



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 18-Oct-2023 | Report No: PID050

**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)	15-Jan-2024	28-Feb-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	140.00
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

Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

1. **This Program Information Document 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 proposed IDA operation (US\$80 million) would support GoM in the delivery of results under the program and have significant complementarity with the IMF Extended Credit Facility (ECF) and World Bank Development Policy Financing (DPF) currently under negotiation. It would 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 proposed operation would represent 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.

Country Context

2. **Malawi’s public finances remain impacted by an economy significantly weakened by a series of exogenous shocks and persistent macro-fiscal imbalances.** Chronic macroeconomic mismanagement and a sequence of external shocks have pushed the economy into a prolonged and severe crisis. Economic growth has recently remained below 2 percent of GDP, 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 low growth 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. **With reserves buffers depleted and fiscal space eroded, it has been difficult for Malawi to take advantage of easing global commodity conditions.** A protracted exchange rate misalignment has resulted in less than one month import cover and has affected access to strategic inputs for production. The policy response has been inadequate to address the shocks. A 25 percent devaluation in 2022 (and subsequent forex auctions since 2023), and the continuous tightening of the policy rate have not been adequately supported by other monetary and fiscal policy instruments. Consequently, an exchange rate premium has resurfaced -- reaching 60 percent in September 2023. Similarly, inflation has continued to rise, reaching 28.6 percent in September 2023, the highest rate in almost a decade.

5. **Improved fiscal governance is a necessary condition for the restoration of macroeconomic stability and increased credibility as a cornerstone for the reform programs currently being agreed with the IMF and World Bank.** Negotiations on external debt restructuring have been prolonged, but financing assurances are anticipated before the end of the year. 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, will be key to entrench expenditure management reforms.

Sectoral (or multi-sectoral) and Institutional Context of the Program

2. **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* serving as the policy foundation for the potential IMF ECF and World Bank DPO that are at advanced stages of negotiation. 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

3. **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 ability to deliver on reforms when incentives are so aligned, with implementation requiring strong commitment from the highest

¹ World Bank Malawi Systematic Country Diagnostic (2018)



levels to commit to rule-based systems and an overall culture change of performance. To 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

4. **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% compared to an average of 15.8% in Sub-Saharan Africa.³ The PFM Strategy and 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 fledgling 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 preparedness of its tax regime.

Inefficient resource allocation and prioritization

5. **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 plan⁴, 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. There is 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.

6. **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

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 The implementation plan of Malawi 2063 includes a first 10-year investment plan costed at US\$ 16 billion



sector’ to rather ensuring that all public investments across all sectors, for example, are screened for their climate resilience and impact.

Ineffective controls for budget execution and low responsiveness to accountability institutions

7. **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 outside of the system in real-time. While the IMF ECF and World Bank DPO are further strengthening the regulatory 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.

8. **Delay 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 Malawi⁵.** MAPS Report 2023 also identified scope for improvement of transparency 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). 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. 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.

9. **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; (ii) enhanced transparency in natural resource governance; and (iii) enhancing transparency and parliamentary oversight on government borrowing. Government has also displayed increased commitment to accountability institutions such as the

⁵ Assessment of the Malawi Public Procurement System, MAPS Report (February 2023)



National Audit Office (NAO), but oversight mechanisms for follow-up and implementation of audit recommendations remain weak.

Relationship to CAS/CPF

10. **The proposed operation is closely aligned with the World Bank’s Country Partnership Framework (CPF) for Malawi for fiscal years (FY) 2021 – 2025.** Focus Area 1 of the CPF on *Bolstering Foundations for Growth and Accountability* has an overall goal of adopting a new and flexible approach to addressing selected, long-standing governance weaknesses in Malawi. The proposed operation is directly aligned with Objective 1.1 on *‘Strengthening fiscal and debt management for sustainability and resilience’* with the goal of utilizing alternative instruments (such as results-based financing) to effectively respond to the challenges of supporting PFM in Malawi in the previous CPF. It is also supporting Objective 1.2 on *‘Fostering access to information and transparency for demand-driven accountability’* through its ambitions for both increasing fiscal transparency and strengthening the interoperability of digital government and data platforms that are being invested in by GoM through the CPF and beyond. Finally, the proposed operation will play a role in the implementation of the *Citizen Engagement Roadmap* of the CPF through the strengthening of the broader enabling environment for public accountability.

Rationale for Bank Engagement and Choice of Financing Instrument

11. **The World Bank has been a committed partner to the GoM’s PFM reform efforts, with the proposed Program directly responding to historical lessons learned.** Over the past two decades, the World Bank has supported several PFM-focused investment project financing (IPF) operations⁶ with mixed results⁷. Following the continued investments in central government systems, it is increasingly recognized that the Malawi’s institutions are sufficiently *well-designed* for credible budget planning and execution -- but that systems remain *unimplemented* while informal rules continue to shape behavior and system function. These lessons have stressed the importance of avoiding a technical, input-approach and further reinforces the potential fit of the PforR instrument to incentivize change in actual performance.

12. **The proposed operation has the potential to lock-in and expand advances in fiscal governance.** Near-term adjustments will likely benefit from an IMF ECF and World Bank DPF that currently are at advanced stages of negotiation and contain strong fiscal governance policy reforms. Malawi has also displayed recent commitments to continued improvements to fiscal governance and transparency through actions such as its reactivation of its membership in the Open Government Partnership (OGP) and adoption of an ambitious Action Plan for 2023-25. Focusing on results, the proposed PforR can accompany the implementation of policy and governance reforms introduced to support a sustained response to the fiscal crisis in the medium-term.

13. **The program would be Malawi’s first PforR and builds on momentum from the successful use of results-based financing within IPFs.** Several IPFs in the Malawi portfolio have adopted the use of DLIs or PBCs, with the incentive effect

⁶ Financial Management, Transparency, and Accountability Project (FIMTAP) (2003 – 2009), IPF, US\$27.4 million; Financial Reporting and Oversight Investment Project (FROIP) (2013 – 2018), IPF, \$19.0M.

⁷ Bridges, K and M Woolcock (2017). How (Not) to Fix Problems that Matter: Assessing and responding to Malawi’s history of institutional reform, Policy Research Working Paper 8289. The World Bank Group. See also IEG Report No. 103060 (2016).



displaying a positive impact on results.⁸ Most relevant to the proposed program includes the impact of the Performance Based Grant (PBG) through the *Governance to Enable Service Delivery (GESD)* project, which only one-year after the introduction of results-based financing resulted in notable increases in local government PFM performance.⁹ The program will also incentivize the roll-out and integration of digital investments made by other projects in the portfolio, including the e-GP system that was supported through the *Digital Malawi Project* (P160553).

14. **A hybrid operation is currently proposed (PforR, with IPF component) as notable capacity gaps still remain.** Based on the findings of the Technical Assessment to be conducted, a small and prioritized IPF component (PforR US\$75 million, IPF US\$5 million) may be proposed. This would allow targeted capacity building to be supplemented with the financial incentives for the PforR for the achievement of clearly defined results. The PforR would also have the capability of harmonizing existing and pipeline PFM donor-support around the achievement of a common set up results, reducing the fragmentation which is often present across sectors in Malawi.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

15. **The Program Development Objective (PDO) is** “to improve the effectiveness of resource mobilization, budget execution, and transparency of public finances in Malawi.”

PDO Level Results Indicators

16. **Preliminary PDO-level results indicators to reflect progress towards the different elements of the PDO include:**
- PDO Indicator #1: % increase in real, domestic value-added tax (VAT) revenue collection;
 - PDO Indicator #2: Decrease in incomplete investment projects from the public sector investment plan (PSIP);
 - PDO Indicator #3: Procurement cycle time (from publication date to contract award date) reduced by X%.

D. Program Description

PforR Program Boundary

17. **The GoM Public Financial Management Strategy 2023 – 2028 contains seven goals which will all be supported by the proposed Program.** The PFM Strategy contains goals and results areas from the already existing and still active strategies for DRM led by the Malawi Revenue Authority (Malawi Domestic Resource Mobilization Strategy 2021 – 2026) and procurement led by the PPDA (PPDA Strategic Plan 2022 – 2025). The total expenditures covered by the PFM Strategy (inclusive of the DRM and PPDA Strategies) is US\$140 million, of which IDA will finance US\$80 million. As the government

⁸ Emergency Project to Protect Essential Health Services (P180231), Governance to Enable Service Delivery (P164961), Skills Development Project (P131660), Equity and Quality at Secondary School (P164223), African Centers of Excellence (P151847), Skills for a Vibrant Economy (P172627), Watershed Service Improvement Project (P167860)

⁹ World Bank Malawi Economic Monitor 15 (June 2022)



programs were developed before the possibility of PforR financing, there is the possibility that the budgeted expenditure program will expand during implementation.

	Government program	Program supported by the PforR (PforR Program)	Reasons for non-alignment
Objective	<p><i>Malawi Public Financial Management Strategy</i></p> <p>The objective of the strategy is to attain sound financial management and discipline in public service delivery for sustainable development.</p>	<p>The PforR will support the goals and objectives of the PFM Strategy that contribute to results in: (i) Enhancing public resource mobilization; (ii) Strengthening resource allocation and prioritization; and (iii) Improving budget execution and accountability.</p>	<p>The PforR and PFM Strategy are aligned.</p>
Duration	2023-2028	2024-2028	<p>The Government program and PforR are closely aligned – the PforR is expected to be effective 6 months into implementation of the PFM Strategy</p>
Geographic coverage	<i>Nationwide</i>	<i>Nationwide</i>	<p>The PforR and PFM Strategy are aligned.</p>
Results areas	<p><u>7 Goals:</u> (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;</p>	<p>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</p>	<p>The PforR and PFM Strategy are aligned.</p>
Overall Financing	\$140 million	\$140 million	<p>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\$45 million</p>

E. Initial Environmental and Social Screening

18. **The Environmental and Social risk rating is Moderate.** The proposed IPF activities 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. Risks include e-Waste management, lack of adequate engagement and functionality of the Grievance Redress Mechanism. The PforR activities do not involve any civil works or procurement of large-scale infrastructure instead focusing on systems strengthening, resource allocation and transparency. There will need to be adequate engagement on these activities, and it will be essential to ensure equity and inclusion during development. However, for both the IPF and PforR activities it should be noted that there is limited capacity to manage environmental risks within Malawi and the implementing agencies have no previous experience in the implementation of PforRs or the use of the Environmental and Social Framework (ESF).



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

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