



House of Commons  
Committee of Public Accounts

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**Department for  
International  
Development: Aid to  
Malawi**

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**Eighth Report of Session 2009–10**

*Report, together with formal minutes, oral and  
written evidence*

*Ordered by the House of Commons  
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## The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

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### Committee staff

The current staff of the Committee is Sian Woodward (Clerk), Emily Gregory (Senior Committee Assistant), Pam Morris and Jane Lauder (Committee Assistants) and Alex Paterson (Media Officer).

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## Summary

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The overall aim of the Department for International Development (the Department) is to reduce poverty in poorer countries. Malawi is one of the poorest countries in the world. The Department provided £312 million to Malawi between 2003–04 and 2007–08, rising to a planned £80 million by 2010–11.

The Department has contributed to progress in Malawi's development since 2003, such as reduced hunger and substantially improved capacity in the health system. And its programme complies with many internationally-agreed good practices. But the Department needs better measures to assess its contribution to Malawi's progress, and evidence of the value for money of its spending in Malawi is hard to find.

Much of the Department's programme is routed through the Government of Malawi's systems. The Department funds governance and scrutiny processes, but these are not yet fit for purpose. The Department needs to do more to strengthen governance in Malawi if it is to continue support through Government systems.

The Department's ability to drive improvement in the programmes it funds is limited by weaknesses in the information it has on their implementation and results, and not helped by a weak set of targets for its own performance. The Department has invested in improved data in Malawi, but data on the results or the efficiency of many of the programmes it funds remain weak. There are opportunities for the Department to drive improved value for money from the services it helps to fund in Malawi through quicker and more robust responses to emerging issues and results.

Across its network since 2004 the Department has faced the challenge of disbursing steeply rising amounts of aid with fewer staff to oversee it, as a result of cuts in its administration budget set by the Treasury. The Department has cut staff numbers in Malawi, and we question whether current staffing is sufficient. Areas where the Department needs to raise its game to demonstrate cost-effective aid management require more work at the sharp end, not less.

On the basis of a Report by the Comptroller and Auditor General,<sup>1</sup> we examined whether the Department has made good choices in Malawi, whether it has the information it needs to improve implementation of the programmes it helps to fund, and whether it is driving improved outcomes.

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1 C&AG's Report, *Aid to Malawi*, HC (2008–09) 964



## Conclusions and recommendations

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1. **In a heavily aid-dependent economy, sustainability of progress is a key issue. The Department has, for example, funded the Government of Malawi's subsidy of fertiliser and seeds in order to address hunger. The Department accepts that this is not a long-term solution to food sufficiency, but neither it nor the Government of Malawi has an evident strategy for an exit from subsidies.** The Department should:
  - Set out the criteria which would trigger withdrawal of its contribution to the subsidy, and
  - Work with the Government of Malawi to define a clear exit strategy through which farmers no longer depend on subsidies, releasing resources to assist structural change in agriculture.
2. **Much of the Department's programme is routed through the Government of Malawi's systems, which makes the quality of Malawian governance a key issue. Despite a relatively high level of Department funding, key elements of governance are not yet strong enough. State Audit coverage is increasing, but to only 80% of public spending and four of 28 aspects of public financial management are still assessed to be at the lowest level.** The Department should, in concert with other donors, assess and close these capacity gaps as a priority, if it is to continue support through Government of Malawi systems.
3. **The Department achieved only 60% of the targets it set itself in Malawi, and acknowledges that these targets were not fit for purpose.** The Department plans to revise its targets to identify relevant outcomes and outputs over which it has significance influence, and to define minimum levels of performance that represent value for money, along with the potential for better performance. The Department should make sure that these new targets set the required level of performance at a level that would represent real improvement and would be robust to external challenge. It should hold its Malawi operation to account for its performance against these targets.
4. **The Department has invested in improved data in Malawi, but data on the results of many of the programmes it funds remains weak or of questionable reliability.** The Department needs to work with the Government of Malawi to get routine management information on service delivery—much of which exists at local levels, but is not collated.
5. **The Department provided only isolated examples of measures relating to the efficiency of the government services it funds. Such measures are largely absent from its monitoring frameworks.** When challenged to report on the performance of its programmes it reverted too often to general statements about the amounts of money it had spent and unsurprising assurances that these disbursements had had some effect. The Department should reflect efficiency indicators in its management

and accountability processes of its programme in Malawi, and the indicators should cover the bulk of its programme spend.

6. **There are several instances in the health and agriculture sectors where the Department has tolerated, and indeed supported Malawian policies or practices it does not believe are the most cost-effective.** Clearly there are limits to the pressure that the Department can bring to bear on sovereign governments to spend money wisely. But the Department should make full use of the influence gained through its large contributions to Malawi to make sure risks to value for money are addressed. In practice this will require quicker or more robust responses to variance from agreed plans and to emerging results. DFID Malawi should put in place explicit strategies for securing changes needed to secure cost-effective development.
7. **The Government of Malawi procured excess fertiliser despite an agreement with the Department to limit the scale of its agricultural subsidy programme in two successive years.** Weak or slow Departmental response in such cases weakens its ability to influence the Government. The Department should put in place contingency plans to deal with any breaches of agreements, and act on them.
8. **Staff cuts in Malawi and throughout the Department constrain the effective management of aid.** The Treasury has decreased the Department's administrative budget, as it has for other departments, but unusually also greatly increased its programme budget. It has distanced itself from the staffing consequences, insisting that these decisions are for the Department. The Department needs to raise its game to give assurance of cost-effective aid management, which will require more work at the sharp end, not less.
  - The Department should measure better the added value of its staff on the ground, and assess its staffing resources in view of the scale of the risks and ambition of its objectives.
  - The Treasury should reflect that information in setting running cost limits for the Department so that the result is cost-effective overseas aid.

# 1 The Department's choices about the shape of its Malawi programme

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1. The Department and other donors in Malawi have divided responsibilities for different sectors amongst themselves. The Department took the lead on health and education where it assessed that it has most to offer, leading to other donors areas, like energy, in which they have a comparative advantage.<sup>2</sup> The Department performed well against international criteria used to measure how effectively donors and partner governments work together.<sup>3</sup>

2. The Department is conscious that it may spread its £80 million programme too thin, and it has sought to focus on Malawians' top priorities. The first was food security because that matters most to poor households. The second was health. In both areas, progress has been made. The shortcomings in education in Malawi are good examples of where the Department would like to do more but cannot.<sup>4</sup>

3. Challenged on whether the UK has run down its capacity in agriculture over the years, the Department agreed that the international donor community has neglected this sector in recent years because of the strong focus in Millennium Development Goals on health and education. The food crisis in 2008 was a wake-up call and the Department is redressing that by putting more resources into agriculture.<sup>5</sup>

4. Food insecurity is a major longstanding problem in Malawi which the Department considers must be addressed before further development, such as agricultural diversification, is possible.<sup>6</sup> As recently as 2005–06, five million people needed emergency food aid, towards which the Department spent £21 million.<sup>7</sup> Since 2005, the Department has spent £26 million on the Government of Malawi's agricultural subsidy, aimed at increasing harvests and reducing hunger. The Department would prefer to support a more sustainable programme based on market-based approaches, such as improving small farmers' access to credit to help improve their productivity, but considers this is not yet viable in Malawi as plots are small and communally owned so not usable as collateral. While the subsidy is a second-best option, it has helped Malawi produce enough food to feed itself. The Department wants Malawi to move towards a more sustainable approach, and indeed the Government of Malawi is now taking cash crops like tobacco out of the subsidy programme. The Department claims a positive economic return from the subsidy, though to date there has been sufficient data to establish only its potential return.<sup>8</sup>

5. About a third of the Department's aid to Malawi is General Budget Support, which is aid provided directly to the Government's central exchequer and not earmarked for specific

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2 Qq 71, 91 and 92

3 Qq 10 and 115

4 Q 71

5 Qq 36–38

6 Qq 43 and 44

7 Q 7

8 Qq 41 and 42; C&AG's Report, paras 6 and 10

purposes.<sup>9</sup> Most of the Department's earmarked programmes also use Government systems.<sup>10</sup> So enhancing the scrutiny and accountability of Government within Malawi is important.<sup>11</sup> The Department funds organisations to boost their capacity to hold the Executive to account. Corporately, the Department has committed to spending 5% of its programme in Budget Support countries on improving governance. In Malawi it is spending 11%, supporting Parliament, the NAO, the Anti-Corruption Bureau, the Electoral Commission, civil society and the media.<sup>12</sup> Governance has improved but not as quickly as the Department envisaged.<sup>13</sup> The extent of missed targets amongst the Department's governance activities are of particular concern (**Figure 1**).

6. The Department defended the use of General Budget Support, when we asked about its relative vulnerability to fraud and corruption. Before giving Budget Support, the Department makes a series of risk assessments.<sup>14</sup> The Department suspended Budget Support in 2004, but since then most of the worst-rated areas of governance have improved, although the Department still assesses four of 28 indicators of public financial management at the lowest D-level on an A–D scale.<sup>15</sup> The Department believes that Budget Support or aid to governments is no more liable to fraud than other types of aid.<sup>16</sup> The Department has supported the Anti-Corruption Bureau in Malawi with some £0.5 million each year to bolster capacity to detect, deter and prosecute corruption.<sup>17</sup> There are risks to its independence and it has suffered from chronic shortages of professional investigating staff. Two Bureau Directors have been replaced by Presidential decision since 2006.<sup>18</sup> The Department cited how the Bureau is prosecuting senior figures, some but not all from Malawi's previous administration.<sup>19</sup>

7. Malawian civil society is constrained by lack of data on district level expenditure and results across the country.<sup>20</sup> We questioned whether the Department was supporting trade unions and other civil society groups which represent ordinary people. The Department gave some assurance that it was supporting a range of different civil society groups.<sup>21</sup> A Public Accounts Committee exists and the Department is trying to get them much more involved.<sup>22</sup>

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9 Q 54

10 C&AG's Report, para 1.4

11 C&AG's Report, para 1.9

12 Q 112

13 Q 2; C&AG's Report, para 11

14 Q 55

15 Q 67

16 Qq 62 and 70

17 Qq 58, 59 and 78

18 C&AG's Report, para 1.10

19 Qq 59 and 67

20 C&AG's Report, para 2.9

21 Q 113

22 Qq 141 and 143

8. The Malawi National Audit Office, like many other parts of Malawi's government, suffers from capacity constraints. It has only recently cleared a three-year backlog of audits.<sup>23</sup> The Department is funding its use of private sector auditors to clear the backlog of audits of all the district assemblies by the middle of 2010. The Department cited an increase in the independent audit coverage of government spending, from 50% to 80%. Whilst evidence of progress this is not up to the standards of coverage we expect for UK government spending.<sup>24</sup> The Department asserted in mitigation that Malawi's total expenditure per capita is only £80 per person and the UK's is £11,000 per person; a different scale and stage of development.<sup>25</sup> But in a context of limited administrative capacity and weak systems there are more risks and the need for scrutiny is therefore higher. For example, a survey in 2008 found 'leakage' of funds intended for teachers' salaries ranging between 5% and 28%, necessitating a change away from disbursement through local officials.<sup>26</sup>

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23 C&AG's Report, para 1.11

24 Q 64

25 Qq 137 and 140

26 Ev 18

## 2 The adequacy of the information the Department has to improve implementation

9. The Department does not have full and timely information with which to robustly assess its performance in Malawi, including measure of how efficiently its money is spent there. When challenged to express the efficiency and cost effectiveness of its programmes it tended to revert to general statements of the amounts of money it had spent and assurances that these disbursements had had some effect.<sup>27</sup> What data there is on performance is not reassuring. The Department achieved only 61% of its own targets in Malawi (**Figure 1**). It defended this performance by citing its targets as dependent on the performance of others. It set stretching targets without the expectation that they would all be achieved. Levels of ambition varied. The Department committed in its next country results framework for Malawi to a tighter set of targets, which are within its control and on which it can focus to improve performance. The Department also committed to clearer sign-posting of what constitutes value for money within the targets it sets itself.<sup>28</sup>

**Figure 1: Performance against milestones for the Department's Country Assistance Plan**

Sector	Number of milestones	Achieved %	Late achievement %	Not achieved %
Social protection	5	100	0	0
Growth and Agriculture	6	83	0	17
Budget Support	5	80	0	20
HIV/AIDS	6	67	17	17
Health	10	60	10	30
Water and Sanitation	2	50	50	0
Governance	11	36	27	27
Education	6	33	17	50
<b>Total</b>	<b>51</b>	<b>61</b>	<b>14</b>	<b>24</b>

Notes: Achieved means achieved by the June 2008 milestone. Late achievement means achieved by June 2009. Non-achievement does not mean that no progress was made.

Source: Qq 1–5 and 19; C&AG's Report, Figure 4

10. The Department's performance against its targets varies between sectors (**Figure 1**). In the under-performing governance sector, some targets were missed as a consequence of

<sup>27</sup> Qq 6 and 8

<sup>28</sup> Qq 1, 3 and 35; C&AG's Report, para 1.6, Figure 5

delays by Malawi's minority government in passing legislation.<sup>29</sup> In Education, the Department has been working for three years to persuade the Government of Malawi and other donors to develop a new joint programme and the Government has now agreed to make necessary changes, including drawing on good experience from pilots using community-based teachers motivated to work in rural areas.<sup>30</sup>

11. Though the Department cited examples of good outcomes arising from its spending in Malawi, we received much less assurance as to how far this represented value for money.<sup>31</sup> Evidence on value for money in the implementation of the Department's programmes in Malawi is hard to find.<sup>32</sup> The Department offered a few efficiency measures, principally from programmes that have been led by other donors (Roads, AIDS drugs), from education (classroom construction, one part of a broader Departmental programme meeting only half of its targets), and the agricultural subsidy (estimates of cost-efficiency not based on hard data<sup>33</sup>). The Department conceded that it had not incorporated efficiency measures in its results and monitoring frameworks and was addressing that.<sup>34</sup> Until a better structure for measuring efficiency has been put in place, it will be difficult to judge whether the Department has disbursed UK public money efficiently in Malawi, and how much further the Department could drive improvement in the programmes it funds.<sup>35</sup>

12. The Department has invested in getting better data on the implementation and results of its programmes in Malawi, for example through funding a household survey to take place in 2010 and the tracking of drug procurement.<sup>36</sup> But data on the results of key programmes remains inadequate, for example on levels of poverty, access to safe water sources and on maize harvests achieved.<sup>37</sup> In the absence of annual data on the attrition and turnover of the health workforce, the Department awaits a one-off evaluation in 2010 to answer basic questions on the implementation of its £55 million programme to address staffing problems in health which started in 2005.<sup>38</sup> Data often exists locally; but is not aggregated or quality controlled at the national level.<sup>39</sup> The Department has helped to fund a unit which assists and tracks implementation of the agricultural subsidy, which other donors and experts view as critical to promoting good implementation.<sup>40</sup> This unit illustrates that it is possible for the Department to ensure that it has the information it needs to drive improvements.

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29 Qq 2 and 3

30 Qq 4, 5 and 118

31 Qq 5 and 8

32 Q 6; C&AG's Report, para 10

33 Qq 8, 41 and 92; C&AG's Report, para 3.5

34 Qq 6–8

35 Q 143

36 Q 18

37 Qq 18, 74 and 75

38 Q 51

39 Q 51; C&AG's Report, para 2.19

40 Qq 28–30, 53 and 108; C&AG's Report, para 3.6

### 3 Whether the Department is driving improved outcomes from the services it helps to fund

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13. We pressed the Department on its ability to influence the Government of Malawi to pursue policies and actions that are sensible, and to spend UK money wisely.<sup>41</sup> The Department argued that providing Budget Support gives it leverage to shape what the Government is doing. For example, the Department contributed only 5% of the cost of the agricultural subsidy in 2008–09 through direct funding and through Budget Support, but still has been able to help shape this programme.<sup>42</sup>

14. Malawi is a sovereign government and there are limits to what the Department can do.<sup>43</sup> The Department cited relatively few examples of occasions when they had disagreed with and challenged the Government of Malawi on its actions, and where that challenge had been both timely and evidently successful.<sup>44</sup>

15. In 2007–08 and 2008–09 the Government of Malawi exceeded limits it had formally agreed with the Department over the amount of fertiliser it would buy for its agricultural subsidy. It takes between two and three months to get fertiliser into Malawi. Evidently the Government was concerned in December 2008 that there was not going to be enough fertiliser for the programme, and bought stocks from people who already had it in-country. In the event purchases of excess fertiliser at unexplained high prices cost US\$35 million in 2008–09. The Department became aware too late to prevent this over-procurement; instead it obtained the Government's agreement to store the surplus for use in the next year's programme. Given that storage costs money, and that such stocks are vulnerable to pilferage or decay, this appears to be making the best of a bad situation.<sup>45</sup> Malawi is a small country with links between government and private entities. The Department has no evidence of ulterior motives or corruption involving the fertiliser suppliers,<sup>46</sup> although it had not received a full explanation from the Government of why it procured extra fertiliser at such high prices.<sup>47</sup> In 2008–09 this additional procurement threatened macro-economic stability.<sup>48</sup>

16. The Government of Malawi's agricultural subsidy was not designed to directly benefit the poorest, although they were expected to benefit indirectly from lower food prices.<sup>49</sup> High food prices reflect Government of Malawi decisions on grain storage, markets and

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41 Qq 17, 18 and 116–118

42 Q 17

43 Q 116

44 Qq 116–118

45 Qq 105, 108, 109 and 110

46 Qq 128–133

47 C&AG's Report, para 3.9

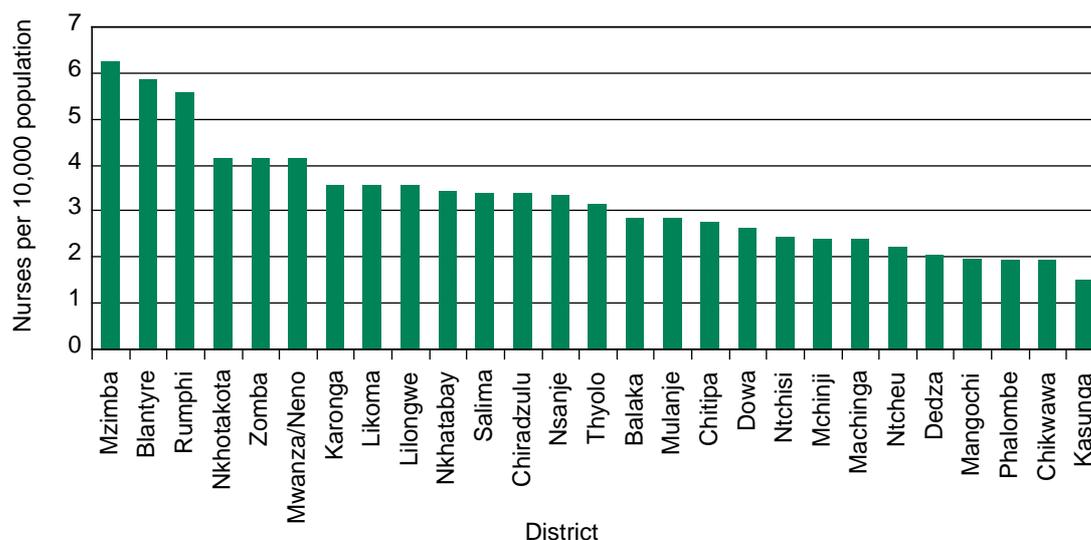
48 C&AG's Report, para 1.9

49 Q 47; C&AG's Report, para 3.11 and 3.12

exports, besides high international food prices. The Department argued that increased rural wages have mitigated the effect of high food prices. However, this will not assist those who are unable to work.<sup>50</sup> We asked the Department about the environmental risks of Malawi's over-dependence on maize, including fertiliser run-off into the water supply. The Department has started a conversation with the Ministry of Agriculture to look at diversifying crops because soils have been depleted by dependence on Maize. It has not looked specifically at run-off, but it is working with other donors to look at Malawi's most serious environmental issues.<sup>51</sup>

17. There are acute disparities in the provision of doctors and nurses across Malawi (**Figure 2**), affecting efficiency as well as equity. By the end of 2007 one-third of districts for nurses and two-thirds of districts for doctors remained behind the 2005 national average baseline, let alone targets for subsequent improvement. Conversely other districts, mainly those with urban centres, had already approached or surpassed targets for 2011.<sup>52</sup> We questioned why more progress had not been made in Malawi to address such disparities. The Department committed to consider tailoring its salary top-up so as to incentivise doctors and nurses to work in under-served rural areas. The Government of Malawi is also looking at other approaches.<sup>53</sup>

**Figure 2: Ratios of nurses to population vary by district**



Source: Q14; C&AG's Report, Figure 6

18. The Government of Malawi spent some US\$1.2 million mainly on cancer treatment abroad for 15 patients, equivalent to the recurrent health budget of an entire district. The Department appear not to have been aware of these practices at the time, but were subsequently assured by Malawi's Ministry of Health that the unidentified patients were not drawn from the wealthy, and that decisions had been made on clinical criteria. At the same time the Department conceded that diverting scarce resources to cancer treatment overseas, away from areas like high maternal mortality which would save as many lives as

50 Q 47; C&AG's Report, para 3.11

51 Qq 134–136

52 C&AG's Report, para 2.16

53 Qq 48–52

possible, would not have been their choice.<sup>54</sup> And it appears still open to question whether any of these people were related to members of the Malawian elite.<sup>55</sup>

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54 Qq 18, 72, 73 and 122

55 Q 122

## 4 Delivering more aid effectively with fewer staff

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19. Across its network of country offices since 2004 the Department has faced the challenge of disbursing steeply rising amounts of aid with fewer staff to oversee it, as a result of cuts in its administration budget set by the Treasury.<sup>56</sup> The Department is planning to cut its total administration expenditure by £8.9 million between 2008–09 and 2010–11, largely through an £8 million reduction in staff costs.<sup>57</sup> The Treasury attempted to defend this position claiming that whilst it has reduced the Department’s administrative resources, it is for the Department to make the necessary judgements as to where to make cuts. The Department in Malawi will know better than the Treasury in London, a telling admission on their part.<sup>58</sup> The Treasury has ring-fenced some resources for the Department’s front-line administration costs overseas which they did not reduce at the same rate.<sup>59</sup> Overall, the Department contends that though struggling with the cost pressures it is coping pretty well. But other organisations perceive that staffing constraints have meant that the Department does not do the job as well as they think it should.<sup>60</sup> It also means that the Department has to rely more on weak local systems of assessment rather than on its own staff who would be better placed to account for the use made of public money.

20. The Department’s Malawi programme costs some £2.6 million to run in order to monitor £80 million of UK spending. Staff numbers have been cut from over 100 in 2004 to under 40 now, by better matching of staff to the nature of the programme and transferring project delivery work and staff to the Government of Malawi. The Department staff in Malawi questioned in an NAO survey whether current staffing is sufficient, and the implications of further reductions on management of the programme. The management of the Department’s programme in Malawi told us they have the team to achieve what they need to.<sup>61</sup> The Department partly attributes the results of the NAO survey to a period of change in late 2008 when staff were demoralised,<sup>62</sup> but the NAO finding is consistent with wider surveys carried out by the Department indicating strain on staff and that people feel overloaded.<sup>63</sup>

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56 Q 11

57 *The Department Annual Report and Resource Accounts 2008–09*, Volume 1, p 69, Table 6

58 Qq 11–16

59 Q 86

60 Q 76; Evidence to the Select Committee on International Development, 24 November 2009

61 Q 76

62 Qq 87–90; C&AG’s Report, para 1.12 and 1.13

63 The Department’s Evidence to the Select Committee on International Development, 24 November 2009

# Formal Minutes

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**Monday 18 January 2010**

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon  
Angela Browning  
Nigel Griffiths  
Rt Hon Keith Hill

Mr Austin Mitchell  
Rt Hon Don Touhig  
Rt Hon Alan Williams

Draft Report (*Department for International Development: Aid to Malawi*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Conclusions and recommendations 1 to 8 read and agreed to.

Summary read and agreed to.

*Resolved*, That the Report be the Eighth Report of the Committee to the House.

*Ordered*, That the Chairman make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 20 January at 3.30 pm]

## Witnesses

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**Monday 30 November 2009**

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**Dr Nemat Minouche Shafik**, Permanent Secretary, **Ms Gwen Hines**, Head of Malawi Country Office and **Mr Sam Sharpe**, Director, Finance and Corporate Performance Division, Department for International Development

**Ev 1**

## List of written evidence

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Department for International Development

**Ev 18**

## List of Reports from the Committee of Public Accounts 2009–10

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Eighth Report	Department for International Development: Aid to Malawi	HC 282

# Oral evidence

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## Taken before the Committee of Public Accounts on Monday 30 November 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Paul Burstow  
Mr Douglas Carswell  
Mr David Curry  
Mr Ian Davidson  
Nigel Griffiths

Keith Hill  
Mr Austin Mitchell  
Geraldine Smith  
Mr Alan Williams

**Ms Gabrielle Cohen**, Assistant Auditor General, **Mr Martin Sinclair**, Assistant Auditor General and **Mr Nick Sloan**, Director, National Audit Office, were in attendance.

**Mr Marius Gallaher**, Alternate Treasury Officer of Accounts, HM Treasury, gave evidence.

### REPORT BY THE COMPTROLLER AND AUDITOR GENERAL DEPARTMENT FOR INTERNATIONAL DEVELOPMENT: AID TO MALAWI (HC964)

*Witnesses:* **Dr Nemat Minouche Shafik**, Permanent Secretary, **Ms Gwen Hines**, Head of Malawi Country Office, and **Mr Sam Sharpe**, Director, Finance and Corporate Performance Division, Department for International Development, gave evidence.

**Q1 Chairman:** Good afternoon. Welcome to the Committee of Public Accounts. Today we are considering the Comptroller and Auditor General's Report on *Aid to Malawi*. We welcome Dr Nemat Shafik, Permanent Secretary of the Department for International Development, Sam Sharpe, Director of DFID's Finance and Corporate Performance Division, and Gwen Hines, Head of DFID Malawi. Ms Hines, perhaps I might address my questions to you as you are on the spot. Would you like to look at figure 4, please? Why did you only hit 60% of your targets for Malawi on time?

**Ms Hines:** Thank you very much. What we hit was 61% of the targets on time with another 14% within the following 12 months. Many of those targets, the further 14%, were achieved within one or two months of the original deadline. It is important to note that when it says they were achieved late, that does not mean there was no progress achieved. For example, one of the targets we hit late was drilling for boreholes where the drilling equipment came in a few months later but we did meet the target and, in fact, exceeded the target; it was just that it was achieved a few months late.

**Q2 Chairman:** Why did you only achieve 36% on governance? That is fairly crucial, is it not?

**Ms Hines:** Absolutely, governance is very important.

**Q3 Chairman:** Why so low?

**Ms Hines:** One of the issues that we did have with the results framework which we established for our Country Plan was that we had a whole range of targets within that, a mixture of process targets, outcome targets and output targets, as the NAO's Report acknowledges. Some of those targets,

particularly on governance, were things that were not actually within our control. For the past five years Malawi had a minority government which meant that very few laws were passed, so it made it very difficult when we had targets within our own results framework which were about laws were being passed to actually achieve that progress. I am not trying to excuse that, but what we have done since is we have designed a new results framework which is much more closely focused on a small number of targets which are within our control, which are those most critical for the development programme, and we are now aiming to really focus on those targets to achieve a higher percentage next time.

**Q4 Chairman:** Education is also very low down at 33%, fairly vital, I thought. What action are you now taking to improve progress in governance and education?

**Ms Hines:** Absolutely. Maybe I will start and then—

**Q5 Chairman:** You are on the spot, it is much better, just go on and answer it. You are actually working on the ground.

**Ms Hines:** I am happy to do so. Education is critically important in Malawi and we have had a programme over the last few years which has still achieved a huge amount. For example, we have built something like 4,200 classrooms since 1996 which benefit nearly half a million Malawian students. We have also bought 18 million textbooks as part of a curriculum rollout designed to improve the quality of education in Malawi. Having recognised that not enough has been achieved in education in Malawi, we are now working very much with the government of Malawi and with the other development partners

in Malawi and we hope early in 2010 to launch a whole new programme which is a joint programme between the government and the development partners to bring about radical change. If I might give you one example of that, one of the critical issues in Malawi is the lack of classrooms and the lack of teachers. Malawi is currently training around 3,000 teachers per year. One of the policy reforms we have agreed with the government that is going to be done from next year is to train an addition 4,000 teachers per year who are going to be recruited from surrounding villages to the schools, so they are much more motivated to work in the rural areas, and they will then be trained.

**Q6 Chairman:** I will stop you there. We know that if you put enough money into any scheme you will achieve something, but we are a value for money committee, we are looking at efficiency. Would you please look at paragraph 10 of the Report where it says: "Specific evidence on value for money in implementation is harder to find. Most of DFID Malawi projects have either 'mostly' or 'partly', rather than 'fully', met their objectives. Very few project indicators relate outputs directly to inputs". How can you drive improvement in Malawian government programmes when you seem to know so little about their efficiency? How can we judge how efficient you have been in your disbursement of public money?

**Dr Shafik:** I think the NAO Report does also say that the DFID programme in Malawi has contributed clearly to poverty reduction.

**Q7 Chairman:** I am not arguing about that. That was precisely why I said what I said. If you spend enough money you are going to achieve something, but what I want to know is how can we as a value for money committee be assured that you are achieving value for money when clearly you are lacking in data about how effective your programmes have been in terms of value for money?

**Dr Shafik:** It is not saying we are lacking any data. The NAO rightly is raising the bar and saying we always need to get better data. I can give you several examples which prove that. For example, the food security programme: if you look back in 2005, Malawi had a serious food security crisis where we had to deliver over £21 million of food aid just to get people fed and to prevent hunger. The programme that we have funded, which costs directly £5 million and an addition £1.8 million through budget support, a total of £6.8 million, has resulted in four years of Malawi having—

**Q8 Chairman:** You are not answering my question. We can spend the whole session hearing about the wonderful work you are doing in Malawi, and I am sure that you are doing very good work, but we want to try and get to the bottom of how much we know about how efficient these programmes are. Would you please look at paragraph 2.9? This is very important. This is drugs, which are obviously very important: "We did not find robust measures relating specific outputs and outcomes to the

associated costs such as the unit cost of drugs or the cost per episode of treatment". Why do you not analyse unit costs of drugs, or the cost per episode of treatment, given this is where so much of the DFID money goes? Ms Hines, perhaps you can answer this.

**Ms Hines:** Absolutely. We have, in fact, got unit cost analysis for the cost of drugs. I can tell you, for example, that for antiretroviral drugs, which are obviously a key issue in Malawi with such a high HIV prevalence rate, the unit cost in Malawi is \$85 per person compared to \$155 in most other countries in Africa. That shows that there are efficiencies within Malawi. There are also some other examples where we have done a lot of unit cost analysis. We have built a lot of classrooms and we have done a unit cost analysis to benchmark the cost in Malawi to show that it is well within and, in fact, below the regional average; the same with the unit cost of elections and the same with a roads programme we are currently developing. We are doing this. What the NAO rightly criticised us for was that we had not made that unit cost analysis so explicit in our monitoring frameworks in the past and we are now doing that.

**Q9 Chairman:** You are giving out more aid, but you have got fewer staff to manage that aid. Does that not mean that, in effect, you are relying on weak local systems to assess how well the money is spent?

**Dr Shafik:** The staffing we have in Malawi is much more in the normal range of what we have in other African countries. On average we have about 40 staff and Malawi has exactly 39; it is in the normal range.

**Q10 Chairman:** Look at paragraph 1.3 where you have increased the aid from £54 million to £70 million a year, and just at the time when you are increasing aid you are cutting your staff and, therefore, you have to rely on weak local systems of assessments, and that is what worries me.

**Dr Shafik:** No, I do not think we are relying on weak local systems of assessment. The NAO says that DFID performed well against international criteria used to measure how effectively donors and partner governments are working together, and that for most indicators DFID's performance has improved and is performing better than other donors in Malawi.

**Q11 Chairman:** Can I ask this to the Treasury: you have trebled the amount of aid that DFID has given out in Malawi but you are cutting the running cost budget that you allow DFID to spend on this. Are you not putting at risk the value for money?

**Mr Gallaher:** I think decisions about how administration costs are incurred is a matter for the Department themselves. We do not micromanage departments on how they spend their resources, so if they choose to operate and produce a better product for less money we welcome that.

**Q12 Chairman:** So cutting the running costs is down to them, not to you?

*Mr Gallaher:* Overall, we will—

**Q13 Chairman:** There is no pressure you put on them to try to reduce staff?

*Mr Gallaher:* No.

**Q14 Chairman:** Never?

*Mr Gallaher:* We would actually say to them, “Run an efficient operation, run it well”, and we would give them a global budget and they can make their own decisions.

**Q15 Chairman:** You never make any comment on staffing?

*Mr Gallaher:* We will, of course.

**Q16 Chairman:** Of course you do, that is what I am putting to you. You are constantly pressurising them to cut their staff while you are trebling the budget and, therefore, they have to rely more on weak local systems of assessment rather than their own staff who are far more able to assist this Committee.

*Mr Gallaher:* I think they have got to make a judgment. They know better than we do; we are not out in Malawi, we are in London.

**Chairman:** I agree with that.

**Q17 Keith Hill:** Let me put this first to the Permanent Secretary. I think I understand the principle of budget support. It is about empowerment and also about not overstressing the limited personnel resources that can be available in some of the administrations with which you deal so that individual officials in the Malawian government, for example, are not subject to endless bilateral negotiations with external parties, et cetera, but there is a downside of this arm’s length relationship and that seems to be that often it is very difficult to know what is going on and what is being delivered. Is that a fair judgment?

*Dr Shafik:* I do not think that is the case. The biggest power of budget support is that it enables us to use whatever resources we have to try and shape everything that the government is doing. For example, in the input subsidy programme, which we think has been incredibly successful at delivering bumper harvests and food self-sufficiency for Malawi in the last four years, we contribute less than 5% of that programme. The government provides most of the funding, but we have a voice at the table and are able to make sure that programme is more effective, better targeted and has civil society participation to make sure that the government is actually delivering on the ground. It is that leverage, I think, that is the truly most powerful thing that budget support gives us.

**Q18 Keith Hill:** You are bound to be limited in the influence that you can exert when, for example, the data you are dealing with are so inadequate. The NAO Report has a series of findings about the inadequacy of data on, for example, the maize harvest, on poverty statistics, on the way in which different districts in the country are using DFID’s money. This is bound to be tremendously limiting in

both making a judgment about the effectiveness of programmes and also even knowing where you need to intervene to ensure an improved performance, is it not?

*Dr Shafik:* I think we respond to that in two ways. One is investing in better data. We are investing in a new household survey next year and have invested a huge amount in improving the tracking of drug procurement and spending on drugs, and so on. The second way we respond is by getting information from other sources. For example, when I was in Malawi in September we visited a school which was very typical of what Gwen described. This school had 600 children in two classrooms. We run a programme where we give schools the equivalent of about \$2,000 and a parents committee with the headteacher get together and decide how to spend that money. Every penny they spend has to be posted at the front of the school so that they track it. What did they do? The parents got together and built four more classrooms with their own hands, which we visited, and used the additional resources to hire a teaching assistant, thereby bringing the ratio of kids to teachers from 600 in two classrooms to 600 in six classrooms with two teachers in each room.

**Q19 Keith Hill:** I have heard of that programme and I think it is an extremely good idea. It is about efficiency and governance as well, so first class, that seems to be a really good achievement in Malawi and ought to be adopted elsewhere. It is only one example, is it not? The truth is if you look overall at the statistics on delivery, to which the Chairman has already alluded, in figure 4, the fact of the matter is, even if you allow for some delays, almost half of the programme is not delivered. Perhaps this is a question for Ms Hines: how would you improve its performance against its Country Plan in Malawi?

*Ms Hines:* I would be happy to answer that. As Minouche has said, there are a number of different ways that we can get at the data that we need. Some are things we need as DFID specifically and some are things we help the government to get, so we are strengthening their own national statistical office, and some are things we do jointly with other donors. Norway, for example, has recently funded a study on agriculture to look at the harvest issues. We do this very much as a collaborative effort. We do regularly go out to schools. I was in a village 10 days ago looking at exactly how much maize they have in that village, and we do that all over the country to spot-check, to a certain extent, what is around and what is not.

**Q20 Keith Hill:** What has been your conclusion from that exercise?

*Ms Hines:* I am very positive, actually, and people in the villages are as well. The BBC were out there as well, so it was not just me who found this. What we did find and everybody in the village told us is that there is a lot of maize around. As the NAO Report says, there is a little bit of a dispute around the size of the harvest. The official statistic will tell you this year there is a 1.2 million surplus, and whether it is exactly 1.2 million is matter for debate, but what is

not a matter for debate within Malawi is the fact that there is a surplus, that the country has gone from five million people on food aid in 2005 to now having a surplus and they are now in the process of exporting maize to Zimbabwe. The turnover is not something which is in debate.

**Q21 Keith Hill:** To what extent would you ascribe that serious turnaround to the role of DFID, for example?

*Ms Hines:* I like to think we played a part in it.

**Q22 Keith Hill:** I bet you would.

*Ms Hines:* Yes. As Minouche has said, this programme is something which the government itself very much owns. 90% of the funding for the programme comes from government. DFID's own money is about £5 million a year into this programme. One of the really key things we have done with our money is to help them to roll out improved variety seeds, hybrid seeds, which have a much higher yield. Of the £5 million we provided last year, £3.3 million went on improved seeds. It is both the seeds and the fertiliser.

**Q23 Keith Hill:** As a matter of interest, how did you ensure that those improved seeds became available to farmers at the district level, for example?

*Ms Hines:* In fact, it goes way below the district level.

**Q24 Keith Hill:** How did you do it?

*Ms Hines:* It goes down to the village level.

**Q25 Keith Hill:** Who does that? Is it the Malawi government that does it or is it the agencies?

*Dr Shafik:* It is private.

*Ms Hines:* It is a whole range of people who are involved in it. At the village level, there is a village level beneficiary identification committee, which is a very complicated way of saying the village get together and determine for themselves who within the village will benefit most from the programme.

**Q26 Keith Hill:** How do they get the money?

*Ms Hines:* As I say, 90% of the money is the government's own money. Development partners, including DFID, put their money with the government's money to fund the whole programme.

**Q27 Keith Hill:** Who administers that? There is obviously a large element of self-help in this, but who administers it at the local level?

*Ms Hines:* At the local level it is done through something called district agricultural development officers who are employees of the ministry of agriculture, who are at the district level, and then there are extension workers below that level who know every village, who work with every village, who go out with the vouchers for the individual families on that list.

**Q28 Keith Hill:** How do you know they are doing it?

*Ms Hines:* We fund two things. One is a logistics unit, which is a central mechanism which helps to co-ordinate the whole process and gives us a weekly report during the agricultural season, to both us and government.

**Q29 Keith Hill:** Gives DFID a weekly report?

*Ms Hines:* Yes.

**Q30 Keith Hill:** The logistics unit gives DFID a weekly report. I am not being hostile, I am merely trying to get behind this issue of budget support. I almost get the impression now that we might be slightly reverting to the old, rather more direct, hands-on style that aid programmes and UK aid programmes would have implemented historically.

*Dr Shafik:* That report of the logistics unit also goes to the government of Malawi. The second thing we do, which Gwen did not get to finish, is that we also fund civil society organisations to go round and check the distribution centres, check at the local level, to make sure that farmers are getting the inputs that they are entitled to.

**Q31 Keith Hill:** So we also fund civil society organisations to exert a kind of scrutiny and check on government?

*Dr Shafik:* Yes.

**Q32 Keith Hill:** They are really our go-betweens at the local level?

*Dr Shafik:* That is exactly right.

**Q33 Keith Hill:** So we are really a bit more hands-on than the principle of budget support would imply?

*Dr Shafik:* Good budget support has that kind of accountability mechanism in it whereby we ask the government to tell us.

**Q34 Keith Hill:** Is that something which has developed over time, or was that part of the original concept?

*Dr Shafik:* I think it was part of the original concept. Where we have got better over time, and I think the NAO has been helpful in pressing us on this, is in clarifying the targets, clarifying the commitments, measuring them on a regular basis.

**Q35 Keith Hill:** Mr Sharpe, I get the sense that you are teetering on the brink of an intervention!

*Mr Sharpe:* If I may, I wanted to comment on your point about the number of targets that we did not achieve on time. As a system we have always set stretching targets without the expectation that we would necessarily achieve all of them. Our agreement with the Treasury for this three-year period is that we will try and improve the portfolio quality scores from 72% to 75%, in other words we will achieve about three-quarters of our targets. The NAO are rightly asking us as we do project design to do it a bit differently, to state what would be the threshold level at which this intervention would deliver good value for money, what is the expected level and what would be over-achievement. We need

to follow up with what the NAO are suggesting in that regard, and we will do that. We have never set these targets on the assumption that the project will have failed if we have not achieved all of them.

**Q36 Mr Curry:** Dr Shafik, helping peasants produce is back in fashion, is it not, in development programmes? It went out of fashion, did it not?

**Dr Shafik:** I think that is true. 2008 was a critical year because of the food crisis.

**Q37 Mr Curry:** The great price spike, plus climate change, plus the panic of population movements driven by both of them, has led us to be very anxious that very small farmers, subsistence farmers, can stay on the land and produce, has it not?

**Dr Shafik:** That is correct.

**Q38 Mr Curry:** Britain has rather run down its capacity in this area over the years, has it not? If you look at some of the institutes which used to be involved, like the Natural Resources Institute, they all say they have got much less resource than they used to. Are we hoping to build up our expertise and technologies in this area again?

**Dr Shafik:** I think it is a fair criticism that the international donor community neglected agriculture in recent years because there was a strong focus in the Millennium Development Goals on health and education. The food crisis in 2008 was a wake-up call to us and we are redressing that by putting more resources into agriculture.

**Q39 Mr Curry:** I am interested in the agricultural side of it. It is quite clear that your programmes in Malawi are based on subsidy.

**Dr Shafik:** Yes.

**Q40 Mr Curry:** How sustainable are programmes which are based on subsidy? You subsidise the fertiliser, and the Report comments that between 25% and 35% of the fertiliser could have been bought at market prices, and also that any decline in food does not seem to be sustainable after the first year or so, so perhaps the poorer citizens are not benefiting directly. How sustainable is it to base a programme on subsidy? Are we producing a mini-CAP for Malawi?

**Dr Shafik:** It is quite different from the CAP since the CAP produces excess beyond need, but I understand your point.

**Q41 Mr Curry:** The point is this is a subsidy-based programme and I am suspicious at how sustainable those subsidy-based programmes are.

**Dr Shafik:** I completely agree with you. I am an economist by training. Personally, I approved this programme several years ago in my previous role and was greatly sceptical about the exact point you are making. There are two compelling arguments. One is, what is the counterfactual? In this case, the counterfactual was humanitarian assistance. People would have starved and we would have had to ship in food aid. We had to do that in 2005 and it cost us £21 million. This programme cost us a grand total of

£6.8 million last year and has resulted in bumper harvests and for the last four years Malawi has not needed food aid. For starters, when you think about the counterfactual of food aid, it is cost-effective. The second compelling argument is the independent cost benefit analysis that we commissioned of this programme that shows in every year it actually had a positive economic rate of return and the cost benefit was exceeded, with the exception of 2008, which was a very special year, as you implied.

**Q42 Mr Curry:** Let us leave aside for the moment the problem of encouraging trade between developing countries which might get over the need for food aid in some circumstances. What about the alternative of market-based approaches? I am associated with an organisation called International Development Enterprises, which is one of the Bill Gates funded programmes, and we operate largely in Ethiopia. That is entirely market-based. It is based on very small-scale, primitive, if you like, technologies, like treadle pumps, and the farmer has to buy it or rent it, and if he cannot keep up the payments it goes. Microfinance is organised so he can raise the money and the farmer is given help in getting products to market so he can earn money, or sometimes it is her, so they can expand their patch or send one of their kids to school. What this does is create more self-sufficiency and also a mini market economy. It is tough love but I find that an approach which commends itself very strongly to me as a sustainable programme over a longer term. Would you envisage moving to something more akin to that and over what timescale?

**Dr Shafik:** I agree with you. I would prefer a world where Malawian farmers had access to credit and could buy inputs on the market. That is much better and much more sustainable. We are in a second best world with this current input subsidy programme. I would much prefer to move towards the kind of programme that you identify. That is clearly where we would like to take Malawi in the medium-term. Malawi is a long way from that at the moment and, again, if the counterfactual is humanitarian assistance, this is better than that. It is a trajectory here. It is also important to remember that by most standards this programme has been tremendously successful. The President of Malawi has received countless awards from the FAO. The BBC called it the Malawian miracle just last week. 14 other countries have visited Malawi to see how this programme works. It is not ideal, I completely agree with you, but in a second best world it is a pretty good programme.

**Ms Hines:** As Minouche has said, the long-term and the ideal would be something. It is important to understand that at the moment that is very difficult to do because, as the NAO's Report makes clear, 90% of the farmers are subsistence farmers working a plot of an average size of an acre. Land in Malawi is not collateral because it is customary land which belongs to the village and not to you personally, which means at the moment you cannot use that as collateral to get credit. That is something which is being looked at and we, as DFID, are involved in a

number of schemes using the treadle pumps and other things to encourage local co-op style development. This year, the government is taking cash crops out of the subsidy programme. Tobacco was previously part of it and that has now been removed because there are now financing mechanisms for cash crops which enable you to do it that way.

**Q43 Mr Curry:** While the programme is heavily maize orientated, and I understand that is because it is a hunger alleviation programme, there are much better crops which would go to develop a market economy, for example, garlic and vegetables.

**Dr Shafik:** I quite agree with you.

**Q44 Mr Curry:** With the lack of a developed market farmers do not get a better price for their products. What are you trying to do to incentivise market production and help incentivise the markets themselves? Maize is a boring commodity, a crop which is essential to keep people fed, but the exciting things are these much more diversified products.

**Dr Shafik:** Gwen and I went to a village and sat down with a group of women and asked precisely these types of questions: why the obsession with maize, why not consider other crops which would generate higher returns for farmers. Given that Malawi has a history of such food insecurity, growing your own maize to feed your own family is, to be candid, a national obsession. Until people have food security for their households they will not consider switching to other crops which would remunerate much more.

**Ms Hines:** There are things which DFID is doing through the rest of its programme to encourage private sector development in Malawi. For example, one of the things we have done in the past year was help the government to update its own mining map using the British Geological Society. There is now a big uranium mine in the north of Malawi which is going to produce \$150 million a year. That is a huge chunk for an economy the size of Malawi's.

**Q45 Mr Curry:** You can buy a lot of maize with that.

**Ms Hines:** You can buy a lot of maize with that.

**Q46 Mr Curry:** You could buy it from Zimbabwe if it could produce it.

**Ms Hines:** Just last week, we published with the government a new country economic memorandum and part of that was a growth constraints analysis. Last year Malawi had a growth rate of 9.7% and that is unprecedented in Malawi. Since 2005 it has had an average of 8% after 25 years of stagnation. Maize has helped to achieve that. The point of the research we did and which we published last year was to say what in the future will help deliver growth in Malawi and what are the constraints, including access to finance, which we can work with the government to tackle.

**Q47 Mr Curry:** Can I just come back to a point I made earlier? The Report does state that somewhere between a quarter and a third of subsidised fertiliser

could have been bought by people at market prices. It looks like the poorest Malawians have not been targeted directly on the assumption that they will benefit from a general reduction in the price of food, yet on page 35 it says that, while more food is available, beyond the first year food prices have not decreased and at the time of writing the Report were still high. Have you really helped the poorest people?

**Dr Shafik:** This programme was not intended to reach the poorest of the poor, for example, landless households; it was meant to reach the productive poor who could use the inputs effectively. The best evidence of the impact on the rural poor is that rural wages have risen faster than maize prices, so rural workers' incomes actually went up. I think that is quite a compelling story. The evidence we have is that about a million people have been lifted out of poverty in the last few years, in large part as a result of the gains that have been made in the agricultural sector.

**Q48 Mr Burstow:** I just wanted to draw attention to figures 2 and 16 which address issues around poverty and then the ratio of nurses to population varying by district. It is quite striking that, if you look about halfway from the bottom of figure 16 to the middle of the table, many of the districts referred to there are at the top of the league table when it comes to being in ultra-poverty and poverty. I am particularly interested to explore what is being done to address the issue of deficiencies of doctors and nurses in rural locations. Why has Malawi not made more progress in this area to incentivise and get more medics into the hard to staff areas?

**Dr Shafik:** Again, it is important to remember the baseline from which we are starting. Life expectancy in Malawi fell from 48 to 39 years, one of the lowest rates of life expectancy in the world, mainly due to HIV. In 2004, 10 out of 28 districts had no doctor present. Now all districts have at least one doctor and the ministry of health has confirmed that by 2011 all districts will have at least three doctors. Starting from an incredibly low base, they have made fairly decent progress.

**Q49 Mr Burstow:** Just on that point, if I may, briefly, in paragraph 2.16 it does say that by the end of 2007 in many districts a third of nurses and two-thirds of doctors remain behind the 2005 national average baseline, let alone the national targets for subsequent improvement. There are places where the lack of progress is masked by perhaps greater progress in maybe more urban areas.

**Dr Shafik:** The government has problems, like all countries, in getting people to be posted in poorer, rural isolated communities. They have built 500 houses which the ministry of health has recently constructed to try and make it more attractive for people to locate in rural areas. The minister of health, who I met, is looking at a package of additional incentives to make it attractive to people to move to rural areas.

**Q50 Mr Burstow:** The Report describes the salary top-up for doctors and nurses as a possible way of addressing this issue. Why has DFID not chosen to adapt that as a way of trying to help direct doctors and nurses into these areas both to make sure they are properly paid but also to incentivise those moves?

**Dr Shafik:** It is something we can look at, which is increasing the financial incentives for rural postings. The top-up scheme has been remarkably successful at retaining health workers in Malawi. We are helping to pay for a 50% increase in wages, which has stemmed the tide of health workers leaving the country. It was often said that there were more Malawian health workers in Manchester than there were in Malawi; that is no longer the case. It has also encouraged many people to stay in the health sector because many health workers and nurses were switching to other professions because pay was so low. Clearly, the ministry of health does need to look at whether they can use additional financial incentives to get people to stay in rural areas.

**Q51 Mr Burstow:** How do you know that, given that it says in paragraph 2.19: "The health ministry does not compile annual data, and attrition will be measured in an evaluation of the programme between September 2009 and June 2010"? Do you actually have data that really allows you to say that with confidence?

**Ms Hines:** As the Report said, it is not something which is measured on an annual basis. What we have got is data from the beginning when we know that, for example, in the first year of the health swap in 2005 there were 96 health workers who left Malawi and in the following year there were 30, so that was a huge fall even in the first year. There are various ways which we use to triangulate the data that we do have. If you go to any hospital or any clinic in Malawi, what they will have is flipcharts on the wall showing how many health staff they have, and they have everything from how many births they have to how many deaths they have and what types of operations. Aggregating data at the national level and quality controlling that is difficult, but if you are prepared to go round the country and go to the health facilities, as we do, you can actually pick up a huge amount of very rich data to spot-check what you are seeing from the national government data. I would also point out, as the NAO Report acknowledges, that it takes six years to train a doctor in Malawi. Since this health swap was only launched in 2004, we are only now beginning to see the real improvements in terms of numbers of doctors and that is why, as Minouche has already said, the doctor figures will improve so dramatically over the next couple of years.

**Dr Shafik:** Just to add to that, they are producing 500 nurses and 55 doctors every year who are entering the system and that will improve the numbers even further.

**Q52 Mr Burstow:** That is obviously very encouraging. You mentioned earlier on that now every area has at least one doctor, but the Report

refers in 2.16 to the fact that in many cases where that one person is in place they are temporary appointments. What is being done to make sure that this workforce growth is sustained and sustained growth is put into the places where it is most needed?

**Dr Shafik:** Clearly, getting the numbers up is a key part of that and additional incentives to rural postings is another part.

**Ms Hines:** There are a number of ways the government tries to do this from the salary top-up to additional training. They are also looking at bonding to a certain extent people who are trained through the government system so they have to serve in rural areas, which is something they do with teachers as well. It is also something that we have been talking to the World Health Organisation about because they are doing a study on this globally, how you can incentivise health workers to go and stay in rural areas. They are looking at Malawi as an example. Their preliminary conclusions suggest there is no quick-fix solution; what you need is a range of these types of measures. In Malawi, the health programme which we are currently funding will be subject to a major evaluation over the next 12 months as it draws to the end of this first phase so that we can make sure the second phase is even more carefully targeted.

**Q53 Mr Burstow:** Can I briefly switch to another area, which is going back to the line of questioning Mr Curry was asking on about maize and particularly this issue of subsidy and the timeliness of subsidy? One of the points the Report in paragraph 3.7 refers to is that certainly in two seasons now the subsidies have arrived too late or there are barriers in the way, both in terms of the amount of distance to be travelled or amount of time that has to be waited before gaining access to fertiliser, which makes it a less than perfect scheme. What is being done to remove those sorts of obstacles and what is being done to make sure that the whole scheme is more timely?

**Dr Shafik:** Part of the reason for the delays in previous years was because we had this minority government situation and the government was unable to pass a budget until quite late in the fiscal year, hence the fertiliser was late in being delivered. That was a major factor. This is a large programme; it reaches 1.6 million households. There have been implementation delays, but we have been working very closely with the government through the logistics unit to make sure that the implementation delays are addressed.

**Q54 Mr Carswell:** Since 2003 £312 million worth of aid has been given to Malawi. Dr Shafik, how much of that has been general budget support, approximately?

**Dr Shafik:** Of the £312 million, in any particular year, for example in 2008, the budget support was about £27 million. It has been roughly about a third of the programme in each year.

**Q55 Mr Carswell:** About a third of the total aid budget. Can you personally account for how all of that is spent? I do not mean can you tell me which tick boxes and project scores have been met, but can you account for that in a way that would be credible in a western country to make sure it is not being siphoned off?

**Dr Shafik:** We undertake fiduciary discharge before we approve budget support and that involves a set of risk assessments that we do before approving a budget support programme. We have to assess whether a country has fiduciary standards that are acceptable. We have to ensure that things that are being spent on are things that we would consider eligible. There is a set of quite complicated criteria that is an internationally agreed standard.

**Q56 Mr Carswell:** So you can account for it?

**Dr Shafik:** I can account for it, yes.

**Q57 Mr Carswell:** It is not being used to subsidise Mercedes Benzes or the property market in South Africa or to top up foreign bank accounts? This is going on, or it is not?

**Dr Shafik:** The government has a spending programme. When you do budget support you are supporting a broad spending programme. The decision we have to make is, are we comfortable with the broad areas that the government is spending on?

**Q58 Mr Carswell:** What I am trying to work out is if the British taxpayers' money is ending up being taken by kleptocracy for personal benefit.

**Dr Shafik:** The way we address that is we fund the anti-corruption commission in Malawi.

**Q59 Mr Carswell:** We give them half a million pounds.

**Dr Shafik:** We do, and they are incredibly active. In fact, if you look at their recent prosecutions in 2006 the minister of education was prosecuted and fired. They had 118 cases recommended for prosecution in 2009.

**Q60 Mr Carswell:** So they are identifying fraud?

**Dr Shafik:** They are identifying fraud and they are prosecuting it.

**Q61 Mr Carswell:** The general budget support is subject to fraud?

**Dr Shafik:** Fraud exists in all countries. The issue is, are you prosecuting and are you addressing it?

**Q62 Mr Carswell:** I believe I am right in saying that the Americans generally do not give general budget support and my understanding is the reason they do not is because of accountability. The United States Congress, a proper legislature that does its job properly, does not like to sign off on what they regard as a form of subsidy which cannot be accounted for. Are they wise not to sign off on it? Should we be more challenging in how our money is being spent?

**Dr Shafik:** I think if you asked the General Accounting Officers, they have found widespread fraud in many parts of the US aid programme that

is not related to budget support. I do not think this instrument is any more vulnerable to fraud than other aid instruments.

**Q63 Mr Carswell:** Do we spend money trying to develop an enhanced democracy in Malawi?

**Dr Shafik:** Yes, we do.

**Q64 Mr Carswell:** Democracy is about competing tax and spend options in a spectrum of public sector provision. Are we not actually preventing the development of democracy if we are, in effect, providing a large subsidy that prevents the government legitimately raising taxation through a local public policy debate in Malawi?

**Dr Shafik:** The government of Malawi gets about a third of its budgets from donors, so two-thirds is still dependent on Malawian taxpayers to generate it. In addition to the anti-corruption bureau, we fund the national audit office in Malawi to generate public information about how money is being spent, and we are paying for them to expand their audit programme from 50% of government spending to 80% of government spending. We fund the parliament. When I met the Speaker of parliament, I think he is very grateful for the support we give to parliamentary accountability.

**Q65 Mr Carswell:** I am sure he is, but it is not really enhancing democracy if these are not decisions that are entirely dependent upon the revenue raised. A lot of debate in democracy is about how to broaden the tax base, whether you should broaden the tax base. If we are bunging a third of Malawi's budget to Malawi, this is not going to happen democratically, is it?

**Dr Shafik:** Two-thirds is their own money. Gwen, do you want to add something on that?

**Ms Hines:** Malawi is increasing the amount of money every year which is raised through domestic taxes. They set themselves targets and in the past year they have easily exceeded those targets, so they are raising more domestic revenue. It is incredibly important to understand just how poor Malawi is. When between 80% and 90% of your population are subsistence farmers who are literally trying to grow enough maize to feed their family, the prospects for raising enough tax revenue to replace aid are very limited. As I said, Malawi last year had 9.7% growth and it would take growth of at least that for the next 10 years to replace aid.

**Q66 Mr Carswell:** So should we not cancel general budget support, abolish it, and instead, rather than spend the money on hand-outs for politicians, which is what it is, and hand-outs for grandiose planners, give the budget support money instead to beefed-up programmes that would actually ensure that rural farmers have things like access to credit? It is a lack of credit that forces the farmers to forward sell their harvests, which explains the low productivity. Should we not be addressing their lack of access to credit? Would we not be better off sorting out land ownership issues, making sure that every woman and man in Malawi has access to a mobile telephone,

rather than using this money to subsidise politicians who then siphon off that money, as you admit, into propping up their own personal property portfolio?

**Dr Shafik:** I do not recognise this picture of budget support that you paint, actually, and I think we are doing precisely that, helping a very, very poor government, which has £80 to spend per capita per year, target that money on an essential package of health services recommended by the WHO as the most effective for saving lives, an essential package of input subsidies which gives the poorest farmers in Malawi access to basic inputs.

**Mr Sharpe:** Perhaps I could just say three things. Firstly, obviously we want to be sure that the Malawi government budget is pro-poor. If we support budget support in countries, which we do in 15 countries out of the countries in which we work, it is because we believe that they have a fundamentally pro-poor budget. In Malawi they spend 20% on health and 19% on education so it is good proportions of the budget that go on pro-poor issues. In terms of strengthening democracy, one of the key things it does is to strengthen the information base to citizens. It is because donors have been involved with public accountability systems in these countries that we now have much more transparent budgets, that there are medium-term expenditure plans, that we have supported the accountability mechanisms so that the accounts are published now and they are audited. Involvement with these systems does help strengthen them. The third thing is just to note that when you do compare unit cost, as you were asking us to do earlier, the unit cost advantages that we get from constructing schools through government systems rather than sending in external contractors to do it are enormous. We have to assess the costs and the benefits of the different aid modalities.

**Dr Shafik:** Just to give you one small example, if I may. We have looked at our entire education portfolio in DFID, much of which is channelled through budget support. We can get a child into school for £60 a year. That is 2% of the UK cost. We are paying for five million children to go to primary schools around the world.

**Q67 Mr Carswell:** In 2004 you had to suspend budget support because of the theft and the kleptocracy. What is it that has changed other than a more malleable set of politicians to make you resume budget support?

**Mr Sharpe:** One of the things that has definitely changed is the improvement in the public financial management system. In 2005 in the PEFA (Public Expenditure and Financial Accountability) international assessment, of the 28 indicators Malawi scored a D on 21 of them. In 2008 when they did it again it scored a D on four of them, so it has improved a lot over that period, but I should leave it to the experts in the country to comment more.

**Ms Hines:** I would also point out there was an election in the meantime and it was a fundamentally different government which has been bought in. The previous President is currently being investigated by the Anti-Corruption Bureau of Malawi for that

period. If you look just at the economic indicators and how they changed between 2004 and 2008, something our budget support helped to achieve was macroeconomic stability. Inflation was 20% in 2004 and 8% in 2008.

**Q68 Mr Carswell:** In five years' time will we still have general budget support, do you think?

**Dr Shafik:** In Malawi?

**Q69 Mr Carswell:** Yes.

**Dr Shafik:** Probably yes and I do not think that is a failure; I think that would be a sign that we had confidence in their systems and they had good policies and we were willing to support them.

**Q70 Chairman:** Dr Shafik, you believe that budget support or aid to government is no more liable to fraud than other types of aid, microaid for instance rather than macroaid? That is your belief, is it?

**Dr Shafik:** That is what my head of internal audit tells me.

**Chairman:** That is what you told Mr Carswell and I just wanted to double check. Geraldine Smith?

**Q71 Geraldine Smith:** It is a very difficult job obviously in a very, very poor country and £80 million is not that much money. Is there a danger sometimes you can try and spread it too thinly and try and do too much?

**Dr Shafik:** It is something we always struggle with and I think Gwen will give you a feel for this. In a country that has so many needs we could be doing everything. In fact, we have tried to focus on what Malawians say are their top priorities. The first was food security, for obvious reasons because that is what matters most to poor households, and the second was health. Those have been the two major sectors which the NAO has looked at. It does not give you a long-term development strategy and the shortfalls and the shortcomings in education in Malawi are good examples of something we would like to do more in but cannot. Gwen, do you want to say something about how you make those trade-offs?

**Ms Hines:** It is very difficult especially in a country like Malawi, as Minouche has said, and despite the needs in Malawi there are actually very few large donors in Malawi. There are four or five who provide very much the bulk of the aid, both through budget support and through their individual project support. DFID is the largest bilateral donor in Malawi so we are routinely looked for, not just for our money but for the analysis. My staff are routinely the ones who are asked, "Who has done the budget analysis? Who has done the study on the impact of the financial crisis?" DFID is almost always the first donor to do that kind of analysis in Malawi and it is something the government looks at a lot. They talk to me a lot, ministers talk to me a lot to say, "We have got this problem; how do we deal with this?" We have an agreed division of labour amongst the donors. We and the other major development partners do support the Malawi government's own strategy called the Malawi

Growth and Development Strategy and that is a framework for their own spending and for our spending. Within that when we do our own country assistance plans and country strategies we focus on where as DFID we can add most value, so, for example, there is an explicit understanding with the World Bank and with others such as the European Commission that DFID will focus on health and education. We are about 40% of donor funding in both those sectors. The World Bank on the other hand very much leads on issues like energy, which DFID is not set up to lead on, and they can bring a lot of other expertise to it.

**Q72 Geraldine Smith:** Can I ask something on health. One thing that jumps out is the figure of £1.2 million to treat 15 patients abroad. What happened there? What was that all about?

**Dr Shafik:** Those are some very difficult cases. The majority of those cases are cases of cancer and they are mainly children who have cancer. We asked the Ministry of Health to give us numbers on the wealth quintiles of where those families came from to see if there was any bias in favour of wealthier families, and that was not the case. The proposals for treatment abroad come from public hospitals based on clinical criteria recommended by doctors who chair those committees. The Malawi government has tried its best to reduce those costs so over time they have come down by about 30% or 40% because they have an agreement with a hospital in South Africa which treats children's cancer cases. The alternative would be for Malawi to try and treat people at home, but of course the costs of that would be prohibitive given how poor the country is. Neighbouring Zambia has built a cancer hospital recently. It cost \$10 million to construct and \$4.8 million to maintain. It runs chronically under capacity with a lack of staff and supplies.

**Q73 Geraldine Smith:** It is very hard. I know it is awful when you are talking about people's lives, but it is terrible when you look at the maternal mortality rates and things that they are so high and the fact that people do not have any transport to take them to hospitals, any ambulances or anything like that. Surely, there has got to be a certain amount of health rationing in effect to make the most use of funding? How do you do that? What systems do you have in place to make sure that the money is spent to save as many lives as possible?

**Dr Shafik:** In some ways, thankfully, we do not have to make these choices; doctors in Malawi have to make those trade-offs. Obviously this is a very, very, very tiny proportion of the health budget, so it is something that we have to defer to the doctors' judgment about who can benefit most from treatment. Our primary concern though is whether the entire health budget is being focused on maximum benefit. I think there the NAO confirms that the essential health package, which is what we are supporting, is the highest possible return investment we could be making in health.

**Q74 Geraldine Smith:** What about the basics such as clean water? There seems to be some dispute in the Report about just how many people do have access to clean water. That is surely the first essential thing that you need?

**Dr Shafik:** Absolutely. Malawi has done relatively well on providing access to water. It has gone up from 40% to 65% since 1990.

**Q75 Geraldine Smith:** Has that figure not been disputed? Do WaterAid not dispute that figure of 65%?

**Dr Shafik:** That is correct. WaterAid's comment that 31% do not work relates to an earlier government number which I think most of us thought was an overestimate. We think these newer numbers are much more reliable. You are quite right; access to water is a basic. When I was there visiting we visited a village which had a water borehole put in place and it was the shiniest thing in the village. It was an incredible source of pride to the whole community and had transformed health indicators in that community, so it is a huge issue.

**Q76 Geraldine Smith:** Can I go back to the staffing numbers that was touched on earlier. It does seem that if you had over 100 staff in 2004 and it has gone down to below 40 at one point, that is a very big reduction. Are you saying you were overstaffed to begin with?

**Dr Shafik:** Malawi was staffed somewhat unusually relative to other offices because there were many things that in normal offices we would contract out like estates and taking care of buildings and that kind of thing, which were done in-house in Malawi and which because we wanted to reduce numbers we were able to contract out and reduce our core numbers. I think the current staffing numbers in Malawi are quite normal for a typical DFID office in an African country.

**Ms Hines:** I was just going to add as the person who has got that team to achieve the work that we are trying to achieve, that I am confident that we have the right staffing numbers now. It is not just about numbers; we have also changed the skills profile of the staff. A lot of those we have lost were very junior staff who did functions which are no longer required. We now have a computerised financial management system and record-keeping systems so we no longer need the people who in the past performed those kinds of functions manually. We also had a school construction unit which was previously part of DFID. As part of our aid effectiveness that unit is now part of government. It is also being merged as we speak with an African Development Bank unit so the government will control school construction in the future as part of a harmonised unit. That was also downsized as part of the transfer of aid into government but that explains for example why a certain number of posts were removed in DFID Malawi. We also have a lot more Malawian staff rather than international staff. Those staff have a huge amount to offer. They have quite different skills than I have or my other British staff have and that

enables us also to balance our running costs. We all bring different things. I now have a very good team who can achieve what they need to achieve.

**Geraldine Smith:** Thank you.

**Q77 Mr Mitchell:** I see that 1.4 says that DFID aligns its work with the other donors, but we are told elsewhere that more and more of the money DFID channels in is going through the government in Malawi. Is that efficient?

**Dr Shafik:** We think it is efficient because the cost of the Malawian government delivering health and education services would be far less than if we brought in external parties and tried to—

**Q78 Mr Mitchell:** Surely it is much more subject to corruption and political influence?

**Dr Shafik:** We think the way to mitigate that risk is to invest in the Anti-Corruption Bureau and try to make sure that public financial management is improving in its quality.

**Q79 Mr Mitchell:** Are you transferring more functions to their government rather than having it done through your staff because you have got to reduce staff levels?

**Dr Shafik:** No we are not doing it to reduce staffing. It is because we think it is more cost-effective and more sustainable in the long run if the Malawian government runs these programmes themselves rather than us doing it.

**Q80 Mr Mitchell:** But we get less credit for it?

**Dr Shafik:** I think if you went to Malawi you would hear lots of good things about the UK and DFID but we do not put flags on projects.

**Q81 Mr Mitchell:** I am sure when you give tax credits here people do not say thanks to the Labour Government. They think the Inland Revenue is giving it to them from the generosity of its heart. I cannot see that in Malawi the British Government is going to get the credit for something that is coming through their government.

**Dr Shafik:** I think the government of Malawi would acknowledge the contribution we made. I had a Sir Humphrey-like dinner with the various permanent secretaries in the government of Malawi and they were incredibly open about the fact.

**Q82 Mr Mitchell:** I am sure the Malawi government will be grateful but I see from figure 8 that Malawi staffing is now close to the African average. Surely this is wrong? Malawi is definitely the poorest of poor and needs more individual attention, more staff attention. You have not got the staff relevant to the task in Malawi that you once had.

**Dr Shafik:** As Gwen said, the nature of the staff have changed. We now have more higher skilled staff and many of the previous staff we had before were doing things like maintaining the buildings and things which we no longer need on our staff, we can get those services contracted out, so I do not think we have compromised on staff quality.

**Q83 Mr Mitchell:** Mr Gallaher said with typical Treasury ingenuity that they give the money and the staffing levels are up to you. That is the usual Treasury attitude. Do you feel under any general compulsion from Treasury to reduce staff numbers in Malawi?

**Dr Shafik:** The Treasury gives us an overall administration budget and it is up to us how we spend that, be it on staff or—

**Q84 Mr Mitchell:** Yes but do you feel under any pressure to reduce staff numbers?

**Dr Shafik:** They do not specify anything on staff numbers—

**Q85 Mr Mitchell:** You are doing it out of the keenness of your enthusiasm because you think doing it through the government rather than through our staff is beneficial?

**Dr Shafik:** I think that is correct. Sam, do you want to say something?

**Q86 Mr Mitchell:** Mr Sharpe, you were holding your pen up in class.

**Mr Sharpe:** Just on the agreement we have reached with the Treasury. We have said this to the Committee before. It is worth remembering that in the three-year settlement they agreed with us they agreed, along with all other government departments, reductions in our administration costs. They also ring-fenced some resources for our front-line administration costs overseas which they did not reduce at the same rate, so we have agreed with the Treasury that we need an adequate number of front-line staff overseas and that is part of our financial settlement for these three years.

**Q87 Mr Mitchell:** I see from 1.13 that current DFID staff in Malawi question whether current staffing is sufficient. Why would they be doing that?

**Ms Hines:** Obviously this was a survey of the staff and it is for them to have their own opinions on this, but over 50% of the staff I currently have in the office have been with DFID through the transition. I am not denying the transition—

**Q88 Mr Mitchell:** You mean they are thinking of the old times when you had more staff?

**Ms Hines:** I think so and it is something which the staff often raise with me.

**Q89 Mr Mitchell:** They are also surely assessing the difficulty of doing the job?

**Ms Hines:** Absolutely and I think it is also important to remember that the survey concerned which led to that figure by the NAO was done in December last year. December was a particularly difficult time within the office when I think staff were demoralised.

**Q90 Mr Mitchell:** So you are telling us that staff in Malawi in thinking the staffing was insufficient are wrong and the Department here in thinking that it is better to transfer more functions to the Malawian government is right? That is what you are telling us?

**Ms Hines:** I think if you reran the survey today you would get a very different number because, as I was saying, I think December last year when the survey was done was a particularly stressful time for the staff. If you look at other internal staff surveys which we have done, such as the one in February this year called the Pulse Survey, that showed that 95% of staff actually know how their work contributes to our objectives and generally the levels of staff satisfaction in that were very high. We have just gone through another one which will report next February. I will be very interested to see what that says. I think that, yes, some people who were around a long time before do prefer the time when there were two people doing one job.

**Q91 Mr Mitchell:** I am sure their morale is higher because they were under pressure then, but I think I would prefer to trust the view of the staff on the ground about what staffing levels need to be than somebody sitting in London. However, let me move on. I see from 1.4 that there was an agreement on division of labour between the donors, and DFID decided to spend more in social sectors such as health and education rather than economic growth, and yet it goes on later in that paragraph to say that DFID's own analysis showed that through a focus on agriculture it would be likely to deliver peak growth as early as 2009 but the focus on the social sectors would deliver equivalent levels of income per head only by 2019. That seems to be a crazy choice. As Mr Curry said, the emphasis in this situation needs to be on agriculture and developing agricultural production, so why did you take the harder path?

**Dr Shafik:** I think the NAO also says that DFID has made well-informed choices on the design of the programme and part of what we do with other donors is to agree a division of labour. We cannot do everything. We focus on the sectors in which we are most effective.

**Q92 Mr Mitchell:** You cannot do everything but why did you take the most difficult part?

**Dr Shafik:** I do not think we took the most difficult part. We took the sectors where we think investments in education and health are investments in growth. The other sectors like infrastructure and energy were ones in which we thought the World Bank had a comparative advantage. It was not that we were neglecting them altogether but we were dividing up the work among us.

**Ms Hines:** It certainly is not a question of all or nothing because, as we have already said to the Committee, we do fund agriculture in Malawi. We fund it to the tune of £5 million per year in addition to what we provide through budget support, but it is a question of where DFID as an organisation, relative to the World Bank or the EC or another organisation, focuses its own effort. We have agreed with them that we will focus on health and education where we have most to offer. It is also worth noting that Malawi did achieve peak growth last year. 9.7%

is absolutely unprecedented in Malawi so through our combined efforts and the Malawi government's efforts they did achieve growth.

**Q93 Mr Mitchell:** Let me ask you just in passing, what is the EU aid effort in Malawi? Where does that go?

**Ms Hines:** They are very heavily involved in agriculture.

**Q94 Mr Mitchell:** Are there any barriers in the European Union against agriculture because it is a notoriously protectionist device? Does agricultural protectionism in the EU damage Malawian agriculture in any way?

**Ms Hines:** Malawi is a least developed country—

**Q95 Mr Mitchell:** That was a yes? It was a vigorous nod. I would like it to be a yes.

**Dr Shafik:** All of Africa suffers in terms of its agricultural development because the Common Agriculture Policy is reducing opportunities for export. I think that is a fact.

**Q96 Mr Mitchell:** So on the one hand the EU is helping agriculture in Malawi and on the other hand it is hindering agriculture in Malawi?

**Dr Shafik:** I think in the specific case of Malawi because it is a subsistence agricultural system, it is not on the cusp of exporting to Europe, to be candid. Other countries like Kenya—

**Q97 Mr Mitchell:** But if it were it could not?

**Dr Shafik:** Yes, but it is sort of hypothetical.

**Chairman:** I warn you that the Treasury man is getting very worried now by your answers because you are attacking the EU so just watch it!

**Mr Mitchell:** They are very interesting answers, Chairman.

**Q98 Chairman:** They are very interesting answers.

**Mr Sharpe:** We do also need to remember that the trade barriers into the EU are very heavily differentiated between least developed countries like Malawi and more developed countries whose agriculture is more affected by it.

**Q99 Mr Mitchell:** Yes, but we are contributing to EU aid and that is concentrating on agriculture which the EU—Let me move on because I see that we gave more in direct food aid in 2006 than we have contributed to the maize subsidy over a four-year period.

**Dr Shafik:** That is correct.

**Q100 Mr Mitchell:** The maize subsidy cannot be channelled. I do not know what these districts are in figure 2 because I have not done any tours in Malawi, like Machinga and Nsanje but the cities are down at the bottom in terms of poverty. The maize subsidy cannot be channelled to the poorest areas and the poorest people, can it?

**Dr Shafik:** The maize subsidy is supposed to target the productive poor.

**Q101 Mr Mitchell:** It is a universal subsidy which is not directed at the poorest areas.

**Dr Shafik:** Within each community it is targeted within the village to those households which could benefit most.

**Q102 Mr Mitchell:** But the poorest areas according to 3.8 have most difficulty in collecting it and they have to hang around when they have gone to get it for two or three days or nights and have the furthest distances to travel and have the most expensive fertiliser. In other words, they are not benefiting substantially in the same way as the richer areas.

**Ms Hines:** This is very much a nationwide programme. If you were to go to Malawi this month in fact this is the key month when the fertiliser is being distributed all over the country. There are trucks now rolling across the whole of Malawi and it is done largely through a para-statal organisation called ADMARC which is in every town and every district all over the country. If you are in the region of Chitipa far up in the north or Nsanje far down in the south you are anyway cut off by nature of the geography of the country. You are up in the hills, the transport is bad, so, yes, in those areas it is much more difficult to actually get these things to people, but this is a nationwide programme and a lot of time and effort and money (because part of the programme is the transporting) goes into getting these things to everybody. It is also important to realise that this programme, as we have said, does not target the very poorest of the poor. The very poorest of the poor can then buy maize in the villages and, as Minouche has said, the rural wage has gone up faster than the price of maize so some people who do not have land do buy maize. The other thing that has happened in the last few years is the government has collected the excess maize for what is called a strategic reserve and that strategic reserve is being used instead of food aid to target those who are at risk of food insecurity, or hunger to put it more simply, because there is a hunger period in Malawi between—

**Q103 Mr Mitchell:** You talk fast, Ms Hines, but not fast enough to avoid my last question, which is why is DFID concentrating on pushing the private sector into fertiliser distribution and the maize distribution system when clearly the Malawi government does not want it there?

**Dr Shafik:** We think it is part of building a sustainable market in agriculture.

**Mr Mitchell:** Is it a question of ideology?

**Q104 Mr Curry:** No, it is economics and commonsense.

**Dr Shafik:** I will let your colleague answer that.

**Q105 Chairman:** Why do we read in paragraph 3.9 that the Malawi government has incurred an estimated US\$35 million of extra cost by buying surplus fertiliser at peak prices? Where were you when this was going on?

**Dr Shafik:** This was in 2008 which, as we know, was an exceptional year. Food and fuel prices skyrocketed and the price of fertiliser more than doubled for Malawi. They had very little choice as to what price they could buy fertiliser at. We did speak to the Malawi government and express our concern about the financial sustainability of what they were doing and Gwen can say a little bit about the specific interventions we made.

**Q106 Chairman:** It does not say all that in this Report. "It bought some of the extra fertiliser in 2008-09 in December 2008 at mid-2008 prices, not the lower prices available . . ." It seems to me grotesque bad management. This is what you are supposed to be doing to protect our investment. Were you asleep on the job?

**Ms Hines:** No.

**Q107 Chairman:** This is a dirt poor country and we have wasted US\$35 million on needless fertiliser.

**Ms Hines:** As Minouche has said, it was largely due to the very high price of fertiliser last year why this cost is so high. Yes, they did over-procure fertiliser—

**Q108 Chairman:** So what were you doing at the time? What were you doing to help these people?

**Ms Hines:** I was one of the first who went in to see the Minister of Finance as soon as this came to our attention. It came to our attention through the Logistics Unit which we fund as one of the safeguards. They made us aware of this over-procurement and we immediately went to see the Malawi government and what we did manage to do was to work with the Malawi government to hold back that supply of excess fertiliser for this year's programme. The reason that is showing as such a high figure is because with the IMF we made the Malawi government be transparent and put the full cost of the excess fertiliser on their budget last year to reflect the decision they took, which we do not defend. What we did do was minimise the damage in terms of holding 83,000 tonnes of that over for this year's programme, so this year they have only bought 77,000 tonnes. They have only bought the extra amount which they actually needed rather than buying the whole lot from scratch. It is also important to remember that it takes something between two and three months to get fertiliser into Malawi, so the Malawi government was genuinely concerned in December that there was not going to be enough fertiliser for the programme, which is why they bought stocks from people who already had it in-country.

**Q109 Chairman:** But none of the extra fertiliser was distributed.

**Dr Shafik:** Deliberately because they had excess so instead of wasting it they saved it for the next year.

**Q110 Chairman:** So all the money that we have spent is just stored, where presumably it will be filched by people, rot away, or whatever?

**Ms Hines:** No, not at all and in fact an audit was done as part of the agreement with the development partners to hold it over for this year's programme. It is now, as I say, being rolled out as part of this year's programme. For this year's programme they reduced it from 170,000 to 160,000, they used the 83,000 they had stored, they bought another 77,000 to make up the difference, and that is the fertiliser which is being used for this programme.

**Chairman:** Thank you. Ian Davidson?

**Q111 Mr Davidson:** A lot of the improvement in Malawi—and it seems the country is improving far better than it has for a long, long time—has been due to the policies of the Malawi government—pro-poor policies, the agricultural subsidies and so on. To what extent do you think you are spending enough on capacity building to help Malawians do this for themselves as distinct from doing it for them?

**Dr Shafik:** A huge part of the reason we do budget support is because we build their capacity alongside them. I would like to think that some of these better policies have been a result of our own efforts to try and work with them to shape the agricultural input subsidy in a way that maximises the benefits to the poorest communities. Similarly on the health side, the essential health package which the Malawi government is rolling out is something that we worked on with them using international standards from the WHO as to which health investments had the highest rate of return, so I think we have contributed to that improvement—

**Q112 Mr Davidson:** I know that you are well thought of by the government of Malawi having been there not all that long ago. Indeed, I was there over 30 years ago when the Young Pioneers forced me to get a haircut—indeed, days have changed since then for me and for them! In terms of what you are doing to improve governance, there was a focus earlier on, quite understandably, on anti-corruption and on audit but you did not actually discuss much else. There is not much else in the Report about what you are doing to help both political and civil service and administrative governance in the country. Can you clarify for me how much you spend on that?

**Dr Shafik:** In Malawi we spend quite a lot. 11% of our programme is spent on improving governance. That is work supporting Parliament, the NAO, the Anti-Corruption Bureau, the Electoral Commission, civil society and the media. In our recent White Paper we have committed that we would spend at least 5% in countries where we are doing budget support, precisely to ensure that where we are doing budget support at the same time we are strengthening the institutions of accountability to make sure that that budget is being well-spent. In Malawi we are spending 11%.

**Q113 Mr Davidson:** Right. Can I turn to the question of civil society. Again, I have been there and I have met representatives of civil society introduced to me by yourselves and other people representing the UK. They all seem to be well-educated and sharp-suited and not necessarily typical of Malawians. To what

extent are you dealing with people like yourselves? When I went to see the trade unions, for example, they said they had no contact with any representative of the UK at all. Indeed, their relationships with the Malawian government were not particularly great either. Ought you not to be picking up that aspect of society?

**Ms Hines:** Absolutely, and, as you will know from your visit, civil society is a very broad term in Malawi, from those who are based in the city to very different groups. We are working with various trade unions in Malawi. As part of the educational programme that we are now developing, I have been to talk to the teachers' union to understand their own concerns about what is working and what is not in the education sector in Malawi. We are also doing a range of interventions which try to get below the top level of civil society. One of the things we are working with at the moment is to develop community-level score cards of what people at that level think of the Malawi government. We are piloting it at the moment. We are trying to roll it out nationwide once the pilot is done. There is a range of different ways that we are trying to tackle it.

**Q114 Mr Davidson:** Rather than go into this in great detail maybe you could just let us have a note of what in particular you are doing there to develop capacity amongst the trade unions and amongst what could be seen as ordinary people.<sup>1</sup> Could I move on to ask about how you work with other agencies and organisations in the country. There is a large number of people. Norway has a big programme, the EU is active. It has been the case in the past that some governments have played off one donor against the other. The Japanese never used to talk to anybody else. How do we know that where you press the Malawi government to do particular things, particularly related to good governance, they do not simply go off and get the money from somebody else?

**Dr Shafik:** In Malawi donor co-ordination works pretty well. I think the NAO acknowledges that we play quite an important role in corralling the donor community and having a shared position. Budget support is one vehicle for doing that but we jointly fund many of the programmes. Gwen, do you want to say something about how that works on the ground?

**Ms Hines:** At a process level there is a monthly meeting of the heads of mission of donor countries, and also heads of co-operation for those who are not diplomatic agencies, where we get together and we talk about issues. Also within the sectors the Malawi government is developing itself an aid effectiveness architecture in what they call the Development Assistance Strategy which includes sector working groups, because they themselves now see the advantages of having donors and also civil society over time coming together to talk about issues on a thematic basis, so there is a health sector working group and an agriculture one. Something else we are doing as DFID Malawi, I am in the process of

<sup>1</sup> Ev 18

setting up a joint agriculture and resilience unit with a Norwegian agency and the Irish Government, which will bring together both my own staff in those sectors and their own staff, which is another good way of using our staff so that we get more out of them. We also have joint programmes and it is actually very effective because it means that for example whereas in the past we might each have sent one person to the same meeting, we now send one person who reports jointly to all of us and we make sure that we are very co-ordinated in taking positions.

**Q115 Mr Davidson:** The question of co-ordination and assessment is measured in some way and assessed centrally? There is a mechanism for ensuring that is there?

**Dr Shafik:** Yes, in fact there is an international mechanism called the Paris Declaration whereby we measure how many times we send joint missions, are we doing our analysis together, how much of our funding is pooled.

**Q116 Mr Davidson:** Okay, that is fine. What happens when there is a conflict? You are not the governor general or the district commissioner of Malawi. There will be occasions presumably when people who have been elected in Malawi disagree with the advice that they have been given. How do you cope with that?

**Ms Hines:** There are obviously cases where we do disagree. Malawi is a sovereign government and there are obviously limits to what I can do, but what I do do is I explain the British Government's position and I also explain why we think that something should be done or should not be done. The case of the fertiliser over-procurement is a classic case where it was the Malawi government's decision to over-procure that fertiliser. What I did do was to work with the finance minister to understand the financial implications for their budget of doing that and to think about the best way of limiting damage over time. It is their choice to disregard that advice. The same as if I am talking to another donor, we may disagree.

**Q117 Mr Davidson:** Give us another couple of examples where you have had a disagreement?

**Dr Shafik:** The examples you mentioned about international treatment on health would not be our choice. These are very difficult choices with children who have cancer and governments are entitled to make some decisions.

**Q118 Mr Davidson:** That is one. Give me another one.

**Ms Hines:** I can give you another one on education. It is not a disagreement per se but something where we have felt for a long time there was a better way of approaching education in Malawi. It is one of the reasons why for example the results that we tried to achieve did not happen, because we felt for a long time that as well as building more schools and training more teachers, the Malawi government needed to make more radical policy choices, and

they were not at the time ready to do that. Through the course of the past three years we have done a lot of work trying to explain why we think this would work better, the best practice which supports this, and we have also done some pilots down in Dedza district using this local community-based approach which you have heard about before. On the strength of that evidence and through a lot of dialogue with government they have now agreed to make some of those choices but, as I say, it is their choice because if they do not want to do it then it will not be as effective down the line.

**Q119 Mr Davidson:** The final point I want to pick up is the question of co-ordination between yourselves, other British influences in the field, as it were, the High Commissioner, the British Council, but also people like the Scottish Government who have programmes. Glasgow City Council are developing health links and there is a school in my constituency, Govan High, which has a link with Milonde Secondary. I get the impression that the Glasgow ones, the Govan one and the Scottish Parliament one are not really co-ordinated with anybody else and that there are no real links between themselves and yourself to make sure that they are slotting into a coherent programme. Is that fair?

**Dr Shafik:** Not quite I think. We co-ordinate with the Scottish aid programmes in two ways; centrally and also in the field. I will let Gwen say what it looks like in Malawi. Centrally, as you probably know, we have quite a strong presence in Scotland. I have about 500 staff in East Kilbride and the head of our office in East Kilbride meets regularly with the Scottish Executive to discuss their aid programme and co-ordinate and liaise and make sure that our efforts are coherent from a headquarters-to-headquarters point of view. In Malawi?

**Ms Hines:** I met Lisa Bird, who runs the Scottish development programme in Malawi, when she was last in Malawi. We went through some of their strategic priorities in the next few years, the same as ours, and talked about areas for co-operation. In between those visits we talk regularly by phone or email as they wish. Just last week they were asking me about some work they would like to do with the Parliament in Malawi. We are also supporting Parliament so I passed on some of the benefits of what we have been doing. We are always happy to provide that kind of information. It is really for the Scottish Executive to choose how much they wish to co-ordinate with us.

**Q120 Chairman:** It alarmed me, Dr Shafik, that when Mr Davidson asked you to list examples of waste you could only give one example which we have already read about in the Report. I would have thought when we are talking about what has been historically one of the worst-run countries in the world you could have listed a whole series of examples. Are you on top of this?

**Dr Shafik:** We have already talked about the agricultural inputs subsidy.

**Q121 Chairman:** We talked about fertiliser and we have given you that and I am going to ask about this cancer thing in a moment, but I would expect you to have been able to give a bit more of a list.

**Dr Shafik:** This is a country which does not have vast resources so it is not like one can give a huge long list of all the ways that money is wasted. We have looked at things like civil service reform and found some evidence of problems with payrolls in some government departments and we are working with them on that.

**Q122 Chairman:** You had better put your thinking cap on and write us a note.<sup>2</sup> Let us look at this cancer thing that Geraldine Smith asked about. In 2004, to reiterate, the Malawi government spent US\$1.2 million on treatment abroad for 15 patients, equivalent to the current budget of a full health district or some US\$79,000 per case. Were any of these people related to any members of the Malawian elite?

**Dr Shafik:** As I said, we cannot identify them. We do not know the names of the individuals. We checked what income quintile they came from to see whether they tended to be from richer families or not and there was no evidence of bias.

**Q123 Chairman:** All right. Education—I think this is always a theme that Mr Davidson is interested in. Just as a matter of interest, it is not in the Report but I am curious to know, is this rather ridiculous school which Hastings Banda set up in Malawi, which he modelled on an English public school where he was devoting a huge proportion of the national budget to one school for the elite, still going?

**Dr Shafik:** Yes.

**Q124 Chairman:** So what are you saying about that?

**Ms Hines:** That is the Kamuzu Academy which is to all intents and purposes a private school which is still used by the elite and that is not something that we as DFID are funding. As I say, we are very much focused on the government system.

**Q125 Chairman:** How much of Malawian government expenditure goes on that school; any?

**Ms Hines:** I do not have a figure to hand but I would be very happy to provide one.<sup>3</sup>

**Q126 Chairman:** I would suggest to you that quite a lot goes on it. Tell me—you must know about this—you are working there. This is a big issue.

**Dr Shafik:** It is not something we fund so it is not something that we would devote lots of resources to finding out.

**Q127 Chairman:** But you do fund education and if you are funding a government which is wasting a significant proportion of its tiny educational resources on one public school for the elite, I would like to know about it. I would like you to tell me now rather than just promising me a note. You are living there, you must know what is going on; tell us.

**Ms Hines:** As I say, it is not information I have to hand. I will be happy to provide it. I can tell you that when we do regular budget scrutiny, which we do at least every six months as part of the budget support reviews, it is not a significant enough item to appear in the headline budget, but I would be very happy to look at it.<sup>4</sup>

**Q128 Mr Carswell:** I have one follow-up question, Ms Hines. You talked about a government decision to over-procure fertiliser. Those are the words you used. It was a pretty large-scale over-procurement. Did anyone in government benefit? Was there an ulterior motive? Was anyone connected in any way to government benefiting from it in any way?

**Ms Hines:** What we did last year is the same as we are doing this year: we funded civil society to look into the monitoring of the programme and they went to a selection of villages across the country. They looked at the sum total of the fertiliser that went out through last year's programme. As I say, the bulk of it that was over-procured was held back for this year's programme. When they looked at last year's programme, despite it being election year, they found that it was no more politicised than in previous years.

**Q129 Mr Carswell:** So no-one in government was basically benefiting from this vast misallocation of resources?

**Ms Hines:** I fail to see how they would benefit from it because the fertiliser that was bought goes out to people in the villages through this slightly complicated process I have explained which is designed to ensure it gets to the right people.

**Q130 Mr Carswell:** Excuse my ignorance but who is the fertiliser bought off?

**Dr Shafik:** It is bought on the international market.

**Q131 Mr Carswell:** And it is supplied via middle men?

**Ms Hines:** It is done through an open tender process to private sector fertiliser companies.

**Q132 Mr Carswell:** And no-one in government had any connection with any of those companies?

**Ms Hines:** Malawi is a small country so to that extent there are links between private sector entities and the Malawi government in the same way as there are between a lot of people within Malawi.

**Q133 Mr Carswell:** So there could be scope for ulterior motives and corruption?

**Dr Shafik:** We have no evidence of that and we need evidence before we can make these sorts of accusations.

**Mr Carswell:** Thank you.

**Q134 Mr Curry:** Tobacco and maize are both hugely impoverishing crops for the ground and they depend on fertiliser. The word "malawi" in Malawian means "lake". What evidence is there of nitrogen run-off

<sup>2</sup> Ev 18–19

<sup>3</sup> Ev 19

<sup>4</sup> Ev 19

into the lake? Is this a possible danger in the future? What can one do so that Malawi does not become a Bassin D'Arachon where maize is grown year upon year upon year and begins to destroy the environment?

**Dr Shafik:** It is part of the conversation we have started to have with the Ministry of Agriculture to look at diversifying the crops that are grown in Malawi because, as you say, part of the reason that fertiliser is so essential is because the soils have been depleted. Gwen, do you want to say something about the issue of run-off?

**Ms Hines:** Just to add first of all in terms of the crops, whilst this subsidy is largely about maize it does also support other legumes, so various other kinds of crops, and people are being encouraged increasingly to grow them together.

**Q135 Mr Curry:** Legumes put nitrogen back into the soil?

**Ms Hines:** Absolutely so that helps from that perspective.

**Q136 Mr Curry:** Beans are very good!

**Dr Shafik:** Maybe for many reasons.

**Ms Hines:** The issue of run-off is not something I have looked at specifically in terms of that, but we are working with other donors increasingly on environmental issues, partly as part of our scale-up on climate change. We are looking generally for Malawi as a whole at what are the most serious environmental issues, and this could well be part of it.

**Q137 Chairman:** A last question from me. You mentioned that you fund the Malawian NAO. Do you have any assurance over the 20% of expenditure not subject to annual audit by the Malawian NAO?

**Dr Shafik:** No, but we have the wider measures of public expenditure.

**Q138 Chairman:** How wide are these wider measures?

**Dr Shafik:** They cover the entire system. Sam, do you want to explain how PEFA works and what the 21 indicators are? You do not need to list all 21.

**Mr Sharpe:** I will not list all 28 PEFA indicators but they cover the setting of the budget, the accounting for the budget and the external scrutiny and the auditing for the budget, so we do have that assurance about the overall improvement in the system.

**Q139 Chairman:** Improvement overall. This is incredible. 20% of expenditure is not subject to annual audit. This is a country to which we have provided £312 million of aid.

**Dr Shafik:** These overall measures cover 100% of the budget and the issue is the NAO's review of public expenditure covers 80% but there are these other measures—does the Malawi government budget properly, do actuals match budgeted amounts.

**Q140 Chairman:** Just imagine if our NAO only audited 80% of our government expenditure. It would be an international scandal.

**Dr Shafik:** But this is a country whose total expenditure per capita is £80 per person and the UK's is £11,000 per person. We are talking about a slightly different scale and stage of development.

**Q141 Chairman:** What progress are you making to try and improve governance through the Malawian NAO? Is there a Committee of Public Accounts? Is it effective? What does it do?

**Mr Sharpe:** They have just audited and carried out parliamentary scrutiny of their accounts for the last three years which had lagged behind. I think the important thing that is going on at the moment is this work that we are doing to strengthen them in doing audits at district level, which is what we are particularly contributing to supporting at the moment.

**Ms Hines:** What we are doing is because the National Audit Office, like a lot of other parts of government, suffers from capacity constraints, as DFID we are enabling them to use private sector auditors within Malawi to clear the backlog of audits of all the district assemblies. They will be done by the middle of next year, 2010. I should also point out that when we have any concerns at all about any project or programme we are funding, if we are not satisfied with the audits produced by government, we then pull in an independent audit. We have done that on several occasions in the past and then we have somebody like Deloitte or PWC who are operating in Malawi to do an independent audit for us if we are at all concerned.

**Q142 Chairman:** Within the political process in Malawi what happens to the work of the NAO? Is there a Committee of Public Accounts equivalent? That is what I asked you and how effective is it?

**Ms Hines:** There is and it is called the PAC and they are one of the people who participated most recently in the budget support review because we are trying to get them much more involved.

**Q143 Chairman:** How effective are they?

**Dr Shafik:** I can tell you that the permanent secretaries in Malawi complain no end to me about it, if that is a measure of effectiveness!

**Ms Hines:** The audits done by the National Audit Office will now go straight to Parliament. They have recently changed the rules so they will go straight to Parliament rather than through government. Government in the past used to put their own response on top of the audit report before it went to Parliament. Now to avoid any concern about government interfering with the audits they are going to go straight to Parliament and the government will provide its own letter separately.

**Chairman:** Thank you. That concludes our hearing. Clearly this is one of the poorest countries in the world. An estimated 40% of the population remain below the national poverty line. That is the equivalent of 23 pence a day. Clearly, we congratulate DFID in the sense that some good

things are happening in terms of health for citizens, reducing poverty, increasing harvests and reducing hunger. Unfortunately, it is not possible to say with any accuracy how much of this good progress is directly down to your help. I think this is an inherent difficulty in budget support measures or an inherent difficulty where funds are channelled through central and local government systems. I would like the Treasury to keep a particularly close eye on this in

terms of value for money. What is also unsatisfactory is that the Department's own measures of whether their programmes are delivering value for money are weak. Despite the Department, you yourselves, setting your own targets for programmes with a deadline of June 2008, some two-fifths were still not achieved in time. Having said all that, we do commend you on the useful work that you are doing. Thank you, Dr Shafik.

### Supplementary memorandum from the Department for International Development

Questions 113–114 (Mr Davidson): *DFID's work to develop the capacity of trade unions in Malawi and other areas of civil society?*

DFID Malawi supports the development of capacity amongst civil society organisations in Malawi, such as international and local charities, trade unions and other non-urban/ less educated groups including those working directly with communities at local level and faith-based groups. This support includes policy discussions and information sharing—for example with the unions that represent teachers or nurses on their concerns and priorities—as well as funding for specific purposes. For example:

- £450,000 (2008 to 2011) to Plan International to work with local communities to help them track how well essential services like health and education are being delivered. This programme covers the entire country.
- £100,000 to the main NGO co-ordination body in Malawi (CONGOMA—Council for Non Governmental Organizations in Malawi) to improve its corporate governance (including financial management and reporting) and to provide management skills.
- £1.4 million over six years to 27 local community NGOs to develop their capacity to address gender issues.
- £2.3 million over three years to support local NGOs including the Catholic Commission for Justice and Peace who are working with communities to strengthen traditional dispute resolution mechanisms in villages. This programme aims to ensure much better access to effective, equitable justice for over 5 million poor people, including women and children. It has a particular focus on promoting human rights.

We are discussing with the Malawi Congress of Trade Unions (MCTU) whether they might apply in future for funding from DFID for their strategic plan. At present, they are well-funded by others.

Questions 120–122 (Chairman): *Examples of where DFID has identified GoM not using money wisely*

DFID Malawi supports a range of analyses and provides technical support with the explicit intention of identifying how the Government can use its resources more effectively and efficiently. Below are some examples of findings from these analyses and actions taken in response.

- In education, a DFID funded Public Expenditure Tracking Survey in 2008 found evidence of around 14% leakage of notebooks. The Government has addressed this by tightening warehouse management. The same survey found evidence of leakage of teachers' salaries of between 5% and 28% depending on the District. To tackle this, the Government is now paying teachers directly through the banking system, rather than through local officials (one of the benefits of this switch is that it avoids the need for officials to carry large amounts of cash around the country). We have asked the Government to re-run similar surveys in the future, to allow us to track how far things have improved.
- A Payroll Audit and review of the HR database was carried out at the request of DFID and other budget support donors in 2008. This revealed 700 “ghost teachers” (about 3.5%). These individuals have now been removed from the education payroll.
- A health procurement audit in 2007 found miss-procurement (irregularities of some kind, often paperwork or processes not completed correctly) in 53% of procurements, representing 3% of the total value. As a result of this audit and supported by technical assistance provided by DFID, overall procurement performance has improved significantly. The latest procurement audit (just received) indicates no major miss-procurements in 2008–09 and the number of health entities rated as high risk fell from 28% to 3%.
- A DFID-funded Public Expenditure Review in the health sector found scope for substantial reductions in inefficiency and leakage by reforming the Central Medical Stores. This will also

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- deliver substantial cost savings from bulk procurement. The Government has developed a new electronic drug tracking system to reduce the risk of leakage in drugs and reduce the frequency of drug stock-outs. The most recent survey (2009) found leakage of drugs and medical supplies to be “almost non-existent”, with no discrepancies between what facilities requested and what was actually received from central medical stores at District level.
- A study by donors of the way that Government allocates resources to Districts revealed that the current formula agreed by Parliament in 2002 is heavily weighted towards population rather than other, more sophisticated, measures of development need. The Ministry of Local Government has since developed a better set of formulae that should be presented to the Cabinet and Parliament soon.
  - Following concerns raised by development partners on how much Government funding is allocated to internal and external travel, the Government has now agreed to conduct a public expenditure review of travel and transport which should lead to greater efficiency in use of Government expenditure.

Questions 125–127 (Chairman): *How much the Government of Malawi spends on the Kamuzu Academy*

The Kamuzu Academy is financed by school fees. Government expenditure on the Academy is all in the form of bursaries for individual students, covering both tuition and accommodation costs. In FY 2008–09 188 students received these bursaries (approximately one-third of the total number of students in Kamuzu Academy) costing government Kwacha 222 million (approx £1 million). The remaining students paid full fees themselves.

Selection into public secondary schools is determined almost entirely on the basis of how well students score on the Malawi School Certificate Examination. Until last year, the top boy and the top girl in each District were awarded government bursaries to Kamuzu Academy, before all other students were allocated places at other public secondary schools.

The Ministry of Education has recently decided to increase the focus on bursaries for orphans and other vulnerable children, and is reviewing the balance of bursaries for Kamuzu Academy and other schools. At this point, the Ministry is not awarding any new bursaries for Kamuzu Academy.

*17 December 2009*

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