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Report No: PADHP00082

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 60.3 MILLION
(US$80 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MALAWI

FOR A

FISCAL GOVERNANCE PROGRAM FOR RESULTS

April 26, 2024

Governance Global Practice
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 29, 2024)

Currency Unit =	Malawi Kwacha (MWK)
US$1 =	MWK 1683.00
US$1 =	SDR 0.75

FINANCIAL YEAR
April 1 – March 31

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ABBREVIATIONS AND ACRONYMS

ACB	Anti-Corruption Bureau
AWPB	Annual Work Plan and Budget
BOT	Beneficial Ownership Transparency
CAPEX	Capital Expenditure
CCDR	Country Climate Change and Development Report
CCSP	Country Systems Support Platform
CERC	Contingent Emergency Response Component
CIT	Corporate Income Tax
CPF	Country Partnership Framework
DLI	Disbursement Linked Indicator
DLSI	Disbursement Linked Sub-Indicator
DPF	Development Policy Financing
DPO	Development Policy Operation
DRG	Department of Registrar General
DRM	Domestic Resource Mobilization
DRMS	Domestic Resource Mobilization Strategy
E&S	Environment and Social
ECF	Extended Credit Facility
EDF	Export Development Fund
EFT	Electronic Funds Transfer
e-GM	Electronic Government Marketplace
e-GP	Electronic Government Procurement
EP&D	Economic Planning and Development
ERMF	Enterprise Risk Management Framework
ESF	Environmental and Social Framework
ESSA	Environmental and Social Systems Assessment
GDP	Gross Domestic Product
GHG	Greenhouse gas
GoM	Government of Malawi
GRS	Grievance Redress Service
IA	Implementing Agencies
IFMIS	Integrated Financial Management Information System
IFRs	Interim Financial Reports
IFSA	Integrated Fiduciary Systems Assessment
IMF	International Monetary Fund
IPF	Investment Project Financing
IRIs	Intermediate Results Indicators
IVA	Independent Verification Agent
KRA	Key Results Area
M&E	Monitoring and Evaluation
MAPS	Methodology for Assessing Procurement Systems
MBRS	Malawi Business Registration System
MDAs	Ministries, Departments and Agencies
MoFEA	Ministry of Finance and Economic Affairs

MRA	Malawi Revenue Authority
MWEITI	Malawi Extractive Industries Transparency Initiative
NAO	National Audit Office
NDC	Nationally Determined Contribution
NPP	New Project Proposal
OCDS	Open Contracting Data Standard
OM	Operations Manual
PA	Prior Action
PAP	Program Action Plan
PBCs	Performance Based Conditions
PBG	Performance Based Grant
PDEs	Procuring and Disposing Entities
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM-SC	Public Financial Management Steering Committee
PFMSD	Public Finance Management Systems Division
PFM-TC	Public Financial Management Technical Committee
PforR	Program for Results
PIC	Program Implementation Committee
PIM	Public Investment Management
PIT	Personal Income Tax
PIU	Project Implementation Unit
PPDA	Public Procurement and Disposal of Assets Authority
PPSD	Project Procurement Strategy for Development
PSIP	Public Sector Investment Program
RAP	Resettlement Action Plan
RAs	Results Areas
SDFP	Sustainable Development Finance Policy
SME	Small and Medium Enterprise
SOEs	State-Owned Enterprises
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
TSA	Treasury Single Account
TWGs	Technical Working Groups
VAT	Value-Added Tax

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DATASHEET

BASIC INFORMATION

Project Beneficiary(ies)	Operation Name		
Malawi	Malawi Fiscal Governance Program for Results		
Operation ID	Financing Instrument	Does this operation have an IPF component?	Environmental and Social Risk Classification (IPF Component)
P181371	Program-for-Results Financing (PforR)	Yes	Low

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Fragile State(s)
[✓] Contingent Emergency Response Component (CERC)	[ ] Fragile within a non-fragile Country
[ ] Small State(s)	[ ] Conflict
[ ] Alternative Procurement Arrangements (APA)	[ ] Responding to Natural or Man-made Disaster
[ ] Hands-on Expanded Implementation Support (HEIS)	

Expected Approval Date	Expected Closing Date
23-May-2024	29-Jun-2029
Bank/IFC Collaboration	
No	

Proposed Program Development Objective(s)

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

Organizations

Borrower:	Republic of Malawi
Implementing Agency:	Department of Registrar General
Contact:	Chikumbutso Namelo
Title:	Registrar General
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Implementing Agency:	Malawi Revenue Authority
Contact:	John Biziwick
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Implementing Agency:	Ministry of Finance and Economic Affairs
Contact:	Betchani Tchereni
Title:	Secretary to the Treasury
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Implementing Agency:	National Audit Office
Contact:	Thomas Makiwa
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Implementing Agency:	Public Procurement and Disposal of Assets Authority
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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 (US$, Millions)

World Bank Group Financing

International Development Association (IDA)	80.00
of which IDA Recommitted	80.00
IDA Grant	80.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	0.00	80.00	0.00	0.00	80.00
Total	**0.00**	**80.00**	**0.00**	**0.00**	**80.00**

Expected Disbursements (US$, Millions)

WB Fiscal Year	2024	2025	2026	2027	2028	2029
Annual	1.50	25.00	11.00	15.00	17.00	10.50
Cumulative	1.50	26.50	37.50	52.50	69.50	80.00

PRACTICE AREA(S)

Practice Area (Lead)
Governance

Contributing Practice Areas
Macroeconomics, Trade and Investment

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Overall	Substantial

POLICY COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

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

ENVIRONMENTAL AND SOCIAL

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	Not Currently Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

LEGAL

Legal Covenants

Sections and Description
I.A.1.a:The Recipient shall not later than three (3) months from the Effectiveness Date, recruit or assign to MoFEA and thereafter maintain throughout the implementation of the Operation, a safeguards specialist and a procurement specialist, with skills, experience and under terms of reference satisfactory to the Association.
I.A.5: The Recipient shall not later than three (3) months from the Effective Date establish and thereafter maintain throughout the implementation of the Operation, a Program Implementation Committee (PIC) with a composition, mandate, resources and terms of reference satisfactory to the Association.
I.D.1.a: The Recipient shall appoint by not later than six (6) months after the Effective Date, and thereafter maintain at all time during the implementation of the Program, one or more independent verification agents with experience and qualifications and under terms of reference acceptable to the Association (the “Verification Agent”) to: (i) verify the data and other evidence supporting the achievement of the DLIs/DLRs, as set forth in the table in Schedule 3 to the Financing Agreement; and (ii) recommend corresponding disbursements to be made, as applicable, pursuant to such Schedule 3 and Section IV.

Conditions

Type	Citation	Description	Financing Source
Effectiveness	4.01	The Recipient has prepared and adopted an Operations Manual in Section I.B. of Schedule 2 to this Agreement, in form and substance satisfactory to the Association	IBRD/IDA

I. STRATEGIC CONTEXT

1. **This Program Appraisal 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 IDA operation (US$80 million) will support the GoM in the delivery of results under the program and have significant complementarity with a new International Monetary Fund (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.

A. 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 gross domestic product (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 pushed the government to contract foreign exchange swaps to support a historically 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 production, including electricity generation. The increase in global commodity prices has 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 recent history, affecting the health sector which is still recovering from the impact of the pandemic.

4. **Despite a new IMF program supported by an 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 estimated to increase modestly in 2024. This has been impacted by a prolonged dry spell and the continued unavailability of many production inputs.

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 are still ongoing following commencement in 2022 — 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.

B. 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 — characterized by 'legal forms' which 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 achieve the envisaged results of the *PFM Strategy*, the challenge will be to sustain reform by institutionalizing commitment mechanisms that 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 characterized by ambitious 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 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

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

percent of VAT potential revenue against a regional average of 35 percent efficiency and global average of 51 percent.[4] The *PFM Strategy* and associated *Domestic Resource Mobilization (DRM) Strategy (DRMS) 2021-2026* have a target of increasing Malawi's Revenue to GDP Ratio 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 inefficient prioritization of public investments and shortfalls in budget credibility 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], the inefficient prioritization of public investments continues to act as a bottleneck to economic growth. Malawi's public investment management (PIM) process through the Public Sector Investment Program (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, challenges in budget planning and execution have 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).** Historical corruption scandals surrounding management of public funds still resonate in IFMIS reform dialogue.[6] These 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 and Economic Affairs (MoFEA) launched the new SAP IFMIS in July 2020, which was rolled out to all Ministries, Departments and Agencies (MDAs) in July 2021. Despite this significant investment, the IFMIS is currently not using its full functionality. Due to limited enforcement and incentives for uptake, most MDAs are still transacting 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.[7]** The Malawi Methodology for Assessing Procurement Systems (MAPS) Report 2023 also identified scope for improvement of transparency and inclusion in the public procurement. As mitigation measures, MAPS 2023 recommended: (i) to fast track the implementation of the electronic Government Procurement (e-GP) system across the country; (ii) implement procurement capacity development programs; (iii) streamline procurement processes to

[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.
[6] This includes the 2013 "cashgate" scandal when US$50 million in public funds were stolen through illegal access to the national payment system.
[7] Assessment of the Malawi Public Procurement System, MAPS Report (February 2023)

reduce delays; (iv) leverage procurement policy to enhance private sector development especially Small and Medium Enterprises (SMEs) and other vulnerable groups (for example, women-led enterprises); (v) bolster data disclosure to enhance transparency; and (vi) implement a 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 includes e-GP, capacity development and enhancement of small and medium enterprises (SMEs) participation in the public procurement and modernizing the public procurement law as the priority initiatives. About 14 percent of Malawi's GDP (US$2 billion) is spent through public procurement. While 34 percent of SMEs in Malawi are owned by women (and 84 percent of micro-enterprises female-led)[8], it is estimated that less than 1 percent of contracts are awarded to women-owned enterprises.[9] 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.

Lack of resource transparency and low responsiveness to accountability institutions

12. **The GoM 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 contains commitments including: (i) enforcement of beneficial ownership transparency (BOT) and open contracting; (ii) enhanced transparency in natural resource governance; and (iii) enhancing transparency and parliamentary oversight on government borrowing.

13. **Low levels of transparency and public access to key areas of contracting and expenditure remain a significant constraint to promoting resource accountability.** BOT is a critical tool to combat corruption, reduce illicit financial flows, and fight tax evasion.[10] Before 2022, the legislation governing business registration required businesses to declare and register directors as the legal owners of companies but neglected to require the registration of the beneficial owner(s) who exercise ultimate control over the company. 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 small set of beneficial owners winning a high percentage of tenders and serving as a source of rents for politically connected individuals. There also remains shortfalls in the timeliness of transparency and performance focus related to budgeting and planning of State-Owned Enterprises (SOEs), with rising contingent liabilities inducing pressure to an already eroded fiscal space and contributing to government borrowing to finance bailouts. Accountability institutions such as the National Audit Office (NAO) are meant to shine a light on these issues, but their reports remain delayed and broadly inaccessible to the broader citizenry, which has contributed to an average of 90 percent of audit queries being repeated in subsequent years.

[8] FinScope Malawi (2019). Micro, Small and Medium Enterprise (MSME) Survey
[9] Africa Freedom of Information Centre (2019). Deepening Open Government through Women's Participation in Public Contracting in Kenya, Nigeria and Malawi.
[10] 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.

Climate vulnerability and climate-smart fiscal governance

14. **Malawi is exposed to droughts, floods and landslides which become more common and severe with climate change.** Malawi's Disaster Risk Profile indicates that floods and droughts pose the most significant and recurring risk to Malawi, with the highest impacts occurring in the central and southern regions.[11] However, the continued rapid pace of climate change means that the assessment is likely already significantly underestimating impacts. For example, while the assessment estimated flood risks at an annual average of 100,000 people — floods following cyclones Ana and Freddy affected an average of 865,000 in the four years following publication. With dry spells across the country in 2024, Malawi is on course to exceed the rare drought scenario for the second time in a decade. And while the annual average population exposed to landslides was assumed to be 100, in 2023 a single landslide killed at least 85 and displaced thousands. Some impacts can be attributed to other human-caused changes (such as watershed degradation), but climate change exacerbates the exposure. For instance, 2.5 million Malawians fell victim to the floods and landslides initiated by Cyclone Freddy in 2023, the record-breaking intensity of which was likely enabled by climate change. The frequency and intensity of the El Nino, which drives recent and current droughts, is likely increased by climate change.

15. **Adaptation to climate-related risks requires climate-smart fiscal governance mechanisms.** Cyclone Freddy led to US$182 million in infrastructure damages, more than 80 percent of that year's domestic investment expenditure. Infrastructure damages following Cyclone Ana in 2022 were estimated to be between US$126 - 192 million, thus between 82 - 125 percent of that year's domestic investment expenditure. The more climate-resilient reconstruction of Kapichira dam – which produced a third of Malawi's electricity and the destruction of which led to a year of frequent loadshedding – alone was budgeted at US$60 million to repair. A notable share of exposed infrastructure is owned and/or operated by SOEs, such as electricity infrastructure by Electricity Generation Company Malawi and Electricity Supply Corporation of Malawi or large amounts of real estate by Malawi Housing Corporation. This recent experience strengthens the case for ensuring value-for-money in already highly constrained public expenditure by conducting it in ways that ensure resilience against an increasingly extreme climate. The World Bank Malawi *Country Climate 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.

C. Relationship to the CPF and Rationale for Use of Instrument

16. **The operation is closely aligned with the World Bank Group Country Partnership Framework (CPF) for Malawi, discussed by the Board of Executive Directors on May 4, 2021 (FY21-25, Report No. 154505-MW).** 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-stating governance weaknesses in Malawi. The 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

[11] World Bank (2019). Disaster Risk Profile: Malawi

beyond. Finally, the operation supports the implementation of the CPF *Citizen Engagement Roadmap* by strengthening the broader enabling environment for public accountability.

17. **The World Bank has been a committed partner to the GoM's PFM reform efforts, with the operation directly responding to historical lessons learned.** Over the past two decades, the World Bank has supported several PFM-focused investment project financing (IPF) operations[12] with mixed results.[13] Learning from the historical 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 solely focusing on a technical, input-approach and further reinforces the fit of the PforR instrument to incentivize change in actual performance.

18. **The operation has the potential to lock in and expand advances in fiscal governance.** Near-term adjustments are benefiting from the IMF ECF and World Bank DPF approved at the end of 2023 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* and adoption of an ambitious Action Plan for 2023-25. Focusing on results, the PforR can accompany the implementation of policy and governance reforms introduced to support a sustained response to the fiscal crisis in the medium term. This is summarized in Table 1, below, which displays how the PforR operation will directly complement the reform areas addressed by the IMF ECF, World Bank DPO Series, and Sustainable Development Finance Policy (SDFP) commitments for FY24.

Table 1: Summary of PforR, World Bank DPO, IMF ECF, and SDFP Reform Areas

PforR Results Area (RA)	Malawi Growth and Resilience DPO Series Policy Areas	IMF ECF: Prior Actions (PAs) and Structural Benchmarks (SBs)	SDFP FY24: Performance and Policy Actions
RA 1: Improve Public Resource Mobilization	------	• Enhance revenue and improve transparency in duty rates for vehicles (PA) • Repeal preferential treatment for vehicles and VAT relief for privileged groups (SB) • Eliminate VAT exemptions for business inputs and VAT relief for building materials (SB) • Full launch of Integrated Tax Administration System (SB)	------
RA 2: Strengthen budget prioritization and execution	• Restructuring the Affordable Inputs Program fertilizer subsidy to lower costs and increase efficiency. • Strengthening fiscal transparency and effective management of public resources (also KRA 3)	• Roll out IFMIS to key MDAs (PA) and publish monthly IFMIS generated fiscal reports (SB) • Approval of an arrears clearance and prevention strategy (SB)	• Publication of performance report for all projects with a total estimated cost of at least MWK 25 billion in the PSIP

[12] Financial Management, Transparency, and Accountability Project (FIMTAP) (2003 – 2009), IPF, US$27.4 million; Financial Reporting and Oversight Investment Project (FROIP) (2013 – 2018), IPF, US$19.0 million.
[13] World Bank (2017). How (Not) to Fix Problems that Matter: Assessing and responding to Malawi's history of institutional reform, Policy Research Working Paper 8289. See also IEG Report No. 103060 (2016).

PforR Results Area (RA)	Malawi Growth and Resilience DPO Series Policy Areas	IMF ECF: Prior Actions (PAs) and Structural Benchmarks (SBs)	SDFP FY24: Performance and Policy Actions
RA 3: Enhance Resource Transparency and Accountability	• Improving fiscal risk management • Improving public procurement oversight and transparency	• Follow up action report on COVID-19 and Export Development Fund (EDF) audit reports (PA) • Develop strategy to address challenges in EDF audit (SB)	• Publication of guidelines stipulating conditions and processes for granting guarantees and on-lending

19. **The operation will 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 Disbursement-Linked Indicators (DLIs) or Performance Based Conditions, with the incentive effect displaying a positive impact on results.[14] Most relevant to the proposed program includes the impact of the Performance Based Grant through the *Governance to Enable Service Delivery* project (P164961), which only one-year after the introduction of results-based financing resulted in notable increases in local government PFM performance.[15] 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).

20. **The Program is consistent with Malawi's Nationally Determined Contribution (NDC) approved in 2021.** The GoM has indicated its commitment to tackling climate change impacts by reducing emissions and building resilience through adaptation measures through its recently updated NDC. Malawi's NDC sets out the country's emissions controls goals with an implementation plan that identifies over thirty mitigation actions and seventy adaptation actions that notably include: (i) energy; (ii) water; (iii) infrastructure; and (iv) strengthening governance for effective NDC implementation. This is complemented by the National Climate Change Management Policy[16], the National Resilience Strategy[17], and the Common Climate Action Agenda[18]. The Program is aligned with these plans on mitigation, adaptation, and resilience through support to a whole-of-government approach to close the implementation gap between the existing policy/regulatory framework and delivery of NDC commitments/investments. The Program will specifically support these efforts through: (i) integration and implementation of climate-sensitive PIM for appraisal and selection of investments at the national level to enable planning and building of resilient public infrastructure; (ii) implementation of a climate-focused supply chain management strategy that promotes procurement of energy efficient, low-carbon emitting and climate resilient goods, works and services in all sectors and better management of environment and social (E&S) risks; and (iii) integration of climate risk reporting into SOE risk management frameworks for key enterprises in the energy, water, and agriculture sectors.

21. **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 MoFEA to bolster the institutionalization of FM, Procurement, and E&S implementation capacity within government systems and across MDAs. The IPF

[14] 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)
[15] World Bank Malawi Economic Monitor 15 (June 2022)
[16] Government of Malawi (2016). National Climate Change Management Policy
[17] Government of Malawi (2018). National Resilience Strategy 2018-2030
[18] Government of Malawi (2021). Common Climate Action Agenda

component is justified by the potential need to recruit high-quality technical expertise which may be difficult to secure under the applicable government systems and to respond to potential for situations where earmarked funds for TA may be at risk of being released and used in a timely manner. Additional details on the IPF component are included in Annex 7.

II. PROGRAM DESCRIPTION

A. Government Program

22. **The foundation for the Government Program is the recently approved Public Financial Management Strategy 2023 – 2028**. The *GoM PFM Strategy 2023-2028* is a comprehensive strategy to support the Malawi Government to attain sound financial management and discipline in public service delivery for sustainable development. This Strategy has been developed in line with *Malawi 2063* goals and objectives and the implementation results are expected to be linked to the goals set forth in future National Planning Frameworks.

23. **The Strategy has built on the successes and challenges identified in the 2018 Public Expenditure and Financial Accountability (PEFA) Assessment.** In turn, the Strategy also identifies linkages to other reform areas in government and also takes cognizance of the improvements in PFM that have taken place over the past several years. These improvements include enactment of the new Public Finance Management Act 2022, approval and implementation of DRMS, introduction and implementation of the new IFMIS and Electronic Funds Transfer including rationalization of bank accounts and strengthening of public investments and oversight of SOEs.

24. **The PFM Strategy contains goals and RAs.** The main goals of the PFM strategy are as follows: (a) Increase the revenue to GDP ratio; (b) Management of Fiscal Risks, Debt and Cash; (c) Allocate resources consistent with national priorities; (d) Budget execution; (e) Accountability and Budget Transparency; (f) Enabling environment for PFM outcomes; (g) Effective governance systems and institutions. The PforR will include DLIs covering main aspects of the PFM Strategy. These goals incorporate those from the already existing and still active strategies for DRM led by the Malawi Revenue Authority (MRA, Malawi DRMS 2021 – 2026) and procurement led by the PPDA (PPDA Strategic Plan 2022 – 2025). For organizational purposes, these DLIs are grouped into the proposed three RAs. The performance of the program is measured through indicators and targets set for each RA.

25. **Malawi has recorded significant gains in previous PFM reform phases.** Some key lessons learned from this long-term engagement are:

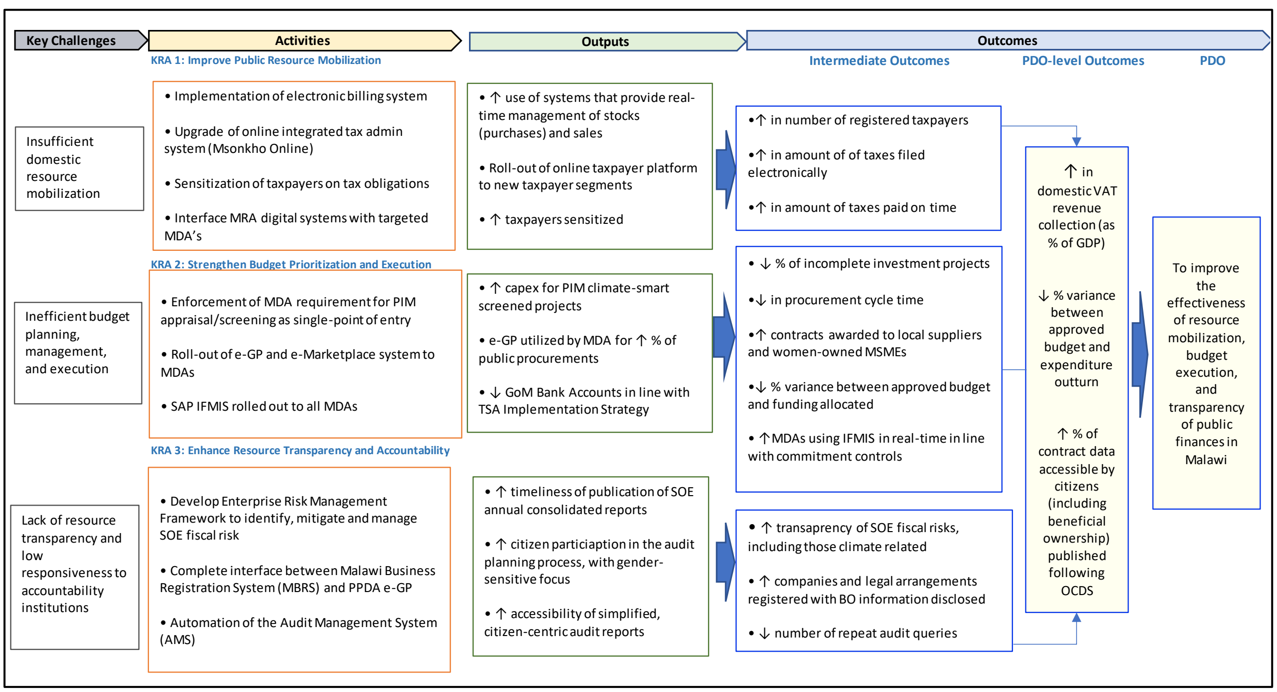
- While progress has been made in many areas, some fundamental reforms remain incomplete – in part because moving across many fronts at once can be slow-moving;
- Government ownership has proved important in advances achieved, but there is a need to also strengthen the demand side of PFM reform (involving parliament and civil society);
- There has been strong technical commitment to reform in certain units and departments, but this often not sufficient for comprehensive reforms to be rolled out across all MDAs.

26. **These lessons are incorporated into the Program design.** They also reinforce the appropriateness of the PforR for this operation.

B. Theory of Change

27. **The operation will provide a combination of support for strategic activities, targeted TA, and fiscal incentives for implementation that will enhance the capacity of GoM to progressively strengthen its fiscal governance.** The Program Development Objective (PDO) is comprised of three primary objectives which are directly supported by a series of DLIs under each of the RAs. Results under each of these three RAs are captured by a PDO-level indicator which directly represent headline improvement in the three core aspects of fiscal governance being supported by the Program. The activities and outputs being supported by the Program represent a combination of roll-out of digital government platforms, investments in change management, and support to public sensitization/demand-side engagement on their update by the public. While these activities in isolation represent the identified technical solutions for the development challenges identified, the operation will provide the fiscal incentives for implementation and coordination across MDAs/levels of government to translate these outputs into the intermediate and PDO-level outcomes that have historically lacked achievement in Malawi's past PFM reform efforts. The Theory of Change is presented in Figure 1, below.

Figure 1: Theory of Change



C. PforR Program Scope

28. **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: (a) Improving public resource mobilization; (b) Strengthening budget prioritization and execution; and (c) Enhancing resource transparency and accountability. The preparation process of the operation (and supporting Technical and Fiduciary Systems Assessments) 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. Toward these ends, DLIs were rigorously identified in each of

the RAs to identify the results that will incentivize the *commitment, coordination, and cooperation*[19] 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 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.

29. **RA 1 supports core aspects of the Government's revenue mobilization agenda.** The PFM Strategy, through the *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 the 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 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 RA therefore focuses on enhancing resource mobilizations through increased VAT revenue collection (DLI 1) and increased tax compliance (DLI 2). This will be achieved through several 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.

30. **RA 2 supports the Government's efforts to strengthen budget prioritization and execution.** This RA 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. Toward these ends, 55 percent of the operation's PforR resources will be tied to the DLIs and Disbursement Linked Sub-Indicators (DLSIs) in this KRA:

- **DLI 3 supports the strengthening of PIM with a climate-sensitive focus.** Despite the ambitious Vision Malawi 2063 and a US$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 (PSIP) – political processes can supersede these systems, resulting in some projects being included in the budget that have not gone 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 PSIP processes building upon Malawi's recent advancements in PIM, including enhanced data management and screening tools. This will include specific incentives for ensuring that newly approved projects have been appraised using a new climate-smart PIM with specific considerations (see Box 1). In the initial years of the Program, the DLI will target an increase in the percentage of capital expenditure (CAPEX) that is allocated to

[19] World Bank, World Development Report 2017: Governance and the Law

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: 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 NDC, Long-Term Strategy, and National Adaptation Plan
- Exposure to acute climate change events
- Responsiveness to climate change mitigation and adaptation requirements

The expected impact of the screening is that new public investment projects are: (i) in line with Malawi's mitigation commitments; and (ii) are more resilient to climate-related hazards, including droughts, floods, and landslides. The Government is particularly interested in ensuring that built infrastructure, such as dams, electricity transmission infrastructure, roads, and buildings like schools and hospitals can withstand the new climate-induced reality of greater flood, drought, and landslide risks.

- **DLI 4 focuses on enhancing procurement efficiency and sustainability in Malawi through the implementation of the new national e-Procurement system (e-GP) and electronic-Government Marketplace (e-GM).** Development of the first phase of the e-GP system for e-procurement module is under process (funded by the World 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 SMEs (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. Green procurement contributes to Malawi's efforts to mitigate adverse impacts on its environment. At the same time, it plays a key role in adapting to climate change. Adverse impacts of more frequent droughts and floods that affect electricity infrastructure and the availability of potable water mean that for instance selecting more electricity- and water-efficient goods is a key step toward adapting to climate change-induced scarcity. Toward these ends, DLSIs 4.1 and 4.2 include targets toward the roll-out and utilization of e-GP across Procuring and Disposing Entities (PDEs) in the early years of the Program and 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-GM.

- **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. DLSI 5.1 is targeted at increasing budget credibility, 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 allocated. DLSI 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 quarterly allotments released to MDAs. Finally, DLSI 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 IFMIS generated expenditure outturn – which if achieved, would represent achievement of targets across RA2.

31. **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.** While a number of notable policy measures and global commitments were signed, momentum has remained inconsistent with inadequate transparency and accountability around key areas of government fiscal management. DLI 6 focuses on increasing the efficiency and transparency of high-risk SOEs, with support to the roll-out of a new Enterprise Risk Management Framework (ERMF) 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. SOEs will be required to report on exposure to specific climate-related hazards such as flooding, water scarcity/drought, and landslides in the context of increased exposure due to climate change. Mitigation measures implemented in response and reported on will reduce the exposure of SOE-operated infrastructure to climate-related risks. 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 automation of the Audit Management System and demand-side, citizen oversight of the audit process.

32. **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$75 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 FM 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 (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	<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;	The PforR will include DLIs covering main aspects of the PFM Strategy. For organizational purposes, these DLIs are being grouped into the proposed three RAs	The PforR and PFM Strategy are aligned.
Overall Financing	US$146 million	US$75 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)	**75.00**	**100%**
IDA Grant – PforR Component	75.00	100%
Total Program Financing	**75.00**	
IDA Grant – IPF Component	5.00	
Total Operation Financing	**80.00**	

33. **The GoM PFM reform agenda has historically been supported by several donor partners – with the 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 (PIM, SOEs). These projects are primarily consisting of long-term, input-based, off-budget TA – and are therefore not included in the PforR Program and not expected to impact the Program size. The World Bank currently serves as the vice-chair of the PFM Donor Group, which has recognized the potential of the PforR to incentivize a more results-driven application of current Donor Partner support. This will be further complemented and supported by the IPF component of the operation.

D. Program Development Objective(s) (PDO) And PDO Level Results Indicators

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

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

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

E. Disbursement Linked Indicators and Verification Protocols

36. **The Program consists of three RAs and eight DLIs.** The three RAs are directly aligned with achievement of the respective elements of the PDO and in turn, the PDO level indicators. The DLIs represent the sequence of results that are necessary to achieve the PDO. Within RA 2, two of the DLIs include a combination of DLSIs which recognize the multiple, interdependent chains of results that will be necessary to meet the PDO-level indicator. These are summarized in Table 4 (below) and in detail in Annex 1.

37. **The annual targets in each DLIs represent a sequential set of milestones that contribute toward the achievement of the headline results.** The targets in each of the DLIs and DLSIs were identified by a problem-driven approach by the GoM and supported by the findings of the Technical and Fiduciary Systems Assessments. The milestones implicitly recognize that the historical binding constraints to achieving results in fiscal governance in Malawi have not been a lack of legal frameworks and technical solutions, but rather implementation gaps driven by the informal, underlying political economy. Toward these ends, the DLIs represent a combination of targets incentivizing systems operability, cross-MDA coordination, user change management, and citizen engagement that are targeted at unlocking the bottlenecks to results. In the initial years of the Program, milestones are targeted at incentivizing systems uptake and change management while latter years of the Program represent the downstream fiscal results that would be the product of successful implementation. The milestones within the first two years of Program are also designated as Intermediate Results Indicators (IRIs) in the Monitoring and Evaluation (M&E) framework for the Program. The achievement of these IRIs by the time of the midterm review of the Program is expected to signal satisfactory progress toward the achievement of the DLIs and the associated PDO-level indicators.

Table 4: Program RAs and DLIs/DLSIs

RA 1: Improve Public Resource Mobilization	
DLI	***DLSI***
• DLI 1: Increase in domestic VAT revenue collection as % of GDP	
• DLI 2: Increase in returns filed electronically and paid on Time for VAT, CIT and PIT	
RA 2: Strengthen Budget Prioritization and Execution	
DLI	***DLSI***
• DLI 3: Increase in relevance, readiness and sustainability of public capital investments	

• DLI 4: Procurement cycle time reduced and increased use of sustainable procurement features	• DLSI 4.1: Share of procurement in the selected PDEs processed through the e-GP system • DLSI 4.2: Reduction in procurement cycle time • DLSI 4.3: Increased sustainability and inclusion of procurement systems
• DLI 5: Strengthened budget management and execution	• DLSI 5.1: Reduction in variance between approved budget and allocated funding • DLSI 5.2: Improvement in cash management forecasting and predictability of allotments and funding • DLSI 5.3: Strengthened controls for budget execution
RA 3: Enhance Resource Transparency and Accountability	
DLI	***DLSI***
• DLI 6: Increased SOEs efficiency and transparency	
• DLI 7: Increased beneficial ownership and open contracting transparency	
• DLI 8: Enhanced citizen engagement, transparency and responsiveness of the audit process	

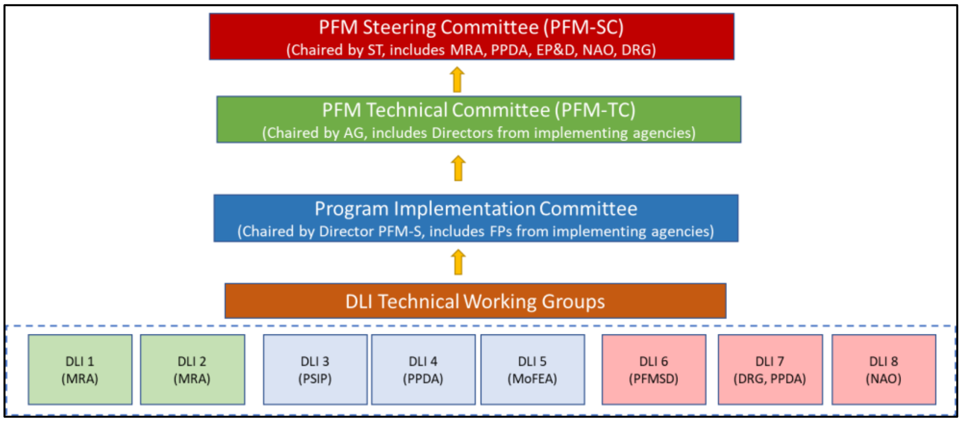
III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

38. **The MoFEA is the lead implementing agency (IA) responsible for the execution of the Program.** The Public Finance Management Systems Division (PFMSD) will serve as the coordination unit for the Program within MoFEA. The other key implementing MDAs are: (i) Accountant General Department; (ii) Budget Division – MoFEA; (iii) Cash Management Unit – MoFEA; (iv) Department of Registrar General (DRG); (v) MRA; (vi) NAO; (vii) PPDA; and (viii) PSIP Unit.

39. **Implementation of the Program will leverage the implementation arrangements already established for the *PFM Strategy 2023 – 2028.*** The institutional mandates, roles and responsibilities for the management of the *PFM Strategy 2023 – 2028* have been clearly defined. The PFM Steering Committee (PFM-SC) is chaired by the Secretary to Treasury and has the responsibility of providing strategic oversight and coordinating direct engagement with designated core PFM stakeholders, including at the ministerial level and with donor partners. The PFM-SC also comprises of leadership from key IAs outside of the MoFEA – most notably the Commissioner General of the MRA and Director General of the PPDA. The PFM Technical Committee (PFM-TC) is chaired by the Accountant General and is tasked with reviewing progress against objectives and expected outputs in the Strategy. The PFM-TC will be represented by Director-level management from the IAs, with the overall responsibility of managing progress and reporting on the achievement of DLIs under the PforR. A Program Implementation Committee (PIC) will comprise of the Focal Points from each of the IAs within the Program and be chaired by the Director of PFM Systems. Within the PIC, Technical Working Groups (TWGs) will be established for each of the DLIs and will be responsible for the coordination of achievement of results within each chain. The implementation arrangements are presented in Figure 2, below.

Figure 2: Program Implementation Arrangements



B. Results Monitoring and Evaluation

40. **The Results Framework comprises the PDO-level indicators and IRIs drawn from the DLIs and the DLSIs.** Each indicator has a baseline and an end-of-program target (June 2029). There are logical and sequenced connections between intermediate results and PDO-level indicators. The M&E plan includes the descriptions and parameters for all indicators. The M&E plan will be implemented by the PFM PIC, drawing from the DLI-specific inputs from the TWGs and the Independent Verification Agent (IVA). The World Bank will regularly monitor the adequacy of the M&E arrangements as part of implementation support. The Operations Manual (OM) will outline the verification protocols for the DLIs and the DLSIs. The operation contributes to the achievement of World Bank Corporate Scorecard Outcome Area 4 on "Countries with tax revenue-to-GDP ratio below or equal to 15 percent".

C. Disbursement Arrangements

41. **Disbursement will be made based on the achievement of verified results measured by DLIs.** Once the achievement of the DLI is confirmed, GoM can make a disbursement request. Disbursement of funds from the World Bank will be made to GoM revenue accounts held at the Reserve Bank of Malawi in the consolidated account (Account Number 1) upon achievement of results. Funds may be disbursed on partial achievement of results or against DLIs yet to be achieved, based upon request by the Borrower, MoFEA. A rolling advance will be included under the Program to support the entities in charge of DLIs during the critical first months of implementation and onward. Such disbursement would be treated as an advance and shall not exceed 25 percent of the IDA Grant. The disbursement for the advances would be documented on achievement of the relevant results. The achievement of the results will be assessed by an IVA hired by the GoM based on a terms of reference and contract cleared by the World Bank. Details of the Program fiduciary arrangements will be contained in the Program FM Procedures Manual to be developed as part of the OM.

42. **Disbursement to the IAs will be through Treasury releases and will follow the existing MoFEA Treasury management procedures on request for funds.** The allocation of funds to implementation agencies as part of the broader GoM budget will be managed by the MoFEA. The PFM-TC will be required to demonstrate, through annually prepared financial statements, that Program expenditures were equal to or more than the amount of World Bank financing by the end of the Program.

43. **The PFM-TC will provide evidence of achievement of their respective DLIs and DLSIs to the PFM-SC.** The validation of the results will be based on the verification protocol outlined in the OM. The PFM-TC will compile and submit

evidence for the achievement of the results to the IVA annually. The IVA will submit the verification report to the Project Technical Committee which will present the IVA report to the PFM-SC for review and endorsement. The endorsed report will be submitted by the MoFEA to the World Bank for review and subsequent disbursement of funds. An arrangement will be made for advancing funds against the expected achievement of DLIs and DLSIs. The Program Expenditure Framework will be monitored to ensure continued adequacy of the government program financing.

D. Capacity Building

44. **Capacity building will be supported through a hybrid operation, with a strategic and prioritized IPF component included in the program design.** The IPF Component of the operation has two primary objectives. The first objective is to provide targeted TA and capacity building to supplement the financial incentives of the PforR to support the achievement of identified results. This would be closely coordinated and complementary to existing and pipeline PFM donor-support around similar results. The second objective is to strengthen the project preparation and implementation capacity for FM, Procurement, and E&S within MoFEA. Building from the findings of the Program Assessments, the IPF component will support the development of a centralized unit within MoFEA with the objective of institutionalizing FM, Procurement, and E&S capacity within government systems and across MDAs. Additional detail on the IPF Component can be found in Annex 7.

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

45. **The Program is Strategically Relevant.** The review of the PforR Program Scope and identification of DLIs/DLSIs (Section II. C) provides the rationale on how the Program will strategically support the GoM's ambitions to improve the effectiveness of resource mobilization, budget execution, and transparency of public finances in Malawi. DLIs/DLSIs were designed to target the primary binding constraints to results, recognizing that non-technical bottlenecks have historically been the primary obstacle to achieving results.

46. **Paris Alignment.** The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation. The operation will incentivize the government to strengthen mechanisms and institutional capacity in budget allocation and tracking toward supporting climate change adaptation and mitigation.

a. **Assessment and reduction of mitigation risks:** The Program is expected to have low impact on greenhouse gas (GHG) emissions, which is consistent with the country's commitment to transition to a low carbon emission development pathway. The associated DLIs are aligned with the Paris Agreement as 'Public Administration' and are neutral with regards to increasing GHG emissions and no PforR proceeds will be used to finance large data centers. The Program activities are soft interventions, mostly targeted at technical and institutional capacity building to help mobilize domestic revenue and manage public resources at the national level and does not include investments in physical assets that may be affected by climate change. Specifically, the Program will support the enhancement of PFM and procurement regulatory policies and protocols to address inefficiencies in management of public resources. Additionally, selected interventions, including the establishment and widespread use of sustainable procurement features and the PSIP Climate-Smart tool will explicitly mainstream climate change mitigation in government systems, through inter alia requiring the assessment of alignment with the Paris Agreement in PSIP projects. Therefore, GHG emissions as a result of the program interventions are expected to be minimal and the program supports the country's NDC goals.

b. **Assessment and reduction of adaptation risks:** Climate hazards have low material impact on the Program interventions. The Program will contribute to Malawi's adaptation and resilience to climate hazards by supporting the Government to mainstream climate screening into public service and procurement protocols. DLI 3 and DLSI 4.2, which supports future investments in goods and services, should enhance the ability of the Government to plan, build, and operate more resilient public services and infrastructure. Additionally, draft forms of the ERMF contained in DLI 6 have provisions for reporting on SOE disaster risk exposure, which would guide the adaptation efforts of Malawian SOEs.

47. **Climate co-benefits.** The Program is addressing climate adaptation and mitigation risks through three of the eight DLIs (DLIs 3, 4, and 6) that have a combined value of US$12 million linked to their specific Disbursement Linked Results (15 percent of allocation). Development expenditures constituted an estimated 23 percent of government expenditures in FY23/24, which equates to US$593 million. In line with the recommendations of the Malawi CCDR, DLI 3 will incentivize a pivot away from the current practice of having a small portfolio of 'climate-specific investments' to a whole-of-government approach whereby 90 percent of the development budget through the PSIP will have climate mitigation and adaption considerations incorporated before implementation, decreasing exposure to climate induced flooding, drought and landslide hazards. Similarly, DLI 5 will incentivize the inclusion of sustainable procurement criteria in 75 percent of tender documents processed through the e-GP (encouraging energy efficient/low carbon emitting/climate related disaster resilient goods, works and services) – whereby 70 percent of the country's budget (or US$1.8 billion) is spent on the procurement of goods and services. DLI 6 will incentivize the integration of climate risk reporting into SOE risk management frameworks for key enterprises in the energy, water, and agriculture sectors – whereby Malawi has experienced numerous instances of climate-related fiscal impacts through SOEs over the past several years.[20] The DLI thus contributes to addressing the hazards emanating from floods, droughts, and landslides affecting SOE owned or operated public infrastructure, which have increased in response to climate change. Finally, the Program will support digitalization of systems leading to a substantial reduction in travel or material use[21] through DLI 2 and DLI 4 (increased electronic filing of taxes and electronic procurement systems) significantly reducing the number of trips made back and forth by taxpayers/tenders to tax/procurement offices.

48. **Gender.** The Program will address gender gaps in entrepreneurial productivity and earnings through actions to increase access by women-owned/led businesses to public procurement opportunities, including modernization and streamlining of PFM systems and better monitoring of the awarding of public contracts to SMEs. It will also support citizen-driven, gender-responsive inputs into the audit planning process.

49. **The Program will specifically contribute to closing a gender gap in the public procurement market of Malawi through actions to increase access by women-owned businesses to public procurement opportunities.** While 34 percent of SMEs in Malawi are owned by women[22], women entrepreneurs' sales are 46 percent less than those of male

[20] Including the destruction of the Kapichira hydroelectric power plant in 2022 incurring fiscal costs of US$60 million or the MWK 45 billion (US$63 million) bailout of the Agricultural Development and Marketing Corporation in 2017 related to maize purchases for disaster response.
[21] Common Principles for Climate Mitigation Finance Tracking (2023), Category 10.4
[22] FinScope Malawi (2019). Micro, Small and Medium Enterprise (MSME) Survey

entrepreneurs.[23] Women also have lower levels of financial inclusion across all domains as compared to men in Malawi, with primary drivers of the gender gap including the lower earnings, lower access to key sources of collateral, and a lack of financial products specifically targeted at women. As 70 percent of Malawi's government budget is spent through public procurement it presents strong mechanism to contribute to closing these gaps, but to date it is estimated that less than 1 percent of contracts are awarded to women-owned enterprises.[24] These challenges are exacerbated for women by increased risks of sexual harassment, elevated bureaucratic hurdles in registration and licensing, and more frequent delays in payment for services rendered.[25] To close these gaps, the Program will leverage Government's role as a 'market regulator' (via procurement policies) and as 'market participants' (as purchasers of goods, works and services) in order to empower women-led businesses. A new sustainable and inclusive procurement policy supported by the program will introduce new mechanisms for targeting and reporting on women's participation in public procurement – and will be complemented by capacity building programs to enable women to close gaps in registration and application for tender opportunities. The roll-out of the e-GP will leverage the Access to Information Act and increased reporting through the OCDS to enable increased access to information on tender opportunities and awards to be made more accessible by women. Finally, this will be complemented by specific targets through the program increase the amount of contracts awarded to women-led SMEs.

50. **The Program will also support gender-responsive mechanisms in the audit preparation process and more accessible, citizen-centric versions of audit findings.** In Malawi, women and girls encounter challenges when trying to access basic services. This is often due to gender-blind infrastructure design, limited control over resources, limited mobility and freedom of movement, and personal safety issues. To close these gaps, it is necessary to plan, implement and manage gender-responsive infrastructure that can act as an enabler for sustainable development without compromising gender equality.[26] Through the Program, citizen participation in the audit preparation process will be introduced and scaled-up – including the incorporation of a gender lens that ensures female participation in the audit preparation process that is able to proactively identify where gender gaps in planning and delivery infrastructure are missing or deliberately not adhered to. This will be complemented by the translation of these audit findings into simplified, citizen centric formats which can be accessed by broader citizenry and serve as a foundation for broader collective action against program targets for reducing the number of repeat audit queries.

51. **Citizen Engagement.** The Program targets the design and roll out of citizen engagement programs. On the revenue side this will be aimed at taxpayers to increase awareness, enhance voluntary compliance, and minimize tax disputes. The Program will also support citizens in accessing information on government budgets and expenditures. and encouraging citizen participation in budget planning and decision-making processes through public consultations and feedback mechanism. The Program will also foster transparency and accountability in government spending by regularly publishing reports on budget execution and outcomes, and publication of the contract data and beneficial ownership information. Finally, it will support citizen participation in the audit planning process and the transparent publication of simplified, citizen-centric versions of audit findings to the public. Beneficiary feedback is measured in the Results Framework through indicators tracking the number of MDAs including citizen participation in the audit process and making the findings

[23] World Bank Malawi Gender Assessment (2022)

[24] Africa Freedom of Information Centre (2019). Deepening Open Government through Women's Participation in Public Contracting in Kenya, Nigeria and Malawi.

[25] https://www.opengovpartnership.org/stories/overcoming-womens-barriers-to-participating-in-entrepreneurship-and-public-procurement-in-africa/

[26] UNOPS (2020). Infrastructure for Gender Equality and the Empowerment of Women.

accessible to the public (allowing for iterative, beneficiary feedback in the public audits of government programs) and the percentage of contracts that publish open contracting and beneficial ownership information (allowing for increased citizen oversight and feedback on public procurement).

52. **IDA 20.** The Program contributes to IDA20 commitments regarding improving DRM capacity, secure digital government services, strengthening public accountability mechanisms, and gender-inclusive fiscal policy and budget systems.

53. **The Program Expenditure Framework is fiscally sustainable, but MDA budgets remain constrained.** The GoM's medium-term expenditure projects over the life of the Program are US$146 million, with IDA supporting US$75 million over the same timeframe (representing 51 percent of total program expenditures). The main risks under the program for the central MDAs include a weak planning and budgetary system. The expenditure program for the MDAs is planned on forecasted revenue and negative variation has a direct impact on expenditure. Given the unpredictability in realizing planned revenue numbers, the planning and budgeting risk is assessed as substantial. The pattern of underfunding and unpredictability of budgets are being directly targeted by the DLIs/DLSIs of the Program – but an endogeneity risk remains that GoM must 'break the pattern' of underfunding to spark a virtuous cycle that can result in more predictable financing that will both allow achievement of specific DLIs/DLSIs related to the function and the achievement of the broader sets of results being targeted. The Program Expenditure Framework and breakdown of categorization of expenditure is summarized in Tables 5, 6, and 7 below. The Program Expenditure Framework will be monitored closely throughout implementation to ensure continued adequacy of the government program financing.

Table 5: Program Financing, FY 2024/25 to 2028/29

Source	Amount (US$ million)	Share of Total (%)
GoM	71	49%
IDA (Malawi Fiscal Governance PforR)	75	51%
Total Program Financing	**146**	**100%**

Table 6: Budget allocation by IA, FY 2024/25 to 2028/29

Institution (Vote)	Sub-Vote, if applicable	Vote (and Program Code)	Amount (MWK, Millions)	Amount (USD)
NAO		60	13,531	6.8
MoFEA	PFM	270 (131)	34,852	17.4
	Economic Planning	270 (132)	34,962	17.5
	Management and Support Services	270 (080)	53,958	27.0
Accountant General's Department		271	40,000	20.0
MRA	Modernization	273	66,288	33.1
PPDA		N/A	40,000	20.0
DRG		173	7,935	4.0
Total			**291,526**	**146**

Table 7: Average Program budget categorization, FY 2024/25 to 2028/29

Institution (Vote)	MDA Avg	Amount (MWK, Millions)	Amount (US$, millions)
Personnel Emolument	23%	68,357	34.2
Operating Costs (Non-Development Expenditure)	77%	223,169	111.6
Total		**291,526**	**146**

54. **Adequate FM systems are in place – but will also be targeted for continued strengthening throughout the program.** The application of the PFM Act 2022 and other PFM reforms have improved FM practices**.** The accountability systems at the central government level were strengthened with the implementation of IFMIS which has inbuilt internal controls including commitment controls. The budget releases to the participating MDAs under the Program will follow the budget profiles prepared by the ministry in line with Annual Work Plan and Budgets (AWPB). The respective MDAs in charge of implementing entities will use IFMIS to fund the approved budgets in line with budget lines as per the Budget Book. The funds flow for the Program from the World Bank to the Government revenue accounts will be linked exclusively to the achievement of agreed results or DLIs.

55. **Economic Justification.** The Program supports a comprehensive package of reforms with significant potential for unlocking gains in bottom-line fiscal governance that render the US$80 million investment as economically justifiable.

56. **Enhanced revenue management through improved compliance and expansion of the taxbase is central to the economic justification of the program.** Increased public revenues make it possible to finance investments in human capital, infrastructure, and the provision of services for citizens and businesses, which can positively impact on GDP growth. Additionally, it can help reduce the reliance on external sources of funding and increase resilience to shocks. The COVID-19 pandemic and subsequent economic shocks have negatively impacted economic activity, and thus on tax revenues, throughout the region at the same time as needs have increased. This has heightened the importance of strengthening DRM to contribute to building fiscal space and resilience. The VAT has a particularly significant role here and is superior to alternatives in terms of raising revenues at minimal cost to production efficiency.[27] A recent IMF TA report also finds that "the VAT has significant revenue potential in Malawi" and outlines numerous recommendations to increase intake.[28] Everything else being equal, increasing domestic VAT collection by 45 percent, as under DLI 1, would result in between US$350-400 million in additional revenues and contribute significantly to reducing the VAT compliance gap – currently among the largest in the region.

57. **Improving budget prioritization and execution will result in significant economic gains**. In the FY2023/24 almost MWK 900 billion were spent on the development budget via the PSIP (approximately 2/3 from development partners and 1/3 from Government). 90 percent of the total estimated cost of public investment projects that are yet to be completed amount to 77.6 percent of GDP and screening for most projects has been largely rudimentary. DLI 3 will focus on improving project completion rates and institutionalizing a more rigorous and climate-sensitive screening process to address common challenges from weak public investment management. In turn, improving public investment management and governance is critical in determining the macroeconomic effects of public investment.[29]

[27] Brockmeyer et al. (2024). Does the Value-Added Tax Add Value? Lessons Using Administrative Data from A Diverse Set of Countries.
[28] Grote and van Oordt (2023). Malawi Domestic Resource Mobilization TA Report.
[29] Miyamoto et al. (2020). Growth Impact of Public Investment and the Role of Infrastructure Governance.

58. **Improved public financial management will result in efficiency improvements and significant cost savings, especially in a context of substantial fiscal constraints.** Full utilization of IFMIS (DLI 5) will result in improvements across the stages of the budget cycle including budget execution, cash management, arrears management, and budget execution. This, in turn, will provide more timely and accurate data for budget management and decision making. Cross-country analysis shows that improving PFM performance is correlated with GDP growth, with the effect strongest among countries starting from lower initial GDP per capita.[30]

B. Fiduciary

59. **The Fiduciary risk is rated Substantial.** As part of program preparation, the World Bank carried out an Integrated Fiduciary Systems Assessment (IFSA) of the Program to determine whether the fiduciary systems provide reasonable assurance that funds will be used for the intended purposes. As a focus of the operation is to incentivize the strengthening the FM and procurement systems that underlie the IFSA, the achievement of the DLIs throughout implementation of the operation will iteratively strengthen the systems and performance gaps identified in the assessment. To mitigate fiduciary risk, immediate action items are also recommended as part of the Program Action Plan (PAP). As this will be Malawi's first PforR, financial reporting arrangements will be agreed upon including the submission of semi-annual Interim Financial Reports (IFRs) to enable regular monitoring of the Program Expenditure Framework. Key Fiduciary Performance Indicators ('Fiduciary KPIs', herein) will be tracked throughout implementation, a sub-set of which are also aligned with outer year DLI targets.

60. **Use of Country Systems:** Program FM arrangements will use GoM systems for budgeting, funds flow, payments, planning, accounting, and auditing. GoM systems include the Public Finance Management Act 2022, the Appropriation Acts, PFM Regulations for 2022, Budget Manuals and PFM Circulars. Similarly, GoM's Procurement Framework of the PPDA Act no. 27 of 2017 and the Public Procurement Regulations of 2020 will be followed for Procurement and Contract Management. The FM arrangements at these IAs have been assessed and found adequate for handling program related expenditure. The program annual financial statements will be audited by the Auditor General in line with the Constitution of Malawi and Public Audit Act 2018. These enabling legislations have adequate provisions in dealing with potential areas of conflict of interest and workload management. Additional risks identified have mitigation measures proposed as part of the PAP.

61. **The assessment revealed that the MDAs budgets are highly constrained, catering mainly for other recurrent transactions and leaving negligible amount for development activities including those related to PFM.** For the central MDAs which include PFMSD, AG, Economic Planning and Development (EP&D), NAO, and DRG, the funding is intermittent. While budget allotment is done quarterly, actual funding is done monthly. However, funding does not follow the budget allotments. It is not unusual for the Treasury to fund just two of the three months allotment. Since commitments are based on budget allotments, MDAs are left with unfunded commitments. The underfunding could reflect optimistic revenue projects as much as problems in tax collection. The adequacy of collection fees for MRA varies from year to year. In a year where the fees fall below the budget, bank facilities are utilized to fund the gap. The adequacy of financing under PPDA depends on realization of budgeted income in terms of levies and registration fees on procuring entities. Under collection results in expenditure reduction to avoid over commitment.

[30] Fritz et al. (2020). Political Economy of PFM Reforms: Experiences and Implications for Dialogue and Operational Engagement

62. **Performance of Procurement Systems.** The IAs have varying adequacy in capacity to procure goods, consulting, and non-consulting services. Overall, one IA (Registrar General) does not have the staff capacity to manage procurement as all positions in the procurement department unit are vacant[31] but the remaining five IAs (MRA, PPDA, NAO, MoF and EP&D) have adequate capacity in terms of both staff establishment, availability, and system management to handle most procurements with reasonable procurement lead time. However, procurement records management was below average in all the IAs with several documents not available on file, especially the post contract award documents like the performance and advance guarantees, delivery notes, Inspection and Acceptance Reports, Invoices, Payment Vouchers, Proof of payments, Distribution list and Contractor's performance assessment forms. Procurement performance indicators calculated based on sample procurement cases are presented below for the different IAs.

63. **Procurement Exclusions:** The Program is not expected to procure any high value contracts valued at or above Operational Procurement Review Committee thresholds (US$75 million for works, US$50 million for goods and non-consulting services, and US$20 million for consultant services). High value contracts, if any, under the Program will be monitored during the supervision missions to ensure that the Program is in conformity with the World Bank's policy on high value contracts in PforR Financing.

64. **In terms of FM staffing, the IAs have adequate staffing to ensure that appropriate persons carry out initiation, checking, approval and authorization of expenses.** The arrangements allow for proper segregation of duties. However, PFMSD does not have adequate staffing to allow for proper initiation, checking, approval and authorization of program expenses. Since staff capacity is a critical requirement for the effective and efficient implementation of the Program, one of the minimum conditions to be fulfilled by each participating institution to gain accessibility to the Program will be that adequate and competent FM personnel are in place.

65. **The current legal and governance frameworks in Malawi are adequate to support preventing, combating, and dealing with fraud and corruption practices.** The Malawi Anti-Corruption Bureau (ACB) is a government agency headed by the Director General with the responsibility of prevention of corruption in public and private bodies. Section 13 of the Constitution committed the country to "introduce measures which will guarantee accountability, transparency, personal integrity and financial probity and which by virtue of their effectiveness and transparency will strengthen confidence in public institutions." Government enacted a Corrupt Practices Act in 1995. It was amended in 2022.

66. **The operation is subject to the World Bank Anti-Corruption Guidelines.** In order to implement the World Bank's Anti-corruption guidelines for PforR operations, the ACB through the Investigations Division will immediately inform the World Bank of any complaint or claim related to fraud and corruption which the Government through IAs either receives or becomes aware. Unless otherwise agreed with the World Bank, the Government will take timely and appropriate action to investigate such allegations and indications; report to the World Bank on the actions taken in any such investigation, and, promptly upon the completion of any such investigation, report to the World Bank the findings thereof. The Corruption Prevention and Reporting Division of the Malawi ACB will provide the World Bank with all the records, documentation, and information that the World Bank may request with respect to such issues. If the World Bank decides to conduct its own investigation, the Bank may request the Government (through relevant implementing ministries and agencies) to exercise its legal rights and remedies (under the relevant contract/s) to obtain all information, records, and documentation that the World Bank may request, and provide those to the Bank. This process does not limit the rights of

[31] The Registrar General currently utilized the procurement staff of the Ministry of Justice to undertake procurements where necessary.

the Bank to also make direct requests for information from individuals or firm who are recipients of World Bank financing either directly or indirectly. In line with the obligations arising under the Anticorruption Guidelines, the government and all relevant implementing ministries and agencies should ensure that individuals or contractors who are recipients of World Bank financing are aware that the Bank may decide to exercise this option.

67. **To further ensure the World Bank's Anti-Corruption Guidelines applicable to PforR operations are met,** the Government will promptly share information on corruption allegations associated with the Program with the World Bank (and an annual report even if cases are not arising and which will be part of the legal requirements in the Financing Agreement), while at the same time conducting its own internal investigations in accordance with the procedure, regulations and laws governing operations of the ACB. At a minimum, the report should cover: Location of the incidence, Date allegation received, Description of the allegation, Stage of handling the allegation, Progress status in the investigation, Outcome of the investigation, and Source of finance for the case and preserve the World Bank's right to investigate Fraud and Corruption allegations.

C. Environmental and Social

68. **The overall E&S risks of the Program are considered Low.** The Environmental and Social Systems Assessment (ESSA) identified the primary environmental risks related to e-waste management and social risks related to data protection and cyber-security threats. 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.

69. **The primary risk mitigation measures identified for the PAP are:** (a) Ensure effective implementation of the E&S management system for the PforR Program (e-waste in particular); (b) Avoid the use or procurement of equipment containing Hazardous materials; (c) Ensure effective data protection, control, and fight against cybersecurity threats; and (d) Strengthen procedures to promote equitable allocation of benefits to all individuals within the IAs.

70. **The IPF component of the operation involves TA to strengthen institutions, capacity building including for E&S and program management.** It will not support any studies or preparation of future investments. 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 Environmental and Social Commitment Plan (ESCP). However, there is limited capacity to manage environmental risks within Malawi and the IAs have no previous experience in the implementation of World Bank-financed Projects or the Environmental and Social Framework (ESF). The environment risk rating is therefore assessed to be low.

71. **Grievance Redress.** Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the

existing program grievance mechanism or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit https://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, visit https://accountability.worldbank.org.

V. RISK

72. **The overall risk rating to achieving the PDO is Substantial.** Macroeconomic risk is assessed as high and substantial risks remain in three areas that are key to success of the PDO: (i) political and governance; (ii) institutional capacity for implementation and sustainability; and (iii) fiduciary.

73. **The macroeconomic risk at time of preparation is *High* given the continued uncertainty in the global economic environment, the continued shortages in foreign exchange despite the recent resumption of the IMF program and the continued fiscal and external adjustments that are required to stabilize the economy.** The continued progress in meeting ECF targets, moving forward on the DPO series (including meeting macroeconomic adequacy requirements), and implementation of SDFP performance and policy actions as part of a broader reform package could mitigate these risks.

74. **Political and Governance risk is *Substantial* as Malawi is currently entering an election preparation process (to September 2025) and existing corruption risks can be exacerbated by these pressures.** In addition, high inflation and spillovers from different crises can intensify risks. The results around fiscal transparency (including beneficial ownership disclosure) being incentivized by the program will aim to counteract and mitigate these risks in the broader economy.

75. **Institutional capacity for implementation and sustainability risk is *Substantial,* given the historical challenges in implementing announced policies and procedures related to fiscal governance reforms.** The inclusion of a hybrid IPF component serving as a mitigating measure to provide targeted capacity building in key areas, as well as close alignment with the ECF program and ongoing TA programs by other development partners. Sustainability risk is being mitigated through the introduction of the PforR instrument, with the transition to financing of an existing government program linked to results responding to historical sustainability constraints.

76. **Fiduciary risk is *Substantial.*** PFM and governance have been weak, as reflected in the findings of the 2018 PEFA, as well as numerous audit reports. While significant support has been provided over the years to strengthen PFM, more is needed to translate these into improved fiscal governance and accountability. A coordinated and systematic approach to the application of PFM regulations and practices, including through this operation, and continued sector engagement, are expected to address the key sectoral risks, with the main issues mitigated directly by the PFM-focused design of the PforR (DLIs and PAP).

ANNEX 1. RESULTS FRAMEWORK MATRIX

Program Development Objective(s)

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

PDO Indicators by Outcomes

Baseline	Period 1	Period 2	Closing Period
Increase in domestic VAT revenue collection as % of GDP			
Increase in domestic VAT revenue collection as % of GDP (Text)			
Feb/2024	Mar/2027	Mar/2028	Mar/2029
2.28% Domestic VAT Revenue Collection as % of GDP	30% increase in domestic VAT revenue collection as % of GDP	15% increase in domestic VAT revenue collection as % of GDP (from previous year)	10% increase in domestic VAT revenue collection as % of GDP (from previous year)
Decrease in variance between approved budget and IFMIS generated expenditure outturn			
% decrease in variance between approved budget and IFMIS generated expenditure outturn (Text)			
Mar/2023	Mar/2028		Mar/2029
(c) 18% variance between approved budget and IFMIS generated expenditure outturn	Variance between approved budget and IFMIS generated expenditure outturn is less than 8%		Variance between approved budget and IFMIS generated expenditure outturn is less than 5%
Increase of contract data accessible by citizens (including beneficial ownership) published following the Open Contracting Data Standard (OCDS)			
Increase of contract data accessible by citizens (including beneficial ownership) published following the Open Contracting Data Standard (OCDS) (Text)			
Mar/2024	Mar/2027	Mar/2028	Mar/2029
0% of procurements for selected PDEs publish procurement information following Open Contracting Data Standard (OCDS), including making Beneficial Ownership (BO) information available	Procurement information following the OCDS for 25% of contracts of the selected PDEs awarded through the e-GP is published publicly, including making BO information available	Procurement information following the OCDS for 60% of contracts of the selected PDEs awarded through the e-GP is published publicly, including making BO information available	Procurement information following the OCDS for 80% of contracts of the selected PDEs awarded through the e-GP is published publicly, including making BO information available

Intermediate Indicators by Results Areas

Baseline	Period 1	Period 2	Closing Period
Improve Public Resource Mobilization			
Increase in returns filed electronically for VAT (large taxpayers) (Percentage)			
Mar/2024	Mar/2025	Mar/2026	Mar/2029
75%	85%	95%	98%
Increase in returns paid on time for VAT (large and medium taxpayers) (Percentage)			
Mar/2023	Mar/2027	Mar/2028	Mar/2029
77%	85%	90%	95%
Strengthen Budget Prioritization and Execution			
Increase in relevance, readiness and sustainability of public investments (Text)			
Mar/2023	Mar/2025	Mar/2026	Mar/2027
25.7% of CAPEX going to PSIP appraised projects (0% climate screened)	5 percentage point increase in percentage of CAPEX going to PSIP appraised projects (from baseline)	10 percentage point increase in percentage of CAPEX going to PSIP appraised projects (from previous year), of which 50% of newly approved projects have been screened using climate-smart tool	15 percentage point increase in percentage of CAPEX going to PSIP appraised projects (from previous year), of which 90% of new projects have been screened using climate-smart tool
Average processing time for invitation to award of contracts through e-GP reduced (Text)			
Mar/2024	Mar/2028		Mar/2029
Baseline to be determined in Year 1	The average processing time for invitation to award of contracts for national competitive procurement through e-GP system for the 13 selected PDEs has been reduced by 20% compared to Year 1 baseline		The average processing time for invitation to award of contracts for national competitive procurement through e-GP system for the 13 selected PDEs has been reduced by 40% compared to the Year 1 baseline
Percentage of tender documents in e-GP for the selected PDEs following open competitive tender methods including specific sustainable procurement criteria (Text)			
Jan/2024	Mar/2027		Mar/2028
(b) 0% of tender documents in e-GP following open competitive tender methods use sustainable procurement criteria	At least 25% of tender documents in e-GP following open competitive tender methods by selected the PDEs have included specific sustainable procurement criteria including economic, environmental and social		At least 50% of tender documents in e-GP following open competitive tender methods by selected the MDAs have included specific sustainable procurement criteria including economic, environmental and social
Increase in contracts awarded through e-GP and e-GM by selected PDEs to women-owned MSMEs (Text)			

Mar/2024			Mar/2029
0% of Contracts awarded through e-GP and e-GM to registered local suppliers and marginalized MSMEs (including women-owned MSMEs)			Contracts awarded through e-GP and e-GM by selected PDEs to women-owned MSMEs increased to 5% of the total contracts
Reduce variance between approved budget and allocated funding (Text)			
Mar/2023	Mar/2027	Mar/2028	Mar/2029
14% variance (by MDA) between approved budget and allocated funding	The average variance (by MDA) between approved budget and allocated funding is less than 11% (against baseline)	The average variance (by MDA) between approved budget and allocated funding is less than 9% (against previous year)	The average variance (by MDA) between approved budget and allocated funding is less than 7%
Enhance Resource Transparency and Accountability			
Increased SOE Efficiency and Transparency (Text)			
Mar/2024	Mar/2027	Mar/2028	Mar/2029
Enterprise Risk Management Framework (ERMF) adopted by 0% of SOEs	ERMF adopted by 50% of commericial SOEs and Statuatory Bodies and a consolidated report covering high risk commercial SOEs published within 9 months after the end of the financial year to report and monitor potential fiscal risks (including those climate related)	ERMF adopted by 75% of commercial SOEs and Statuatory Bodies and a consolidated report covering high risk commercial SOEs published within 9 months after the end of the financial year to report and monitor potential fiscal risks (including those climate related)	ERMF adopted by 100% of commericial SOEs and Statuatory Bodies and a consolidated report covering high risk commercial SOEs published within 9 months after the end of the financial year to report and monitor potential fiscal risks (including those climate related)
Companies registered or re-registered with beneficial ownership information disclosed (Percentage)			
Mar/2024	Mar/2026		Mar/2027
0%	30%		60%
Enhance citizen participation, transparency, and responsiveness of the audit process (Text)			
Mar/2024	Mar/2025	Mar/2026	Mar/2027
0 MDAs undertake audits that include citizen and gender-sensitive inputs in the audit planning stage	Audits for FY23/24 in 3 MDAs include citizen and gender-sensitive inputs in the audit planning process and simplified, including publication of citizen-centric versions of audit findings	Audits for FY24/25 in 6 MDAs include citizen and gender-sensitive inputs in the audit planning process and simplified, including publication of citizen-centric versions of audit findings	Audits for FY25/26 in 9 MDAs include citizen and gender-sensitive inputs in the audit planning process and simplified, including publication of citizen-centric versions of audit findings

Disbursement Linked Indicators (DLI)

Period	Period Definition	Timeline
Period 2	GoM FY24/25	

Period 3	GoM FY25/26	
Period 4	GoM FY26/27	
Period 5	GoM FY27/28	
Period 6	GoM FY28/29	

Baseline	Period 1	Period 2	Period 3	Period 4	Period 5
1 : Increase in domestic VAT revenue collection as % of GDP (Text)					
(a) 0 MDA systems interfaced with MRA systems; (b) 442 new VAT registrants (2023); (c) 2.28% Domestic VAT Revenue Collection as % of GDP (Feb 2024)	3 MDA systems interfaced with MRA systems	10% increase in new VAT registrants (from baseline)	30% increase in domestic VAT revenue collection as % of GDP (from baseline)	15% increase in domestic VAT revenue collection as % of GDP (from previous year)	10% Increase in domestic VAT revenue collection as % of GDP (from previous year)
0.00	1,500,000.00	1,000,000.00	2,000,000.00	1,500,000.00	1,000,000.00
DLI allocation		7,000,000.00	As a % of Total Financing Amount		8.75%
2 : Increase in returns filed electronically and paid on-time for VAT and corporate (CIT)/personal income tax (PIT) (Text)					
(a) VAT (large taxpayers) filed electronically:75%; CIT/PIT (large taxpayers) filed electronically: 0%; (b) VAT (large and medium taxpayers) paid on-time: 77%; CIT and PIT (large and medium taxpayers) paid-on time: 58%, 50%	Percentage VAT (large taxpayers) filed electronically: 85% | Percentage of CIT/PIT (large taxpayers) filed electronically: 70%	Percentage VAT (large taxpayers) filed electronically: 95% | Percentage of CIT/PIT (large taxpayers) filed electronically: 85%	Percentage VAT (large and medium taxpayers) paid on-time: 85% | Percentage of CIT and PIT (large and medium taxpayers) paid on-time: 68% (CIT), 60% (PIT)	Percentage VAT (large and medium taxpayers) paid on-time: 90% | Percentage of CIT and PIT (large and medium taxpayers) paid on-time: 78% (CIT), 70% (PIT)	Percentage VAT (large and medium taxpayers) paid on-time: 95% | Percentage of CIT and PIT (large and medium taxpayers) paid on-time: 90% (CIT), 80% (PIT)
0.00	1,500,000.00	1,000,000.00	1,500,000.00	1,500,000.00	1,500,000.00
DLI allocation		7,000,000.00	As a % of Total Financing Amount		8.75%
3 : Increase in relevance, readiness and sustainability of public capital investments (Text)					
60% of CAPEX going to PSIP appraised projects (0% climate screened);	5% increase in percentage of CAPEX going to PSIP appraised projects (from baseline)	10% increase in percentage of CAPEX going to PSIP appraised projects (from previous year), of	15% increase in percentage of CAPEX going to PSIP appraised projects (from previous year), of	10% decrease in incomplete PSIP investment projects (from baseline)	5% decrease in incomplete investment projects (from previous year)

77.6% investment projects incomplete (of GDP)		which 50% of newly approved projects have been screened using climate-smart tool	which 90% of new projects have been screened using climate-smart tool		
0.00	1,500,000.00	1,000,000.00	1,500,000.00	1,500,000.00	1,500,000.00
DLI allocation		7,000,000.00	As a % of Total Financing Amount		9.33%
4 : Procurement cycle time reduced and increased use of sustainable procurement features (Text)					
-	-	-	-	-	-
0.00	0.00	0.00	0.00	0.00	0.00
DLI allocation		0.00	As a % of Total Financing Amount		16.87%
➢ 4.2 : The average processing time for invitation to award of contracts for national competitive procurement through e-GP system for the selected PDEs reduced (Days)					
Baseline to be determined in Year 1	-	-	-	The average processing time for invitation to award of contracts for national competitive procurement through e-GP system for the 13 selected PDEs has been reduced by 20% from the Year 1 baseline	The average processing time for invitation to award of contracts for national competitive procurement through e-GP system for the 13 selected PDEs has been reduced by 40% from the Year 1 baseline
0.00	0.00	0.00	0.00	1,500,000.00	1,500,000.00
DLI allocation		3,000,000.00	As a % of Total Financing Amount		3.75%
➢ 4.1 : Share of procurement in the selected Procuring and Disposing Entities (PDEs) processed through the e-GP system (Text)					
(a) 0% of PDEs adopted e-GP; (b) 0% of procurements processed through e-GP by selected PDEs	10% of PDEs adopt the e-GP	50% of PDEs adopt the e-GP	75% of PDEs adopt the e-GP	13 selected PDEs have processed at least 50% of all their procurement through the e-GP system	13 selected PDEs have processed at least 75% of all their procurement through the e-GP system
0.00	2,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00
DLI allocation		6,000,000.00	As a % of Total Financing Amount		7.5%
➢ 4.3 : Increased use of sustainable procurement features and increase of contracts awarded to the women owned MSMEs (Text)					
(a) Sustainable procurement policy not developed; (b) 0% of tender documents in e-GP	Develop and adopt sustainable procurement policy covering economic,	Update standard bidding documents and complete e-GP customization incorporating the	At least 25% of tender documents in e-GP following open competitive tender	At least 50% of tender documents in e-GP following open competitive tender	Contracts awarded through e-GP and e-GM by the selected 13 PDEs to women-owned MSMEs increased to at least

adopt sustainable procurement criteria; (c) 0% of contracts awarded through e-GP and e-GM to women-owned MSMEs	environmental and social aspects	sustainable procurement features	methods by the selected PDEs have included specific sustainable procurement criteria including economic, environmental and social	methods by the selected MDAs have included specific sustainable procurement criteria including economic, environmental and social	5% of the total contracts awarded that year
0.00	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00	500,000.00
DLI allocation		4,500,000.00	As a % of Total Financing Amount		5.62%
5 : Strengthened budget management and execution (Text)					
-	-	-	-	-	-
0.00	0.00	0.00	0.00	0.00	0.00
DLI allocation		0.00	As a % of Total Financing Amount		26.25%
➢ 5.1 : Reduced variance between approved budget and allocated funding (Text)					
(a) Arrears stocktake not conducted and published within 6 months after end of FY; (b) 0 MDAs include budget for arrears clearance; (c)14% variance (by MDA) between approved budget and allocated funding	Arrears stock take for FY23/24 conducted and published within 6 months after the end of the FY	5 MDAs with highest arrears include budget for arrears clearance in their FY25/26 budget	The average variance (by MDA) between approved budget and allocated funding is less than 11% (against baseline)	The average variance (by MDA) between approved budget and allocated funding is less than 9% (against previous year)	The average variance (by MDA) between approved budget and allocated funding is less than 7% (against previous year)
0.00	1,500,000.00	1,000,000.00	1,500,000.00	1,500,000.00	1,500,000.00
DLI allocation		7,000,000.00	As a % of Total Financing Amount		8.75%
➢ 5.2 : Improve cash management forecasting and predictability of allotments and funding (Text)					
(a) 0% of MDAs receive quarterly allotments on time; (b) 280 bank accounts; (c) 31% variance between cash flow forecasts and quarterly allotments	80% of MDAs receive quarterly allotments of time	95% reduction in Bank Accounts in line with TSA implementation strategy	Average variance (by MDA) between cash flow forecasts and quarterly allotments to MDAs is less than 20% (from baseline)	Average variance (by MDA) between cash flow forecasts and quarterly allotments to MDAs is less than 15% (from FY26/27)	Average variance (by MDA0 between cash flow forecasts and quarterly allotments to MDAs is less than 10% (from FY 27/28)
0.00	1,500,000.00	1,000,000.00	1,500,000.00	1,500,000.00	1,500,000.00
DLI allocation		7,000,000.00	As a % of Total Financing Amount		8.75%
➢ 5.3 : Strengthened controls for budget execution (Text)					

(a) IFMIS not rolled out to out to all MDAs; (b) 30% of IFMIS generated LPOs produced in real-time; (c) 18% variance between approved budget and IFMIS generated expenditure outturn	IFMIS rolled-out to all MDAs (including MDF and State Residences), bringing all votes within the TSA System	60% of IFMIS generated LPOs produced in real-time across MDAs	75% of IFMIS generated LPOs produced in real-time across MDAs	Variance between approved budget and IFMIS generated expenditure outturn is less than 8% (against baseline)	Variance between approved budget and IFMIS generated expenditure outturn is less than 5% (against previous year)
0.00	1,500,000.00	1,000,000.00	1,500,000.00	2,000,000.00	1,000,000.00
DLI allocation		7,000,000.00	As a % of Total Financing Amount		8.75%
6 : Increased SOEs Efficiency and Transparency (Text)					
(a) Annual Consolidated Reports not prepared and published within 9 months after the end of the financial year; (b) Enterprise Risk Management Framework adopted by 0% of SOEs	Annual Consoliated Reports (FYs 21/22, 22/23, 23/24) for 100% of commercial SOEs and Statuatory Bodies are prepared and published, within 9 months after the end of the financial year to enable timely budget management	Annual Consolidated report (FY24/25) for 100% of commercial SOEs and Statuatory Bodies (FY24/25 prepared and published, within 9 months after the end of the financial year to enable timely budget management	Enterprise Risk Management framework adopted by 50% of commercial SOEs and Statuatory Bodies and a consolidated report covering high risk commercial SOEs published within 9 months after the end of the financial year to report and monitor potential fiscal risks (including those climate related)	Enterprise Risk Management framework adopted by 75% of commercial SOEs and Statuatory Bodies and a consolidated report covering high risk commercial SOEs published within 9 months after the end of the financial year to report and monitor potential fiscal risks (including those climate related)	Enterprise Risk Management framework adopted by 100% of commericial SOEs and Statuatory Bodies and a consolidated report covering high risk commercial SOEs published within 9 months after the end of the financial year to report and monitor potential fiscal risks (including those climate related)
0.00	1,500,000.00	1,000,000.00	1,500,000.00	1,000,000.00	1,500,000.00
DLI allocation		6,500,000.00	As a % of Total Financing Amount		8.12%
7 : Increased Beneficial Ownership and Open Contracting Transparency (Text)					
(a) MBRS interfaced with 0 MDA systems; (b) 0% of companies and legal arrangements registered/re-registered with beneficial ownership information disclosed; (c) 0% of OCDS and BO	Complete interface between Malawi MBRS and 3 MDA systems and provision created in e-GP to publish OCDS and make BO data available	30% of companies registered and re-registered on the MBRS have successfully disclosed beneficial ownership information	Regisration and re-registration on the MBRS successfully disclosed beneficial ownership information for: (i) 60% of companies; and (ii) 30% percent of legal arrangements	Make available beneficial ownership information for: (i) 60% of contracts awarded through e-GP following the Open Contracting Data Standard for the selected PDEs; and (ii) 60% of licenses	Make available beneficial ownership information for: (i) 80% of contracts awarded through e-GP following the Open Contracting Data Standard for the selected PDEs; and (ii) 80% of licenses awarded to mining and

information disclosed; (d) 0% of BO information for mining and logging licenses disclosed				awarded to mining and logging companies through Malawi Extractive Industries Transparency Initiative Transparency Initiative (MWEITI Reporting)	logging companies through Malawi Extractive Industries Transparency Initiative Transparency Initiative (MWEITI Reporting)
0.00	2,000,000.00	1,000,000.00	1,000,000.00	1,500,000.00	1,000,000.00
DLI allocation		6,500,000.00	As a % of Total Financing Amount		8.12%
8 : Enhanced citizen engagement, transparency and responsiveness of the audit process (Text)					
(a) 0 MDAs undertake audits that include citizen and gender-sensitive inputs in the audit planning stage; (b) 90% repeat audit queries	Audits for FY23/24 in 3 MDAs include citizen and gender-sensitive inputs in the audit planning process and simplified, including publication of citizen-centric versions of audit findings	Audits for FY24/25 in 6 MDAs include citizen and gender-sensitive inputs in the audit planning process and simplified, including publication of citizen-centric versions of audit findings	Audits for FY25/26 in 9 MDAs include citizen and gender-sensitive inputs in the audit planning process and simplified, including publication of citizen-centric versions of audit findings	Reduce number of repetitive audit queries in the selected MDAs by 25% (against baseline)	Reduce number of repetitive audit queries in the selected MDAs by 25% (from previous year)
0.00	1,500,000.00	1,000,000.00	1,000,000.00	1,500,000.00	1,500,000.00
DLI allocation		6,500,000.00	As a % of Total Financing Amount		8.12%

Monitoring & Evaluation Plan: PDO Indicators by PDO Outcomes

Increase in domestic VAT revenue collection as % of GDP	
Increase in domestic VAT revenue collection as % of GDP (Text)	
Description	Measure of total VAT revenue collected on non-imported goods and services measured as a percentage of GDP
Frequency	Annual
Data source	MRA and National Statistics Office databases
Methodology for Data Collection	Progress report submitted by MRA
Responsibility for Data Collection	Program Implementation Committee Secretariat
Decrease in variance between approved budget and IFMIS generated expenditure outturn	
% decrease in variance between approved budget and IFMIS generated expenditure outturn (Text)	
Description	Measure of variance between the approved budget and expenditure outturn defined by the difference between the appropriated budget and actual IFMIS generated expenditure outturn at the end of the FY
Frequency	Annual
Data source	IFMIS generated expenditure reports from MoFEA
Methodology for Data Collection	Progress report submitted by MoFEA
Responsibility for Data Collection	Program Implementation Committee Secretariat
Increase of contract data accessible by citizens (including beneficial ownership) published following the Open Contracting Data Standard (OCDS)	
Increase of contract data accessible by citizens (including beneficial ownership) published following the Open Contracting Data Standard (OCDS) (Text)	
Description	Measure of publication of contract data following OCDS and associated beneficial ownership information
Frequency	Annual
Data source	PPDA e-GP System and DRG MBRS
Methodology for Data Collection	Progress report submitted by PPDA and DRG
Responsibility for Data Collection	Program Implementation Committee Secretariat

Monitoring & Evaluation Plan: Intermediate Results Indicators by Results Areas

Improve Public Resource Mobilization	
Increase in returns filed electronically for VAT (large taxpayers) (Percentage)	
Description	Measure of percetnage of VAT returns for large taxpayers filed electronically
Frequency	Annual
Data source	MRA Msonkho Online Database
Methodology for Data Collection	Progress report submitted by MRA
Responsibility for Data Collection	Program Implementation Committee Secretariat

Increase in returns paid on time for VAT (large and medium taxpayers) (Percentage)	
Description	Measure of returns for VAT paid on-time for large and medium taxpayers (defined as by the statuatory due date of 25th day of the month)
Frequency	Annual
Data source	MRA Msonkho Online Database
Methodology for Data Collection	Progress report submitted by MRA
Responsibility for Data Collection	Program Implementation Committee Secretariat
Strengthen Budget Prioritization and Execution	
Increase in relevance, readiness and sustainability of public investments (Text)	
Description	Measure of the percentage of CAPEX going to appraised PIM projects by end of financial year, including those that have been climate-screened
Frequency	Annual
Data source	PSIP database and MoFEA Budget Documents No 6
Methodology for Data Collection	Progress report submitted by PSIP
Responsibility for Data Collection	Program Implementation Committee Secretariat
Average processing time for invitation to award of contracts through e-GP reduced (Text)	
Description	Measure of the average procurement cycle time (invitation to award) for national competitive bidding in e-GP
Frequency	Annual
Data source	PPDA e-GP system
Methodology for Data Collection	Progress report submitted by PPDA
Responsibility for Data Collection	Program Implementation Committee Secretariat
Percentage of tender documents in e-GP for the selected PDEs following open competitive tender methods including specific sustainable procurement criteria (Text)	
Description	Measure of the percentage of tender documents in e-GP following open competitive tender methods including specific sustainable procurement criteria. For example, economic, environmental and social criteria.
Frequency	Annual
Data source	PPDA e-GP system
Methodology for Data Collection	Progress report submitted by PPDA
Responsibility for Data Collection	Program Implementation Committee Secretariat
Increase in contracts awarded through e-GP and e-GM by selected PDEs to women-owned MSMEs (Text)	
Description	Measure of percentage increase in contracts awarded to the women-owned MSMEs through e-GP and e-GM
Frequency	Annual
Data source	PPDA e-GP and e-GM system
Methodology for Data Collection	Progress report submitted by PPDA
Responsibility for Data Collection	Program Implementation Committee Secretariat

Reduce variance between approved budget and allocated funding (Text)	
Description	Measure of average variance between approved budget and funding allocated by MDA calculated by the average of the absolute value of the difference between the revised approved budget by Parliament and the funding as transferred to the bank accounts of all MDAs
Frequency	Annual
Data source	MoFEA produced budget documents and IFMIS generated reports
Methodology for Data Collection	Progress report submitted by MoFEA
Responsibility for Data Collection	Program Implementation Committee Secretariat
Enhance Resource Transparency and Accountability	
Increased SOE Efficiency and Transparency (Text)	
Description	Measure of percentage of SOEs and Statutory Bodies that have adopted the Enterprise Risk Management Framework and published consolidated report covering high-risk SOEs within 9 months of end of the FY
Frequency	Annual
Data source	MoFEA PFMSD generated reports
Methodology for Data Collection	Progress report submitted by MoFEA
Responsibility for Data Collection	Program Implementation Committee Secretariat
Companies registered or re-registered with beneficial ownership information disclosed (Percentage)	
Description	Measure of the percentage of companies that have submitted their beneficial ownership information to the DRG upon registration or re-registration
Frequency	Annual
Data source	MBRS generated reports
Methodology for Data Collection	Progress report submitted by DRG
Responsibility for Data Collection	Program Implementation Committee Secretariat
Enhance citizen participation, transparency, and responsiveness of the audit process (Text)	
Description	Measure of number of MDAs that include citizen and gender-sensitive inputs in their planning process and publication of simplified, citizen-centric versions of audit findings
Frequency	Annual
Data source	NAO reporting
Methodology for Data Collection	Progress report submitted by NAO
Responsibility for Data Collection	Program Implementation Committee Secretariat

Verification Protocol Table: Disbursement Linked Indicators

Increase in domestic VAT revenue collection as % of GDP (DLI 1)	
Formula	**Formula and Scalability:** Year 1: US$500,000 for each MDA interfaced up to a maximum 3 MDAs for a total allocation of US$1,500,000 Year 2: US$100,000 for each percentage increase above baseline in new VAT registrants to a limit of US$1,000,000 Year 3: US$66,666 for each percentage increase in Domestic VAT collection (above baseline) up to a limit of US$2,000,000 Year 4: US$100,000 for each percentage increase in domestic VAT revenue collection (from FY26/27) up to a limit of US$1,500,000 Year 5: US$100,000 for each percentage increase in domestic VAT revenue collection (from FY27/28) up to a limit of US$1,000,000
Description	Increase in domestic VAT revenue collection and a percent of GDP
Data source/ Agency	**MRA, National Statistics Office (NSO)**
Verification Entity	IVA
Procedure	Annual Review by IVA

Increase in returns filed electronically and paid on-time for VAT and corporate (CIT)/personal income tax (PIT) (DLI 2)	
Formula	**Formula and Scalability:** Year 1: US$75,000 for every percentage point increase above baseline for VAT, up to US$750,000; US$75,000 for each 10 percentage point increase for CIT/PIT up to US$750,000 Year 2: US$50,000 for each percentage point increase in VAT filed electronically (from previous year) up to US$500,000; US$33,333 for every percentage point increase in CIT/PIT filed electronically (from previous year) up to US$500,000 Year 3: US$93,750, for every percentage point increase in VAT paid on time (from baseline) up to US$750,000; US$37,500 for each percentage point increase in CIT paid on time up to US$375,000; US$37,500 for each percentage increase in PIT paid on time up to US$375,000; Year 4: US$150,000 for every percentage point increase in VAT paid on time (from previous year) up to US$750,000; US$37,500 for every percentage point increase for CIT paid on time (from previous year) up to US$375,000; US$37,500 for every percentage point increase for PIT paid on time (from previous year) up to US$375,000; Year 5: US$150,000 for each percentage point increase in VAT paid on time (from previous year) up to US$750,000; US$31,250 for each percentage point increase in CIT paid on time (from previous year) up to US$375,000; US$37,500 for each percentage point increase in PIT paid on time (from previous year) up to US$375,000;
Description	Increase in returns filed electronically and paid on-time for VAT and corporate (CIT)/personal income tax (PIT)
Data source/ Agency	**MRA**
Verification Entity	IVA
Procedure	Annual Review by IVA

Increase in relevance, readiness and sustainability of public investments (DLI 3)	
Formula	**Formula and Scalability:**

	Year 1: US$300,000 for each percentage point increase in CAPEX going to PSIP appraised projects (from baseline) up to a total amount of US$1,500,000 Year 2: US$50,000 for each percentage point increase in CAPEX going to PSIP (from previous year) up to a total amount of US$500,000; US$10,000 for each percentage increase (from baseline), of approved projects using climate Smart tool up to US$500,000. Year 3: US$50,000 for each percentage point increase in CAPEX going to PSIP appraised projects (from previous year) up to a total amount of US$750,000; US$18,750 for each percentage point increase (from previous year) in newly approved projects using climate smart tools up to a total amount of US$750,000; Year 4: US$150,000 for each percentage point decrease in incomplete investments projects (from baseline) up to a total amount of US$1,500,000 Year 5: US$300,000 for each percentage point decrease in incomplete investments projects (from previous year) up to a total amount of US$1,500,000
Description	Increase in the percentage of CAPEX being screened through the PSIP system, including using climate-smart methodologies; Decrease in the percentage of incomplete investment projects
Data source/ Agency	**Department of Economic Planning & Development**
Verification Entity	IVA
Procedure	Annual Review by IVA

Enhanced procurement efficiency and sustainability (DLI 4)	
Formula	**DLI 4.1: Share of procurement in the selected Procuring and Disposing Entities (PDEs) processed through the e-GP system** **Formula and Scalability:** - Year 1: US$200,000 for each percentage of PDEs adopting the e-GP, up to US$2,000,000 - Year 2: US$20,000 for each percentage of PDEs that adopt the E-GP up to US$1,000,000 - Year 3: US$1,333.33 for each percentage of PDEs that adopt the E-GP up to US$1,000,000 - Year 4: US$20,000 for each percentage of procurement processed through the e-GP for the Selected PDEs - Year 5: US$1,333.33 for each percentage of procurement processed through the e-GP for the Selected PDEs **DLI 4.2: The average processing time for invitation to award of contracts for national competitive procurement through e-GP system for the Selected PDEs reduced** **Formula and Scalability:** - Year 4: US$75,000 for each percentage reduced from Year 1 baseline up to US$1,500,000 - Year 5: US$37,500 for each percentage reduced from Year 1 baseline up to US$1,500,000 **DLI 4.3: Increased use of sustainable procurement features and increase of contracts awarded to the women owned MSMEs** **Formula and Scalability:** - Year 3: US$40,000 for each percentage increase from the baseline of the tender documents in e-GP following open competitive tender methods by the 13 Selected PDEs have included Sustainable Procurement Criteria up to US$1,000,000 - Year 4: US$20,000 for each percentage point increase from the baseline of the tender documents in e-GP following open competitive tender methods by the 13 Selected PDEs have included Sustainable Procurement Criteria up to US$1,000,000

	- Year 5: US$100,000 for each percent increase from the baseline up to US$500,000
Description	Increase in adoption of e-procurement systems, decrease in procurement cycle time, and increase sustainable procurement features
Data source/ Agency	**PPDA**
Verification Entity	IVA
Procedure	Annual Review by IVA

Strengthened budget management and execution (DLI 5)	
Formula	**DLI 5.1: Reduced variance between approved budget and allocated funding** **Formula and Scalability:** - Year 2: US$200,000 per MDA which includes budget for arrears clearance in FY25/26 budget, up to US$1,000,000 - Year 3: US$500,000 per percentage point decrease in average variance (by MDA) between Approved Budget Funding Released (from baseline) up to US$1,500,000 - Year 4: US$375,000 per half -percentage point decrease in average variance (by MDA) between Approved Budget and Funding Released (from FY 26/27) up to US$1,500,000 - Year 5: US$375,000 per half -percentage point decrease in average variance (by MDA) between Approved Budget and Funding Released (from FY 27/28) up to US$1,500,000 **DLI 5.2: Improve cash management forecasting and predictability of allotments and funding** **Formula and Scalability:** - Year 1: US$375,000 for each 20 percentage points of MDAs that receive quarterly allotments on time, up to US$1,500,000; - Year 2: US$52,631 for each 5 percentage point reduction in bank accounts, up to US$1,000,000 - Year 3: US$150,000 for each percentage point reduction in Average Variance up to US$1,500,000 - Year 4: US$300,000 for each percentage point reduction in average variance up to US$1,500,000 - Year 5: US$300,000 for each percentage point reduction in average variance up to US$1,500,000 **DLI 5.3: Strengthened Controls for Budget Execution** **Formula and Scalability** - Year 2: US$166,666 for each five percentage points (above baseline) of IFMIS generated LPOs produced in real-time, up to US$1,000,000 - Year 3: US$100,000 for each percentage point (from previous year) of IFMIS generated LPOs produced in real-time, up to US$1,500,000 - Year 4: US$200,000 for each percentage point decrease in variance (from baseline) between approved budget and IFMIS-generated expenditure outturn, up to US$2,000,000 - Year 5: US$333,000 for each percentage point decrease in variance (from previous year) between approved budget and IFMIS-generated expenditure outturn, up to US$1,000,000
Description	Increase in credibility of budget, cash flow projections, and budget execution
Data source/ Agency	**Ministry of Finance, Accountant General Department**

Verification Entity	IVA
Procedure	Annual Review by IVA

Increased SOE Efficiency and Transparency (DLI 6)	
Formula	**Formula and Scalability:** - Year 1: US$500,000 for each Annual Consolidated Report prepared and published within 9 months after the end of the Financial Year, up to US$1,500,000 - Year 2: US$1,000,000 for publication of FY24/25 Annual Consolidated Report within 9 months of the end of the Financial Year - Year 3: US$150,000 for each 10 percentage points of SOEs (from baseline) adopting ERMF (including publication of consolidated report) up to US$1,500,000 - Year 4: US$200,000 for each 5 percentage points of SOEs (from previous year) adopting ERMF (including publication of consolidated report) up to US$1,000,000 - Year 5: US$300,000 for each 5 percentage points of SOEs (from previous year) adopting ERMF (including publication of consolidated report) up to US$1,500,000
Description	Increased timeliness and transparency of SOE Annual Consolidated Report and increased adoption of ERMF to monitor potential fiscal risks, including those climate related
Data source/ Agency	**Ministry of Finance, PFMSD**
Verification Entity	IVA
Procedure	Annual Review by IVA

Increased Beneficial Ownership and Open Contracting Transparency (DLI 7)	
Formula	**Formula and Scalability** - Year 1: US$500,000 for each system interfaced up to US$1,500,000; and US$500,000 for provision in e-GP to publish OCDS and make BO data available - Year 2: US$166,000 for each 5 percentage point increase in companies registered and re-registered, up to US$1,000,000 - Year 3: US$100,000 for each 5 percentage point increase in companies registered and re-registered (from previous year), up to US$500,000; US$100,000 for each five percentage points of legal arrangements registered and re-registered (from baseline), up to US$500,000 - Year 4: US$57,692 for each of the 13 selected procurement PDEs that have published 60% of procurement contracts under OCDS, including making BO information available up to US$750,000; US$150,000 for each 12 percentage points of mining and logging licenses that make beneficial ownership information available (from baseline), up to US$750,000 - Year 5: US$38,461 for each of the 13 selected procurement PDEs that have published 75% of procurement contracts under OCDS, including making BO information available up to US$500,000; US$125,000 for each 5 percentage points of mining and logging licenses that make beneficial ownership information available (from FY27/28), up to US$500,000
Description	Increase in beneficial ownership and open contracting transparency
Data source/ Agency	Department of Registrar General, PPDA; MoF Malawi Extractive Industries Transparency Initiative
Verification Entity	IVA
Procedure	Annual Review by IVA

Improved responsiveness and accountability of audit (DLI 8)	
Formula	**Formula and Scalability** - Year 1: US$500,000 for each audit undertaken with an MDA (from baseline) that includes citizen and gender-sensitive inputs and published simplified versions of audit findings, up to US$1,500,000 - Year 2: US$333,333 for each audit undertaken with an MDA (from FY24/25) that includes citizen and gender-sensitive inputs and published simplified versions of audit findings, up to US$1,000,000 - Year 3: US$333,333 for each audit undertaken with an MDA from FY 25/26 that includes citizen and gender-sensitive inputs and published simplified versions of audit findings, up to US$1,000,000 - Year 4: US$300,000 for each 5 percentage point reduction in repeat audit queries in the selected MDAs (from baseline), up to US$1,500,000 - Year 5: US$300,000 for each 5 percentage point reduction in repeat audit queries in the selected MDAs (from FY27/28), up to US$1,500,000
Description	Increase in citizen participation and responsiveness of the audit process
Data source/ Agency	**NAO**
Verification Entity	IVA
Procedure	Annual Review by IVA

ANNEX 2. (SUMMARY) TECHNICAL ASSESSMENT

The Technical Assessment is summarized in the main body of the Program Document. The full Technical Assessment has been saved in a separate project file.

ANNEX 3. (SUMMARY) FIDUCIARY SYSTEMS ASSESSMENT

The Fiduciary Systems Assessment is summarized in the main body of the Program Document. The full Technical Assessment has been saved in a separate project file.

ANNEX 4. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

The ESSA is disclosed separately. A summary is provided in the main text.

ANNEX 5. PROGRAM ACTION PLAN

Action Description	Source	DLI#	Responsibility	Timing		Completion Measurement
Carry out program procurement performance and value for money audit by the Independent Audit Firm (Third Party) using the terms of reference agreed by the Bank	Fiduciary Systems	NA	MoF	Other	Once at mid-term review and once at the end of the program	Program procurement performance and value for money audit completed.
Develop a National Strategy and Action Plan on E-Waste and disposal thereof in compliance with the Chemical and Toxic Substances Regulations	Environmental and Social Systems	NA	E-Government	Other	Within six months of Project effectiveness	Electronic Waste National Strategy in place.
Devise and operationalize Cybersecurity Policies that align with international standards.	Environmental and Social Systems	NA	MRA, NAO, PPDA, DRG, MoFEA	Other	Within one year of project effectiveness	Cybersecurity policy operationalized in MDAs
Ensure that Individuals or firms debarred	Fiduciary Systems	NA	All implementing agencies	Recurrent	Continuous	TOR for audit firms will include the requirement to

or suspended by the Bank are not awarded a contract by verifying the same prior to award under the Program during the debarment or suspension period						assess on random basis whether any contract has been awarded to a suspended or debarred firm and no parties debarred or suspended by the Bank shall benefit from the program funds.
Implementing Agencies to set up institutional integrity committees to oversee F&AC matters	Fiduciary Systems	NA	MoF, ACB, Implementing MDAs	Other	Before effectiveness	Implementing Agencies developed and institutional integrity committees to oversee F&AC matters.
Mitigation of conflict of interest in issuing of the external audit reports by the National Audit Office (NAO) who is the beneficiary of the Program	Fiduciary Systems	NA	MoF and NAO	Recurrent	Continuous	The NAO will leverage the legislations of the Public Audit Act 2018 to deal with potential areas of conflict of interest and workload management, including but not limited to procuring the services of an independent audit firm where necessary.
Preparation of Semi-Annual IFRs	Fiduciary Systems	NA	PFMSD	Recurrent	Semi-Annually	IFRs Submitted Semi-Annually
Preparation of the Operations Manual (OM) detailing	Fiduciary Systems	NA	MoF	Due Date	30-Aug-2024	OM completed and approved.

procedures for procurement, financial management, anticorruption, environmental and social processes						
Reconfigure composition of audit committees to mitigate weak internal audit function	Fiduciary Systems	NA	MoF and Implementing MDAs	Recurrent	Continuous	Composition of audit committees re-configured to make them more independent and objective in line with PFM Act 2022.
Timely and appropriate action are undertaken to investigate fraud and corruption allegations	Fiduciary Systems	NA	MoF, ACB	Recurrent	Semi-Annually	Information/report on corruption allegations shared with the World Bank immediately when identified and a consolidated bi-annual report describing the details of the reported allegations and actions taken.

ANNEX 6. IMPLEMENTATION SUPPORT PLAN

Main focus of Implementation Support

1. **A multi-disciplinary World Bank will support Program implementation.** Implementation support will comprise biannual supervision missions, quarterly technical review meetings, a mid-term review, and just-in-time technical and advisory support as requested by the Government. The World Bank will review the workplans developed by the participating MDAs and PAs. During the supervision missions, the World Bank will review implementation progress, update the results framework, assess the credibility of the program expenditure framework, monitor compliance with the legal agreements, verify the implementation of the actions identified in the PAP, and work with government counterparts to mitigate implementation risks and challenges. The World Bank will facilitate the coordination of reform support through its active role as Vice-Chair of the PFM Development Partners Group and leverage its own TA resources. The following tables outline the focus of implementation support during the initial and subsequent stages of program implementation, as well as the skill mix required, including the technical, fiduciary, and the E&S skills needed during the various stages of the operation's implementation.

2. **Implementation support will be complemented by TA provided by the IPF Component of the operation.** A selection of the milestones across the RAs may require targeted and specialized TA for capacity building. The PFM-TC will serve as the coordination and decision-making structure for the prioritization of the TA of the IPF Component. Given the limited resources under the IPF Component, demand for its support by IAs is expected to significantly outweigh the supply of funds. The PFM-TC will establish a transparent process for the application of TA from the IPF Component from MDAs and a system for prioritization in-line with the most significant impact on the complementarity in achievement of DLI targets.

3. **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.** These donor-financed projects are primarily consisting of long-term, input-based, and off-budget 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 toward the contribution of achievement of results under the Program. This will be further complemented and supported by the IPF component of the operation.

Focus of Implementation Support

Time	Focus	Skills Needed	Partner Role
First twelve months	Advise Results Teams to develop workplans and begin implementation; determine if any advisory support is needed to achieve the DLSIs.	Program management; Revenue mobilization; PFM reforms (PIM, Public Procurement, IFMIS Implementation, SOE Reporting, BOT, External Audit). Fiduciary; E&S; Climate Change	Coordinated support through TA programs
12-48 months	Play an active role in supporting Results Teams to continue implementing the workplans; ensure regular monitoring of progress to ensure continued achievement of DLSIs.	Program management; Revenue mobilization; PFM reforms (PIM, Public Procurement, IFMIS Implementation, SOE Reporting, BOT, External Audit). Fiduciary; E&S; Climate Change	Coordinated support through TA programs

Task Team Skills Mix Requirements for Implementation Support

Skills Needed	No. Staff Weeks	No. Trips	Comments
Task Team Leaders	16	-	Country Office based
FM Specialist	4	-	Country Office based
Procurement Specialist	6	-	Country Office based
E&S Specialist	4	-	Country Office based
PFM reforms (Revenue Management, Financial Reporting, Budgeting, PIM, BOT, External Audit)	6	-	Country Office based
Procurement reforms (including e-GP)	6	-	Country Office based
Operations support	4	2	HQ based

ANNEX 7. INVESTMENT PROJECT FINANCING COMPONENT

1. **The IPF Component of the operation has two primary objectives.** The first objective is to provide targeted TA and capacity building to supplement the financial incentives of the PforR to support the achievement of identified results. This would be closely coordinated and complementary to existing and pipeline PFM donor-support around the same results. The second objective is to strengthen the project preparation and implementation capacity for FM, Procurement, and E&S within MoFEA. Building from the findings of the Program Assessments, the IPF component will support the development of a centralized unit within MoFEA with the objective of institutionalizing FM, Procurement, and E&S standards capacity within government systems and across MDAs. A Contingent Emergency Response Component (CERC) will also be included to allow for the rapid reallocation of uncommitted funds in the event of an eligible emergency. The IPF component is justified by the potential need to recruit high-quality technical expertise which may be difficult under the applicable government systems and to respond to potential for situations where earmarked funds for TA may be at risk for being released and used in a timely manner.

Targeted TA

2. **The primary objective of the IPF Component of the operation will to be provide the GoM with targeted, recipient-executed resources that can be leveraged to build specific capacity necessary for meeting results targets.** The DLIs and DLSIs of the operation have been designed recognizing that the primary bottlenecks to achieving results are not technical -- but manifest in the functional interoperability of systems, cross-MDA coordination, user-centric change management, and citizen engagement that is necessary to achieve results. Despite this, however, a selection of the milestones across the RAs may require targeted and specialized TA for capacity building. This includes, but is not limited to: (i) Capacity building in key, specialized topics (tax transfer pricing and exchange of information; digital economic taxation; specialized climate appraisal techniques for large-scale public infrastructure); (ii) TA in systems customizations/modifications for interoperability (including the MRA integrated tax system, SAP IFMIS, PPDA e-GP, and DRG MBRS); and (iii) Diagnostics and assessments to support further identification of bottlenecks and implementation progress (including PEFA).

3. **The PFM-TC will serve as the coordination and decision-making structure for the prioritization of the TA of the IPF Component.** Given the limited resources under the IPF Component, demand for its support by IAs is expected to significantly outweigh the supply of funds. The PFM-TC will establish a transparent process for the application of TA from the IPF Component from MDAs and a system for prioritization in-line with the most significant impact on the complementarity in achievement of DLI targets.

Center of Government Implementation Capacity

4. **The second objective of the IPF Component is to support the institutionalization of FM, Procurement, and E&S standards capacity within government systems and across MDAs.** The lack of capacity for consistent FM, Procurement, and E&S capacity within government is significantly contributing to delays in implementation of projects primarily around the common function of contract management. This, in turn, contributes to the overall portfolio performance and associated allocation of IDA in Malawi. As the first PforR to be implemented in Malawi, the Program Assessments have systematically identified these capacity gaps. The Program, toward these ends, has the potential to centrally support the

capacity building in FM, Procurement, and E&S, with the objective to further strengthen country systems for future PforRs under IDA and the broader institutionalization within country systems.

5. **A center-of-government approach within Ministry of Finance would be utilized for the capacity building support.** Using funds from the IPF Component, TA would be provided to the Ministry of Finance (as the central agency) to support FM, Procurement, and E&S Capacity Development in Malawi. A centralized Country Systems Support Platform (CCSP) would be established in the MoF who have expertise in developing instruments in line with GoM and World Bank standards, where applicable (such as standardized procurement documents, FM reporting frameworks, and E&S instruments in line with the World Bank's ESF). The use of a combination of domestic technical leadership and select international TA would allow for expertise to be brought in on specific technical issues in a timely manner as needed, with the objective of concurrently pairing these with GoM staff to be deployed to the unit.

6. **A standardized approach would be established to institutionalize consistent FM, Procurement, and E&S instruments across projects, programs, and institutions.** The CCSP would be envisaged to have four primary functions: (i) The establishment of an on-demand, 'center-of-excellence' within MoF; (ii) The provision of just-in-time advice, training, and hand-holding on FM, Procurement, and E&S standards using a risk-based approach; (iii) Standardization and enforcement of utilization of priority tools/instruments across MDA and associated Project Implementation Units; and (iv) Roll-out and scale-up of practices to existing programs and pipeline projects. During development of new programs/projects, it would be mandatory for IAs to work with the CSSP to develop instruments which adopt consistent standards and customize then in line with risks identified. For projects currently under implementation where new instruments are required (such as new standard bidding documents, Environmental and Social Management Plans, or RAPs) based on existing framework documents the CSSP would again provide support including for review of instruments prepared by consultants. In tandem, the CSSP would be staffed with a combination of experienced personnel and newly deployed civil servants (such as interns) that can be trained on the methods and be deployed to MDAs on a regular basis. If the CSSP is successfully adopted, future World Bank-financed pipeline operations can be considered to co-finance its operations to both extend and deepen its functions.

7. **Support through the Advisory unit could be provided through a range of techniques including:**

- Training sessions to develop a basic understanding of the FM, Procurement, and E&S requirements;
- Workshops to identify FM, Procurement, and E&S risks and develop mitigation measures;
- Developing terms of reference for consultants;
- Joint review of instruments prepared by PIUs or consultants;
- Joint site visits;
- Understanding E&S elements of contract management.

Contingent Emergency Response Component (CERC)

8. **This component is included in accordance with IPF policy, paragraphs 12 and 13, for Situations of Urgent Need of Assistance and Capacity Constraints.** This component will allow for rapid reallocation of uncommitted funds in the event of an eligible emergency as defined in Bank Policy for IPF. An annex to the Project Implementation Manual ('CERC Manual')

will be prepared to guide the activation and implementation of the CERC. For the CERC to be activated, and financing to be provided, the Government will need to: (i) submit a request letter for CERC activation, and the evidence required to determine eligibility of the emergency, as defined in the CERC Manual; (ii) prepare an Emergency Action Plan, including the emergency expenditures to be financed; and (iii) meet the E&S requirements as agreed in the Emergency Action Plan and Environmental and Social Commitment Plan.

IPF Component Fiduciary Management

9. **Financial Management:** The assessment of the FM system risk of the IPF component is Substantial. The PFMSD within the Ministry of Finance does not have recent experience in managing World Bank-funded operations. The FM arrangements of the PFMSD for the purposes of project management, before consideration of mitigation measures, have been assessed as moderately unsatisfactory and the risk is substantial. This assessment outcomes are due to the following: (i) The department does not have an appropriate accounting system for project accounting and reporting. The current government IFMIS is yet to have a project management module activated. A manual based accounting and reporting is considered risk as it is exposed to errors and other irregularities; (ii) weak audit committees leading to ineffective internal audit function; (iii) the department uses the consolidated government bank account for funding and payments. The bank reconciliations are not done on time and for those that are done the reconciling items are not timely resolved. This means that the accounting and reporting may neither be accurate nor complete; (iv) delays in funds flow from the Ministry of Finance to the department resulting in delays in implementation of some of the project activities; and (v) lack of dedicated FM staff working on project accounting and reporting resulting in delays in reporting.

10. **Mitigation Measures:** (i) PFMSD will be required to have an appropriate accounting software for transaction processing and reporting; (ii) PFMSD will open exclusive bank accounts for the project. Bank reconciliations will be regularly monitored by MoF internal audit and the World Bank; (iii) The internal audit function will be done by the MoF internal audit and shared with the World Bank. A strong internal audit function will ensure timely detection of errors and other irregularities; (iv) PFMSD to assign or procure services of professionally qualified and experienced FM staff to be supported by other government assigned staff with requisite qualifications and experience. These mitigation measures will ensure that the PFMSD has adequate systems covering planning and budgeting, accounting, internal controls, funds flow, financial reporting, and auditing.

11. **Eligible expenditure:** The IPF activities will be predominantly capacity building, consisting of TA and related resources. The IPF activities will be reflected in the AWPB which will be agreed upon with the World Bank. The expenditure related to the agreed AWPB will constitute eligible expenditures.

12. **Procurement:** All procurements under the IPF component of the project will be conducted following the World Bank Procurement Regulations, September 2023. The PIU under the MoF will be responsible for the procurements under the IPF component. Procurement risks related to the IPF component includes inexperience of the PIU staff to process consultancy services following World Bank Procurement Regulations which may lead to delay in getting the necessary consulting firms on board. Procurement risks under the IPF component will be mitigated by: (i) Hiring a skilled procurement specialist; (ii) prior and post procurement reviews by the World Bank; (iii) providing extensive trainings and handholding support to the PIU during the initial phase of the project so that they are able to follow the procedures for a World Bank-financed IPF project; (iv) using the World Bank's online procurement planning and management portal, Systematic Tracking

of Exchanges in Procurement (STEP), to manage and track timeliness of the procurement activities; and (v) following the World Bank's Standard Procurement Documents or where not available using model documents agreed upon with the World Bank.

13. **Project Procurement Strategy for Development (PPSD):** The project has prepared a simplified PPSD for the IPF component. The PPSD spells out the detailed procurement arrangements (e.g., procurement packaging strategy, method, bid evaluation methodology of the major packages, timeline for the procurement activities, and contracting arrangements) including the risk mitigation measures. PPSD is a live document, and it is to be updated at least annually. As an output of the PPSD exercise, the Procurement Plan for the IPF component has been developed by the PIU and approved by the World Bank. The procurement plan contains the procurement activities to be financed under the IPF Component, the selection methods for procurement, market approach, contracting arrangement, estimated costs, World Bank's prior review requirements, timeline of the procurement activities, and other conditions related to procurement.