@#&OPS~Doctype~OPS^blank@pidaprpfrcoverpage#doctemplate

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 29-Feb-2024 | Report No: PIDA0044

BASIC INFORMATION

A. Basic Program Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Malawi	EASTERN AND SOUTHERN AFRICA	P181371	Malawi Fiscal Governance Program for Results
Financing Instrument	**Estimated Appraisal Date**	**Estimated Approval Date**	**Practice Area (Lead)**
Program-for-Results Financing (PforR)	29-Feb-2024	24-Apr-2024	Governance
Borrower(s)	**Implementing Agency**		
Ministry of Finance and Economic Affairs	Public Procurement and Disposal of Assets Authority, Malawi Revenue Authority		

Proposed Program Development Objective(s)

The PDO is to improve the effectiveness of resource mobilization, budget execution, and transparency of public finances in Malawi.

COST & FINANCING (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Government program Cost	**146.00**
Total Operation Cost	**80.00**
Total Program Cost	75.00
IPF Component	5.00
Total Financing	**80.00**
Financing Gap	**0.00**

FINANCING

Total World Bank Group Financing	**80.00**
World Bank Lending	80.00

Decision

The review did authorize the team to appraise and negotiate

1. **This Program Information Document (PID) describes the context, rationale, and objectives of the World Bank's support to a new government program for strengthening fiscal governance in Malawi.** The Government of Malawi (GoM) recently launched the *Malawi Public Finance Management (PFM) Strategy 2023 – 2028* with the overarching objective of attaining sound financial management and discipline in public service delivery for sustainable development. The IDA operation (US$80 million) will support the GoM in the delivery of results under the program and have significant complementarity with a new IMF Extended Credit Facility (ECF) arrangement and World Bank Development Policy Financing (DPF), both approved in late 2023. It will evolve World Bank support to PFM strengthening from prior input-based instruments to financing linked to implementation of policy reforms and achievement of continued results throughout the span of the PFM Strategy. The operation represents the first Program for Results (PforR) introduced in Malawi, with the objective of increasing trust and strengthening controls for spending through government systems. This will enable the GoM to further invest in the credibility of its systems and improve its ability for harmonized planning, coordination, and utilization of resources for service delivery aligned to national development priorities.

B. Introduction and Context

Country Context

2. **Malawi's public finances remain significantly weakened by a series of exogenous shocks and persistent macro-fiscal imbalances, which have pushed the economy into a prolonged and severe crisis.** Economic growth has remained below 2 percent of GDP per year in both 2022 and 2023, translating to a real per capita contraction, and poverty has stagnated at above 70 percent (US$ 2.15 per day). Persistent climate volatility disrupting the production process, longstanding macroeconomic imbalances emanating from sustained high fiscal and external deficits, and a series of external shocks have contributed to this trajectory. Continued implementation of expansionary fiscal policy amidst a shrinking resource envelope, combined with weak PFM systems, have weakened the fiscal position and resulted in deficits beyond 10 percent of GDP. Growing import demand against weakened export performance has resulted in a worsening external sector position. The subsequent depletion of foreign exchange buffers has pushed the government to contract foreign exchange swaps to support the fixed exchange rate. The combined effect of these factors has pushed public debt into distress.

3. **A series of exogenous shocks since 2019 has exacerbated the fiscal and external deficit, leading to debt distress and further weakened the economy.** The COVID-19 pandemic and supply-related constraints not only hindered trade and growth, but also pushed inflation on an upward trajectory. In 2022 and 2023, the economy was hit by three tropical cyclones that disrupted the production process, including electricity generation. The invasion of Ukraine by Russia and

consequent increase in global commodity prices further strained external trade and prices of goods and services. Spending pressures to respond to these shocks have further weakened the fiscal position. In 2022, the country was also hit by the worst cholera outbreak in national history, affecting the health sector which is still recovering from the impact of the pandemic.

4. **Despite a new IMF program supported by an Extended Credit Facility (ECF) and a recently approved World Bank Development Policy Operation (DPO) series, low reserves and very limited fiscal space remain a significant challenge for Malawi.** To restore macroeconomic stability and address longstanding structural weaknesses, the GoM authorities completed the IMF Staff Monitored Program with Executive Board involvement and secured an IMF ECF arrangement in November 2023. This was followed by a reform program supported by a World Bank DPO series approved in December 2023 — including efforts to strengthen debt management and restore debt sustainability, fiscal consolidation and increased budget discipline, and reforms to increase the flexibility of the exchange rate and increase foreign exchange liquidity. Growth is projected to increase to 3.3 percent in 2024, mainly driven by a slight easing of global commodity prices, a moderate improvement in agricultural production, and increased output supported by improved foreign exchange inflows.

5. **Improved fiscal governance is a necessary condition for the restoration of macroeconomic stability and increased credibility as a cornerstone for the reform programs agreed with the IMF and World Bank**. Negotiations on external debt restructuring have been prolonged, but financing assurances have been received from the two main official creditors, China and India. To establish a transparent fiscal anchor, consolidation will need to be supported by enhancement of revenue mobilization and debt treatment to boost the resource envelope, as well as expenditure management measures. Implementation of PFM and procurement priorities, in line with the new *PFM Strategy 2023-2028* and IMF ECF targets, will be key to entrench expenditure management reforms.

Sectoral and Institutional Context

6. **Malawi's previous PFM reform efforts have been characterized by the introduction of strong legal and policy frameworks – but often accompanied by a lack of commitment mechanisms and ensuing cycles of reform reversal.** Malawi is well recognized by the strength of its PFM legal frameworks, with the recent passage of the *PFM Act 2022* and the completion of accompanying regulations serving as the policy foundation for the recently approved IMF ECF and World Bank DPO series. While this bolstered the already robust existing legislation (*PFM Act 2003*), wider policy implementation gaps have been more common over the past several decades where these 'legal forms' remain partially implemented while informal rules of the game continue to shape behavior and function.[1]

7. **The *Malawi PFM Strategy 2023 – 2028* provides a blueprint and associated set of results targets which has potential to significantly sustain and build-on the basics of sound PFM and fiscal transparency.** The *PFM Strategy's* seven goals — ranging from increasing revenue collection, improving management of fiscal risks, and promotion of the more efficient use of public resources — have the potential to restore credibility and confidence in GoM systems and to create an enabling environment for more effective development performance, if implemented. Malawi has demonstrated the ability to deliver on reforms when incentives are aligned, with implementation requiring strong commitment from the highest levels to adhere to rule-based systems and an overall culture change of performance. To

[1] World Bank Malawi Systematic Country Diagnostic (2018)

achieve the envisaged results of the *PFM Strategy*, the challenge will be to sustain reform by institutionalizing commitment mechanisms that continue to constrain authorities in the face of inevitable pressures and political exigencies.

Insufficient domestic resource mobilization

8. **Revenue performance, especially for tax revenues, has historically been overambitious and not achieved targets — but new important potential sources of revenue are emerging that could contribute to increasing fiscal space.[2]** Tax revenue as a percentage of GDP in 2021 (calendar year) was 11.4 percent compared to an average of 15.8 percent in Sub-Saharan Africa.[3] In target sources such as Value Added Tax (VAT), over the past decade Malawi has collected an estimated 14% of VAT potential revenue against a regional average of 35% efficiency and global average of 51%.[4] The *PFM Strategy* and associated *Domestic Resource Mobilization (DRM) Strategy 2021-2026* have a target of increasing Malawi's Revenue to GDP by 5 percentage points by 2028 through a combination of reforms to broaden the tax base, facilitate tax compliance, increase enforcement in key sectors under its revenue potential, and improving non-tax revenue. Emerging revenue areas such as Malawi's growing mining sector are also presenting opportunities for increased exports (and in turn, foreign exchange generation), revenues and growth. It will be important to address factors that could impede the transformation of this potential into tangible benefits for Malawi's economy and its people, including the modernization of its tax regime.

Inefficient budget planning, management, and execution

9. **The lack of a credible budget process and the inefficient prioritization of public investments has prevented the allocation of resources consistent with Malawi's national development priorities.** Despite the ambition of Malawi's National Development Plan (Malawi 2063) and its associated investment plan[5], public investments continue to act as a bottleneck to economic growth. Malawi's public investment management (PIM) process through the Public Sector Investment Plan (PSIP) is rarely enforced in practice, resulting in multiple entry points for development projects in the budget, low readiness of projects, and a minimal commitment to multi-year budgeting discipline necessary for completion of projects. On an annual basis, poor budget planning has contributed to significant variations between annual budgeted expenditure and outturn, and thus weakening budget credibility.

10. **Significant investments have been made by the GoM as a foundation for renewed PFM reform efforts, including the introduction of a new Integrated Financial Management Information System (IFMIS).** The shadow of the 2013 "cashgate" scandal still resonates in IFMIS reform dialogue when US$50 million in public funds were stolen through illegal access to the national payment system. This resulted in the withdrawal of on-budget donor support, with the significant fragmentation and off-budget nature of the provision of many donor funds today still reflecting the general lack of confidence in GoM systems. The Ministry of Finance (MoF) launched the new SAP IFMIS in July 2020 and was rolled-out to all MDAs in July 2021. Despite this significant investment, the IFMIS is currently only utilizing a fraction of its functionality. Due to a lack of enforcement and incentives for uptake, the vast majority of MDAs are still transacting

[2] Relative to expenditure performance, revenue has traditionally been more consistent against its targets with the most recent FY surpassing its target by reaching 17.3 percent of GDP in FY2022/23 from 14.3 percent in FY2021/22, though this has primarily been driven by increased grants and other non-tax revenues.
[3] World Bank Global Economic Indicator Database (2022)
[4] Malawi Domestic Resource Mobilization Strategy 2021 - 2026
[5] The implementation plan of Malawi 2063 includes a first 10-year investment plan costed at US$ 16 billion.

outside of the system in real-time. While the IMF ECF and World Bank DPO are further strengthening the regulatory and legal foundations for its uptake, the enforcement and associated change management necessary for real-time use will be essential for the control of expenditure and management of arrears.

11. **Delays in procurement completion and capacity constraints in procurement management have been identified as major challenges for timely delivery of public services and implementation of development operations in Malawi[6].** MAPS Report 2023 also identified scope for improvement of transparency and inclusion in the public procurement. As mitigation measures, MAPS Report 2023 recommended to fast track the implementation of the electronic Government Procurement (e-GP) system across the country, implement procurement capacity development program, streamline procurement process to reduce delay, leveraging procurement policy to enhance private sector development especially SMEs and other vulnerable groups (e.g., women-led enterprises), data disclosure to enhance transparency and implement green/sustainable procurement policy (aspects of green procurement that encourages energy efficient/low carbon emitting/climate related disaster resilient goods, works and services). The *Public Procurement and Disposal of Assets Authority's (PPDA) Strategic Plan 2022-2025* also include e-GP, capacity development and enhancement of small and medium enterprise (SME) participation in the public procurement and modernizing the public procurement law as the priority initiatives. About 14% of the GDP of Malawi (US$2 billion) is spent through public procurement. While 34% of SMEs in Malawi are owned by women (and 84% of micro-enterprises female-led)[7], it is estimated less than 1 percent of contracts are awarded to women-owned enterprises.[8] Therefore, any improvement in the public procurement system is likely to result in significant economic benefits to the country in addition to improvement of efficiency in public service delivery and enhancement of transparency.

12. **Malawi's increasing vulnerability to climate shocks has further emphasized the importance of mainstreaming climate-smart fiscal governance mechanisms, beginning in the planning and budget process.** Malawi's vulnerability to climate change is exacerbated by the GoM's limited fiscal space. This constrains GoM's ability to implement effective responses and in order to finance budget shortfalls, the Treasury resorts to domestic borrowing -- worsening the deteriorating debt situation due to high serving costs and short maturities. The World Bank Malawi *Climate Change and Development Report* (CCDR) emphasized the importance of a whole-of-government approach to climate-smart governance throughout the PFM cycle including climate-informed planning, budgeting, PIM, and green procurement. Mainstreaming climate considerations across the budget cycle presents an opportunity to pivot away from climate 'as a sector' to rather ensuring that all public investments across all sectors, for example, are screened for their climate resilience and impact.

Lack of resource transparency and low responsiveness to accountability institutions

13. **The current Tonse Alliance administration has made several high-level commitments to increased transparency and accountability while the Malawian public is continuing to demand improved service delivery and reduced corruption from their government.** The GoM has made notable policy reforms including the gazetting of the Access to Information Act in 2020 and the recent adoption of a new Open Government Partnership Action Plan for 2023 – 2025 which include commitments including: (i) enforcement of beneficial ownership transparency and open contracting[i]; (ii)

[6] Assessment of the Malawi Public Procurement System, MAPS Report (February 2023)
[7] FinScope Malawi (2019). Micro, Small and Medium Enterprise (MSME) Survey
[8] Africa Freedom of Information Centre (2019). Deepening Open Government through Women's Participation in Public Contracting in Kenya, Nigeria and Malawi.

enhanced transparency in natural resource governance; and (iii) enhancing transparency and parliamentary oversight on government borrowing.

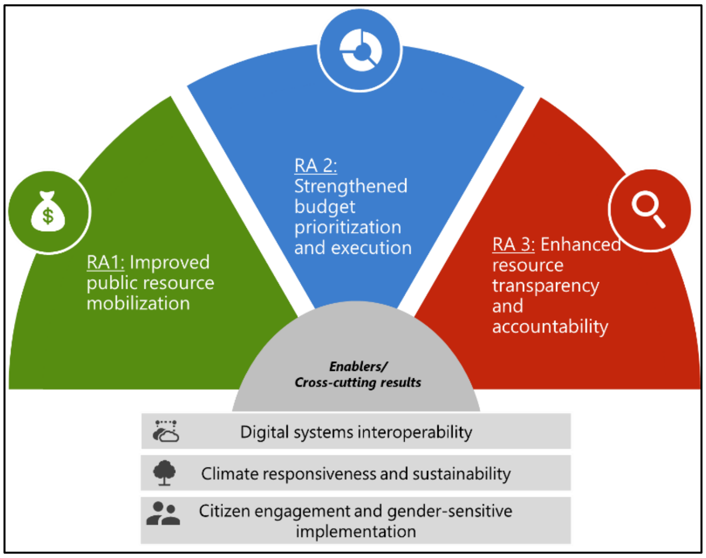
14. **The lack of transparency and public access to key areas of contracting and expenditure remain a significant constraint to promoting resource accountability. Beneficial ownership transparency (BOT) is a critical tool to combat corruption, reduce illicit financial flows, and fight tax evasion.**[9] In Malawi, the existing legislation governing business registration requires businesses to declare and register directors as the legal owners of business entities but neglects to require the registration of the beneficial owner(s) who exercises ultimate control over the business entity. This lack of transparency has contributed to a lack of de facto competition in public procurement whereby influential business owners are able to effectively shield collusion in high-value public tenders through the creation of shell companies that hide a relatively small set of beneficial owners winning a high percentage of tenders, serving as a source of rents for influential and politically connected individuals. Equally, there remains a lack of transparency and performance-focus related to budgeting and planning of State-Owned Enterprises (SOE), with rising contingent liabilities inducing pressure to an already eroded fiscal space and contributing to government borrowing to finance bailouts. While accountability institutions such as the National Audit Office (NAO) are meant to shine a light on these issues, their reports remain delays and broadly inaccessible to the broader citizenry – resulting in an average of 80% of audit queries being repeated in subsequent years.

PforR Program Scope

15. **The PforR Program comprehensively covers the seven goals of the Malawi PFM Strategy, organizing them into three RAs and associated DLIs under the operation.** The three RAs represent the three primary stages of the budget cycle that are fundamental for strengthening fiscal governance in Malawi: (1) Improving public resource mobilization; (2) Strengthening budget prioritization and execution; and (3) Enhancing resource transparency and accountability. The preparation process of the operation (and supporting Technical Assessment) recognizes that the goals and activities under the *Malawi PFM Strategy* are technically comprehensive – but that what has historically prevented these from translating into results is the lack of commitment mechanisms while the informal rules of game and underlying political economy drive *de facto* behavior. Towards these ends, DLIs were rigorously identified in each of the RAs to identify the results that will incentivize the *commitment, coordination, and cooperation*[10] necessary to navigate the underlying political economy constraints and achieve impact. The achievement of these results are supported by the three enablers of: (i) Interoperability of digital systems for public resource management; (ii) climate responsiveness and sustainability; and (iii) citizen engagement and gender-sensitive implementation. The Program places emphasis on commitments made under the recent Malawi *Climate Change Development Report (CCDR)* and *Malawi Gender Assessment* to provide the incentives for implementation with an emphasis on a whole-of-government approach and integration into the various stages of the PFM cycle.

[9] In many countries, disclosure of the individual(s) who controls or profits from a business (the "beneficial owners") has not been historically required. This resulted in about 70 percent of the world's biggest corruption cases between 1980 and 2010 involving anonymous companies.
[10] World Bank, World Development Report 2017: Governance and the Law

Figure 1: Program Results Areas and Cross-cutting Enablers



16. **RA 1 supports core aspects of the Government's revenue mobilization agenda.** The PFM Strategy, through the *Domestic Revenue Mobilization Strategy (DRMS) 2021-2026,* highlights the importance of increasing domestic revenue to support and finance development as envisioned in the National Development Strategy *Malawi Vision 2063.* Specifically, these targets increasing revenue to GDP ratio by 5 percent to 18.4 percent in FY2025/26 (from FY2021/22). This would be supported by implementation of reform measures under five broad strategic objectives of: broadening the tax base; strengthening tax compliance; improving the perception of the tax system; strengthening institutional capacity; and improving non-tax revenue collections. Domestic revenue had slightly increased, from 12.8 percent of GDP in FY2020/21 to 13.0 percent of GDP in FY2021/22. However, the effect of exogenous shocks since Covid-19, paired with a severe macroeconomic crisis have weighed on revenue performance. For FY2023/24, the government estimated that domestic revenue will decline to 12.4 percent of GDP. Key challenges include the narrow tax base, low tax compliance, poor stakeholder perception of the tax system, gaps in institutional capacity for revenue mobilization and low non-tax revenue collections. The KRA therefore focuses on enhancing resource mobilizations through increased VAT revenue collection (DLI 1) and increased tax compliance (DLI 2). This will be achieved through a number of activities, including the implementation of an electronic billing system, the upgrading of the integrated tax administration system, increased taxpayer sensitization and outreach, and interfacing MRA digital systems with targeted MDAs.

17. **RA 2 supports the GoM's efforts to strengthen budget prioritization and execution.** This KRA represents the primary thematic areas of complementarity between the IMF ECF and World Bank DPO Series, whereby the PforR will incentivize the functional implementation of the policies and reform measures supported by the former. Towards these ends, 55% of the operation's PforR resources will be tied to the DLIs and Sub-DLIs (SDLIs) in this KRA:

- **DLI 3 supports the strengthening of Public Investment Management (PIM), with a climate-sensitive focus.** Despite the ambitious Vision Malawi 2063 and a USD 16 billion 10-year investment plan, inefficiencies in public investments continue to act as a bottleneck to economic growth. While Malawi has a technically strong and well capacitated unit tasked with leading PIM processes for capital investments across government (Public Sector Investment Team, PSIP) – political processes often supersede these systems resulting in a high percentage of projects being included in the budget that have not going through the screening process and a high-percentage of incomplete investment projects due to a strong incentive to dedicate budget to launching new projects at the expense of completing those under implementation. The Program will focus on supporting the implementation of the functions of the Public Sector Investment Plan (PSIP) processes building upon Malawi's recent advancements in PIM, including enhanced data management and screening tools. This will include specific incentives for ensuing that newly approved projects have been appraise using a new climate-smart PIM with specific considerations (see Box 1, below). In the initial years of the Program, the DLI will target an increase in the percentage of capital expenditure that is allocated to PSIP appraised projects, with specific targets on those that have been climate-screened. In the latter years of the Program, the DLI will focus on incentivizing a decrease in incomplete PSIP investment projects with the target of a smaller-number of high-quality, climate-sensitive and complete investment projects at the end of the Program.

Box 1: Public Sector Investment Program (PSIP) Climate-Smart Tool

In the first two years of the Program, the PSIP will develop and pilot a climate-smart screening tool to be integrated in their multi-factor appraisal tool on which New Project Proposals (NPPs) are scored. The rejection, inclusion in the PSIP, or request for revision of NPPs depends on the outcome of this appraisal. The climate-smart screening tool will be based on the climate-related elements of the Strategic Filter Tool, currently in use by the Malawian Public Private Partnership Commission. The Strategic Filter Tool includes elements relating to:

- Consideration of climate change-related legislation
- Alignment with Nationally Determined Contributions, Long-Term Strategy, and National Adaptation Plan
- Exposure to acute climate change events
- Responsiveness to climate change mitigation and adaptation requirements

- **DLI 4 focuses on enhancing procurement efficiency and sustainability in Malawi through the implementation of the new national e-Procurement system (e-GP).** Development of the first phase of the e-GP system for e-procurement module is under process (funded by the Bank financed *Digital Malawi Project*) with a target to start piloting of the system by June 2024. The Program will support rolling out of the end-to-end e-GP system across the country and associated capacity development and strategic communication and change management program. In addition, the Program will also support strengthening the public procurement framework through adoption of sustainable procurement policy including features such as increasing access of MSMEs (particularly women-led businesses), aspects of green procurement that encourages energy efficient/low carbon emitting/climate related disaster resilient goods, works and services, and citizen engagement in public procurement and contract implementation. Towards these ends, SDLI 4.1 and 4.2 includes targets towards the roll-out and utilization of e-GP across MDAs in the early years of the Program and once achieved, targets a reduction in the average procurement cycle time in the latter years of the Program. SDLI 4.3, in turn, includes targets on the increase in: (i) tender documents that include specific sustainable and climate-sensitive procurement criteria; and (ii) contracts awarded to women-owned MSMEs in Malawi through e-GP and e-Marketplace.

- **DLI 5 supports results across the stages of the PFM cycle – comprehensively covering the predictability of budget preparation, improvement in cash management, and strengthening controls for budget execution.** Weaknesses in functional implementation of PFM systems in Malawi have provided continued opportunities for fiduciary mismanagement and corruption. While much of the technical focus of reform over the past several years has been on the roll-out of the new central SAP IFMIS, the operation recognizes that achievement of results requires incentives at each-stage of the PFM cycle and associated incentives targeting the users of such systems. SDLI 5.1 is targeted at increasing the realism of the budgeting process, providing targets in the early years for the regular quantification and publication of arrears so that they can be included in forward-looking annual budgets and in later years of the Program, targets to reduce the variance between the approved budget and actual funding provided. SDLI 5.2 focuses on improving cash management, with early targets focusing on timely release of quarterly allotments to MDAs and implementation of the Treasury Single Account (TSA) reforms through a reduction in bank accounts in Government. With more predictable cash flow to MDAs and realistic, real-time data on daily cash positions flowing to MoF – latter year targets then focus on reducing the variance between cash flow forecasts and disbursed funding. Finally, SDLI 5.3 targets the strengthening of controls for budget execution with targets on the full roll-out of and real-time utilization of the IFMIS for payments by MDAs. The final, outer-year targets of the Program then focus on reducing the variance between the approved budget and expenditure outturn – which if achieved, would represent achievement of targets across RA2.

18. **RA 3 supports efforts on the broader transparency and accountability of resources across Government, with a particular focus on fostering mechanisms for demand-driven citizen engagement.** Following the momentum of citizen-driven political change experienced in 2019/20, the Tonse Alliance administration came into office promising a new era of fiscal transparency, accountable service delivery, and deepened civic engagement. While a number of notable policy measures and global commitments were signed to, momentum has remained inconsistent with a lack of transparency and accountability around key areas of government fiscal management. DLI 6 focuses on increasing the efficiency and transparency of high-risk State-Owned Enterprises (SOEs), with support to the roll-out of a new Enterprise Risk Management Framework and targets on the regular and timely publication of Annual Consolidated Reports and fiscal risk reports. This will also include the integration of climate risk reporting into SOE risk management frameworks for key enterprises in the energy, water, and agriculture sectors. DLI 7 supports GoM's global commitments on Open Contracting and Beneficial Ownership Transparency. Building on the roll-out of e-GP system under DLI 5, this includes support to the interoperability of the Malawi Business Registration System (MBRS) and e-GP and increasing targets on the citizen-accessible publication of procurement contract and beneficial ownership data in line with the Open Contracting Data Standard (OCDS). Finally, DLI 8 supports citizen participation and responsiveness of the audit process. DLIs in the early years of the Program will incentivize citizen participation and gender-responsive mechanisms in the audit planning process and the publication of simplified, citizen-centric versions of audit findings. In the latter years of the Program, this will build to downstream targets of reducing the number of repetitive audit queries which will be supported by supply-side investments in digitization of the audit process and demand-side, citizen oversight of the audit process.

19. **The total expenditures covered by the PFM Strategy (inclusive of the DRM and PPDA Strategies) is US$146 million, of which IDA will finance US$80 million.** The PforR Program and PFM Strategy are aligned and outlined in Tables 1 and 2, below.

Table 1: Program Boundaries

	Government program	**Program supported by the PforR (PforR Program)**	**Reasons for non-alignment**
Objective	*Malawi Public Financial Management Strategy* The objective of the strategy is to attain sound financial management and discipline in public service delivery for sustainable development.	The PforR will support the goals and objectives of the PFM Strategy that contribute to results in: (i) Enhancing public resource mobilization; (ii) Strengthening budget prioritization and execution and; and (iii) Enhancing resource transparency and accountability.	The PforR and PFM Strategy are aligned.
Duration	*2023-2028*	*2024-2028*	The Government program and PforR are closely aligned – the PforR is expected to be effective 9 months into implementation of the PFM Strategy
Geographic coverage	*Nationwide*	*Nationwide*	The PforR and PFM Strategy are aligned.
Results areas	7 Goals: (1) Increase the revenue to GDP ratio; (2) Management of Fiscal Risks, Debt and Cash; (3) Allocate resources consistent with national priorities; (4) Budget execution; (5) Accountability and Budget Transparency; (6) Enabling environment for PFM outcomes; (7) Effective governance systems and institutions;	The PforR will include DLIs covering main aspects of the PFM Strategy. For organizational purposes, these DLIs are being grouped into the proposed three Key Results Areas	The PforR and PFM Strategy are aligned.
Overall Financing	$146 million	$146 million	The PforR and PFM Strategy are aligned. The proposed PforR financing will be US$75 million and an IPF component will provide an additional US$5 million

Table 2: Program Financing

Source	**Amount (US$, Millions)**	**% of Total**
International Development Association (IDA)	**80.00**	**100%**
IDA Grant	80.00	100%
Total Program Financing	**80.00**	

20. **The GoM PFM reform agenda has historically been supported by several donor partners – with the proposed PforR providing an opportunity for increased coordination and harmonization in support of the new PFM Strategy.** Donor partners currently providing support to areas covered by the PFM Strategy include the European Union (PFM), GIZ (IFMIS implementation), and IMF East AFRITAC (PIM, SOEs). These projects are primarily consisting of long-term, input-based, and off-budget technical assistance (TA) -- with the PforR having the potential to incentivize a more results-driven application of this support. The World Bank currently serves as the vice-chair of the PFM Donor Group, which is being used as a forum to coordinate this off-budget TA towards the contribution of achievement of results under the Program. This will be further complemented and supported by the IPF component of the operation.

C. Proposed Program Development Objective(s)

Program Development Objective(s)

The PDO is to improve the effectiveness of resource mobilization, budget execution, and transparency of public finances in Malawi.

21. **PDO-level results indicators to reflect progress towards the different elements of the PDO are:**

- PDO Indicator #1: % increase in domestic value-added tax (VAT) revenue collection as a percent of GDP;
- PDO Indicator #2: % decrease variance between approved budget and expenditure outturn;
- PDO Indicator #3: % increase of contract data accessible by citizens (including beneficial ownership) published following the Open Contracting Data Standard (OCDS).

D. Environmental and Social Effects

22. **Potential social risks associated with this Program relate to both data protection and cyber-security threats.** The potential social risks are related to both data protection and cyber-security threats. These might arise due to the Interoperability of digital systems which could compromise the security of institutional data and information from invention and infringement, leading to impairment of institutional image and reputation. Such risks will be addressed by putting necessary measures that will enhance the safety and protection of institutions' data against cybersecurity threats. Before suggesting such measures, the extent to which data protection and security is already implemented by the benefiting institutions will be assessed in order to devise and or update ICT Security Policies.

23. **Potential environmental and health risks associated with this Program relate to electronic waste.** Improper disposal of electrical waste can lead to environmental and health impacts due to the hazardous materials contained in them. Poor disposal of e-waste is likely in the absence of recycling options. For instance, when e-waste is burned at low temperatures it generates toxins such as dioxins that are released into the environment. The generated physical particles during the extraction of precious metals can travel very long distances and affect wide geographical areas. Heavy metals (such as lead, arsenic, cadmium, etc.) and flame retardants, which are all components included in electric and electronic equipment (EEE), leach directly from e-waste into the soil. These contaminate groundwater and crops. Similarly, inappropriate burning of e-waste to extract precious materials, produces ash contaminated by heavy metals

and flame retardants that affect the soil. In addition, toxic chemicals such as mercury commonly used to extract precious materials are released into water sources.

24. **The ESSA has found gaps in Malawi's E&S systems that guide environmental and natural resources management especially with regards to e-waste.** Currently, the Malawi has no specific policy, law or regulations that govern e-waste management Despite the observed limitations, ESSA has noted some opportunities to leverage on them to address e-waste-related challenges. Firstly, all the Programs implementing agencies are aware that the proposed activities are likely to contribute to the generation of e-waste with the potential to cause environmental and health hazards, risks and impacts. They also see the need to devise proper mechanisms to address the specified gaps. In addition, the recent National Waste Management Strategy (2019 - 2023) has recognized the need for policies and regulations that directly and properly manage e-waste due to its increasing volumes as access to and usage of electronic goods and services.

25. **The overall E&S risks of the Program are considered Low.** The proposed activities are expected to have a low chance of adverse effects on the environment, human health, and safety. Risks are expected to be site-specific, predictable, and mitigatable through adherence to the existing national laws, regulations, and standards. There will not be any material threat to the natural habitats, biodiversity, ecosystem and natural resources such as fisheries and forests. Equally, there will be no land acquisition that might cause physical and economic displacement leading to the preparation of a Resettlement Action Plan (RAP). Likewise, the Program will not exacerbate social conflicts and or violation of the rights of indigenous peoples and other vulnerable groups.

26. **The primary risk mitigation measures identified for the PAP are as follows:** (1) Ensure effective implementation of the Malawian E&S management system for the PforR Program (e-waste in particular); (2) Avoid the use or procurement of equipment containing Hazardous materials; (3) Ensure effective data protection, control, and fight against cybersecurity threats; and (4) Strengthen procedures to promote equitable allocation of benefits to all individuals within the implementing agencies.

27. **The IPF component of the Program for Result involves technical assistance to strengthen institutions, capacity building including for environment and social and program management.** It will not support any studies or preparation of future investments nor will it support formulation of policies, plans, programs, strategies or legal frameworks. The program may procure electronic equipment like computers, printers or other IT related equipment. Although the IPF support will not have any civil works that may have direct adverse environmental impacts, the outcomes of the proposed support may have environmental implications going forward, entailing risks and potentially inducing adverse impacts through disposal of old or used electronic equipment that may result in contamination if not properly managed. This risk is site-specific and well manageable through proper enforcement of the electronic waste management policy and as needed measures in the ESCP. However, there is limited capacity to manage environmental risks within Malawi and the implementing agencies have no previous experience in the implementation of World Bank Projects or the ESF. The environment risk rating is therefore assessed to be low.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component

28. **The IPF component of the Program for Result involves technical assistance to strengthen institutions, capacity building including for environment and social and program management.** It will not support any studies or preparation of future investments nor will it support formulation of policies, plans, programs, strategies or legal frameworks. The program may procure electronic equipment like computers, printers or other IT related equipment. Although the IPF support will not have any civil works that may have direct adverse environmental impacts, the outcomes of the proposed support may have environmental implications going forward, entailing risks and potentially inducing adverse impacts through disposal of old or used electronic equipment that may result in contamination if not properly managed. This risk is site-specific and well manageable through proper permitting and enforcement of the electronic waste management plan and as needed measures in the ESCP. However, there is limited capacity to manage environmental risks within Malawi and the implementing agencies have no previous experience in the implementation of World Bank Projects or the ESF. The environment risk rating is therefore assessed to be low. The social risk classification is low based on the nature of the activities which mainly involves capacity building and technical assistance at the National level to strengthen systems. The Project will not include any civil works and any direct interaction with communities is expected to be limited. Engagement will be required with other professional agencies as well as NGOs, CDOs and others to ensure successful implementation of the Technical Assistance but will also need to cover the activities under the PforR elements to ensure stakeholders have a full understanding of the proposed activities. Given the nature of the activities there is a risk that the engagement will not be fully implemented in a timely manner. A functional grievance mechanism will also need to be established and described in the stakeholder engagement plan. The GRM will need to cover all proposed activities including those to be implemented under the PforR but there is a risk that it may not be accessible to all stakeholders. Due to the likely nature and scale of the workforce issues related to labor and working conditions are anticipated to be negligible but will be addressed through measures to be developed in the ESCP. There is limited capacity to manage social risks and the implementing agencies have no experience in managing projects in line with the ESF.

E. Financing

29. **The total expenditures covered by the PFM Strategy (inclusive of the DRM and PPDA Strategies) is US$146 million, of which IDA will finance US$80 million.** The PforR Program and PFM Strategy are aligned and outlined in Tables 2 and 3, below.

Table 2: Program Boundaries

	Government program	**Program supported by the PforR (PforR Program)**	**Reasons for non-alignment**
Objective	*Malawi Public Financial Management Strategy* The objective of the strategy is to attain sound financial management and discipline in public service delivery for sustainable development.	The PforR will support the goals and objectives of the PFM Strategy that contribute to results in: (i) Enhancing public resource mobilization; (ii) Strengthening budget prioritization and execution and; and (iii) Enhancing resource transparency and accountability.	The PforR and PFM Strategy are aligned.
Duration	*2023-2028*	*2024-2028*	The Government program and PforR are closely aligned – the PforR is expected to be effective 9 months into implementation of the PFM Strategy
Geographic coverage	*Nationwide*	*Nationwide*	The PforR and PFM Strategy are aligned.
Results areas	7 Goals: (1) Increase the revenue to GDP ratio; (2) Management of Fiscal Risks, Debt and Cash; (3) Allocate resources consistent with national priorities; (4) Budget execution; (5) Accountability and Budget Transparency; (6) Enabling environment for PFM outcomes; (7) Effective governance systems and institutions;	The PforR will include DLIs covering main aspects of the PFM Strategy. For organizational purposes, these DLIs are being grouped into the proposed three Key Results Areas	The PforR and PFM Strategy are aligned.
Overall Financing	$146 million	$146 million	The PforR and PFM Strategy are aligned. The proposed PforR financing will be US$75 million and an IPF component will provide an additional US$5 million

Table 3: Program Financing

Source	Amount (US$, Millions)	% of Total
International Development Association (IDA)	**80.00**	**100%**
IDA Grant	80.00	100%
Total Program Financing	**80.00**	

CONTACT POINT

World Bank

Michael Anthony Roscitt
Senior Public Sector Specialist

Ishtiak Siddique
Lead Procurement Specialist

Jakob Engel
Senior Economist

Borrower/Client/Recipient

Ministry of Finance and Economic Affairs
MacDonald Mwale, Dr., mmafutamwale@gmail.com

Implementing Agencies

Public Procurement and Disposal of Assets Authority
Edington Chilapondwa, Dr., edington.chilapondwa@ppda.mw

Malawi Revenue Authority
John Biziwick, Mr., jsbiziwick@mra.mw

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Michael Anthony Roscitt, Ishtiak Siddique, Jakob Engel

Approved By

Practice Manager/Manager:		
Country Director:	Hugh Riddell	29-Feb-2024