to be enrolled and treated in the PSIP process. However, answers from some of the sector ministries suggest that part of the development activities they implement are sometimes difficult or even impossible to be projectized, which obliges them to resort to the recurrent budget to obtain finance for the execution. This fact must be further explored in the field of development activities in order to secure the PSIP's required comprehensiveness.

Secondly, there need a clear-cut distinction between "development" and "recurrent" as a base to judge eligibility of proposed projects to be enrolled in PSIP. It should be explicitly indicated in relevant guiding documents with clear definitions of "development" and "recurrent," and disseminated to all the stakeholders involved in the development management to share common understanding base among them.

Thirdly based on the above, proper, reliable and sufficient information on proposed projects have to be submitted from the implementing agencies for the MEPD's appraisals. Such information is

produced by reliable project management system of each implementing agency and relevant sector ministries concerned under appropriate guidance for the information preparation instructed by MEPD. The guidance is intensively provided by a practical PSIP Handbook with submission formats or templates.

Finally, the proposed projects need to be rightly appraised by MEPD to be authorized as activities for “development.” For the appraisal, all the project information must be properly collected on a timely basis, and kept well-arranged for conducting efficient appraisal process. The MEPD’s basic policy requires MEPD to conduct project appraisal following the DAC five criteria (relevance, effectiveness, efficiency, impact and sustainability) as Ex-ante evaluation. The appraisal is conducted in accordance with proper methods and procedures guided by a well-prepared reliable appraisal manual.

CEPSIP II has been assisting MEPD to improve weaknesses prevailing in each aspect of the PSIP management process classified above into the “institutional,” “conceptual,” “information collection” and “appraisal” phases to enable PSIP to carry out its assigned mandate in the total public management for development of Malawi.

1. Public Management for Development

The area which CEPSIP II aims to strengthen is “Public Management” for the development of Malawi. The Public Management for development is a cyclical management process. The basic concept itself is commonly applicable to any organization which is functionally organized to achieve its common objective efficiently, economically and effectively, regardless whether it works in a private or a public sector of an economic society. That management cycle consists of “*Plan*”, “*Do*”, “*See*” and “*Feedback*” processes, or they are more practically interpreted in the context of public management as “Policy Making,” “*Planning/Programming*” “*Budgeting*,” “Implementation,” “*Evaluation*” and “*Feedback*” stages respectively. The effectiveness of the system and operation should be viewed from the perspective whether this cyclical process is properly structured (a static aspect) and is smoothly working (dynamic aspect).

Based on the basic national development policy, the Malawi’s development plans are logically and hierarchically composed from the long-term national vision for twenty years down to the annual work plans of each ministry who implements the activities planned for development.

(National Development Planning System)¹

- ✧ Vision 2020: Long-term Development Plan (20 years until 2020)
- ✧ Malawi Growth and Development Strategy (MGDS) II: Medium-term Development Strategy (5 years from 2011 to 2016)
- ✧ Sector Strategies (5years)
- ✧ Ministerial Strategic Work Plan (1 year)

Activities to achieve development goals specified in the planning structure are carried out under the finance of development budget allocated by the Ministry of Finance, and the performance of each implementation is then evaluated the result of which is fed back upstream to the following policy making, planning and budgeting.

2. Budgeting System

A “Budget” in a public sector functions as a tool to efficiently, economically and effectively implement plans and programs that embody intended policy, translating them into monetary terms. In other words a “budget” financially bridges the gap between the policy and its execution. This

¹ Apart from this fixed development planning structure, the cabinet introduced a supplementary short-term plan entitled “Economic Recovery Plan (ERP)” to urgently tackle the economic challenges being faced during the first year of the MGDS II. ERP is under implementation since April 2012 for 18 months.

technically requires departure from a conventional way of budgeting practice that had been prevailing in a public sector among the world. The paradigm shift must be taken in three different directions as follows:

- (1) Shift from an isolated single-year budgeting to a multi-year budgeting based on a Medium-Term Expenditure Framework. **<MTEF>**

Few policy targets are normally achieved in a single year which is artificially fixed for accounting and other administrative purposes. As a financial tool which monetarily supports policy and plans for their implementation, budgets must be prepared corresponding to a particular period respectively needed for attaining the targets concerned. However, too long timeframe makes the budget estimation vague and inaccurate. In order to formulate a rational as well as reliable budget, the base period is fixed at 3 years in the Malawi's MTEF.

- (2) Shift from input-oriented incremental budgeting based on line-items to output-oriented performance or activity based budgeting. **<Activity-Based Budgeting>**

As a financial tool which monetarily embodies the policies and plans for their implementation, budgets must be prepared based on costing of required activities to attain the policy target concerned. In the Malawi's context, it is termed "output" budgeting. However, the "output" cannot be directly costed, it is therefore done by costing the activities which convert necessary "input" into the targeted "output."

- (3) Shift from isolated piecemeal budgeting to integrated program budgeting. **<Program Budgeting>**

As a financial tool which monetarily embodies the policy and plans for implementation, budgets must be collectively compiled on a program basis getting rid of narrow-minded and vertically isolated piecemeal units with little contact directly with each other. The Ministry of Finance is planning to introduce "Program Based Budgeting (PBB)" under the initiative of IMF. The prevailing Sector Wide Approach (SWAP) is also on this track to conduct a sector-holistic deal, which underlies the concept that "sectors" should be looked at in totality. In some instances, they are not necessarily synonymous with sector ministries and overlaps occur.

3. PSIP of Malawi

(1) Public Sector Investment Programme (PSIP)

Public management tool for development termed PSIP is also used in other developing countries. However their objects of management are sometimes different from the one of the Malawi's.

Following are those examples:

(PSIP of Mauritius)

The PSIP of Mauritius deals with only physical capital investment or economic and social infrastructure development for the country's overall development. The PSIP document defines that:

The infrastructure development agenda as set out in the Government Programme 2012-2015 provides a roadmap for the transition of Mauritius into a well-diversified high income economy over the next ten years. The 2013-2017 Public Sector Investment Programme (PSIP) reflects the sector development policies and key infrastructure needs of Mauritius for the next five years.

As the “major outcomes of planned investment,” the PSIP enumerates “expansion of the water storage capacity to reduce water leakage (water facility),” “reduction of travel time from Curepipe to Port Louis (road),” “an efficient public transport system to facilitate movement of goods and commuters (public transportation facilities),” “provision of 200MW extra capacity in energy (power plants)” and “transforming Port Louis into a major transshipment hub (seaport).”

(PSIP of Samoa)

The PSIP of Samoa captures all the development activities, not limiting to physical investments, which are aligned to the medium-term national development plan, “Strategy for the Development of Samoa 2012-2016.” The PSIP articulates that:

The PSIP lays out each public sector project as either “on-going” or “pipeline” initiatives indicating projects currently being implemented and those planned or yet to be implemented. It is further categorized as either a technical assistance investment project or capital investment.

(Targeted PSIP by International Training Institute)

An international training institute, Crown Agents, conducts a training course for planning and budgeting officials of developing countries on PSIP. The course assumes PSIP as a tool for managing projects of capital investment in physical assets stating in its “course overview that:

Participants will develop the necessary skills to appraise, prioritize, finance and budget for major capital² projects.

It explores key issues relating to the integration of capital expenditures into the budget process, and also capital asset management.

² Normally, the terms “capital” and “investment” assume physical assets as their objects in the context of management and accounting, where investments in human capital or in institutional development are not envisaged.

(2) Scope of Malawi's PSIP

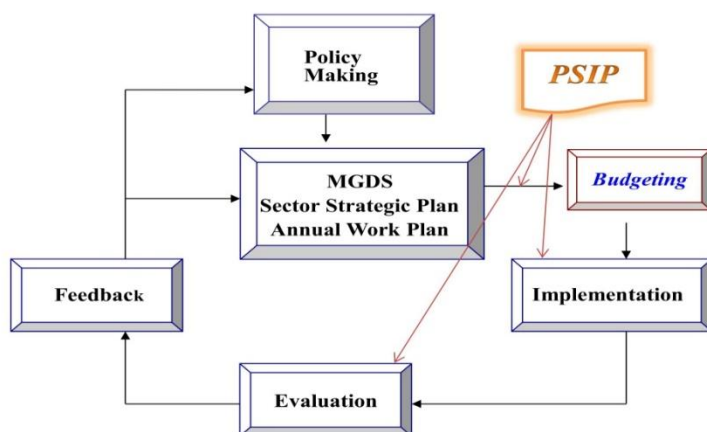
The “Public Sector Investment Programme (PSIP) Preparation Handbook,” June 2011 defines that “a public sector investment programme (PSIP)³, which serves as a planning and implementing tool for the MGDS, intends to provide details of government’s investment programme in a transparent form (P. 2). The “Guidelines for the Preparation of the 2013/14 Budget” also mentions PSIP, and defines that the PSIP is an instrument through which Investment in Development Programs in Malawi is delivered and coordinated, and it is a five-year rolling plan that outlines the development priorities in infrastructure development of the country.

From those official guiding documents, the Malawi’s PSIP seems to specialize in “investment in physical assets” like the PSIPs of Mauritius and Crown Agent’s shown above. However in operational practice, the PSIP deals not only with physical investment but all the “development activities” also involving non-physical human resources and institutional development as long as they are regarded as “development” in nature.

(3) Role of PSIP in Total Public Management for Development in Malawi

PSIP of Malawi is a multi-functional management device for “Projects” that institutionally embody all the development activities of the country within a framework of the total public management for development defined and discussed in the preceding sections.

Figure 1: Public Sector Management Cycle for Development and Role of PSIP



³ This sentence seems to state on a PSIP in general, but it obviously intends to define the PSIP of Malawi mentioning MGDS.

In the total management system, PSIP is located between the “planning” and the “budgeting” phases with its primary role to bring planned development activities into execution by securing the development budget to be provided by the Ministry of Finance. In addition to that main function, PSIP also takes part in the implementation phase that follows with a role to oversee state of implementation of the development projects. It further supports the project and development policy evaluations, which are primarily tasked to the implementation agencies concerned and M&E Division of MEPD respectively. Each aspect of the PSIP’s task takes the following steps.

a. Development Execution Management

Appraisal and approval of newly proposed “Projects” from sector ministries or other implementing bodies of development projects in accordance with specific judgment criteria to qualify the projects as “development,” not “recurrent,” activities.

b. Development Budget Formulation

Budgeting of the approved projects and handing them over to the Ministry of Finance for assigning development budgets.

c. Monitoring of Project/Development Progress

Physical and financial progress monitoring of project implementation using registered progress indicators based on the information from respective sector ministries or other implementing bodies.

d. Evaluation of Projects and Information Provision for Evaluations of Sectoral and National Development Plans

PSIP is participated in the evaluation phase of the project cycle and total public management for development. PSIP database collects comprehensive information including implementation monitoring and performance evaluation. For the policy evaluation of MGDS and other development plans, PSIP provides each evaluation body with financial information of “development expenditures” expended for having achieved the development targets and goals. Performance of development activities measured with the achieved levels of output, outcome and impact have to be compared against the inputs (to be or have been) invested or consumed for that attainment which are represented by development budget and expenditures respectively in development evaluations. It is the PSIP that arranges the development budget and comprehensively aggregates the development expenditures.

e. Base for Physical Assets Management after Project Completion

Provision of both physical (classified assets) and financial (acquisition costs) information for the asset management after the completion of infrastructure development projects.

4. Requirement for Fulfilling PSIP's Role

In order for the PSIP to fulfill its assigned mission specified above, the following conditions must be fulfilled:

- (1) All the “Development Activities” implemented or to be implemented have to be comprehensively captured and managed in PSIP without omission. (Comprehensiveness of Coverage)
- (2) Only genuine “Development Activities” are to be contained in PSIP. There must not be “Non-Development or Recurrent-Natured Activities” contained in PSIP. (Genuineness of Contents)

To ensure the above two conditions, “comprehensiveness” and “genuineness,” to carry out its mandated function, PSIP has to clear several requirements as follows.

- a. Projectization of all the development activities⁴ (Institutional Aspect)
- b. Definitive distinction between “development” and “recurrent (Conceptual Aspect)
- c. Collection of sufficient project information from sector ministries and other implementing agencies (Informational Aspect)
- d. Right project appraisal by MEPD (Appraisal Aspect)

5. Current PSIP Practices and CEPSIP II Works for Improvement

(1) Institutional Requirement

(1)-1 Current State of Affairs

Although not explicitly instructed by the PSIP Preparation Handbook and other relevant guiding documents currently followed in PSIP processes, all the development activities are supposed to be projectized in order to be enrolled in PSIP. However, the following negative facts have been found during the CEPSIP II field studies.

A questionnaire survey is being conducted under CEPSIP II to sector ministries and other project implementation bodies asking about the process of projectization of their developing activities. Answers have been collected from 25 agencies so far. Among their answers, four agencies answered that they have some development activities which are unable to be projectized, and resort to get

⁴ However, this requirement is inconsistent with the official definition in budgeting. According to the “Budget Manual,” November 2009, the development budget is defined as “projects and activities undertaken to support PSIP. This leaves the determination of “development” to PSIP. It also suggests existence of un-projectized development activities.

recurrent budget to carry them out. Another three agencies responded that there are development activities which are difficult or unsuitable to be reasonably projectized but they are obliged to do so for the sake of obtaining development budget.

As a basic policy for preparing PSIP, not only physical investments but development-natured service projects are also supposed to be captured in PSIP. CEPSIP II is therefore enrolled in PSIP which is one of the components of the PFEM-RP, however many of other components of PFEM-RP seem to have been neither enrolled nor proposed for the enrollment of 2014/15.

Although decisive conclusion cannot be hastily made yet before collecting more answers from the rest of the project implementation bodies and further exploration in the field, those facts suggests that there may be cases where some of the development activities fail to be projectized to successfully obtain development budget.

(1)-2 CEPSIP Works for Improvement

As a base for judgment, CEPSIP II will extend the questionnaire survey to cover all the project implementation bodies. The result analysis of the answers collected is followed by field surveys to selected sector ministries and relevant project implementation bodies to explore detailed state of affairs in practice. Based on the study results, thorough discussion with MEPD and MOF will be made from the viewpoint of defining development activities and way of their practical inclusion into PSIP.

(2) Conceptual Definition of “Development” and “Recurrent”

Since PSIP is a managing tool of “development” as have been already discussed above, distinct definition of “development” to distinguish it from “recurrent” is essential to determine the coverage of PSIP. The following conceptual definition is commonly understood and agreed among the parties involved in PSIP and government budgeting.

Development Activities, Budget and Expenditures: Activities that are carried out to contribute toward specific progress or improvement upon present status in normal conditions. The estimated fund to finance them is the “development budget,” and the corresponding actual amount expended is the “development expenditure.”

Recurrent Activities: Activities to carry out government’s regular daily running or routine tasks to maintain the status quo. The estimated fund to finance them is the “recurrent budget,” and the corresponding actual amount expended is the “recurrent expenditure.”

Therefore, the distinction between “development” and “recurrent” is solely made upon the nature and intention of activities (output basis), but not on the accounting item of expenditure (input basis).

(2)-1 Current State of Affairs

The “development” is usually discussed in the context of the country’s development plans especially represented by MGDS. That is reasonable because the development plans embody the government’s intention to improve the current social and economic conditions as MGDS II clearly states that it presents a policy framework that articulates issues related to both economic growth and social development (Chapter 1 Introduction).

However in the practice of PSIP preparation and development budgeting, activities that are regarded eligible for PSIP enrollment do not fully correspond with those specified in MGDS⁵. The following examples show that the actions for achieving MGDS goals embrace “recurrent activities.”

MGDS II Theme 1: Sustainable Economic Growth

Sub-Theme 2: Natural Resources and Environmental Management

Goal: Enhancement of sustainable management of forest resources and their contribution to national economy.

Strategies: Developing, conserving and protecting forest plantations, customary estates woodlands.

Focus Actions & Activities: - Undertake fire management activities in plantations and forest reserves
- Undertake forest patrols

MGDS II Key Priority Area 3: Transport Infrastructure & Nsanje Inland Port

3.2: Rail Transport

Goal: Development of an efficient & effective Network

Medium Term Expected Outcome: Improved Regional & International Connectivity

Strategies: Rehabilitating & expanding the railway line & related infrastructure

Focus Actions & Activities: - Carry out emergency track spot repairs
- Carry out emergency bridge & culverts repairs
- Carry out rail track & bridge maintenance

On the other hand, physical capital investments implemented by other MGDS ministries are eligible enrolled in PSIP.

A numerical evidence of the difference between the “development” and MGDS is also seen in the “Output Based” Budget Document as follows.

(Example – Ministry of Education, Science & Technology)

Total Estimate for the Fiscal Year 2013/14: MK 73,950 million

Development Budget: 13,582 Recurrent Budget: 60,368 (Total: 73,950)

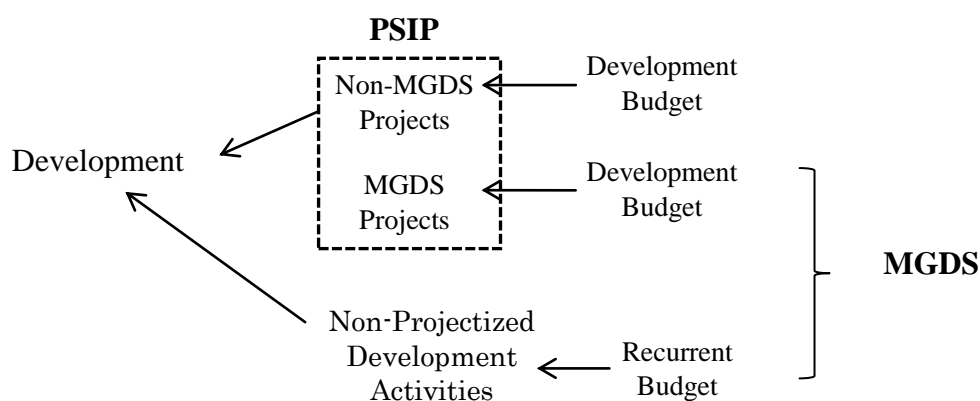
⁵ The PSIP Preparation Handbook that explains PSIP as an implementing tool for MGDS (Section 1-1) contradicts this fact.

MGDS: 66,076 Non-MGDS: 7,874 (Total: 73,950)

This shows that MGDS activities are mostly funded under the “recurrent budget.”

Taking also the fact reminded in the Footnote 4 into account, the relation among “Development,” “Budgeting” and PSIP is like the following.

Figure 2: Interrelation among Development, Budgeting and PSIP



The “Development” defined in the Budget Manual comprises “(Development) Projects” and “(Non-projectized Development) Activities.” PSIP captures any set of activities organized as a project whether they belong to MGDS or not, and rejects non-projectized activities even if they are development in nature. MGDS includes both development and recurrent activities to achieve targeted goals for the country’s economic growth and economic & social development.

The interrelation is thus extremely complex under the current policy and practice, but there is almost no explanation that gives integrated logical elucidation in prevailing official guiding documents. Additionally, inconsistencies among descriptions in different guidelines are found, and some expressions are incorrect. The following are the examples.

- a. The “Development Budget” collects both projects and activities undertaken to support PSIP (Budget Manual 2009, Glossary), but in practice, non-projectized development activities cannot enter into PSIP. All the development activities must be projectized to be eligible for the PSIP entry. Budget Manual 2009 leaves determination of “development” to PSIP’s judgment in which PSIP can independently and arbitrarily decides “development.” It must be reversed. The “development” should be functionally, not procedurally, specified first, and then in light of that, PSIP select projects which are regarded as development in nature for the enrollment.
- b. The Budget Manual 2009 specifies that the “Development Expenditure” is expenditure related to

capital investment, and the “Guidelines for the 2013/14 National Budget” supports it saying in the section for the alignment to PSIP that PSIP outlines the development priorities in infrastructure development of the country. As has been discussed earlier, PSIP handles not only physical investment but service projects like human resources and institutional development. The above descriptions in the Budget Manual and Guideline erroneously limit the PSIP coverage to physical investment⁶. Believing that, some stakeholders do not doubt that PSIP only handles physical investments.

c. As the counterpart of the “Development Budget” in the national budget of Malawi, the Budget Manual 2009 defines the “Recurrent Budget” on input-based line items as “Personal Emoluments (PE)” and “Other Recurrent Transactions (ORT).” As have been already discussed at the outset of this Section (2), the distinction between “development” and “recurrent” must be solely made upon the nature and intention of activities (output basis), but not on the accounting item of expenditure (input basis).

d. PSIP, which serves as a planning and implementing tool for MGDS, intends to provide details of government’s investment programme in a transparent form (PSIP Preparation Handbook, 2011), but actually, PSIP is not correspondent with MGDS (cf. (2)-1 in this Section). PSIP is an implementing tool of development projects, but does not intervene in the “planning process.”

These unclear and misleading definitions of “development” and “recurrent” activities, and associated budgets and expenditures, prevent PSIP from fulfilling its mandated function sharply capturing necessary component of government development activities and associated budgeting in the Malawi’s total public management for development failing to secure the required comprehensiveness of coverage and genuineness of contents.

(2)-2 CEPSIP Works for Improvement

To improve the conceptual shortcomings identified above, CEPSIP II will revise the PSIP Preparation Handbook to clearly state definitions of relevant concepts with logical interrelations among relevant concepts and terminology, which will be followed by assistance for MEPD in disseminating them to all the stakeholders involved in the PSIP process to realize comprehensive and consistent preparation of necessary information. The main points of the PSIP Preparation Handbook revision are summarized in **Appendix**.

⁶ Malawi government takes a broader view in defining “capital” and “investment” involving human and institutional development regarding them as “assets.” But in a normal argument in management and accounting terms, assets are limited to ones eligibly put on a Balance Sheet.

(3) Project Information Collection for PSIP

When the base for the collection of comprehensive and genuine information for the PSIP process has been potentially ensured, right information must be properly submitted by each sector ministry or other project implementation agencies first. To ensure that practice solidly, the following conditions are to be satisfactorily fulfilled.

- Existence of reliable project management system in each implementing ministry and agency concerned
- Clear guidance and instruction for preparing project information and data to the ministries and agencies

(3)-1 Current State of Affairs

Ministries and agencies who would like to implement their development activities under the development budget have to apply to PSIP with summarized information on the proposed project concerned filling in the standardized format in the form of a template prepared by MEPD. Once the project has been approved and taken into PSIP, the ministry and agency are supposed to periodically report on the project implementation progress and, if applicable, outcome performance using another template format for the on-going projects throughout their implementation period.

(3)-1-1 Project Management System of Implementation Ministries & Agencies

Projects are primarily managed by the implementers by themselves in terms of physical and financial implementation progress by means of systematic recording and reporting including accounting affairs by a project accounting system being separated from the general accounting. Any living information regarding individual projects is available only at the implementation sites by their implementers on a real-time basis. Accordingly, the availability of sufficient and reliable project information reported to PSIP primarily depends on the well established and operated project management and accounting systems in the field.

A questionnaire survey to sector ministries and agencies mentioned in the previous Section (1)-1 also includes question on this aspect. The answers have been collected from 25 agencies so far. Among their answers, seventeen agencies answered that they do not have an institutionalized project management system for themselves, among which four agencies confess that they have to collect relevant data on an ad hoc basis to fulfill the input requirement from PSIP regarding project performance status. As regards the project accounting system, ten agencies state that they do not have an institutionalized project accounting system for themselves. It may suggest that a number of project implementing agencies entirely depend on or outsource financial recording to IFMIS.

However as an essential component of a total project management system to deal with financial issues, each implementing agency should have their own project accounting system. Most of the answers, eight out of twelve answering agencies, regarding who makes the project payments revealed that they are made by themselves in cash or credit from the fund of disbursed budget from the MOF treasury. Only two agencies answered that the payments are made directly by the treasury, and the payment records are transmitted to them. Expenditures have to be primarily recorded by the direct payers themselves without entirely outsourcing to a third party.

The above facts indicate that the lack of institutionalized project management and associated accounting systems potentially prevent project implementing agencies who are the primary project managers from preparing and submitting accurate and reliable project information responding to the PSIP's managerial request.

(3)-1-2 Guidance of MEPD for Project Information Submission

Project information to be put in PSIP is collected by means of a standard form of "templates" prepared for new and on-going projects respectively so as to obtain necessary information uniformly. The points of appraisal for new project proposed and on-going projects are completely different. Newly proposed projects are examined whether the said projects are eligible for PSIP judging on the criteria confirmed in the previous Section (2), whereas the major checkpoints of on-going projects are the state of implementation performance and supplementary information on the bottlenecks if the smooth progress is being hindered.

For the new projects, the key information to be collected is as follows.

- a. Alignment to development plans, MGDS II, ERS and relevant sector strategies.
- b. Amount of Fund Required (Project Costs)
- c. Project Implementation Period
- d. Activities to be Carried Out
- e. Outputs generated through the Activities
- f. Outcomes (Project Effects) Expected
- g. Impact Expected
- h. Administrational Arrangement of Project Implementation and Operation & Maintenance

As for the on-going projects, main information to be reported is implementation progress in terms of physical and financial progress with updated general information.

The respective forms of both templates are provided as attachments of the PSIP Preparation Handbook. Reviewing the newly proposed project templates for the fiscal year 2014/15, inappropriate and insufficient proposals are still prevailing. The following represent only a few of

those examples.

- In the Project Description column, almost no information is filled in. “Overall Goal,” “Project Purpose,” “Outputs/results” are blank. Only descriptions given in the template are, for instance, “hospital wards” as the “Component,” and “advertisement, mobilization, rehabilitation of the hospital” as the “Activities.” This is the extreme case, but not a small number of this kind of templates with scarce information is actually prevailing in PSIP practices. With those information, project appraisal is absolutely impossible.
- Project cannot be meaningfully appraised without comprehensive information comprising the following logical component flow.

Input: Resources consumed by “Activities” to produce “Outputs.”

Activities: Project actions to produce “Outputs” from “Inputs.”

Outputs: Goods and/or services produced/obtained or delivered by “Activities.”

Outcome: Benefits to direct beneficiaries targeted brought by “Outputs,” i.e. “Services” directly (Service Projects) or by “services” by operation of the “goods” produced or procured (Physical Investment Projects)

Impacts: Benefits or adverse influence on related environment (indirect beneficiaries) over “Outcomes.”

However, the current template does not request project description to be filled out following this logical flow. In addition to that issue of formality, descriptions actually submitted are often inappropriate, insufficient and un-uniform.

- Misuse of template is also prevailing. There are some ministries use already-abolished template forms. Other ministries fill in information of on-going projects using the template for new projects
- Template is used in order to collect summarized comprehensive information uniformly, however some ministry submits a template filling out a large volume of too detailed information in more than 30 pages. The PSIP Handbook instructs submitting agencies to provide supplementary information comprising six kinds of detailed documents including a feasibility study report attached to the template.
- Present template formats miss some information necessary for the MEPD appraisal, and collect unsuitable information as well. Typical examples are about the planned annual disbursement of the total project cost in real terms. The template instructs to fill in financial outlay of a time

span limited to five years uniformly applying a predetermined 12% discount rate.

- There are some illogical and unsuitable descriptions in the present templates that mislead and confuse information preparers and collect erroneous information. Typical examples include “project life span” for project implementation period. Appendix 2 of the PSIP Preparation Handbook requests to report a five-year financial outlay classified into “capital cost” and “operation cost,” but actually operation usually starts after the project completion in most of physical investment projects, whereas service projects are not accompanied by capital cost in principle during the project implementation.

Besides the prevailing templates with inappropriate format, lack of proper instructions to template submitting agencies from MEPD has been causing these inappropriate practices which significantly hampers project appraisal, and consequently undermines the comprehensiveness and genuineness of PSIP.

(3)-2 CEPSIP II Works for Improvement

(3)-2-1 Field Survey to Sector Ministries and Other Project Implementation Bodies

A solid and realistic development management system in which PSIP plays a central role will never be established without knowing what are going on in the field of development activities and their management. Questionnaire survey on the development activities in relation to the projectization has been conducted and answers from 25 ministries and other project implementing bodies were collected at the moment. CEPSIP II will extend it to cover all the project implementation bodies. The result analysis of the answers collected is followed by the field surveys to selected sector ministries and relevant project implementation bodies to explore the state of affairs of project management in practice. Since the improvement of project management and accounting is out of the CEPSIP II scope, no direct intervention will be made under this assistance work. However, the study result will be disclosed in the project reports with some suggestions for improvement, because it directly affects the quality of project information for the PSIP management process.

(3)-2-2 Template Revision

Main project information of all the new and on-going projects is collected by means of standardized official templates. As reviewed in the previous Section (3)-1, there prevail illogical and erroneous expressions and instructions in the present templates that mislead the preparer into filling in unsuitable information for the MEPD appraisal. To remove those mistakes, CEPSIP II will revise the present templates and correct unsuitable wording as part of the PSIP Preparation Handbook Revision (cf. Section (2)-2)

The major points of the revision will be as follows:

- a. To evaluate the strength of project management of the implementing body, specify the name and coverage of delegated responsibility of project implementation (or management) unit (PIU or PMU) if any. If no PIU or PMU is established, it is necessary to fill in the responsible units for project implementation management in terms of overall progress monitoring, procurement, implementation supervision and project accounting.
- b. To grasp the project overall in actual terms, the planned financial outlay should encompass whole the project implementation period without limiting it to only five years uniformly, and be expressed in actual terms without applying predetermined discount rate.
- c. To clarify the project's logical frame to contribute toward development and to obtain uniform contents of information, each component of the "project description" should be clearly elucidated with explanatory examples.
- d. Standing on the "Activity-Based Costing," the "activities" to be described in the "project description" column are to be as concrete as possible with respective estimated cost to carry them out.
- e. In case the project has a superior programme whose nature corresponds to the definition on the PSIP Preparation Handbook stating that a "Programme" is a comprehensive scheme within a sector or geographic area, comprising related projects and other development activities that share the same goal, it is needed to specify the name of the said programme with information how the project will contribute to the achievement of the programme goal.
- f. To review the kind (financial and/or economic), result and method of the cost-benefit analysis taken for applicable projects, the following items should be specified.
 - f-1 Method (Internal Rate of Return <IRR>, Net Present Value <NPV>, etc.)
 - f-2 Kinds of analysis applied (Financial and/or Economic Analysis)
 - f-3 Benefit Items
 - f-4 Cost Items (Project Implementation Cost, O&M Cost, Replacement Cost, etc.)
 - f-5 Assumptions (Project Life Span, Discount Rate Applied <in NPV Method>)
 - f-6 Result (FIRR, EIRR, NPV, etc.)
- g. To appraise the sustainability aspect comprehensively, the "sustainability" column should specify "technical" capability in addition to the "institutional" and "financial" aspects.
- h. In Appendix 2 of the PSIP Preparation Handbook about five-year financial outlay, the categorization in "capital and operation costs" should be replaced by "direct and overhead costs."

Because operation usually starts after the project completion in most of physical investment projects, and service projects are not accompanied by capital cost in principle during the project implementation. Whereas, the information of “direct and overhead” cost classification is meaningful in several ways including preparation for donor assistance which only finances the direct portion in many cases.

- i. Different from new projects proposed, the point of appraisal or examination of on-going projects is to monitor the implementation progress, to grasp factors of hindrance or bottlenecks if the project is found stuck and to consider remedies to remove the obstacles identified. In order for that, the on-going template should capture explanation about the bottlenecks disturbing the project’s smooth progress.

(3)-2-3 Assistance in Dissemination and Delivering Instructions by MEPD

As the last step, the improved templates are effectively disseminated widely and deeply to attain shared understanding among all the participating parties. CEPSIP II will assist in MEPD’s effort for conducting it.

(4) Project Appraisal

The final step of project enrolment is the MEPD’s appraisal to check whether the project proposed is eligible for PSIP as a set of development activities to be financed by the development budget. Prior to the execution of appraisal, all the project information is supposed to be collected by means of templates and supporting information attached. The PSIP Preparation Handbook instructs a time-bound process of PSIP preparation with the Annual PSIP Calendar. According to the calendar, all the templates with necessary project information are supposed to be submitted by September, and the MEPD appraisal is conducted during the period until November based on the policy and method guided by the PSIP Appraisal Manual prior to the ministerial meeting to discuss the provisional appraisal result in December.

(4)-1 Template Collection and File Pigeonholing

Due to the following weaknesses prevailing, the PSIP process hardly proceeds as scheduled in the predetermined Annual PSIP Calendar and is difficult to follow the procedures instructed by the PSIP Preparation Handbook.

(4)-1-1 Timing of Template Submission and Execution of Appraisal

Primarily, few ministries and other project implementation agencies submit templates in time. In case of the process for the 2014/15 fiscal year, all the ministries have not duly submitted the templates even at the time of the Ministerial Meetings whose main agenda is supposed to be the

discussion on the results of the appraisal. This delay inevitably prevents MEPD from carrying out project appraisal before the Ministerial Meetings which are scheduled to be carried out in November and December every year. Consequently, the Ministerial Meetings become the place of initial hearing session from the invited ministries and agencies instead of the intended purpose to discuss the appraisal results and necessary adjustment.

(4)-1-2 Receipt of Submitted Files and Inefficient Data Management

All the submitted templates are contained and pigeonholed in the PSIP file server to be ready for appraisal, but the prevailing practice includes weaknesses in practice especially in pigeonholing submitted data, which needs procedural improvement for efficient data management. The following are the examples.

- Un-integrated and uniform data saving in the file server
- Unaligned data saving in ministries' folders
- Improper file titling which fail to represent the contents
- Mixed saving of new and on-going projects within a single folder
- Receipt of templates in PDF formats
- Un-updated contents and disordered file saving in the "Submission" folder
- Non-hierarchic alignment of folders and sub-folders

(4)-2 Practice of MEPD Appraisal

The MEPD's project appraisal is supposed to be conducted following the PSIP Appraisal Manual revised in March 2014. Appraisal of projects constitutes a part of "project evaluation" which is sometimes called as "Ex-ante Evaluation" by contrast with "Ex-post Evaluation" which is carried out after project completion. The Handbook instructs application of the "DAC 5 Criteria" also to the PSIP appraisal or Ex-ante Evaluation. The following are the original definitions of DAC 5 Criteria by OECD modified to suit this context.

(DAC 5 Criteria)

① Relevance

The extent to which the project is suited to the development priorities and policies of the country and target group.

② Efficiency

Efficiency measures the outputs -- qualitative and quantitative -- in relation to the inputs. It is an economic term which signifies that the project uses the least costly resources possible in order to achieve the desired results. This generally requires comparing alternative approaches to achieving the same outputs, to see whether the most efficient process has been adopted.

③ Effectiveness

A measure of the extent to which the outputs through the activities attain the project objectives.

④ Impact

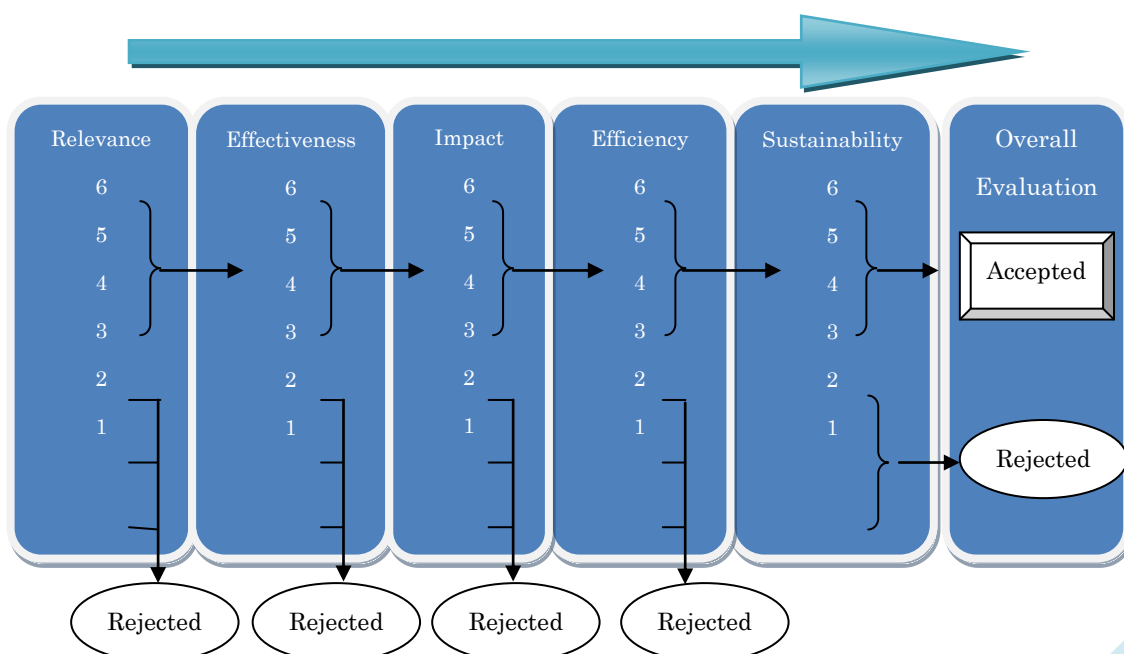
The positive and negative changes produced by a development intervention, directly or indirectly, intended or unintended. This involves the main impacts and effects resulting from the activity on the local social, economic, environmental and other development indicators. The examination should be concerned with both intended and unintended results and must also include the positive and negative impact of external factors on economic, social and natural environment.

⑤ Sustainability

Sustainability is concerned with measuring whether the benefits of an activity are likely to continue after the project has completed. The sustainability is supported by managerial, financial and technical factors.

The Appraisal Manual adopts a scoring system. Results of scoring in each criterion above are to be used for an overall evaluation as depicted in the following figure.

Figure 3: Project Evaluation Process (PSIP Appraisal Manual)



The PSIP Appraisal Manual provides basic concepts for the way of doing project appraisal, but it is still insufficient to show practical procedures for actual appraisal tasks, and currently, the actual appraisal has not been systematically conducted following the requested “DAC 5 Criteria” in order. It is also seen from the practice that even projects with unsatisfactory information have been formally appraised and got approval for due entry into PSIP in many cases.

(4)-3 CEPSIP II Works for Improvement

(4)-3-1 Review of PSIP Formulation Process

In the course of revising the PSIP Preparation Handbook mentioned in Section (2)-2 above, the steps and procedures for PSIP Formulation Process will be also reviewed. Revision should be made if some handbook descriptions have been found unreasonably inconsistent with actual practices, or practically unrealistic and difficult to be conducted in light of the prevailing practices.

(4)-3-2 Template Collection and File Pigeonholing

To improve template filing which is currently in disorder, CEPSIP II will assist MEPD in creating a uniform rule for making and arranging them. The established rule should be effectively disseminated and instructed to all the ministries and agencies involved.

(4)-3-3 Improvement of PSIP Appraisal Manual and Training Seminars

To be more practical for the actual appraisal works, the PSIP Appraisal Manual (March 2014 Version) will be reviewed and revised to fit the contents for more practical use based on the application of the “DAC 5 Criteria.” The key points of examination at appraisal (Ex-ante Evaluation) are as follows. Since the appraisal constitutes a set of evaluations under the common viewpoint of the “DAC 5 Criteria” as the Ex-ante Evaluation before projects start, it is shown in comparison with the Ex-post Evaluation that is to be done after the project completion.

A. Relevance

(Ex-ante, Ex-post))

A-1 National Level: Consistency of the Project Objectives with National development policies.

A-2 Regional/Sector Level: Consistency of the Project Objectives with Sectoral and Regional development strategies.

A-3 Needs Level: Consistency of the Project Objectives with actual needs to remove development bottlenecks prevailing in the sector and region concerned.

B. Efficiency

(Ex-ante)

B-1-1 Appropriateness and achievability of the “project outputs” with the “activities” to be taken.

B-1-2 Implementability of the “activities” under the cost and period proposed.

B-1-3 Reasonability of the “cost” to carry out the “activities.”

B-1-4 Reasonability of the “period” to carry out the “activities.”

(Ex-post)

B-2-1 Degree of completion of the planned outputs by category in terms of physical assets acquired and services delivered.

B-2-2 Actual project implementation period compared to the planned schedule.

B-2-3 Actual total project cost by item and by disbursed year compared to the appraised plan.

C. Effectiveness

(Ex-ante)

C-1-1 Appropriateness and achievability of the “project purpose/outcome” from the “outputs” acquired and delivered.

C-1-2 Achievability of the “outcomes” and “project purpose” within the project life span.

C-1-3 Appropriateness (SMART: Specific, Measurable, Achievable, Relevant and Time-bound) of the “performance indicators” and availability of respective “baseline” data.

C-1-4 Applicability of financial and economic Cost-benefit Analysis.

C-1-5 Appropriateness of factors for the analyses (project life span, benefit & cost items, shadow prices for economic costs, etc.) applied.

C-1-6 Acceptability of the “calculation result” to endorse the financial and/or economic feasibility in terms of Internal Rate of return (IRR) or Net Present Value (NPV).

(Ex-post)

C-2-1 Degree of achievement of planned targets for the project purpose, including the degree of utilization of the (physical) project outputs.

C-2-2 Updating of the IRRs or NPVs replacing part of estimated benefit and cost figures with actual achievement or incurrence.

C-2-3 Degree of achievement examined by means of direct beneficiary surveys and analysis of statistical information. Identification of inhibiting factors for the achievement of the project purpose and possible remedies.

D. Impacts

(Ex-ante)

D-1-1 Appropriateness and achievability of the “overall goal/impact” within the medium-term during and /or after the project implementation.

D-1-2 Positive and negative impacts on economic, social and natural environment.

D-1-3 Preparation for countermeasures to alleviate negative impacts, if any.

(Ex-post)

D-2-1 Degree of achievement of the planned goals and contribution.

D-2-2 Degree of actual occurrence of the anticipated impacts and appropriateness of the countermeasures taken for alleviating negative impacts.

E. Sustainability (Basically only applicable for Physical Investment Projects)

(Ex-ante)

E-1-1 Favorability of policy environment for the project implementation

E-1-2 Adequacy of the number and technical capacity of operation and maintenance (O&M) staff for the project facilities including preparation of training and development of O&M manuals.

E-1-3 Degree to which the decision-making system and organizational control of the relevant organizations assure proper O&M activities.

E-1-4 Financial status of the executing and O&M agencies and their capacity to bear necessary O&M costs including the degree of cost recovery or stability of subsidization from the government.

(Ex-post)

E-2-1 Favorability of policy environment for the project operation.

E-2-2 Updated status of O&M technical capacity and performance of staff training and manual preparation.

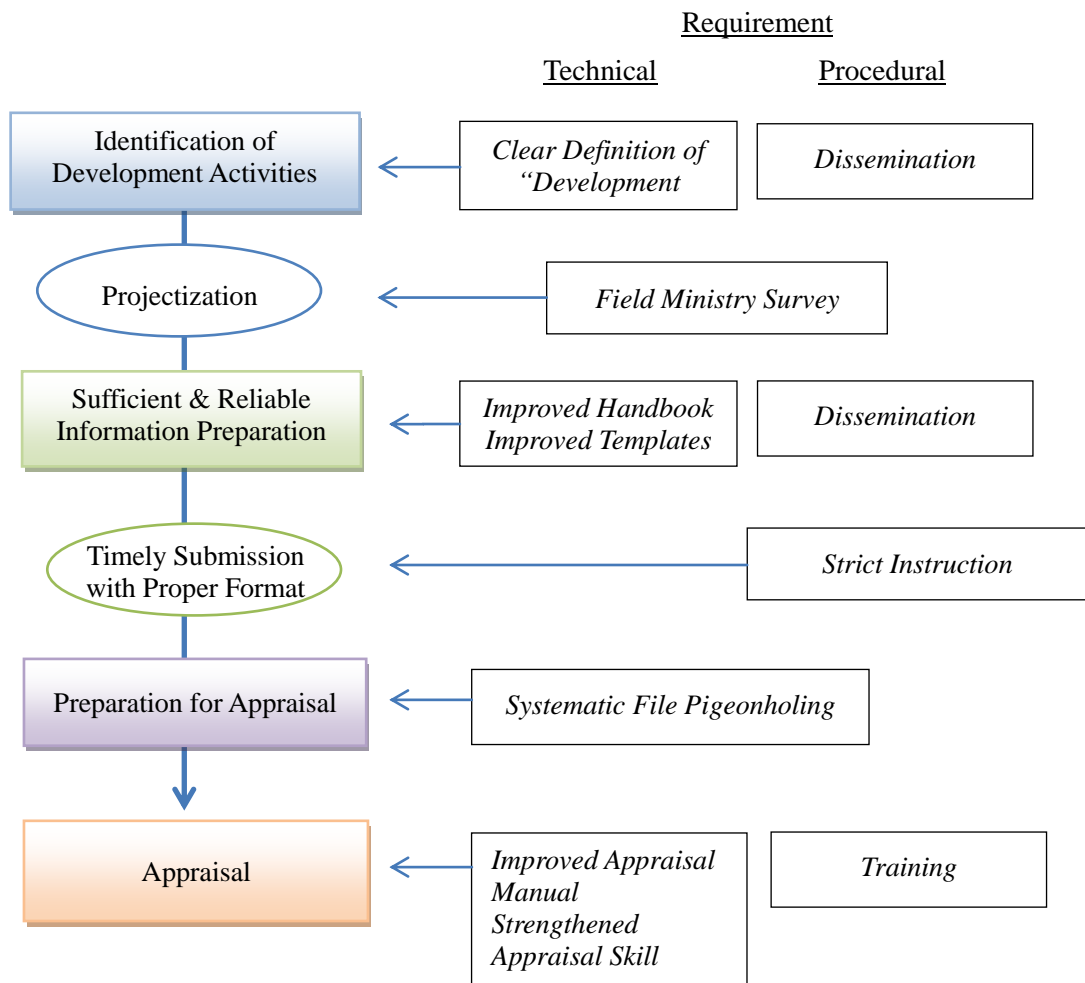
E-2-3 Actual status of O&M systems and its operation.

E-2-4 Actual status of financial conditions for O&M.

E-2-5 Appropriateness of ongoing O&M practices including daily, periodic, on-demand and preventive maintenance, availability of spare parts or fuel for the O&M requirements, and conditions of the project facilities.

The total flow to secure right information entry into PSIP in order to satisfactorily carry out its function discussed throughout this Section is outlined in the following diagram.

**Figure 4: Flow of Right Information Entry to PSIP and Solid Appraisal
with Supporting Requirements**



Main Points of PSIP Handbook Revision

1. PSIP is not a “planning tool” but a “plan execution device” to convert development plan into implementation through approving new projects and monitoring & supervising on-going projects with development budget arrangement. It is not solely a development budget management tool either, but a comprehensive project management system and mechanism in terms of its global coverage at a national level with a whole cycle of project management. [Foreword, 1-1, 2-3]
2. It is necessary to specify that PSIP is the system to comprehensively manage the governments’ “Development Activities” embodied in “Projects” with their associated “Development Budget” and “Development Expenditures” embracing project appraisal, budgeting, implementation monitoring and evaluations. [2-2]
3. The “PSIP Scope and Coverage” should properly specify clear definitions of “Development” and “Recurrent.” Relating terms “Capital” and “Investment” should be also clearly defined to indicate that they include not only “physical investment,” but also “human capital” and “institutional” development to distinguish the salient feature of the Malawi’s PSIP from other PSIPs prevailing in other countries like South Africa, Mauritius and so forth where PSIP only deals with physical capital investments. [2-3]
4. Hierarchy of the “National (Development) Planning System” should be considered as follows: [1-1]

- Long-term Development Strategy: Vision 2020 <20 years>
 - Medium-term Development Strategy: MGDS (II) <5 years>
 - Sector Strategy <5 years>
 - Ministerial Strategic Work Plan <1 year>
- } Planning System

Rather than the one on the Handbook (P. 1)

- Long-term Development Strategy: Vision 2020 <20 years>
 - Medium-term Development Strategy: MGDS (II) <5 years>
 - PSIP
 - District Development Plan
 - The National Budget
- } Planning System
} Plan Execution
— Budgeting

5. Consider whether the “District Development Plan” and the “Local PSIP” are to be treated in the Handbook. [1-1, 2-3]
6. Since PSIP primarily deals with “Projects” in reference to corresponding “Programmes” which are the superior scheme to guide a set of subsidiary projects and other development activities, remove “Programmes” as a parallel object of PSIP management with “Projects.” [Throughout]
7. The PSIP Handbook is not to support executing agencies’ planning or project formulation processes which are supposed to be their self-handled task internally, but it primarily intends to guide executing agencies to properly report their projectized development activities and their implementation performance in order to fulfill the mandated role of PSIP (point No. 1, 2 above) in the total public management of the country with

- the collected information. [1-2-1]
8. Since proposed projects have to be appraised and managed with their full scope, PSIP should collect full-pictured project information in a summarized form including financial information throughout its implementation period not intentionally limiting the annual cash outlay within five years uniformly. Three-year estimate of fund requirement for MTEF and five-year aggregates are discretionarily available if the full-scope information has been obtained. [2-1, 2-2, Appendix 1, 2]
9. Change the “Project Cost Classification” from “Capital and Operation” to “Direct and Overhead.” In normal wording, “Capital Cost” means cost for acquiring physical assets, and associated “Operation Cost” represents costs to operate the physical assets acquired. PSIP requires cost information during the project implementation until its completion. For “infrastructure construction (or development otherwise) projects,” the “Operation Cost” will never appear during the project implementation until the targeted assets have been acquired and put into operation after the project completion. Whereas, service projects which do not involve “Capital Cost” only incurring “Operation Cost” to carry out the projected service implementation. For both project types, “Overhead Cost” for project implementation is commonly needed. [2-3, Appendix 1, 2]
10. Definitions of “Project” and “Programme” are stated in the present Handbook, but the description should be further elaborated to fit the present state of affairs and the intention of the PSIP mechanism. [2-4]
11. Figure 1 “Linkage between government strategy and budget” with upward arrows distracts one’s attention to more important logic that the development is directed by the national vision and strategy and executed through the PSIP process that screens proposals and links them to the development budget for finance. The Figure should emphasize the flows of development execution and its budgeting & finance. [2-5, Figure 1]
12. Consider whether the “Sector-Wide Approach (SWAp)” is to be directly treated as an extended version of possible proposal to the PSIP enrollment, or it should be captured as a “Programme” to be defined in the point 10 above. [2-4]
13. The Handbook is saying that PSIP translates the priorities outlined in the MGDS into implementable activities through the national development budget, and in that way, the government’s development strategy is linked with the national development budget as shown in Figure 1. This description is theoretically correct, however in practice, PSIP is also dealing with Non-MGDS capital investments and donor-funded recurrent-activities. If PSIP wants to keep this treatment, these practical facts should be also clarified. [2-5]
14. The “PSIP Formulation Process” needs to be reviewed in light of the prevailing practices. Revision should be made if some handbook descriptions have been found unreasonably inconsistent with actual practices, or practically unrealistic and difficult to be conducted. [3]