



# Appraisal Environmental and Social Review Summary

## Appraisal Stage

### **(ESRS Appraisal Stage)**

Date Prepared/Updated: 03/11/2024 | Report No: ESRSA03365



**I. BASIC INFORMATION**

**A. Basic Operation Data**

Operation ID	Product	Operation Acronym	Approval Fiscal Year
P181371	Program-for-Results Financing (PforR)	Malawi Fiscal Governance PforR	2024
Operation Name	Malawi Fiscal Governance Program for Results		
Country/Region Code	Beneficiary country/countries (borrower, recipient)	Region	Practice Area (Lead)
Malawi	Malawi	EASTERN AND SOUTHERN AFRICA	Governance
Borrower(s)	Implementing Agency(ies)	Estimated Appraisal Date	Estimated Board Date
Ministry of Finance and Economic Affairs	Malawi Revenue Authority, Public Procurement and Disposal of Assets Authority	29-Feb-2024	24-Apr-2024
Estimated Decision Review Date	Total Project Cost		
27-Feb-2024	80,000,000.00		

**Proposed Development Objective**

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

**B. Is the operation being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?**

No

**C. Summary Description of Proposed Project Activities**

*[Description imported from the PAD Data Sheet in the Portal providing information about the key aspects and components/sub-components of the project]*

The Malawi Fiscal Governance Program for Results (PforR) is supporting the delivery of the Malawi Public Finance Management 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 the recently launched Malawi Public Finance Management (PFM) Strategy 2023 – 2028, with results under the program having 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. The operation will be hybrid (PforR, with IPF component) as notable capacity gaps still remain. Based on the findings of the Program Assessments, a prioritized IPF component (PforR US\$75 million, IPF US\$5 million) will be included in the operation with two primary objectives. The first objective is to provide targeted Technical Assistance (TA) and capacity building to supplement the financial incentives of the PforR to support the achievement of identified results. The second is to support the development of a centralized unit within MoF to bolster the institutionalization of Financial Management, Procurement, and E&S Safeguards implementation capacity within government systems and across MDAs.

## D. Environmental and Social Overview

### D.1 Overview of Environmental and Social Project Settings

*[Description of key features relevant to the operation’s environmental and social risks and opportunities (e.g., whether the project is nationwide or regional in scope, urban/rural, in an FCV context, presence of Indigenous Peoples or other minorities, involves associated facilities, high-biodiversity settings, etc.) – Max. character limit 10,000]*

The Project aims to improve financial management and discipline in public service delivery. The activities under both the IPF and PforR will be undertaken within Central Government rather than within the districts and is therefore a national program. The Project does not include infrastructure or civil works (including rehabilitation, renovation, or repairs) and as such there are no specific project settings. Malawi’s public finances remain impacted by an economy weakened by a series of exogenous shocks and persistent macro-fiscal imbalances. Sustained macroeconomic mismanagement and a sequence of external shocks have pushed the economy into a prolonged and severe crisis. Malawi is regularly affected by cyclones, floods and droughts, amongst other natural hazards resulting in human disasters. Unsustainable farming practices and deforestation in particular have resulted in significant land degradation, exacerbated by the climatic shocks. These hazards and land use practices negatively impact production. These cumulative exogenous shocks have compounded the macroeconomic crisis. The COVID-19 pandemic and supply-related constraints hindered trade and growth, but also pushed inflation on an upward trajectory. The economy has also been hit by three tropical cyclones over 2 years that disrupted the production process, including electricity generation coupled with an increase in global commodity prices. The country continues to be a net importer. With fiscal reserve buffers depleted and fiscal space eroded, this has made it difficult for Malawi to take advantage of easing global conditions. Protracted shortage of foreign exchange has affected the importation of strategic inputs for production and weakened the Malawi Kwacha against other currencies. These macro-economic challenges continue to negatively impact the economic wellbeing of the people living in Malawi.

### D.2 Overview of Borrower’s Institutional Capacity for Managing Environmental and Social Risks and Impacts

*[Description of Borrower’s capacity (i.e., prior performance under the Safeguard Policies or ESF, experience applying E&S policies of IFIs, Environmental and social unit/staff already in place) and willingness to manage risks and impacts and of*



*provisions planned or required to have capabilities in place, along with the needs for enhanced support to the Borrower – Max. character limit 10,000]*

In general Malawi lacks safeguard capacity to identify environmental and social (E&S) risks and impacts and implement appropriate mitigation measures. The national framework does not readily identify or mitigate risks and impacts consistent with the ESSs, rather focusing on the positive benefits of the projects. There is limited implementation of mitigation measures and little enforcement of regulations. There is also limited capacity to implement functional grievance committees and to undertake meaningful stakeholder engagement. Currently, there is no environmental and social safeguards capacity within the Ministry of Finance and Economic Affairs (MoFEA).

As such, the IPF component has two objectives, the first objective is to provide targeted Technical Assistance (TA) and capacity building to supplement the financial incentives of the PforR to support the achievement of identified results. The second is to support the development of a CSSP within MoFEA to bolster the institutionalization of Financial Management, Procurement, and E&S Safeguards implementation capacity within government systems and across MDAs.

This CSSP will not only support implementation capacity of E&S across MDAs it will also support E&S compliance associated with the Program including both the PforR and IPF activities. The CSSP does not replace the functions of mandated organs of state to authorize, regulate, or enforce their respective legislations, i.e. the CSSP does not replace Malawi Environment Protection Agency. Activities including E&S risks under the PforR component will be managed through the Environmental and Social Systems Assessment (ESSA).

## **II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS**

### **A. Environmental and Social Risk Classification (ESRC)**

Low

#### **A.1 Environmental Risk Rating**

Low

*[Summary of key factors contributing to risk rating, in accordance with the ES Directive and the Technical Note on Screening and Risk Classification under the ESF – Max. character limit 4,000]*

This IPF component of the Program for Result involves technical assistance to support the achievement of DLIs under the PforR component and to undertake capacity building including for E&S risk management, procurement and financial management. It will not support any studies or preparation of future investments, nor will it directly support formulation of policies, plans, programs, strategies, or legal frameworks. The program will not support any civil works (including rehabilitation, renovation, or repair works). There may be limited procurement of electronic equipment like computers, printers or other IT related equipment. The IPF support will therefore not have any direct adverse environmental impacts. However, should electronic equipment be procured (albeit in limited amounts) there may be environmental implications going forward, associated with the 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 chemical and toxic substances disposal permit un the National environment management regulations, and proper enforcement of the electronic waste management plan. 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 however given the nature of the activities proposed the risks associated with the lack of capacity are considered to be low. The environment risk rating is therefore assessed to be low.

**A.2 Social Risk Rating**

Low

*[Summary of key factors contributing to risk rating, in accordance with the ES Directive and the Technical Note on Screening and Risk Classification under the ESF – Max. character limit 4,000]*

The social risk classification is low based on the nature of the activities which mainly involves TA to support the PforR component and capacity building to strengthen Procurement, Financial Management E&S Capacity. The Program 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, ministries, departments and agencies as well as NGOs, CSOs amongst others to ensure successful implementation of the TA and functioning of the CSSP that will be established to support government capacity. 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 through which stakeholders can raise concerns and is detailed in the Environmental and Social Commitment Plan (ESCP). 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 the development of conditions in the ESCP. While there is limited capacity to manage social risks within the MoFEA the low risk nature of the activities and the establishment of a CSSP should ensure the risks are managed.

*[Summary of key factors contributing to risk rating. This attribute is only for the internal version of the download document and not a part of the disclosable version – Max. character limit 8,000]*

**B. Environment and Social Standards (ESS) that Apply to the Activities Being Considered**

**B.1 Relevance of Environmental and Social Standards**

**ESS1 - Assessment and Management of Environmental and Social Risks and Impacts**

Relevant

*[Explanation - Max. character limit 10,000]*

Environmental risks relate to electronic waste and disposal thereof and risks to workers including OHS although these are considered to be limited given the nature of the activities. As there will be no civil works, including rehabilitation, renovation, or repair activities risks to community H&S are limited. Similarly, as procurement of electronic equipment is likely to be limited risks associated with its disposal are not expected to be significant. Social impacts are linked to inadequate engagement and management of grievances and poor labor and working conditions notably for contracted workers. The potential risks will need to be actively mitigated throughout the project’s lifecycle, through the establishment of a CSSP. Technical Assistance activities will need to be undertaken in line with the requirements of the ESF. The preparation of all terms of references, work plans, or other documents defining the scope and outputs of technical assistance activities will need to take into account the requirements of the ESF. The Program will not fund feasibility studies or the development of policies or laws. Such activities could result in indirect E&S risks. An ESCP which outlines the measures required to address potential environmental and social risks and impacts of the project

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has been developed. The ESCP details measures to manage E&S risks as well as monitoring and reporting requirements, and the application of the ESF to TA and capacity needs.

**ESS10 - Stakeholder Engagement and Information Disclosure**

Relevant

*[Explanation - Max. character limit 10,000]*

As part of Project preparation engagement was undertaken on the Program as part of the ESSA consultations. Stakeholders were also engaged on the IPF activities. Given the nature of the activities stakeholders have included other line ministries, departments and agencies (MDAs) who work on fiscal governance activities or have a relevant enforcement role such as MEPA and E-Government Department. In addition, academia, e-waste management companies, NGOs and CSOs were engaged with. The key findings of the engagement included the need for E&S capacity building especially on relevant technical issues (e-waste, cybersecurity etc); the importance of ensuring active inclusion of vulnerable groups including people living with disabilities and the youth, importance of good waste disposal practices and the importance of mainstreaming E&S into project design. During implementation the program will require inputs from a range of stakeholders in particular related to the establishment of the CSSP. This is likely to include MDAs, donor partners and technical specialists potentially including academia and NGOs. Given the scope of engagement requirements for stakeholder engagement have been included in the ESCP. The ESCP outlines how relevant stakeholders have been identified and the approach to engagement activities. The requirements of the ESCP are designed to ensure that meaningful engagement will be undertaken with stakeholders ensuring the disclosure of timely, relevant, understandable and accessible information. The ESCP also outlines the Grievance Redress Mechanism (GRM), which is designed to be responsive to SEA/SH issues.

**ESS2 - Labor and Working Conditions**

Relevant

*[Explanation - Max. character limit 10,000]*

The IPF component will involve the use of Direct Project Workers and Contracted Workers, mainly in the form of technical consultants and/ or consulting firms, to undertake the TA. This is likely to involve desk based research and review, workshops and meetings with the PforR Implementing Partners and other stakeholders. The CSSP is also likely to consist of existing civil servants and consultants or consulting firms to provide capacity building support. Given the limited labor risks associated with these types of workers and the nature of the activities, labor requirements are included in the ESCP. The ESCP includes measures to manage the limited risks, including OHS, exclusion of child labor and forced labor and ensuring adequate pay and working conditions. The project will also ensure that relevant national labor-related laws are upheld. A grievance redress mechanism (GRM) for work-related grievances will be provided to project workers including consultants, with necessary considerations for confidentiality and whistleblower protection. This will build on existing government systems.

**ESS3 - Resource Efficiency and Pollution Prevention and Management**

Relevant

*[Explanation - Max. character limit 10,000]*

The program may procure a limited amount of electronic equipment like computers, printers, or other IT related equipment. While expected to be limited the disposal of old or used electronic equipment that may result in



contamination. The national E-Waste Policy will need to be applied to the IPF component of the Project. Given the limited scale of the risk the ESCP includes a commitment to develop e-waste management plans as relevant.

**ESS4 - Community Health and Safety**

Relevant

*[Explanation - Max. character limit 10,000]*

Civil works including rehabilitation, renovation, or repair activities and large-scale procurement and installation of infrastructure will not be funded under the IPF, and as such, risks to community health and safety associated with labor influx or due to construction are not expected. Furthermore, given that the IPF component will mainly involve technical assistance and capacity building, which is unlikely to result in impacts to the community. The risk of SEA/SH risks to communities is considered to be low as Project Workers will not be interacting with communities given the scope of work.

**ESS5 - Land Acquisition, Restrictions on Land Use and Involuntary Resettlement**

Not Currently Relevant

*[Explanation - Max. character limit 10,000]*

Land acquisition, restrictions on land use and involuntary resettlement are not anticipated as the activities involved TA and Capacity Building and civil works are not planned as part of the IPF component.

**ESS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources**

Not Currently Relevant

*[Explanation - Max. character limit 10,000]*

At this stage of the project, no direct or indirect impact on biodiversity and living natural resources is anticipated

**ESS7 - Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities**

Not Currently Relevant

*[Explanation - Max. character limit 10,000]*

There are no groups who meet the definition of Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities under ESS7 in Malawi.

**ESS8 - Cultural Heritage**

Not Currently Relevant

*[Explanation - Max. character limit 10,000]*

ESS8 is not currently considered to be relevant as no civil works are envisaged and there is no proposed use of intangible cultural heritage as part of this project.

**ESS9 - Financial Intermediaries**

Not Currently Relevant

*[Explanation - Max. character limit 10,000]*



This standard is not relevant to this project as financial intermediaries will not be involved

**B.2 Legal Operational Policies that Apply**

**OP 7.50 Operations on International Waterways**

No

**OP 7.60 Operations in Disputed Areas**

No

**B.3 Other Salient Features**

**Use of Borrower Framework**

No

*[Explanation including areas where "Use of Borrower Framework" is being considered - Max. character limit 10,000]*

The Borrower’s Framework is not being applied to the IPF Component of the Project. For the PforR the Borrowers Framework will be assessed through the ESSA.

**Use of Common Approach**

No

*[Explanation including list of possible financing partners – Max. character limit 4,000]*

A common approach is not being considered

**B.4 Summary of Assessment of Environmental and Social Risks and Impacts**

*[Description provided will not be disclosed but will flow as a one time flow to the Appraisal Stage PID and PAD – Max. character limit 10,000]*

This 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.

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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.

**C. Overview of Required Environmental and Social Risk Management Activities**

**C.1 What Borrower environmental and social analyses, instruments, plans and/or frameworks are planned or required by implementation?**

*[Description of expectations in terms of documents to be prepared to assess and manage the project’s environmental and social risks and by when (i.e., prior to Effectiveness, or during implementation), highlighted features of ESA documents, other project documents where environmental and social measures are to be included, and the related due diligence process planned to be carried out by the World Bank, including sources of information for the due diligence - Max. character limit 10,000]*

The Project will implement the Environmental and Social Commitment Plan (ESCP). The ESCP details requirements for stakeholder engagement and management of labor and working conditions. No separate plans will be prepared for stakeholder engagement and labor management procedures.

The ESCP also outlines the requirement for E&S capacity to be established within the Project Implementation Committee to oversee the ESCP measures and the requirement for quarterly reporting on the same to the Bank.

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**III. CONTACT POINT**

**World Bank**

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#### **IV. FOR MORE INFORMATION CONTACT**

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#### **V. APPROVAL**

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