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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF MALAWI

FOR THE PERIOD FY21-FY25

April 2, 2021

**AECE1 Country Management Unit
Eastern and Southern Africa Region**

**The International Finance Corporation
Sub-Saharan Africa Region**

The Multilateral Investment Guarantee Agency

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REPUBLIC OF MALAWI - FISCAL YEAR

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CURRENCY EQUIVALENTS

Exchange Rate Effective as of March 11, 2021

Currency Unit: Malawi Kwacha (MK)

US\$1.00 = MK780

SDR 1.00 = US\$1.432

ABBREVIATIONS AND ACRONYMS

ADMARC	Agricultural Development and Marketing Corporation
AfDB	African Development Bank
AGCOM	Agricultural Commercialization (project)
AIP	Affordable Inputs Program
ASA	Advisory Services and Analytics
CAS	Country Assistance Strategy
CAT DDO	Catastrophe Deferred Drawdown Option
CBCC	Community-Based Childhood Center
CDSS	Community Day Secondary School
CE	Citizen Engagement
CEM	Country Economic Memorandum
CLR	Completion and Learning Review
COMESA	Common Market for Eastern and Southern Africa
COVAX	COVID-19 Vaccines Global Access
COVID-19	Novel Coronavirus
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostic
DPO	Development Policy Operation
DRM	Disaster Risk Management
ECF	Extended Credit Facility
EMIS	Education Management Information System
EQUALS	Equity with Quality and Learning at Secondary (project)
ESCOM	Electricity Supply Corporation of Malawi
FINES	Financial Inclusion and Entrepreneurship Scaling (project)
GDP	Gross Domestic Product
GESD	Governance to Enhance Service Delivery
GPE	Global Partnership for Education
HCI	Human Capital Index
ICT	Information and Communication Technology
IDA	International Development Association
IEG	Independent Evaluation Group
IEY	Investing in Early Years for Growth and Productivity (project)
IFC	International Finance Corporation

IFMIS	Integrated Financial Management and Information System
IMF	International Monetary Fund
IPP	Independent Power Provider
JET	Jobs and Economic Transformation
MASAF	Malawi Social Action Fund
MFD	Maximizing Finance for Development
MGDS	Malawi Growth and Development Strategy
MIGA	Multilateral Investment Guarantee Agency
MNSSP	Malawi National Social Support Program
MRDRM	Malawi Resilience and Disaster Risk Management (project)
MSME	Micro, Small, and Medium Enterprise
MWSIP	Malawi Watershed Services Improvement Project
MW2063	Malawi Vision 2063
NLGFC	National Local Government Finance Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PLR	Performance and Learning Review
PPA	Policy and Performance Action
PPP	Public-Private Partnership
SADC	Southern Africa Development Community
SAPP	Southern Africa Power Pool
SATC	Southern Africa Trade and Connectivity (project)
SCD	Systematic Country Diagnostic
SCTP	Social Cash Transfer Program
SDFP	Sustainable Development Financing Policy
SGBV	Sexual and Gender-based Violence
SME	Small and Medium-sized Enterprises
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
SSRLP	Social Support for Resilient Livelihoods Project
SVTP	Shire Valley Transformation Program
TA	Technical Assistance
WASH	Water, Sanitation, and Hygiene
WB	World Bank
WBG	World Bank Group

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**FY21-FY25 COUNTRY PARTNERSHIP FRAMEWORK
FOR
REPUBLIC OF MALAWI**

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I. INTRODUCTION

1. **The dramatic political events of 2019 and 2020 in Malawi—and the citizen voice and judicial integrity that underpinned them—could be a critical inflection point for the country, and popular hopes and expectations are high.** In the wake of contested presidential elections in 2019, Malawi saw sustained and well-organized popular demonstrations leading to landmark rulings by the Constitutional and Supreme Courts and fresh elections. The smooth re-run in July 2020, the strengthening of alliance-based politics, the demonstration of judicial integrity, and effective popular mobilization together present Malawi with an opportunity to realign its social contract (Box 1). Hopes for change are high, but meeting these expectations will be a challenge, particularly in light of the novel coronavirus (COVID-19) pandemic.

2. **Malawi’s development challenges are significant.** Despite being among the 15 most agriculture-dependent countries in the world, Malawi’s economy has been defined by an underproductive and predominantly rainfed agriculture sector. In the last two decades, real per-capita gross domestic product (GDP) has remained largely flat, lagging behind regional peers. Over the same period, poverty levels (at the US\$1.90 level) have remained around 70 percent. Malawi’s natural assets are increasingly under pressure from population growth and climate shocks. Meanwhile, the environment for private sector led job creation is impacted by policy-induced market distortions (such as government intervention in the agriculture markets) and unreliable access to information and communication technology (ICT), electricity, and finance. While Malawi has made impressive gains on the Human Capital Index (HCI), rising from 0.36 to 0.41¹ between 2010 and 2020, population growth reinforces the exclusion of women from opportunities, outstrips job creation, strains rural land, and puts unsustainable pressure on classroom capacity and learning outcomes. Malawi’s recently launched vision document, “Malawi 2063” (MW2063),² targets lower-middle-income status by 2030 through a focus on three pillars: commercial agriculture, urbanization, and industrialization.

3. **To deliver on this bold objective, Malawi will need to address systemic governance weaknesses that have ensnared the country in a low-level equilibrium.**³ In the wake of independence, the manipulation of agricultural marketing boards and state-owned enterprises (SOEs) helped mobilize labor and capital for export-oriented estate farms. This economic strategy generated important foreign exchange earnings but failed to establish a broad-based or entrepreneurial private sector that could take advantage of liberalization in the 1990s. Instead, the smallholder sector—as a net purchaser of maize—has created strong political incentives for state intervention in the form of farm input subsidies and export bans that have deterred private investment and generated rents for a narrow set of well-connected elites. Rising frustrations at corruption and limited job prospects were at the heart of the 2019 protests.

4. **Recognizing the need for change, the new government of President Lazarus McCarthy Chakwera has set itself ambitious goals, but the COVID-19 pandemic threatens to accentuate Malawi’s chronic fiscal and debt vulnerabilities.** The government has prioritized anticorruption, civil service and public finance reform, and job creation. However, an acute second wave of COVID-19 has tripled case numbers in under two months, overwhelming the health system and undermining growth prospects owing to

¹ With an HCI of 0.41, a child born in Malawi today can expect to be 41 percent as productive at the age of 18 as she would be if she enjoyed complete education and full health.

² MW2063 was launched January 19, 2020 and includes 10-year rolling milestones. The Malawi Growth and Development Strategy III 2017–22 is in the process of being adjusted to align with the MW2063. See Section IV for a full description.

³ The notion of a “low-level equilibrium” was central to the analysis of the World Bank Group’s 2018 Systematic Country Diagnostic: *Breaking the Cycle of Low Growth and Slow Poverty Reduction*. Available at: <https://openknowledge.worldbank.org/handle/10986/31131>.

disruptions in key supply chains and markets. Already at high risk of debt distress, Malawi has seen revenues decline, even as it pursues a flagship agriculture program, the Affordable Inputs Program (AIP).⁴ Meanwhile, the pandemic has had a considerable impact on incomes, especially in urban areas, and extended school closures have coincided with a reported rise in teenage pregnancies. March 2021 saw the arrival of Malawi's first consignment of COVID-19 vaccines and the re-opening of schools.

5. **Coming at a time of hope and challenge, the new World Bank Group (WBG) Country Partnership Framework (CPF) for Malawi for FY21–25 sets out a focused and flexible engagement strategy.**⁵ The WBG's engagement is organized around three focus areas: (1) bolstering foundations for growth and accountability; (2) promoting private sector-led jobs and livelihoods; and (3) strengthening human capital development. In addition, digital development and women's empowerment will be integrated as cross-cutting themes. Priority interventions are guided by three selectivity filters: (i) Malawi's development vision as laid out in the MW2063; (ii) consistency with the 2018 Systematic Country Diagnostic (SCD) and with the forthcoming IFC-led Country Private Sector Diagnostic (CPSD);⁶ and (iii) WBG comparative advantage, including International Finance Corporation (IFC) deployment of IFC 3.0, as well as its "Rescue, Restructure, Recovery" approach to help businesses manage the impact of COVID-19, the Multilateral Investment Guarantee Agency's (MIGA) One World Bank Group strategic approach, and lessons learned from WBG engagement in Malawi. A key element of the overall WBG approach in Malawi will be to lean into new opportunities and gauge the commitment to reform through results-based financing, while maintaining flexibility. An adaptive "Learning CPF" approach will entail an early Performance and Learning Review (PLR), that will be initiated in early FY23, to review progress and reset as needed. The pipeline will continue to be adjusted in line with the WBG's COVID-19 Approach Paper,⁷ including to support the rollout of vaccines to the population.

6. **Ensuring impact for the future requires learning the lessons of the past, and the new CPF signals key changes in the WBG's approach in Malawi.**⁸ Substantial and sustained development assistance in the past has not yielded lasting, broad-based impact. Evaluations of past WBG engagement have highlighted important lessons. First, understanding the political economy is critical if governance reforms are to be achieved that go beyond *form* and deliver *functional* gains. It will also require strengthening the application of performance-based financing within WBG instruments and strengthening social accountability and the demand for good governance. Second, in the areas of rural development and resilience, lessons have emphasized how multisectoral and programmatic approaches are required to address targeted landscape and watershed issues over the long term. Finally, the CPF aims to respond to the imperative for transformative impact beyond the life of individual projects by mobilizing private capital in support of a limited number of catalytic investments, particularly in energy and commercial agriculture.

⁴ The AIP replaces the previous Farm Input Subsidy Program (FISP) and increases beneficiaries from 900,000 to 4.2 million while reducing the price of fertilizer paid by smallholder farmers to MWK 4,495. It has also increased the subsidy component payable by the government.

⁵ This CPF is the first since the Country Assistance Strategy (CAS) for FY13-16 (extended by one year through FY17).

⁶ The CPSD for Malawi has been developed in coordination with the CPF and will be published in April 2021.

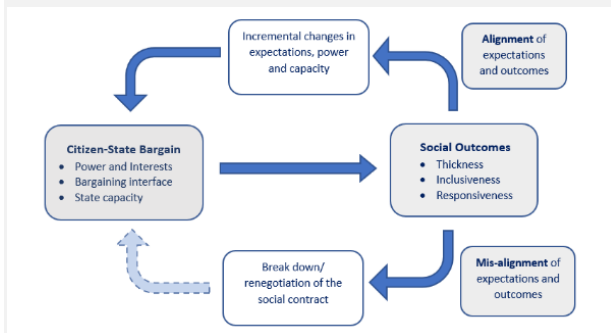
⁷ World Bank. 2020. *Saving Lives, Scaling Up Impact, and Getting Back on Track: World Bank Group COVID-19 Crisis Response Approach Paper* (June). Available at: <http://documents1.worldbank.org/curated/en/136631594937150795/pdf/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track.pdf>

⁸ The CPF has been informed by the Completion and Learning Review (CLR) of the Country Assistance Strategy for FY13-17, evaluations produced by the WBG's Independent Evaluation Group, and the 2019 Country Opinion Survey.

Box 1: Examining the Social Contract in Malawi

The term “social contract” describes the functioning (or lack of functioning) of various aspects of the relationship between states and citizens. The 2020 *Africa Regional Report on Understanding Social Contracts*—which defines the term as “a dynamic agreement between state and society on their mutual roles and responsibilities”—develops a common conceptual framework by which social contracts can be evaluated on three compasses:

- (1) **Process:** What is the nature of the bargaining space for social contracts? Drawing on the WBG’s *World Development Report 2017: Governance and the Law*, this element seeks to understand how formal and informal bargaining mechanisms mediate the range of state and non-state interests and capabilities.
- (2) **Outcomes:** What is the substantive outcome of the bargain? What does the state commit to deliver in return for compliance, stability, and staying in power?
- (3) **Resilience:** To what extent is the outcome responsive to and aligned with citizen expectations?



The social contract in Malawi has traditionally been described as revolving around the politics of maize. Since independence, the legitimacy of the government (and loyalty of the citizenry) has been linked closely with government promises to guarantee food. These vows have manifested through interventions in agriculture, starting with the creation of the marketing parastatal, the Agriculture Development and Marketing Corporation (ADMARC) in 1971 and continuing through targeted inputs, subsidies, and price stabilization interventions. While these extremely costly programs have served as tangible evidence of the government “keeping its promise” to the people, they simultaneously keep

citizens dependent on government food provision, crowd out other spending, and creating opportunities for patronage via non-transparent pricing and procurement.

The historic political change recently recognized in Malawi was spurred by mounting public frustration that the government was no longer holding up its side of the “contract.” Public demonstrations around the disputed elections reflected deeper grievances against corruption, the lack of jobs, declining real wages, and poor-quality basic services. In the past, civil society groups and popular protest have limited attempts by the presidency to subvert democratic outcomes and constitutional limitations, but these movements faded away and were unable to change the underlying incentives facing incumbents. The question now is whether the momentum of collective action from the sustained, citizen-driven protests in 2019—in combination with increasingly mobilized urban youth, expanded access to information and technologies, and higher expectations of the new governing coalition—may begin to shift more sustainably the bargaining dynamics in the policy arena.

II. COUNTRY CONTEXT

A. Natural, Regional, and Demographic Context

7. **Malawi is a small, landlocked country that runs along the Southern Africa Rift Valley, bordering Tanzania, Zambia, and Mozambique.** Its eponymous lake, Africa’s second largest, accounts for 20 percent of Malawi’s total landmass area of 118,480 square kilometers and is bounded by plateaus. Lake Malawi feeds the Shire River, the largest tributary of the Zambezi, which generates 98 percent of the country’s electricity supply; provides water to Blantyre, the country’s industrial capital, and irrigation to the largest farming estates in Malawi; and sustains the expansive Ramsar wetlands of Elephant Marsh.⁹ The Shire River has not been suitable for trade, however, and Malawi’s economy remains saddled with the high transport costs associated with the “inland trap.” Malawi is working within the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) to harmonize regulations and streamline transit mechanisms, but progress has been modest and freight costs remain high.

⁹ Ramsar relates to the international convention on wetlands: <https://www.ramsar.org/wetland/malawi>.

8. **Rapid population growth and climate change are defining features of Malawi’s development challenge, putting increasing strain on the natural resource base.** Although the total fertility rate dropped from 6.5 in 1995 to 4.25 in 2020, the population is still growing at 2.7 percent per year and is anticipated to double by 2038. Malawi is already one of the most densely populated countries in Africa. Increasingly erratic rainfall, watershed degradation, and limited storage infrastructure reduce the availability and quality of water resources, increase the country’s vulnerability to droughts and floods, and hamper energy security and agricultural productivity. With only 11 percent of the population having access to grid-based electricity, reliance on unsustainable charcoal production for fuel leads to deforestation and land degradation, with degradation hotspots covering 41 percent of Malawi (Box 2).

Box 2: The Impact of Climate Change on Malawi

Malawi is considered one of the countries in the world that is most vulnerable to climate-related events. Modelling indicates that the country will experience substantive medium- and long-term changes to temperature and rainfall patterns.

Agriculture: Malawi’s agriculture is vulnerable due to high reliance (95 percent) on rainfed crops within a single rainy season. Production is constrained by limited land, declining soil fertility, low yields, and low uptake of improved inputs, technology, and sustainable land practices. Underinvestment in irrigation means that only a quarter of the potential land area is irrigated. Rising temperatures, more frequent heavy rains, and increased drought conditions are projected to decrease the yield of rainfed crops, increase aflatoxin, further degrade soil quality, shift season timings, and destroy agricultural infrastructure.

Water Resources: Malawi’s surface water resources are derived from rivers and inland lakes, such as Lake Malawi. Erratic rains, extended dry periods, and increased evaporation rates already affect water availability. Increased drought conditions are expected to continue to lower water levels in Lake Malawi and the Shire River. Low water levels and increased sedimentation have already decreased energy production by 66 percent along the Shire River, and electricity is often rationed near the end of the dry season (October). Floods often damage water infrastructure and contaminate ground and surface water sources.

Fisheries: Small-scale inland fisheries account for 95 percent of fish production and contribute significantly to Malawians’ health and livelihoods. Fish constitutes 28 percent of animal protein intake and supports the livelihood of 10 percent of the population. Unsustainable fishing practices and climate change are key threats.

Ecosystem: Forest cover has declined significantly since the 1970s, owing mainly to charcoal production and agricultural expansion. The remaining forests are under stress from high temperatures and drought, which reduce vegetation and increase the risk of forest fires. Wildlife is under threat from poaching, as well as from climate factors such as drought, as evidenced by recurring droughts in Lengwe National Park that resulted in migration and increased mortality of animals.

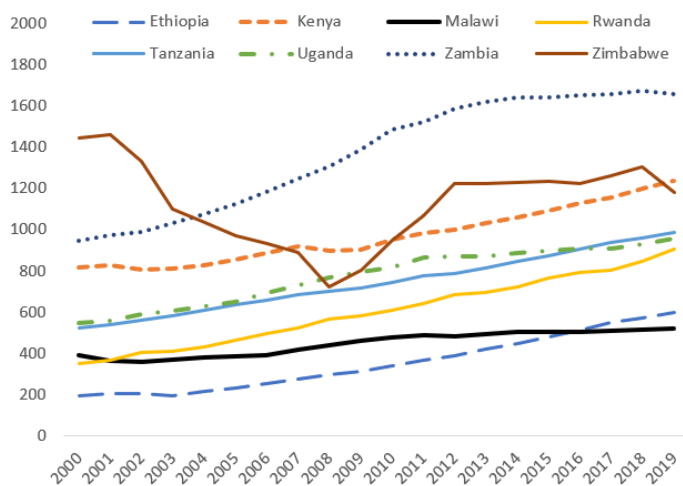
Health: As temperatures increase, the incidence of malaria is expected to grow and spread to higher altitudes. Recurring floods in the south hinder access to clean water and sanitation increasing the risk of cholera and other diarrheal diseases. Climate change is also likely to worsen malnutrition, particularly in children, as agricultural productivity deteriorates.

B. Economic Developments and Outlook

9. **Around 85 percent of Malawi’s population is estimated to live in rural areas and rely on rainfed agriculture for employment.** Nine-tenths of rural households engage in subsistence farming, cultivating small and fragmented land held under uncertain customary tenure. Malawi’s commercial estate farms generate 80 percent of the country’s exports—mainly tobacco, tea, and sugar—and are run mostly by multinational firms operating out-grower schemes that contract nearby smallholders. These large firms are generally vertically integrated and dominant in their sector.

10. **Malawi's real per-capita GDP has remained largely flat over the last two decades and now lags behind regional peers (Figure 1).** As discussed in the WBG's latest Country Economic Memorandum (CEM) in 2017, this has resulted in large part from one of the lowest rates of total investment in Sub-Saharan Africa (SSA), averaging 14.9 percent of GDP since 2000 compared to neighboring Tanzania at 24.5 percent and Zambia at 34.7 percent.¹⁰ Growth and investment have historically been undermined by macroeconomic instability: from 2011 to 2016 Malawi saw its exchange rate depreciate rapidly and inflation rise above 20 percent, which led to some of the highest interest rates in the region, depressing investment and impeding structural transformation.

Figure 1: Real GDP per capita (constant)
GDP per capita, real USD 2010 terms



Source: World Bank World Development Indicators (WDI).

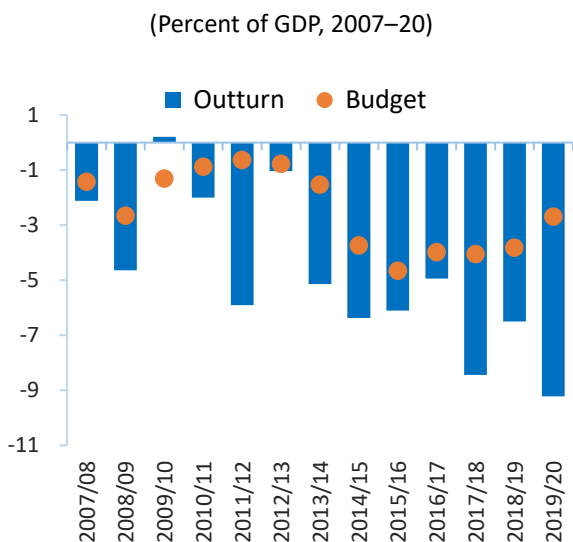
source of macroeconomic instability. Such shocks include: (i) natural disasters and weather shocks; (ii) terms of trade shocks; and (iii) sudden reductions of capital inflows, including aid. As much as these external shocks have contributed to instability, poor economic policies and management have played a bigger role. Poor responses have tended to amplify macroeconomic instability, delaying adjustment and leading to over-reliance on donor-funded emergency response. Frequent expenditure overruns, combined with repeated revenue shortfalls, have contributed to high fiscal deficits and rapidly increasing high-cost domestic debt.

12. **The impact of the COVID-19 pandemic on Malawi's economy is substantial: growth projections for 2020 have been lowered from 4.8 percent to 0.8 percent.** Key transmission channels have included a global recession, reduced demand, increased trade costs, and reductions in exports, remittances, tourism, and foreign investment (Annex 7). These effects have combined with a drop in domestic demand due to social distancing and other related policies. While strong harvests in the last two years have supported agriculture growth and mitigated the pandemic's impact on food security, non-agriculture incomes—notably in informal service sectors—are expected to be particularly hard-hit, increasing urban poverty.

13. **The incoming government has inherited a weak fiscal position and growing domestic debt.** High levels of expenditure and recurrent overruns, combined with revenue shortfalls and realized fiscal risks, have resulted in repeated high deficits, financed by high-cost domestic commercial debt (Figures 2 and 3). The FY21 budget projects a further widening of the deficit, from 9.4 to 12.7 percent of GDP, reflecting COVID-19 responses, launch of the AIP, and increased interest payments and wages. Since the Reserve Bank of Malawi stopped monetizing the deficit in 2018, domestic commercial banks have increasingly absorbed government debt, holding 36 percent as of December 2020.

¹⁰ See World Bank. 2017. *From Falling Behind to Catching Up: A Country Economic Memorandum for Malawi*; IMF. World Economic Outlook database (<https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases>).

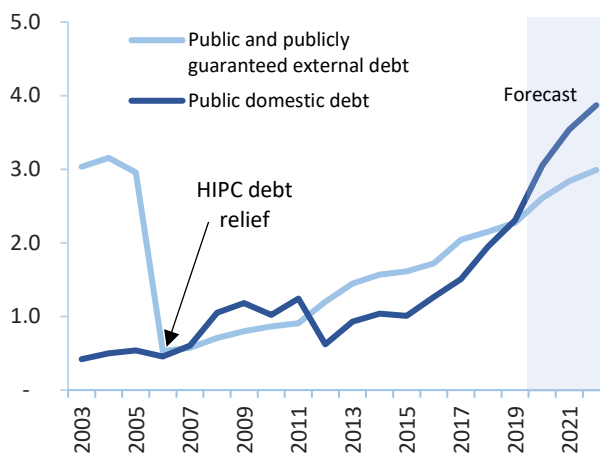
Figure 2: Recurrent spending overruns widen the fiscal gap...



Source: World Bank staff based on Ministry of Finance data.

Figure 3: ...increasing debt.

(US\$ billions, 2003 – 21 forecast)



Source: World Bank staff based on Debt Sustainability Analysis data.

14. **Malawi is at moderate risk of external debt distress, with limited room to absorb shocks, and at high risk of overall debt distress.** Most of the country’s external debt is concessional, with 81 percent held by multilaterals (as of end-2019). Malawi is, however, at high risk of overall debt distress due to high levels of domestic debt incurred at high interest rates. The stock of public debt increased from 59.4 percent to an estimated 66.4 percent of GDP between 2019 and 2020, while debt servicing costs have increased to 35 percent of revenue and grants in FY20. The September 2020 WBG-International Monetary Fund (IMF) Debt Sustainability Analysis indicated that, due to lower-than-anticipated export recovery, the debt-to-exports ratio is projected to deteriorate, narrowing the country’s capacity to absorb shocks.

15. **Monetary policy has been accommodative in light of the COVID-19 crisis.** The policy rate was maintained at 13.5 percent from May 2019 until November 2020, when it was reduced to 12.0 percent in light of lower inflation and to support economic recovery. This followed efforts early in the crisis to inject liquidity into the financial system. Yields on T-bills and T-notes have increased substantially since January 2020, driven by an increase in the government’s domestic borrowing, particularly in longer-term T-notes. Liquidity conditions have been tight, highlighted by the interbank rates closely tracking the policy rate.

16. **The Malawi kwacha has been broadly stable against the US dollar between 2017 and mid-2020, contributing to real appreciation of the kwacha.** Since July 2020, however, it has gradually depreciated by about 5 percent, which, combined with lower inflation, has helped reduce the level of real appreciation. The Reserve Bank of Malawi’s gross reserves have declined to 2.8 months of import cover as of end-December 2020.

17. **Malawi’s financial system has remained broadly sound and resilient despite the pandemic.** After falling to 5.2 percent year-on-year in July 2020, private sector credit growth picked up by September and was at 15 percent in December 2020. The banking sector has been reasonably capitalized, profitable, and liquid. Return on equity remained strong, at 28.7 percent, in July 2020. The ratio of non-performing loans rose only slightly, from 6.3 percent in December 2019 to 6.6 in June 2020. Only three sectors account for 85 percent of bank lending, however, and single-name credit concentration poses stability concerns.

18. **The outlook for economic recovery will depend on the evolution of the COVID-19 pandemic and the government’s policy actions.** Current projections are for growth to recover gradually to 2.8 percent in 2021 and 3.0 percent in 2022—although per capita GDP is estimated to take until 2023 to return to 2019 levels. A gradual containment of the pandemic would lead to a resumption of activities in the hardest-hit sectors, namely urban services and industry. This would lead to an increase in domestic demand, supporting trade and manufacturing. Transportation and tourism should rebound steadily if the global pandemic is contained. Investments in electricity generation are expected to pick up in the medium term, alleviating a major constraint to growth and diversification. The AIP is expected to boost agricultural output and raise household incomes in the short term, while medium-term growth in agriculture—and in rural incomes—would depend on diversifying away from subsistence maize production. The risks of an extended COVID-19 resurgence are compounded by sizeable recurrent expenditures, domestic borrowing costs, and weak fiscal space.

19. **There are similar risks to the balance of payments, with a high current account deficit projected to remain near 19 percent of GDP over the medium term.** The AIP will increase fertilizer imports and intensify exchange rate pressures. Some rebound in exports may come as trade restrictions are relaxed. However, steadily declining global demand for tobacco and high transport costs in Malawi will continue to hamper export growth. Imports could also increase if international oil prices rebound. Remittance inflows are likely to pick up as the global economy recovers. The current account deficit will continue to rely heavily on official development assistance.

20. **Inflationary pressures could re-emerge.** Food prices will continue to be vulnerable to weather shocks, although a strong 2021 harvest is expected to reduce food price pressures in early 2021. As global oil prices pick up, they will exert upward pressure on fuel and transport costs, as well as energy prices. In addition, increased exchange rate could contribute to imported inflation.

21. **An IMF Extended Credit Facility (ECF) Program was in place from 2018 to mid-2020.** As is standard practice, the new government is cancelling the current ECF, expecting to negotiate a new program and carry out an Article IV mission in 2021. In addition, the IMF approved an initial Rapid Credit Facility disbursement of US\$91 million in May 2020, followed by a second disbursement of US\$103 million in October 2020. Malawi is benefitting from up to US\$45 million in debt relief from the Catastrophe Containment and Relief Trust. The IMF is providing technical assistance in key areas, including public financial management (PFM), fiscal risk, public investment, and national accounts. The World Bank collaborates closely with the IMF on policy dialogue and reform, as well as in preparing the Debt Sustainability Analysis.

Table 1: Macroeconomic Indicators

	2016	2017	2018	2019	2020	2021	2022	2023
					Est.	Proj.	Proj.	Proj.
National Accounts and Prices								
GDP at constant market prices (% change)	2.5	4.0	3.5	4.4	0.8	2.8	3.0	4.5
Agriculture	-2.3	5.0	2.4	4.3	3.4	5.2	1.7	3.2
Industry	2.4	2.2	2.2	3.8	1.2	1.6	2.4	4.3
Services	4.7	4.0	4.3	4.5	-0.7	1.9	3.8	5.2
Consumer prices (annual average)	21.7	11.5	9.2	9.4	8.6	8.8	7.6	7.0
Central Government (FY % of GDP)								
Revenue and grants	21.6	23.5	20.8	21.0	20.8	21.0	21.0	21.7
Domestic revenue (tax and nontax)	17.8	20.0	19.3	19.0	18.9	17.1	17.6	18.3
Grants	3.7	3.5	1.4	2.0	1.9	3.8	3.4	3.4
Expenditure and net lending	27.6	28.2	28.5	27.6	30.2	33.7	30.3	30.5
Overall balance (excluding grants)	-9.8	-8.3	-9.2	-8.6	-11.3	-16.5	-12.7	-12.2
Overall balance (including grants)	-6.1	-4.8	-7.8	-6.6	-9.4	-12.7	-9.3	-8.8
Foreign financing	1.9	2.5	2.5	1.1	1.3	2.4	1.5	1.6
Domestic financing	1.7	0.9	6.2	5.4	7.3	10.3	7.8	7.2
Amortization (zero coupon bonds)	2.5	1.3	-0.5	-1.4	-	-	-	-
Privatization Proceeds	-	0.3	-	-	-	-	-	-
Money and Credit								
Money and quasi money (% change)	15.2	19.7	11.4	8.1	9.5	10.9	13.7	11.8
Credit to the private sector (% change)	4.6	0.4	11.5	21.3	15.0	11.7	14.0	13.4
External Sector (US\$ millions)								
Exports (goods and services)	1,180	1,053	1,112	1,238	1,202	1,225	1,188	1,185
Imports (goods and services)	2,405	2,781	2,927	3,031	3,088	3,323	3,314	3,349
Gross official reserves	605	757.4	750.1	815	574			
(months of imports)	2.9	3.6	3.6	3.9	2.8			
Current account (percent of GDP)	-18.9	-22.4	-20.5	-17.2	-18.3	-17.4	-18.1	-17.9
Exchange rate (MWK per US\$ average)	718	730.3	732.3	745.5	749.5	-	-	-
Debt Stock								
External debt (public sector, % of GDP)	31.3	32.4	31.2	29.7	30.0	32.4	31.9	31.4
Domestic public debt (percentage of GDP)	23	23.9	28.2	29.7	36.4	44.1	48.7	52.2
Total public debt (percentage of GDP)	54.3	56.4	59.4	59.4	66.4	76.5	80.6	83.6
Poverty								
Poverty rate (US\$ 1.9 in 2011 PPP terms)	69.2	68.7	68.3	67.8	68.3	68.3	68.2	67.6
Poverty rate (US\$ 3.2 in 2011 PPP terms)	89.0	88.8	88.6	88.3	88.6	88.6	88.5	88.2

Source: World Bank staff calculations based on MFMMod, MoFEPD, RBM and IMF data

C. Political and Governance Institutions

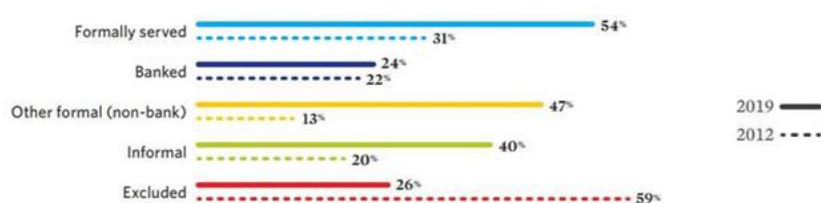
22. **A political economy built on patronage-based deals has dominated the policy arena, undermining accountable and effective public institutions.** Since its transition to multiparty democracy in 1994, Malawi has experienced multiple peaceful transfers of power while successfully navigating several constitutional crises. Despite democratic success, the politics of succession in a multiparty environment have resulted in the establishment of a political settlement characterized by unstable coalitions, the appeal to regional and ethnic identity, and the use of rents and public resources to buy loyalty. This has resulted in a persistent low-level equilibrium under which policy follows patronage, constraining commitment to stable fiscal and economic policies. The poor performance of key sector utilities is one illustration of how the political economy has affected development prospects in Malawi.

D. Private Sector and Business Environment¹¹

23. **High levels of state intervention have deterred private sector activity.** Malawi has 67 SOEs, playing significant roles in agriculture and agribusiness, education, construction, energy, finance, health, information and communication, media, public utilities, aviation, and services. Direct state participation can be justified in some sectors due to market failures and poor regulatory frameworks. However, the lack of transparency and accountability of SOEs' finances and operations in Malawi make this difficult to verify. Moreover, weak financial performance has necessitated subsidies and government bailouts, increasing the fiscal burden of SOEs. State involvement in these sectors has crowded out private activity, due mainly to an uneven playing field.

24. **Malawi's private sector is mostly informal, with a few large-scale companies capturing most economic opportunities.** There are an estimated 1.1 million micro, small, and medium enterprises (MSMEs) in Malawi. The vast majority of MSMEs (89 percent) are informal. About 60 percent of businesses in Malawi are microenterprises employing fewer than five people. Nearly 70 percent of all MSMEs operate in the wholesale and retail trade sector, followed by roughly one-fifth in agriculture and agro-processing and most of the remainder in tourism. Prior to COVID-19, limited but positive structural transformation appeared to be taking place out of agriculture and towards services.¹² However, most jobs "pulling" people out of agriculture are in low-productivity, informal services, especially wholesale and retail trade. The paucity of mid-sized firms (a problem often referred to as Malawi's "missing middle") reflects a thin domestic market, weak integration into regional value chains, and a poor, albeit improving, environment for doing business (Annex 10).

Figure 4: Overview of financial access



Source: FinScope MSME Malawi 2019 Survey.

financing for MSMEs. An estimated 90 percent of loans are channeled to a handful of large corporates. Only 10 percent of medium-sized enterprises, 5 percent of small enterprises, and 3 percent of microenterprises have credit from a commercial bank. Domestic credit to the entire private sector as a percentage of GDP is less than 10 percent, compared to an average of 28.4 percent for SSA in 2016. Financial inclusion remains low, with only 24 percent of the population having a bank account (Figure 4).

26. **Connectivity infrastructure deficits—especially in electricity, water, and telecommunications—limit competitiveness and constrain economic diversification.** Infrastructure deficits¹³ reflect a lack of

25. **Access to finance is the key challenge faced by MSMEs, and low financial inclusion constrains business innovation.** The banking system suffers from a lack of critical mass, low productivity, high operating costs, and limited outreach and product variety to facilitate adequate

¹¹ For a full diagnostic of the private sector, see the WBG CPSD, *Creating Markets in Malawi; the road to recovery: turning crisis into economic opportunity*, forthcoming April 2021.

¹² Structural transformation is a term used to describe the trajectory of an economy as it diversifies out of agriculture and into a wider range of services and manufacturing. The 2017 WBG Country Economic Memorandum notes that, over the last two decades, agriculture has declined as a share of Malawi's GDP to 30 percent, while services have increased to 50 percent. Low rates of investment and capital formation in the economy have delayed the shift to manufacturing.

¹³ Ongoing analytical work on *Mobilizing Long Term Finance for Infrastructure* estimates that, in the energy and water supply and sanitation sectors alone, about US\$7.6 billion would be needed over 15–20 years from 2020, or an annual investment of US\$332 million (about 4 percent of 2019 GDP).

long-term financing and the inefficiency of the SOEs responsible for delivery. Installed electricity capacity falls far short of demand, leading to regular blackouts, and access to grid-based electrification is 11 percent overall, with rural access at 4 percent. To attract investment, including from solar independent power projects (IPPs), the Electricity Supply Corporation of Malawi (ESCOM) is pursuing reforms to establish cost-reflective tariff structures and reduce losses. In the water sector, firms report on average 5.3 days a month of insufficient water, among the highest in the region, and frequent water shortages are reaching a crisis level in urban areas. Finally, private sector-led investments in the fibre-optic backbone will need to be complemented with appropriate policies for infrastructure sharing.

27. High costs of transportation exacerbate Malawi’s competitive disadvantage as a landlocked country. As cited in the CPSD, transport costs are the highest among countries in the SADC, accounting for up to 56 percent of import costs and 30 percent of export costs. Road transport, dominated by a few well-connected businesses, handles more than 70 percent of internal freight traffic and 99 percent of passenger traffic. The upgrading of key rail and road corridors is a critical need, requiring strong regional coordination and collective action to address uncompetitive behaviors in the transport sector.

28. Digital innovation, skills, and entrepreneurship are lagging, especially for women and youth. Increasing youth employment by developing their entrepreneurship skills could yield significant positive economic returns. While 88 percent of the population lives in areas covered by mobile broadband networks, fewer than one-fifth of Malawi’s residents actually use the mobile internet due to low affordability, high cost of smartphones, and lack of digital skills. Almost two-thirds of the labor force has not completed a primary education, and another 25 percent have not progressed past primary school. Educational attainment is particularly low among girls, who start dropping out in larger numbers as they approach adolescence, due to high rates of early marriage and childbearing. Tertiary enrollment, particularly among young women, is among the lowest in the world, and there is a significant skills demand-supply mismatch in key sectors of the economy. Studies have shown that returns to tertiary education in Malawi are higher than in most other SSA countries.¹⁴

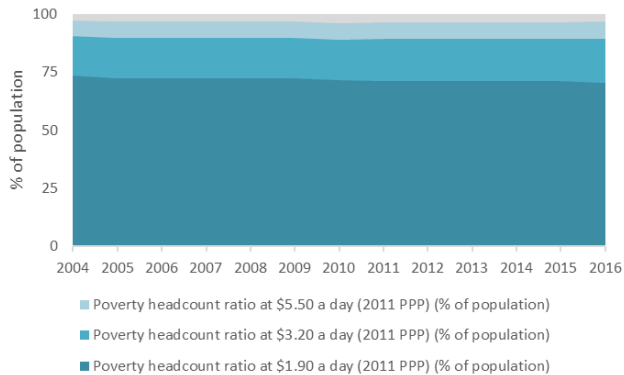
E. Poverty, Vulnerability, and Inequality

29. Progress in addressing poverty and vulnerability has stagnated in Malawi over the last 15 years, in contrast with the rest of SSA. National poverty has seen a modest reduction from 52.4 percent in 2004 to 51.5 percent in 2016.¹⁵ While Malawi’s poverty rate (based on the US\$1.90 threshold) has reduced by 3 percentage points during this period (Figure 5), the rate in the SSA region has reduced by more than 13 percentage points (Figure 6). According to the emerging data from the Integrated Household Survey 2019/20, poverty reduction continued to stagnate in Malawi even before the COVID-19 crisis. The share of the population below the international poverty line of US\$1.90 per day has decreased only from 69 percent in 2017 to 68 percent in 2019.

¹⁴ C.E. Montenegro and H.A. Patrinos. 2014. “Comparable Estimates of Returns to Schooling Around the World.” World Bank Policy Research Working Paper No. 7020. Washington, DC: World Bank.

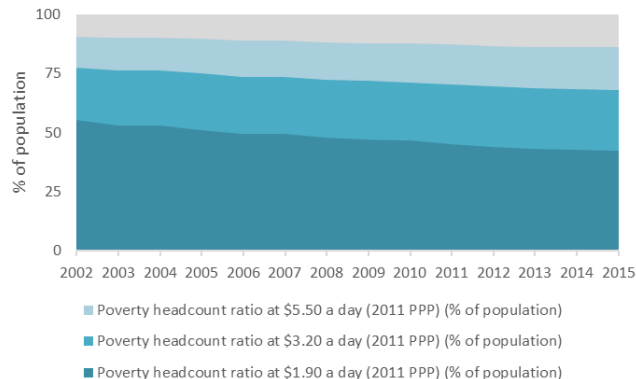
¹⁵ The national poverty line for Malawi is calculated using a basic needs basket whose cost in 2016 was equivalent to US\$1.36 (2011 PPP) per person per day in comparison to the US\$1.90 (2011 PPP) international poverty rate. While the international poverty lines are used for cross-country comparisons, the national poverty line is usually preferred for country-specific analysis. This section is based on the June 2016 Poverty Assessment. A new WBG Poverty Assessment is forthcoming in FY21.

Figure 5: Population distribution by poverty rate in Malawi



Source: World Bank staff calculations based on WDI.

Figure 6: Population distribution by poverty rate in SSA



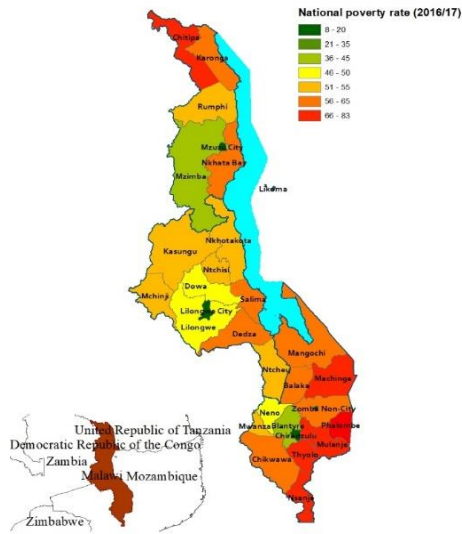
Source: World Bank staff calculations based on WDI.

30. **Poverty is mainly a rural phenomenon, and growth has not translated into shared prosperity.** The vast majority (95 percent) of poor people in Malawi are located in rural areas. While urban poverty increased from 25 percent in 2004 to 26 percent in 2016, rural poverty has increased from 56 percent to 60 percent over the same period. Rural poverty is heavily influenced by climatic shocks and the degradation of the natural environment. Both poverty and extreme poverty are most acute in Malawi’s Southern region, which was affected by devastating floods and drought in 2015, 2016, and 2019. The Shire Valley contains the highest incidence (above 80 percent) of extreme poverty (Figure 7). Analysis from Integrated Household Surveys shows that those who diversified into non-farm incomes were able to exit from poverty.

31. **COVID-19 is a new challenge for poor people in Malawi, especially in urban areas.** As a result of heightened economic and health risks associated with COVID-19, the share of the population living below the poverty line of US\$1.90 per day in 2020 is projected to increase by almost a half percentage point. Furthermore, World Bank estimates based on phone surveys indicate that urban poverty could increase further by between 1.6 percent and 4.9 percent. Data show that although most respondents in September 2020 had kept their jobs, most households had experienced a drop in income since the start of COVID-19.

32. **With 44 percent of the population under the age of 15, Malawi needs to accelerate its demographic transition and harness the potential benefits of a younger population.** Malawi is a pre-dividend country, meaning it retains high fertility levels with gains in life expectancy, together putting pressure on per-capita consumption and increasing dependency rates. Given the trend toward declining total fertility rates between 1995 and 2020, however, Malawi could become an early-dividend country before 2025 with a higher share of income earners to dependents.

Figure 7: Malawi poverty map



Source: Malawi National Statistical Office.

33. Despite significant strides towards gender equality, including the adoption of relevant policies and strategies, inequality persists (Annex 9). Malawi ranks 145th of 188 countries on the United Nations Gender Inequality Index and 116th of 153 countries on the Global Gender Gap Index.¹⁶ Female agency is undermined by pervasive child marriage and sexual and gender-based violence (SGBV). Economic empowerment is acutely constrained by relatively high levels of early dropouts. Female-headed households have fewer assets and reduced access to infrastructure and services, which lowers their productivity despite the fact that women own or lead about half of all MSMEs and 84 percent of microenterprises. Low productivity is particularly evident in farming, as female-managed plots are estimated to be 25 percent less productive. It has been estimated that closing Malawi’s 28 percent agricultural productivity gap could contribute US\$100 million to GDP annually, lifting an estimated 238,000 people out of poverty.¹⁷

III. DEVELOPMENT OPPORTUNITIES AND CHALLENGES

34. The 2018 SCD set out four pathways for Malawi to achieve the twin goals of poverty reduction and shared prosperity. This section elaborates on these pathways (Figure 8), integrating them with themes of MW2063 and the priorities of the government to set the new context and key development opportunities for this CPF.

Figure 8: SCD Pathways to the WBG twin goals

Pathways			
<p>Increasing agricultural productivity (Pathway I)</p> <ul style="list-style-type: none"> Target public resources and interventions to promote commercialization and productive diversification in the agriculture sector 	<p>Diversifying the economy and creating jobs (Pathway II)</p> <ul style="list-style-type: none"> Create a business enabling environment to support structural transformation, increase productivity, and regional integration Promote access to finance and promote literacy Address infrastructure deficits to support private sector development and service delivery 	<p>Harnessing the demographic dividend and building human capital (Pathway III)</p> <ul style="list-style-type: none"> Maintain the current momentum in demographic transition Improve learning outcomes at primary and secondary levels and develop productive skills of youth Improve coverage, access and quality of public health services Mainstream Early Childhood Development 	<p>Building resilience against shocks and enhancing environmental sustainability (Pathway IV)</p> <ul style="list-style-type: none"> Strengthen social protection programs Adopt risk mitigation initiatives
<p>Addressing foundational issues</p> <ul style="list-style-type: none"> Establish commitment mechanisms to sustain and build on basics of sound economic and public financial management Mitigate governance constraints to policy effectiveness in priority areas Address constraints to gender equality 			

¹⁶ UNDP. 2019. *Human Development Report 2019: Inequalities in Human Development in the 21st Century*; WEF. 2020. *Global Gender Gap Report 2020*. See also: <https://evaw-global-database.unwomen.org/en/countries/africa/malawi>.

¹⁷ UN Women, UNDP, UNEP and World Bank. *The Cost of the Gender Gap in Agricultural Productivity in Malawi, Tanzania and Uganda*. October 2015

A. Leveraging New Opportunities to Strengthen the Demand for Good Governance

35. **The events of 2019 and 2020 provided an extraordinary example of the power of citizen-driven, collective action in launching a shift in Malawi’s long-standing social contract (Box 1).** In June 2019, Malawi’s democracy appeared to be in decline, with presidential polls marred by allegations of systematic irregularities in election tallying and failures of the Malawi Electoral Commission to address complaints. Malawi is now only the second country to annul a presidential election (after Kenya in 2017) and the first in which the opposition has prevailed in a re-run. This change was sparked by mass protests by citizens, and a coalition of accountability institutions (the judiciary, media, and civil society) working to reinforce pressures on accountability. These events have opened up an opportunity for governance reforms reinforced with the “commitment mechanisms” that were lacking in earlier efforts.

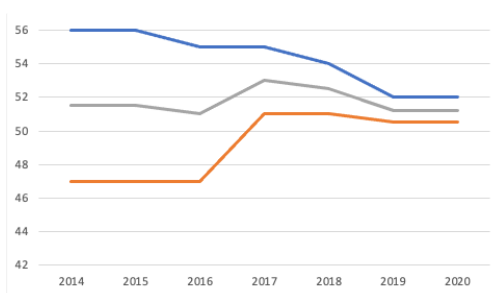
36. **The civil society activism that pressured the system during the time of the elections continues to demand accountability from the new government.** Since the elections, civil society has sustained pressure, and the government has launched a wide-ranging audit and a review of civil service reform. If sustained, these factors could establish incentives for: (i) more inclusive political coalitions; (ii) a strengthened judiciary; and (iii) more responsive government in the face of increased access to information, policy contestation, and citizen voice expressed through watchdogs, whistleblowers, and civil society. Ultimately, the success of public sector reforms will require coalitions for reform, between the public and private sectors, to ensure greater responsiveness of the government to citizens and the creation of broad-based public goods.

37. **Digital government is an important ingredient in empowering citizens through increased access to information and public services.** The March 2018 “Malawi Digital Government Strategy” articulates a vision for transforming government through digitizing administration to provide more convenient and accessible public services. Digital government can improve internal efficiency and promote collaboration, but also accelerate social justice by ensuring that e-service delivery through digital applications can be accessed remotely.

B. Protecting Human Capital Gains and Harnessing the Demographic Transition

38. **Although Malawi’s HCI rating has improved in the last decade, particularly with respect to adult and child survival, slow progress on learning outcomes is holding the country back.** Malawi has extremely low overall learning levels at the lower primary level, driven by huge learning gaps between schools and growing numbers of students in classrooms. The country averages 5.5 learning-adjusted years of schooling, indicating a loss of 4 years for every 9.6 years of schooling. About 24 percent of the working population cannot read or write, and literacy is lower among females in all age groups. High budget allocations to the sector are not matched by efficiency, and the decentralization of teaching staff to districts is a priority.

Figure 9: Primary completion rate (%) by gender (2014–18)



Source: Education Management Information System.

39. **Without systemic investments today in lower primary schooling in Malawi, the education component of the HCI will deteriorate further, especially given the impact of COVID-19.** Malawi needs a national reform program to address severe systemic deficiencies in the lower primary learning environment. To achieve this, Malawi will need to strengthen national and local government institutions to address systemwide inefficiencies in spending and move beyond piecemeal approaches. Although Malawi has achieved gender parity in primary school intake, girls achieve

lower learning outcomes and lower primary and secondary completion rates (Figure 9), in large part linked to early pregnancies.

40. **Malawi's health systems remain weak, and high rates of stunting and adolescent fertility threaten development gains and require an integrated response.** Despite a decline in recent years, fertility rates remain high, particularly among rural women and those in the lowest income quintile of households (which average 6.1 persons per household, as compared to 4.5 in the least poor quintile). At 349 deaths per 100,000 live births, Malawi's maternal mortality ratio remains high. Early marriage is common, with 46 percent of women aged 18 to 22 reporting having been married before the age of 18, and nearly one-third of young women aged 15 to 19 having already begun bearing children. Undernourished adolescent girls are predisposed to delivering underweight babies, which increases the risk of neonatal mortality and stunting and associated impact on educational attainment and lifetime earnings. About 39 percent of children below the age of five are stunted. Moreover, unsafe drinking water, sanitation, and hygiene result in diarrheal diseases, exacerbating already poor health outcomes. Integrated approaches are required that address family planning within a wider set of interventions to support the empowerment of women and girls through agriculture, nutrition, water, sanitation, and hygiene (WASH), as well as sexual and reproductive health.

C. Supporting the Shift towards Commercial Agriculture and Creating Opportunities for Youth Employment

41. **Commercial agriculture is a key pillar of the new MW2063, but its achievement requires policies that facilitate the transition from self-sufficiency in food production towards a market-based approach.** Encouraging crop diversification and commercial agriculture requires stable public policies that improve access to more efficient producer and consumer markets and lower the risks of diversification. Analysis¹⁸ demonstrates that state intervention combined with export restrictions—although popular and even yielding some positive results in the short term—has deterred investment in commercial production, thereby impeding diversification and falling short of social objectives. Given fiscal constraints, these policies have crowded out investments in irrigation, extension services, and improved seeds.

42. **Commercial value chains offer important opportunities for job creation in agribusiness and agri-logistics.** Support to smallholder farmers to transition to higher-value crops through alliances with off-takers and land-aggregation schemes are a key strategy for expansion. Only 18 percent of Malawi's 4.2 million smallholders belong to a functional farming organization. Currently, out of a total of 1.1 million MSMEs, only 188,000 are in agriculture and 15,000 in agri-processing, and most of the 42,000 in manufacturing are related to food. Malawi's greatest potential for job generation is in high-value and labor-intensive production systems, as well as in connected services such as logistics, input supply, wholesale/retail, food manufacturing, and food services.

D. Thinking Spatially to Target Vulnerability Hotspots and Rural-Urban Integration

43. **Malawi's extreme poverty hotspots overlap with the areas that are most heavily affected by environmental degradation.**¹⁹ Two factors are predominant: (i) population growth drives encroachment and unsustainable charcoal production; and (ii) climate change magnifies the impacts on land and forests, with increased incidents of natural disasters. In the face of these pressures, there is a need to systematically address land tenure security, unsustainable land management practices, chronic shortages of public funding for environmental management, and weak local institutions.

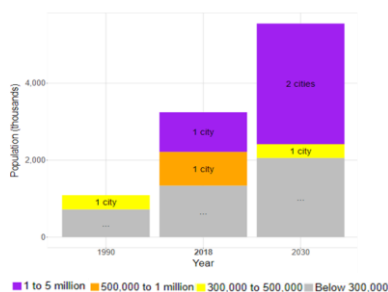
¹⁸ WBG. 2017. *Policies for Accelerating Growth in Agriculture and Agribusiness in Malawi*. SCD Background Paper.

¹⁹ World Bank. 2018. *Country Environmental Assessment*. Washington, DC: World Bank.

44. **Integrated investments in watershed restoration are critical for sustainable resilience and green recovery.** Watersheds play a critical role in sustaining environmental services, including greenhouse gas mitigation, water and climate regulation, soil and water conservation, fisheries, and biodiversity support. The government’s National Forest and Landscape Restoration Strategy proposes an ambitious agenda to restore 4.5 million hectares of degraded landscapes by 2030 through soil and water conservation, conservation agriculture, farmer-managed natural regeneration, and agroforestry. The economic and environmental impacts of watershed management services have been demonstrated through the World Bank-supported Shire River Basin Management Program, Phase 1.²⁰ Scaling up watershed restoration provides an opportunity for green growth.

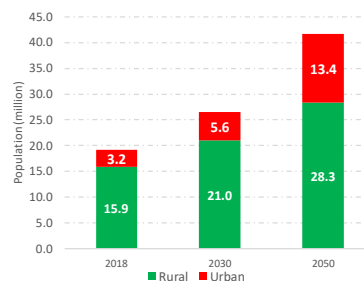
45. **Malawi is working to support urban areas as growth poles for development.** Given the scarcity of land and the current model of rainfed agriculture, rural areas cannot sustain a growing population. The country is on the threshold of rapid urbanization: 3 million people currently live in urban areas, with around 5.2 million expected by 2030 and 13 million by 2050 (Figures 10 and 11). As noted in MW2063, urban agglomeration can provide scale markets for Malawi’s rural products as well as hubs for a newly educated and skilled younger generation. In working toward this goal, it will be important to focus on climate-resilient infrastructure as well as fiscal and operational decentralization to stronger municipal administrations.

Figure 10: Urban population by size of settlement



Source: UN World Globalization Prospects, 2018.

Figure 11: Urban and rural population



Source: UN World Globalization Prospects, 2018.

E. Maximizing Finance for Development (MFD) and Deepening Regional Integration to Unlock Private Capital

46. **Malawi is starting to seize the opportunity to mobilize private capital to reduce the infrastructure gap and deliver transformative development.** With the support of the Public-Private Partnership (PPP) Commission, Malawi has attracted US\$1.2 billion in PPP investments over the past two decades, mostly in the railway subsector, but also in ICT, inland water transport, and tourism. Currently, IFC is the lead transaction adviser for a PPP to operate a major irrigation scheme in the Shire Valley. In the energy sector, a new solar IPP reached financial close in 2019, backed by a MIGA guarantee and IFC debt financing to replace part of the equity on project completion. The Mpatamanga Hydropower Project, the country’s flagship PPP in the energy sector for which IFC is co-developer, will test new policies and strategies for attracting private sector participation. Further reforms to strengthen SOE corporate and financial governance and deepen domestic financial markets will be key to scaling MFD in the future.

²⁰ The Shire River Basin Management Program project ended on January 31, 2019 and resulted in the restoration of 35,400 hectares of degraded land and community forests.

47. **Deepening regional integration and trade will be a key factor in attracting investment and generating growth.** Malawi’s domestic market is too thin to drive sustainable growth, but regional linkages are constrained by weak logistics and high costs. The 2018 Logistics Performance Index²¹ ranks Malawi 97th out of 160 countries, down 24 spots from 2014. Key challenges include the infrastructure supporting trade and transport (such as ports, rail, roads, and ICT) and customs performance, which have the two lowest scores. Public and private investments in the rehabilitation and building of new rail, road, and port infrastructure along the Nacala Corridor across southern Malawi and back into the Mozambican hinterland, including under the proposed WBG’s Southern Africa Trade and Connectivity (SATC) Project (P164847), will enable competition in transport, easing market access for both importers and exporters.

48. **Investment in Malawi is constrained by the shallow financial sector and the limited availability of long-term finance.** High levels of government borrowing crowd out bank lending to the private sector. The Malawi Stock Exchange has 16 listed companies (all domestic) and, while the market has seen an uptake in the total value of shares and the total volume of shares traded, activity remains nascent. Only one financial institution has issued bonds. There are gaps in the legal, policy, and regulatory framework for mortgage finance, leasing finance, and long-term finance, which, if properly developed, could facilitate access to financing—especially by small and medium enterprises.

F. Building Back Better by Accelerating Digital Development

49. **One of the key lessons emerging from COVID-19 globally is the importance of digital foundations for resilience and development.** Across SSA, the spread of mobile money has vastly expanded access to financial services for those previously locked out. Digitally enabled service providers in education, health, and agriculture are connecting clients to new ways to learn, to meet their medical needs, and to improve the productivity and resilience of their farms. Moving government services online can help drive demand for connectivity, adoption of digital devices, and motivation to increase digital skills, kickstarting demand for development of a domestic information technology industry. Digital infrastructure and analogue enablers form the foundation for all other sector pillars.

50. **In Malawi, however, digital development and innovation are limited by the high cost of, and limited access to, mobile broadband services.** While mobile broadband covers a relatively high proportion of the population (88 percent), Malawi suffers from a major urban/rural digital divide and a large usage gap due to high cost and limited access outside commercially viable areas. The mobile market is a duopoly, resulting in high profit margins and few incentives to lower costs or invest in rolling out the network to rural areas. Additionally, high taxes and levies on telecommunications services account for an increasing proportion of operating costs and retail prices (24 percent of the total cost of ownership of a mobile device), posing a significant barrier to increased access. Malawi is still heavily reliant on cash for financial transactions, with relatively slow uptake of mobile money and digital financial services explained in part by the lack of interoperability between providers. The government is restricted from providing high-quality digital public services to citizens due to limited connectivity, infrastructure, and capacity.

IV. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

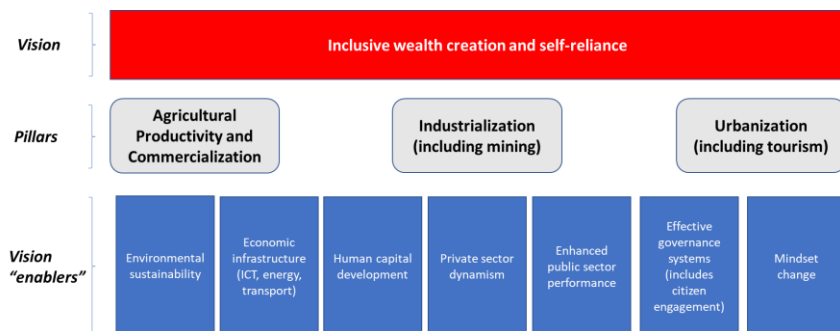
A. Overview of the WBG Country Partnership Framework

51. **The CPF for FY21–25 aligns the WBG effort with Malawi’s strategic development priorities, while also adapting to the opportunities and challenges presented by this distinct moment in time.** The

²¹ The Logistics Performance Index is the weighted average of the country scores on the six key dimensions: 1) efficiency of the clearance process; 2) quality of trade and transport related infrastructure; 3) ease of arranging competitively priced shipments; 4) competence and quality of logistics services; 5) ability to track and trace consignments; and 6) timeliness of shipments.

strategy and its objectives encompass financing from the active and relatively young portfolio of US\$1.9 billion while also guiding a set of priorities to be financed through IDA19 and IDA20 around three selectivity filters.

Figure 12: Malawi 2063



52. Selectivity Filter 1: Alignment with the government’s program. The Government of Malawi has called on international partners to align their strategies with its Malawi 2063 vision, which will now drive medium-term planning, building on the mid-term evaluation of the Malawi Growth and

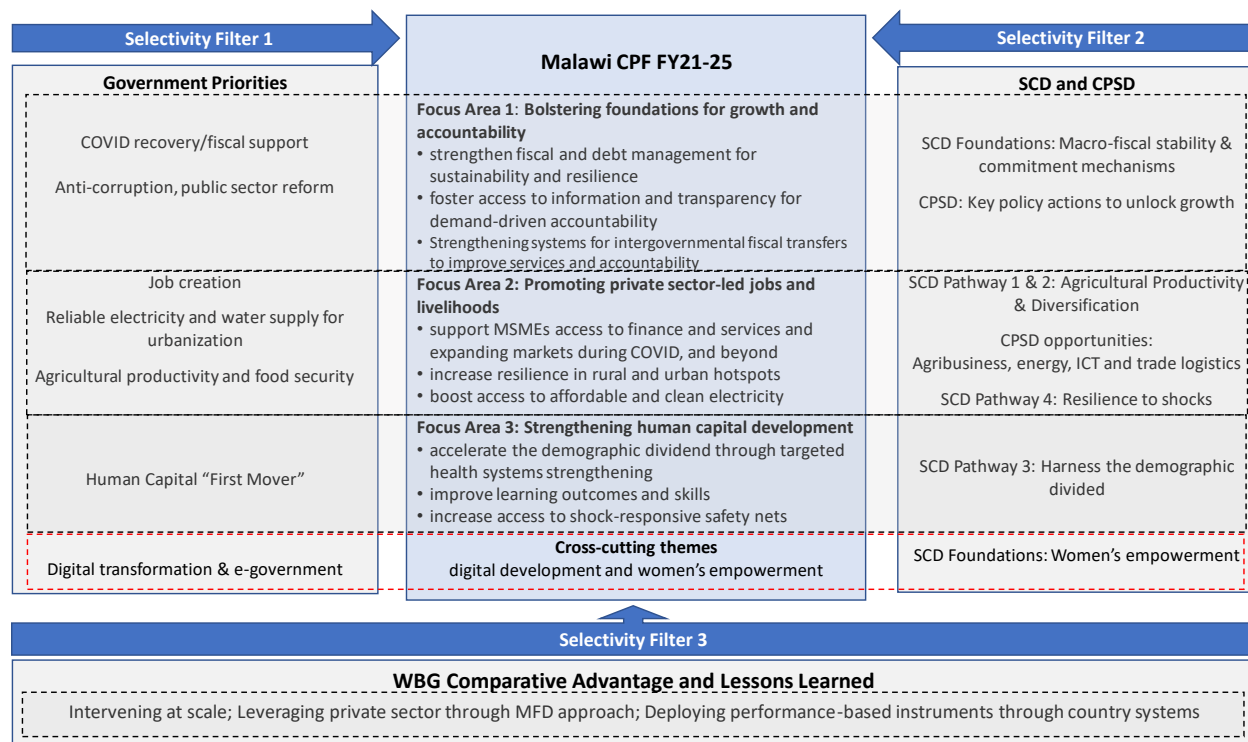
Development Strategy III for 2017–22 (Figure 12). MW2063’s focus on self-reliance and economic transformation reflects deep-seated frustrations at poor governance and slow growth and targets lower-middle income country status by 2030 and upper-middle-income status by 2063. It envisions twin shifts from subsistence to commercial agriculture and from a predominantly rural economy towards urban-rural integration, requiring a policy and governance environment in which private enterprise can thrive. In line with this objective, the new government has focused immediate efforts on strengthening integrity and the rule of law while reorienting budget priorities in line with COVID-19 associated needs.

53. Selectivity Filter 2: Alignment with the SCD and CPSD. As discussed above, the SCD set out four pathways for achieving poverty reduction and shared prosperity in Malawi: increasing agricultural productivity, diversifying the economy, harnessing the demographic dividend, and building resilience (Figure 8). In addition, the SCD underscored the need for commitment mechanisms that can strengthen governance and women’s empowerment to allow the country to reach its full economic potential. Each of these themes is reflected in the CPF focus areas and objectives, albeit with varying emphases depending on selectivity filters 1 and 3. The IFC-led CPSD has helped to identify reform opportunities to be supported by the potential WBG programmatic development policy operation (DPO), as well as MFD investments within Focus Area 2.

54. Selectivity Filter 3: WBG comparative advantage, considering IDA19 special themes, MFD approaches that leverage IFC’s expertise, and lessons from the previous CAS. Consultations with the government have underscored the need for the WBG to direct IDA19 and IDA20 selectively towards transformational and large-scale, growth-oriented investments—such as the proposed IFC co-developed Mpatamanga Hydropower Project—taking full advantage of expertise and instruments across the WBG. Linked to this is a shared concern to avoid piecemeal projects and establish integrated development programs, such as the series of projects focused on transformation of the Shire Valley, that can deliver at scale nationally over multiple implementation phases. Likewise, development partners welcome the WBG’s role as convener, deploying performance-based instruments and analytics to bring development partners and government together in dialogue on topics such as agriculture policy, energy, resilience, and social protection. Civil society organizations urge the WBG to strengthen the enabling environment for governance by promoting access to information, transparency, and public dialogue.

55. **Lessons learned from the most recent Country Assistance Strategy for FY13–17²² have informed the design of the new strategy.** These lessons, which are reflected in the proposed CPF program and approach detailed below, include the need for the World Bank to deepen its understanding of Malawi’s political economy and to adopt approaches at the portfolio level to strengthen the demand for good governance. The Completion and Learning Review (CLR) also notes the need for a more effective approach to prioritization in the portfolio to focus resources on investments that generate jobs and growth, including through the deployment of IDA to de-risk and leverage IFC, MIGA and private sector investment. The CLR urges the WBG to use its convening power to support a harmonization agenda, including through tailored and just-in-time analytical work, to reduce the fragmentation of aid flows.

Figure 13: Malawi CPF selectivity filters



56. **The CPF is closely aligned with the WBG’s core institutional focus areas.**

- **Governance and Institutions.** Through Focus Area 1, the CPF adopts a new approach to longstanding governance challenges, placing a stronger emphasis on the demand for good governance based on improved access to information, increased decentralization of resources, and enhanced citizen engagement. Technical advisory services and analytics (ASA), development policy lending and dialogue will continue to support the government with fiscal and debt management, PFM, procurement, and public sector reform, but these will be matched by increased support to civil society, local think tanks, and institutions, and regular media engagement. This approach will include proactive and innovative efforts to close opportunities for corruption across sectors.
- **Climate Change.** The Malawi program has delivered annual climate co-benefits²³ of 47 percent, on average, since FY17, reflecting a focus on water, energy, and resilience in support of Malawi’s

²² The Country Assistance Strategy for FY13-FY16 was extended to FY17 via the Performance and Learning Review of 15 March 2015. Annex 2 contains the Completion and Learning Review.

²³ WBG climate co-benefits are counted as the portion of project financing that delivers either mitigation or adaptation benefits to project beneficiaries. IDA19 targets co-benefits of at least 30 percent of total IDA commitments.

Nationally Determined Contributions under the Paris Agreement. Under the new CPF, Focus Area 2 incorporates objectives for food security through climate-smart agriculture and environmental stability through integrated water and landscape management as laid out in the WBG's Africa Climate Business Plan. In addition, the CPF will continue to assist Malawi to deliver on its commitments under the African Union's Malabo Declaration for agricultural transformation, in particular on open access to markets and promoting youth engagement in agriculture value chains.

- *Jobs and Economic Transformation (JET)*. A JET agenda is a shared objective of the government and the WBG and central to the CPF. Transformational JET investments that leverage an MFD approach as well as engage at the regional level include the Mpatamanga Hydropower Project and the Nacala Corridor. Focus Area 1 underpins these investments by strengthening policy foundations and enabling policies set out in IFC's "If/Then" Matrix.²⁴ Focus Area 3 invests in labor market skills and long-run human capital development. To inform the JET agenda, the CPF prioritizes a new program of analysis, starting with a JET-themed CEM.
- *Gender and Development*. Based on the SCD, the CPF adopts a foundational and cross-sectoral approach reflecting the gender gaps that cut across social and economic life in Malawi. Although a wide range of gender analyses have informed the SCD and CPF,²⁵ the FY21 Gender and SGBV Assessment will ensure that entry points are properly identified and new approaches considered, including on issues related to land, financial, economic, and social inclusion. The diagnostic will also strengthen the WBG's understanding of a response to SGBV risks across the portfolio, taking account of Malawi's legal and institutional framework for SGBV and linking with the work on citizen engagement.

57. **In addition to women's empowerment, the CPF addresses the cross-cutting issue of digital development.** The FY21 Digital Economy Diagnostic will build on the lessons of the pandemic and identify pathways to strengthen the digital economy for recovery and resilience. Building on the ongoing Digital Malawi Project (P160533), the diagnostic will identify key bottlenecks with a comprehensive analysis of the five key pillars—digital infrastructure, digital government platforms, digital financial services, digital businesses, and digital skills—and will help guide and coordinate WBG investments across the CPF (Box 6).

B. Integrating a COVID-19 Response into the CPF

58. **The WBG response to COVID-19 is in line with the WBG Approach paper on COVID-19, covering early relief to resilient recovery (Annex 7).**²⁶ At the outset, the World Bank approved a US\$7 million

²⁴ The If/Then Matrix is a critical element of IFC's work, setting out on the one hand the areas of reform required in-country and on the other the potential IFC investments that those reforms would unlock.

²⁵ Recent analytical work on gender has covered issues around adolescence (such as girls' schooling, early marriage, and early childbearing), agricultural productivity, and entrepreneurship. Examples include: WBG. 2016. *Adolescent Girls in Malawi: Policy Brief*. Washington DC: World Bank; J. Montalvo, M. Frese, M. Goldstein, and T. Kilic. 2017. *Soft skills for hard constraints: evidence from high-achieving female farmers*. Washington, DC: World Bank; T. Kilic, A. Palacios-Lopez, and M. Goldstein. 2015. "Caught in a productivity trap: a distributional perspective on gender differences in Malawian agriculture." *World Development* 70, 416–63; F. Campos, M. Goldstein, and D. McKenzie, 2018. "How Should the Government Bring Small Firms into the Formal System." World Bank Policy Research Working Paper No. 8601; and WBG. 2019. *Profiting from Parity: Unlocking the Potential of Women's Business in Africa*. Washington, DC: World Bank.

²⁶ The WBG COVID-19 Crisis Response Approach Paper, *Saving Lives, Scaling-up Impact and Getting Back on Track*, dated June 2020, lays out three stages of crisis response—relief, restructuring, and resilient recovery—anchored by four thematic pillars: (i) emergency support for health interventions aimed at *saving lives*; (ii) a social response for *protecting poor and vulnerable people* from the pandemic's economic and social impacts; (iii) an economic response for *saving livelihoods, preserving jobs, and ensuring more sustainable business growth and job creation*; and (iv) focused, cross-sectoral support for *strengthening policies, institutions and investments* to achieve a resilient, inclusive, and sustainable recovery. Available at: <http://documents1.worldbank.org/curated/en/136631594937150795/pdf/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track.pdf>.

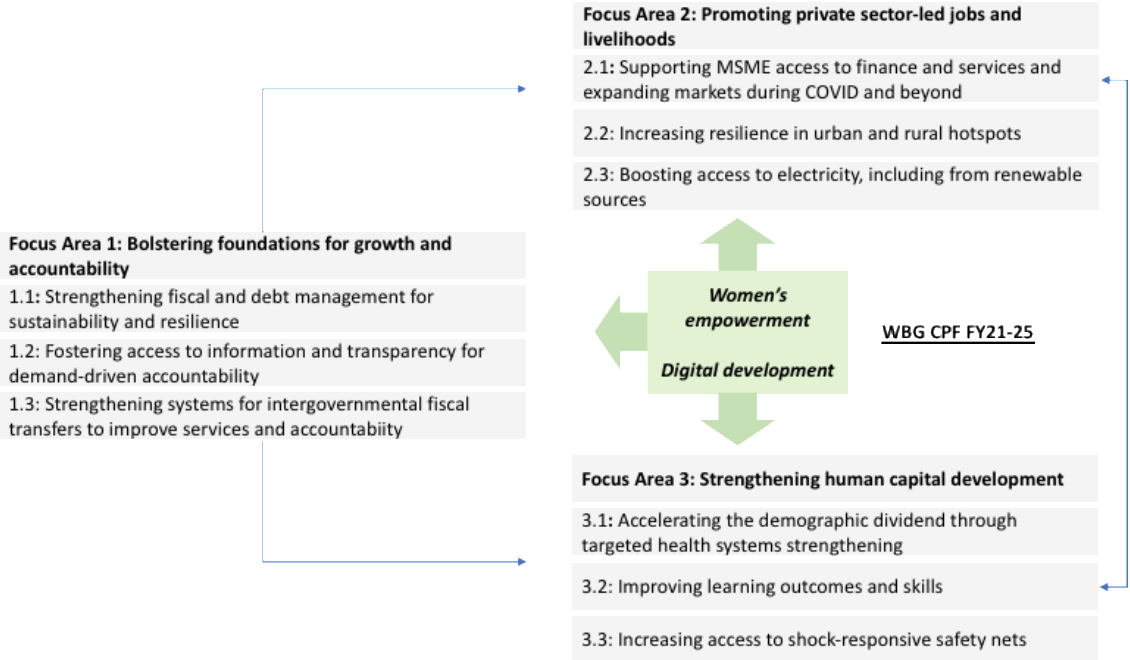
COVID-19 Emergency Response and Health System Preparedness Project (P173806), complemented by US\$1.2 million released under the Pandemic Emergency Facility. The World Bank also disbursed US\$30 million from the Disaster Risk Management Development Policy Financing with Catastrophe Deferred Drawdown Option (CAT DDO, P165056) to address fiscal constraints. As an acute second wave is threatening the health system and economic recovery, an additional financing operation for the COVID-19 response is proposed, to include support for the procurement and deployment of vaccines, as well as safer schools.

59. **The World Bank worked with the government to restructure and reprioritize social programs as well as support to the business community.** The ongoing Social Support for Resilient Livelihoods Project (SSRLP, P169198) was restructured to inject US\$40 million into the government-led COVID-19 Urban Cash Initiative that extends the Social Cash Transfer Program (SCTP) to 185,000 vulnerable urban households. To support businesses through the recovery, the government requested that the World Bank-supported Financial Inclusion and Entrepreneurship Scaling Project (FINES, P168577) finance a US\$22 million emergency facility for MSMEs impacted by the crisis. Looking ahead, the key challenges for the government will be to restore fiscal and debt imbalances to lay the foundations for a resilient recovery, while minimizing further human capital losses through a safe return to school.

C. Overview of the World Bank Group Country Partnership Framework

60. **Encompassing both the ongoing active portfolio and new pipeline financing, the WBG CPF for FY21–25 targets three strategic areas: bolstering foundations for growth and accountability; promoting private sector-led jobs and livelihoods; and strengthening human capital development (Figure 14).** In addition, the CPF pays special attention to two cross-cutting issues: women’s empowerment and digital development. The integration of these issues across the program will be informed by: (i) a FY21 Country Gender Assessment and Evaluation of Coordinated Response to GBV/SEA; and (ii) a FY21 Digital Economy Diagnostic.

Figure 14: CPF focus areas and objectives



CPF Focus Area 1: Bolstering foundations for growth and accountability

61. **Focus Area 1 adopts a new and flexible approach to addressing selected, long-standing governance weaknesses.** Drawing on the lessons of earlier engagement in Malawi as well as the *World Development Report 2017: Governance and the Law*, the WBG will help strengthen citizen voice and the demand for good governance, including through decentralization and citizen engagement. In parallel and complementing this approach, the WBG is in discussions with the authorities on a two-stage DPO series to support government's intended reforms and link governance actions in Focus Areas 1 with major energy, agriculture, and trade investments under Focus Areas 2 and 3. First, the DPO would promote reforms to increase agricultural productivity and market access. Second, it would support reforms to increase access to reliable energy. Third, it would promote reforms to strengthen fiscal management and governance. The overarching objective is to shape a revived reform agenda and support the calls for greater transparency over public finances.

Objective 1.1: Strengthening fiscal and debt management for sustainability and resilience

62. **Improved fiscal management is key to effective implementation of government policy and serves as an anchor for macroeconomic stability.** While recognizing the current need for countercyclical fiscal policy targeting recovery, the government has highlighted the need to control expenditure overruns that have led to recurring high fiscal deficits, thereby endangering macroeconomic stability. Improved budget credibility through strengthened budget planning, more restrictive fiscal policies, and better management of fiscal risks will limit inflationary pressure and free up domestic savings for private sector credit. Lower deficits will break the cycle of sharply increasing debt servicing costs, which have risen from 10.6 percent of total revenues in 2012 to 31.2 percent in 2019. The CPF will support improved fiscal management through economic monitoring and analytics, technical assistance, and the potential DPO.

63. **Learning from previous experiences supporting PFM in Malawi, the World Bank will coordinate with other development partners on targeted PFM reforms.** Building on the lessons of historical PFM interventions in Malawi, it is well recognized that the country'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. The WBG will support the implementation of reforms focused on the functioning of the PFM system, which aim to: (a) contribute to macro stability (for example, by limiting arrears accumulation through tighter commitment controls or tightening payroll); (b) enable efficient expenditure on priority services and investments (such as by improving the predictability and timeliness of releases; strengthening public investment management, corporate governance of SOEs, and procurement; and expanding the use of e-government services); and (c) build credibility and trust (through financial oversight, accountability, and transparency). These technical efforts will be complemented by strengthened public access to comprehensive and timely fiscal information, including under the Access to Information Act.

64. **The government has signaled its intention to strengthen the management of SOEs with a view to reducing fiscal risk and strengthening service delivery in key sectors.** SOEs pose major fiscal risk due to financial mismanagement and the accumulation of losses and arrears. The government has periodically guaranteed loans to SOEs that have posed financial risks, such as ADMARC, ESCOM, and water boards, while financial transparency is weak. Interference in operations and hiring has weakened the performance of key SOEs in the energy and water sectors, suggesting the need to competitively recruit for senior management positions and increase accountability. The WBG will take a multipronged approach to these issues: pursuing policy actions within the potential DPO to improve SOE governance; providing technical assistance (TA) within investment projects in the energy, agriculture, and water sectors; and providing TA to improve procurement policy and more effective public investment management. Taken together, these

reforms aim to contribute to macro stability, enable efficient expenditure on priority services, strengthen service delivery, and establish a trusted environment for greater private investment.

65. **Finally, a set of Policy and Performance Action (PPA) commitments under the Sustainable Development Financing Policy (SDFP) will anchor this objective to the overall IDA envelope for Malawi.** Given Malawi’s high overall risk of debt distress and moderate risk of external debt distress, maintaining zero non-concessional borrowing on contracting new external public and publicly guaranteed debt or guarantees is critical to achieve fiscal and external debt sustainability and to avoid increasing external borrowing risks. Other agreed PPAs include supporting prudent domestic debt management through the submission to Parliament of a consolidated FY18/FY19 audit of 12 SOEs and publication of a biannual public debt report covering debt, guarantees, and contingent liabilities for extrabudgetary units and public corporations. Implementation of the PPAs will be monitored through dialogue under the potential DPO and the IMF’s ECF program.

Objective 1.2: Fostering access to information and transparency for demand-driven accountability

66. **The WBG will help strengthen the environment for transparency and citizen-driven collective action to bolster the new government’s commitment to increase accountability in public resource management.** In its FY21 budget statement, the Ministry of Finance recommitted to rule-based, transparent, and predictable systems for budget planning, execution, and reporting. To deliver what the administration calls a “new era” of transparency and accountability, the government is operationalizing the Access to Information Act, revising the 2003 PFM Act and the Public Service Act to strengthen the accountability of public officials, and opening new space for dialogue between non-government actors and decision makers. While encouraging, transparency alone is not enough to increase government accountability. The WBG will support reforms that make information more accessible and actionable by non-state actors in targeted areas—including expenditure tracking and procurement awards, SOE corporate governance, and public investment management—to strengthen the environment for stakeholder engagement and oversight for public accountability. The ongoing audit—requested by the President—of the use of COVID-19 funds is further evidence of the need for and importance of enhanced accountability measures.

67. **Beyond their resilience function during COVID-19, digital government and data platforms can strengthen responsive government and more inclusive governance.** The WBG will invest in Malawi’s Data 4 Policy environment, including through the proposed Malawi Statistical Capacity Building Project (FY22), which will focus on the collection and dissemination of timely and high-quality data on poverty, labor, census, and demographics. The Data 4 Policy approach promotes open access and data utilization by governments and citizens and will potentially leverage IDA’s Regional Window to promote harmonization across the SADC. Looking ahead, the WBG will consider a second phase of the Digital Malawi Project to promote further adoption of whole-of-government digital solutions, including e-procurement, that simplify procedures, are more accessible to citizens, and are accompanied by policies that promote greater transparency. Linkages with associated investments in payment systems and the Universal Basic Registry for social cash transfers will be sought.

68. **The World Bank will fully harness citizen engagement to strengthen the demand for good governance in Malawi.** Learning from the lessons of the previous CAS, this CPF will leverage citizen engagement (CE) beyond its traditional project-level impacts. A Citizen Engagement Roadmap will guide these efforts, with proposed interventions at three levels that aim to strengthen the enabling environment for public accountability, institutionalize innovations within government systems, and promote economies of scale across the WBG portfolio (Box 3).

Box 3: CPF Citizen Engagement Roadmap

The CPF's approach to strengthening the demand for good governance through robust CE in Malawi will be guided by a **Citizen Engagement Roadmap**. This Roadmap builds on existing program and sector engagements, promotes economies of scale and iterative learning across the portfolio, and prioritizes a focus on increasing contestability for high-priority policy areas such as agriculture and energy. Proposed interventions will take place at three levels:

(1) **Macro Level:** Strengthening the enabling environment for public accountability by increasing transparency, publicity, and pathways for broader public interests to engage in policy making and implementation. This can include structural reforms promoted through instruments such as the potential programmatic DPO, the facilitation of spaces for citizens to convene and deliberate on high-priority development issues, and the WBG's systematic, substantive engagement with civil society partners.

(2) **Sector and Systems Level:** Focusing on how CE innovations can be taken to scale and institutionalized within government systems, while also encouraging the use of technology to amplify citizen voice and strengthen citizen-state feedback loops. This can include support to the media and civil society to make information more accessible and actionable, innovations with CivicTech tools, and the strengthening of government systems to institutionalize incentives for responsiveness to citizens.

(3) **Portfolio Level:** Encouraging CE synergies and economies of scale across the WBG's Malawi portfolio to strengthen safeguards compliance and monitoring while supporting mechanisms that go beyond enabling individual feedback to bolster collective action. This could include the exploration of an umbrella grievance redress mechanism across clusters of WBG projects, launch of a portfolio-wide approach to citizen satisfaction surveys, and provision of a standardized package of CE support to projects at the design stage.

Objective 1.3: Strengthening systems for intergovernmental fiscal transfers to improve services and accountability

69. **Both Malawi's national strategies and WBG analytics have consistently identified decentralization as a vehicle to strengthen local service delivery.** Through the US\$100 million Governance to Enhance Service Delivery (GESD) Project (P164961), approved in FY20, the WBG will support the government in implementing results-based governance reform across levels of government, with a focus on building confidence in Local Authority capability and country financing systems.²⁷ The GESD will strengthen accountability relationships between local and central government and between local government and citizens through the provision of a performance-based grant financing local development priorities, based on an annual assessment, leveraging collaboration with TA provided to Local Authorities by the United States and United Kingdom.

70. **As the GESD helps to mature intergovernmental financing systems, it aims to generate a platform for strengthening the coordination of local service delivery programming.** The WBG has recently initiated operations funding local service delivery for improved social protection (Malawi SSRLP), primary and secondary education (Malawi Education Sector Improvement Project, P154185, and Equity with Quality and Learning at Secondary, EQUALS, P164223), and early childhood development (Investing in Early Years for Growth and Productivity in Malawi, IEY, P164771). Through stronger linkages across the WBG portfolio, the GESD aims to amplify the results achieved, while strengthening local-level institutional capacity for safeguards oversight and compliance. As an example, collaboration between Digital Malawi and the GESD will be essential in streamlining the design and implementation of the digital government system linking central and local government offices.

CPF Focus Area 2: Promoting private sector-led jobs and livelihoods

71. **In the face of strong COVID-19 headwinds, this focus area targets key short- and long-term strategies for boosting job creation and fostering sustainable livelihoods.** As set out in MW2063, Malawi

²⁷ The operation will be delivered nationwide. The performance-based grant component will apply initially to the 28 rural district governments only. Recognizing the increasing pressures of urbanization, a performance-based grant tailored to the needs of urban local governments can be considered in the later years of GESD through additional financing or a separate urban-focused project.

has an opportunity to overhaul its enabling environment for business and create new opportunities for women- and youth-led MSMEs, with a major focus on commercial agriculture and regional trade. On the back of a WBG CPSD, IDA, IFC, and MIGA aim to coordinate agribusiness, finance, energy, and connectivity investments to support economic diversification (Box 4). Catalytic investments will be underpinned by policy reforms supported through the CPF and future opportunities identified by a JET-themed CEM. Climate change adaptation is a major concern for this focus area, which aligns with the targets of the Africa Region Climate Business Plan, scaling up investments in sustainable landscapes and watersheds, promoting preparedness, and laying the foundations for sustainable and resilient urbanization.

Objective 2.1. Supporting MSME access to finance and services and expanding markets during COVID-19 and beyond

72. **Increasing access to finance, entrepreneurship, and digital infrastructure can transform the potential of MSMEs in Malawi.** The US\$86 million FINES Project, approved in August 2020, will promote the development of the MSME sector through access to a range of tailored financial products as well as business development services and entrepreneurship support, with a special focus on women-owned businesses and youth entrepreneurs. The FINES Project is strategically connected to a range of other programs in the CPF, including IFC's work on secured transactions, a collateral registry, and transparent credit reporting and the US\$72.4 million Digital Malawi Project, which supports trade finance and digital financial services. IFC will target an increase in broadband access through advisory services and funding to broadband companies as well as longer term investments in digital infrastructure, including 4G expansion and the national backbone. As a member of COMESA and SADC, Malawi is also expected to benefit from a MIGA guarantee of EUR359 million covering loans to the Eastern and Southern African Trade and Development Bank (TDB) to support the growth and diversification of TDB's trade finance portfolio, including funds earmarked for on-lending towards the COVID-19 response. Malawi is TDB's fifth largest borrowing country with a 10 percent share of gross credit exposure (2019).

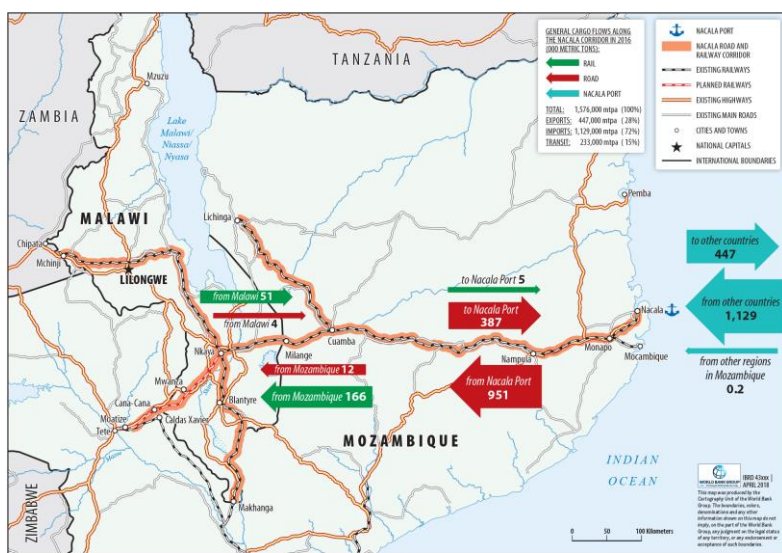
73. **Agricultural transformation is a central pillar of MW2063 and greater crop diversification and commercialization will be a key focus of WBG investment under the CPF.** The US\$95 million Malawi Agricultural Commercialization Project (AGCOM, P158434) and the US\$160 million Shire Valley Transformation Program – Phase 1 (SVTP-1, P158805) are providing the basis for scalable commercial agriculture. The SVTP-1 is the first in a series of projects (2017–31) that will establish core irrigation infrastructure through a PPP structure (deploying IFC transaction advice), integrating smallholder farmers into newly established commercial value chains and strengthening their land tenure. Based on progress under the first phase, SVTP-2 is planned for FY22 to provide irrigation, land tenure and commercialization support to the smallholders in the targeted catchments. At the national level, the AGCOM Project supports commercialization directly through the establishment of 200 “productive alliances” of smallholder groups seeking to diversify production into high-value commercial crops and off-takers. Together, the two programs include specific measures to ensure that women are able to benefit, such as through the use of gender-sensitive extension services and the provision of labor-saving technologies and childcare to address women's greater domestic work burden.

74. **To support policy dialogue and programming, the WBG will undertake a major new program of analysis looking at jobs and economic transformation, starting in agribusiness.** Export restrictions, input subsidies, and the direct intervention of ADMARC in both consumer and producer markets distort incentives and hamper private sector growth in Malawi's main sector. A JET-themed CEM, building on the CPSD, can help inform policy dialogue and will start with a deep dive in the agriculture sector during FY21. As well as informing policy dialogue, the module will help shape the design of the next phase of programmatic investments as SVTP, the AGCOM Project, and the FINES Project all prepare for refinancing, with a view to streamlining their design to focus on job creation and markets. In the near term, the WBG

and Malawi’s development partners are exploring the potential to provide additional financing to the Agriculture Sector Wide Approach Multi Donor Trust Fund²⁸ to continue to provide a platform for coordinated policy dialogue linked to investments in sustainable, climate-smart, and diversified agriculture.

75. **The WBG will support trade logistics, infrastructure, and facilitation to deepen regional integration and improve the competitiveness of domestic enterprises.** In FY21, national and regional IDA will provide US\$22 million of additional financing for the regional investment in the Southern Africa Trade and Transport Facilitation Project (P145566), enhancing trade and transit along the country’s North-South Corridor and at key border posts, whilst supporting improvements in road safety and health services. Looking ahead, in FY21 the SATC Project anticipates leveraging IDA’s Regional Window to reduce trade and transport costs by investing in trade facilitation, road upgrading, and corridor value chains along the strategic Nacala Corridor with Mozambique (Figure 15). Given IFC’s engagement upstream in project development, considerable opportunities exist for investment in dry ports and logistics, if supported by enabling policies. Taken together, these investments are critical to developing the value chains that can support a more diverse range of economic activity. Box 4 presents a holistic picture of the WBG’s approach to lifting multiple constraints on critical value chains—in this case, in soya.

Figure 15: The “Nacala Corridor”



76. **Leveraging these infrastructure investments, WBG ASA will advance key trade and transport policies while identifying future strategic transport investments.** IFC’s Malawi Trade Project (US\$2.4 million) is supporting implementation of the World Trade Organization Trade Facilitation Agreement, complementing the Southern Africa Trade and Transport Facilitation Project’s support to One Stop Border Posts, the National Single Window, and Coordinated Border Management and Trade

Facilitation. Starting in FY22, the WBG proposes to undertake a transport-focused Infrastructure Sector Assessment Program “2.0” (InfraSAP), building upon the recommendations of the recently concluded Long-Term Infrastructure Financing ASA, to provide a deeper diagnostic of transport infrastructure and service bottlenecks in relation to the three core pillars of connectivity, finance, and governance. Crucially, the InfraSAP2.0 governance pillar can benchmark the quality of the institutional, regulatory, and governance environment and identify the binding constraints impeding the productivity and efficiency of transport assets and services, including both public sector and private sector perspectives. An Airport PPP Viability Assessment will support the government’s focus on airport PPP fundamentals and institutional

²⁸ A-SWAP SP II (P164445) is funded by a MDTF (TFOA7167 and TFOA7166) with support from the EU, United States Agency for International Development (USAID), Norway, Irish Aid and Government of Flanders.

frameworks, while generating insights into how the WBG could support the government’s consideration of potential PPP strategies for seven airports.

Box 4: Economic Diversification through Regional Value Chains—The Case of Soya

Malawi’s agri-processing value chains offer new opportunities for diversification, export growth, and job creation. Soya is a particularly promising sector in Malawi and the wider region due, in part, to the rapidly growing global demand for soybeans and poultry, the diversity of its end uses, its climatic resilience, and the jobs that could be created directly and indirectly in farming and processing. As such, Malawi’s soya industry has been prioritized in Malawi’s new National Export Strategy and has been the focus of a recent ASA on developing regional agri-processing value chains in Southern Africa.

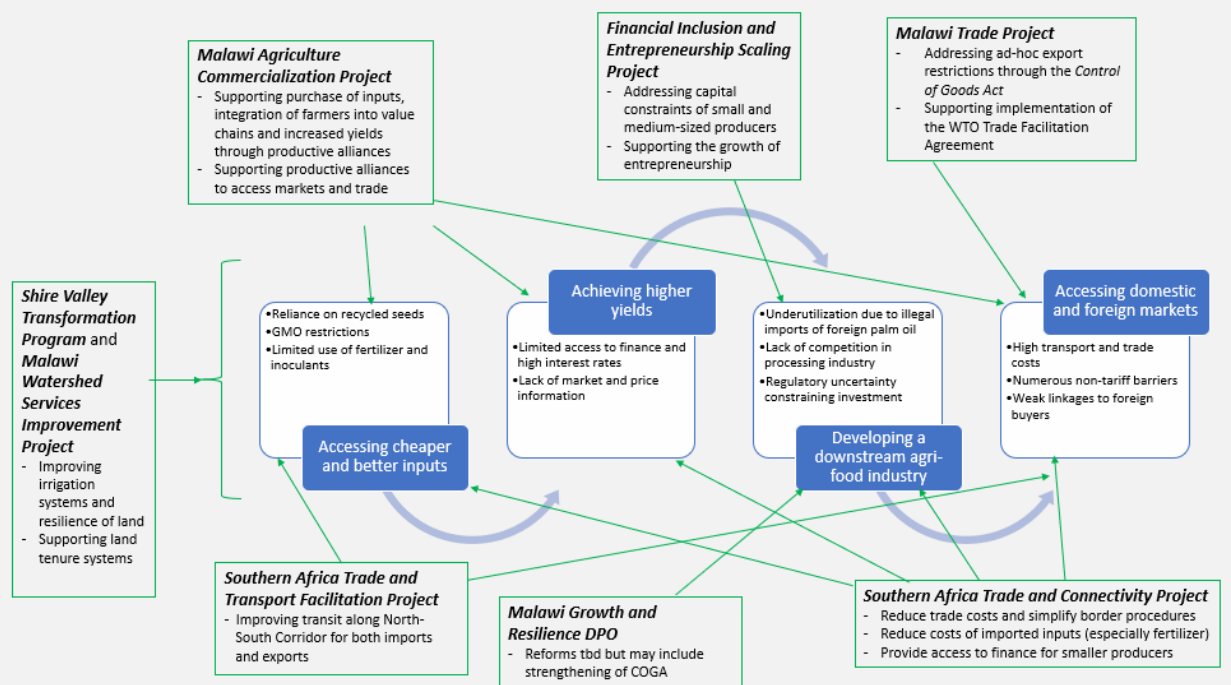
Soybean production in Malawi increased by an average of 10 percent per year from 2000 to 2019, and the country has significant growth potential—particularly as farmers seek an exit from tobacco. The main downstream soya products include vegetable oil, soya cake and meal for animal feed, industrial lubricants and chemicals, and protein products such as tofu.

Despite increasing demand and government attention, the industry is characterized by low productivity and high transaction costs. Although the overall production area of soybeans in Malawi has grown steadily, yields have remained largely stagnant and are often less than 1 ton per hectare for small-scale farmers and only slightly more for commercial producers.

The industry faces a number of challenges. These can be grouped broadly into five categories:

- *Low productivity:* the limited use of productivity-enhancing inputs such as fertilizer, irrigation, and limited mechanization;
- *Low levels of financial inclusion:* small-scale farmers have limited access to credit and digital financial services;
- *Weak transport infrastructure:* without adequate roads, inputs and extension services, exports are all more expensive;
- *Non-tariff trade barriers:* policy uncertainty and ad hoc export bans coupled with logistical challenges; and
- *A large informal market:* only 30 percent of soya is traded in the formal market.

As with other value chains, the complexity of bottlenecks along the soya value chain highlights the need for the WBG to work across multiple interventions and to intensify internal coordination across the portfolio. The figure below illustrates how the WBG portfolio can help unlock private sector-led growth in Malawi, including for soya.



Objective 2.2: Increasing resilience in urban and rural hotspots

77. **Malawi’s vulnerability to climate shocks reflects a crisis of environmental degradation, amplified by population pressure.** The CPF proposes to scale up a holistic approach to land management to build physical resilience and boost environmental and rural resilience. The US\$157 million Malawi Watershed

Services Improvement Project – Phase 1 (MWSIP, P167860) invests in critical watersheds and landscape management in the Shire Valley, twinning ecosystems services and regulation with the development of financial mechanisms (performance-based grants, ecosystems payments) for sustainability. As a series of projects, the MWSIP approach is scalable and will help the government to deliver on its ambitious plan to restore 4.5 million hectares of degraded hotspots under the National Forest and Landscape Restoration Strategy. Land tenure is critical to improving urban and rural resilience, and the WBG is providing TA linked to MWSIP and WBG agriculture investments, which will identify key policy reforms and scalable investments in close coordination with the United States Millennium Challenge Corporation.

78. **Rural-urban linkages and improved planning can help Malawi build growth poles as well as resilient urban spaces.** While urbanization is at an early stage, it is forecast to accelerate markedly. Well-planned urbanization—one of the three priorities of MW2063—can generate demand for rural value chains and the development of agribusiness and logistics MSMEs targeted in Objective 2.1. Through the ongoing Malawi Resilience and Disaster Risk Management Project (MRDRM, P161392), the WBG is investing in updating the flood risk management plan for the Shire River Basin and in developing plans for flood-affected Blantyre City to enable resilient urban development. Under the ongoing US\$100 million Lilongwe Water and Sanitation Project (P163794), the WBG is investing in reliable water supply and improved access to sanitation services in the capital while also supporting the development of city planning instruments. Under IDA20, in support of the National Planning Commission’s work on secondary cities, the WBG will explore larger investment in resilient urbanization linked to utility reforms and investments in water supply systems and district-level performance-based grants.

79. **Under the CPF the WBG will strengthen Malawi’s early warning and disaster preparedness systems to mitigate the impact of worsening climate shocks.** Since Tropical Cyclone Idai in 2019, the WBG has pivoted from disaster response to better anticipate, prepare for, and respond to natural disasters. The MRDRM Project invests in multi-hazard risk information, hydromet services, and early warning capacity for national and local decision making. The project also upgrades decision support systems used for the multipurpose Lake Malawi–Shire River System, safeguarding productive sectors as well as one of the largest water ecosystems in Africa. In parallel, the fully disbursed US\$70 million Disaster Risk Management DPO with CAT DDO is strengthening the institutional environment for preparing for and managing the financial impacts of natural disasters. Looking ahead, the WBG will work to ensure that Malawi takes advantage of innovations in agricultural risk insurance financing and shock preparedness to mitigate the impacts of climate change.

Objective 2.3: Boosting access to electricity, including from renewable sources

80. **Structural transformation and economic diversification hinge in large part on Malawi’s ability to improve access to electricity, including in the Southern Africa Power Pool (SAPP).** Unreliable and expensive electricity is consistently cited as a binding constraint to private sector investment and has emerged as an area of concerted WBG collaboration involving policy action, technical assistance, regional approaches, and MFD. The World Bank-supported Integrated Resource Plan for 2017–37 set out a least-cost plan for on- and off-grid electrification to achieve the government’s 2030 target of 30 percent electricity access. The US\$150 million Malawi Electricity Access Project (P164331), approved in FY19, aims to increase access by connecting an additional 300,000 households to the grid, and another 200,000 customers using off-grid solutions. Malawi also has an opportunity to leverage the SAPP for imports and exports over the medium term. During FY20, the World Bank approved the US\$130 million Mozambique-Malawi Regional Interconnector Project (P164354) to connect Malawi with Mozambique’s transmission systems, enabling bilateral and regional power trade within the SAPP. To deepen and sustain this approach to access, the WBG and development partners will scale Malawi’s connectivity with Zambia and Tanzania

through a proposed Sustainable Transmission and Energy Access Project in FY22, linked to ESCOM's turnaround strategy.

81. **The US\$1.1 billion Mpatamanga Hydropower Project (FY22)—in which the government and the IFC are co-developers—is a flagship PPP that is expected to double current generation capacity.** The proposed IDA financing—US\$100 million from national IDA and a proposed US\$200 million from the Regional Window—is designed to leverage significant IFC debt, donor and commercial debt financiers, including through the potential use of MIGA political risk guarantees. Once complete, Mpatamanga is expected to integrate 350MW into the grid, thereby doubling generation capacity in the country. With the WBG-supported unbundling of the sector, the project represents a flagship initiative to market-test new policies and strategies for attracting private finance. Private sector concessionaires are being considered through competitive tendering.

82. **To diversify the energy base, Malawi is promoting solar IPPs, although it will need to secure the sector's operational and financial viability.** Solar projects, either approved or in the pipeline, are expected to deliver 216MW of capacity, including Salima Solar (60MW), for which IFC signed a financing mandate and MIGA provided a political risk guarantee with the support of the IDA Private Sector Window (Annex 6). Recent investment in solar energy is a promising indication that the private sector sees opportunity for bankable projects in Malawi. To secure this pipeline of deals, the government is developing a financial turnaround strategy for ESCOM, as well as reforms to the sector's financial and operational governance. These measures and their implementation are at the heart of the World Bank-financed programmatic DPO developed under Focus Area 1 and complemented by World Bank and IFC advisory services and are further supported under the proposed Sustainable Transmission and Energy Access Project (FY22).

Box 5: Delivering IFC 3.0 in Malawi as One World Bank Group

IFC launched IFC 3.0 in December 2016. This strategy rests on two pillars: (i) a more deliberate approach to market creation through upstream engagement; and (ii) mobilizing new sources of funds to support private sector solutions. IFC 3.0 positions IFC to fully partner with the World Bank and MIGA to maximize finance for development. Malawi has been selected as one of the countries under the joint IFC-World Bank MFD Accelerator, which aims to accelerate the WBG's "Cascade" approach. Focusing on the energy and water sectors, the WBG will support the government in engaging with the private sector to optimize the utilization of key natural resources.

Energy: IFC is co-developing with the government the 350MW Mpatamanga Hydropower Project on the Shire River, on a PPP basis. A Joint Development Agreement has been signed with the government, and the appointment of a private developer is expected to be completed within FY21. Together with MIGA, IFC is supporting the expansion of Malawi's solar sector. IFC has signed a financing mandate for a 60MW solar PV project in Salima, where MIGA has already provided a guarantee covering the investor's equity investment, and is in negotiations with other solar IPP developers, alongside MIGA. IFC has signed an advisory mandate with ESCOM, through its Southern Africa Power advisory project, to improve the utility's technical and financial performance.

Water: IFC is the transaction advisor for the appointment of a private irrigation operator for the World Bank-financed US\$160 million Shire Valley Transformation Project. The infrastructure is being financed jointly by the World Bank and African Development Bank (AfDB), and the scheme will be operated by a private operator.

Financial Inclusion: IFC has been building on the Malawi investment climate program to develop a better credit reporting infrastructure and to increase access to finance for MSMEs through a secured transactions and collateral registry project. A better financing infrastructure in the country will reduce borrowing costs and increase appetite to lend to small companies that would otherwise be excluded. By March 2020, the advisory project had already facilitated US\$85 million in MSME lending.

Digital Economy: Building on the World Bank-supported US\$72 million Digital Malawi Project, IFC has signed a mandate with a company that plans to deploy about 700 km of fiber in Lilongwe: a financing decision is expected by the end of FY21.

CPF Focus Area 3: Strengthening human capital development

83. **While Malawi's HCI rating has improved significantly, the CPF will address key bottlenecks to deepen these gains.** These will include a concerted approach to accelerating the demographic transition, strengthening the quality of learning in schools, and upgrading safety nets through technology. Given the

major role of development partners in delivering basic services in Malawi, the WBG will use the FY21 Human Capital Review to ensure that it leverages donors' respective comparative advantage and engages through platforms such as the Global Financing Facility for Women, Children and Adolescents and the Global Partnership for Education (GPE).

Objective 3.1: Accelerating the demographic dividend through targeted health systems strengthening

84. **In the short term, the WBG has ensured that financing is available to support Malawi's health system response to the COVID-19 pandemic.** In the first phase of the crisis, the WBG worked with the government to reprioritize the ongoing regional project Southern Africa Tuberculosis and Health Systems Support Project (P173228) while mobilizing US\$7 million for a new COVID-19 Emergency Response and Health Systems Preparedness Project. A second wave of infections in early 2021 is straining the system's supply of ward space, health care workers, and medical supplies. A state of national disaster was declared on January 12, 2021, and the government revised the National COVID-19 Preparedness and Response Plan. Malawi has joined the COVID-19 Vaccines Global Access (COVAX) Facility through which the GAVI COVAX Advance Market Commitment will finance vaccines for a first phase.²⁹ An initial consignment of 360,000 vaccines arrived in March 2021 and the WBG is exploring a US\$30 million additional financing for the COVID-19 Project to ensure coverage up to 25 percent of the population, rollout, and awareness raising.

85. **A proposed new investment in human capital development will help consolidate efforts by the WBG and other partners to upgrade Malawi's health systems with a focus on women's empowerment.** A new phase of human capital development programming based on completed and ongoing analytical work will aim to scale and consolidate WBG support to the health system, building on ongoing investments.³⁰ The proposed Human Capital Development and Women's Empowerment Project (FY23) will address: (i) high levels of adolescent fertility (resulting in high dropout rates); and (ii) the poor quality of reproductive health services. The project will place special emphasis on improving women's access to reproductive health services information and scaling up access to family planning and reproductive health services for adolescents, using youth-friendly family planning combined with life skills training. The project will employ a system-strengthening approach that aligns with the WBG's comparative advantage, improving facility-level sustainable capacity through the provision of medicines, equipment, internet connectivity, and digital platforms, as well as the appropriate skills mix.

86. **Ongoing World Bank work to address malnutrition through multisector innovations complements the focus on human capital development and women's empowerment.** The ongoing US\$60 million IEY Project integrates approaches to nutrition, stimulation, and early learning. The project builds on analysis that shows the importance of engaging men to influence attitudes on maternal health and other gender norms. In addition, the Adolescent Nutrition-Sensitive Agriculture Project³¹ (P163923) is piloting a holistic approach to addressing nutrition among adolescents, including through an integrated package to improve life skills, empowerment, and community engagement. Finally, the Lilongwe Water

²⁹ COVAX is the vaccines pillar of the Access to COVID-19 Tools (ACT) Accelerator. GAVI is the Global Alliance for Vaccines and Immunization.

³⁰ Ongoing investments include the COVID-19 response project, as well as the Southern Africa Tuberculosis and Health Systems Support Project and the health component of the Southern Africa Trade and Transport Facilitation Project, which addresses post-crash trauma and response systems. Analytical work includes the Malawi Harmonized Health Facility Assessment (completed); Strengthening Expenditure for Human Capital PER (ongoing); Maximizing Human Capital and Supporting Demographic Transition by Improving Adolescent Sexual and Reproductive Health Outcomes (ongoing); COVID-19 analytics on the supply and demand for essential services; and mapping the government and development partners' spending on COVID-19; and Overcoming Challenges to Transform Human Capital (ongoing).

³¹ The pilot is funded by the Japan Social Development Fund (JSDF), TF-A8188.

and Sanitation Project and other operations are supporting the government's efforts to increase access to improved WASH services.

Objective 3.2: Improving learning outcomes and skills

87. **The World Bank's growing engagement in the education sector, from early childhood through tertiary education, provides an important opportunity for systems strengthening and improved learning outcomes.** The IEY Project supports 250 Community-Based Childhood Centers (CBCCs) and training for instructors, as well as undergraduate and postgraduate training on early childhood development-related programs and interactive radio instruction. The US\$90 million EQUALS Project is supporting efforts to improve the quality of science and mathematics instruction in Community Day Secondary Schools (CDSSs), using digital technologies in Teacher Training Centers and schools, and to increase access to secondary education in selected remote areas. Under the CPF, the WBG will take strategic investments to scale while continuing to invest in data and analytics to inform policy. The WBG will have a specific focus on addressing gender gaps in education, both for access and outcome. The EQUALS Project, for example, will tackle financial constraints to access through the provision of scholarships in disadvantaged districts and inequity in the learning environment through the recruitment of more female teachers and interventions to address gender-based violence and disability in schools.

88. **To address low overall learning at the lower primary level and significant learning gaps between schools, the CPF envisions a programmatic approach to address systemwide inefficiencies in spending and provide targeted and needs-based financing to fully address constraints.** The FY21 Malawi Education Reform Program (P174329) , with financing from both the GPE and IDA of US\$150 million, aims to reach sufficient scale to address all lower primary schools and raise adjusted years of learning, while also supporting the safe return to schools for children post-COVID-19. The Malawi Education Reform Program is structured around performance-based conditions, ensuring that sector reforms are sustained, increasing government capacity to coordinate the sector, and aiming to crowd in other development partners around standardized and community-led infrastructure design and delivery. In addition, a programmatic ASA will provide policy guidance to support improved targeting of resources for equity in learning between schools and individual students.

89. **The WBG will help to foster entrepreneurship skills through targeted vocational and technical training and apprenticeships.** The planned FY21 US\$100 million Skills for a Vibrant Economy Project (P172627) places a special emphasis on young people and women's empowerment and prioritizes industries where women are active. For example, the project is taking on board recent evidence from across the region on the effectiveness of using girls' clubs as safe spaces for delivering life skills and vocational training, with observed impacts not only on earnings but also on early childbearing and other sexual and reproductive health outcomes.³² Through participation in the regional Eastern and Southern Africa Higher Education Centers of Excellence Project (P151847), Malawi aims to reduce skills gaps in priority sectors like digital and agribusiness. Finally, Digital Malawi is providing internet access to public institutions, including schools, and the Malawi Research and Education Network provides low-cost broadband to tertiary institutions.

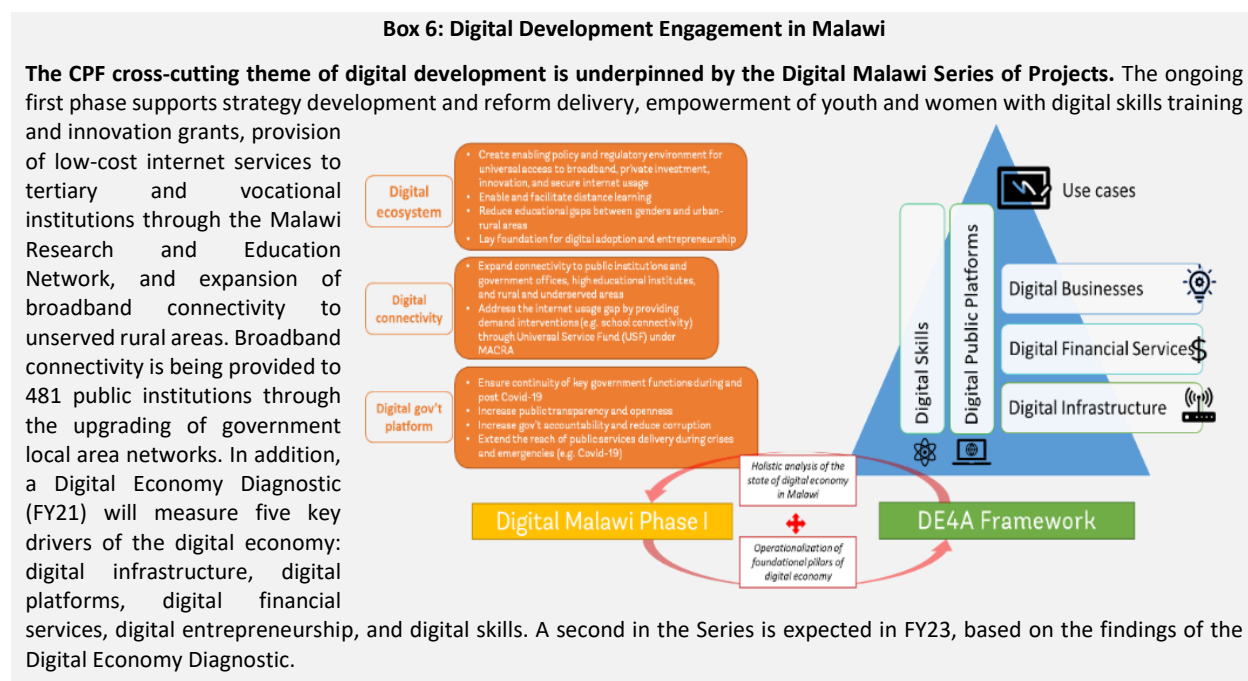
Objective 3.3: Increasing access to shock-responsive safety nets

90. **In the face of recurrent shocks, safety net strategies need to evolve to create opportunities for livelihoods and human capital development.** The second Malawi National Social Support Program 2018–23 (MNSSP II) envisions an inclusive and dynamic safety net system, better positioned to promote

³² O. Bandiera, N. Buehren, R. Burgess, M. Goldstein, S. Gulesci, I. Rasul, and M. Sulaiman. 2018. *Women's empowerment in action: evidence from a randomized control trial in Africa*. Washington, DC: World Bank.

resilience. The CPF, through the US\$125 million SSRLP, supports the transition towards an inclusive, shock-responsive safety net system that safeguards assets and human capital. It also promotes a livelihood strategy to help those in extreme poverty to graduate from social support and offers government alternatives to costly farm input subsidies.³³ The SSRLP has reprioritized US\$40 million to finance the government’s emergency cash response to COVID-19 in urban hotspots, offering an opportunity for Malawi to transition towards increased mobile payments and to improve rural-urban integration and resilience. A planned social protection analysis in FY22 will assist the government and development partners in exploring lessons learned with a view to further strengthening a national shock-responsive safety net with options for disaster risk financing channels in future.

91. **The SSRLP incorporates both digital development and women’s economic empowerment.** As the project targets the poorest and most labor-constrained households, it should benefit women in particular. The project complements other portfolio support to girls’ education, with the use of a cash transfer top-up to encourage school attendance among children. It will leverage opportunities for digital innovation by strengthening the Malawi Unified Beneficiary Registry, which could enable the harmonization of safety nets in Malawi and an increase in digital and ID-linked payments with knock-on benefits for extending financial inclusion.



V. IMPLEMENTING THE COUNTRY PARTNERSHIP FRAMEWORK

A. Financing

92. **Malawi’s active portfolio is wide-ranging in scope and relatively young and serves as a primary basis for delivering the key objectives of the CPF within its first phase.** During IDA18 key new investments were made in agriculture, water and natural resource management, disaster resilience, energy access, decentralization, education, social protection, and jobs. Today, these 21 active national and regional

³³ Studies have demonstrated that poor people would benefit substantially more from cash than in-kind transfers. World Bank. 2017. *Pathways to Prosperity in Rural Malawi*. Directions in Development Report. Washington, DC: World Bank.

projects encompass total commitments of US\$1.9 billion (of which US\$140 million is from the IDA Regional Window). See Annex 4 for a full listing.

93. **Looking ahead, the planned pipeline for IDA19 applies the CPF approach to selectivity and enables a consolidation of the IDA portfolio.** New projects include the foundational potential DPO series; three key MFD investments in energy, transport, and water; and a new program for human capital development. In addition, the CPF will make use of additional financing or programmatic series of projects to integrate different sectors (for example the SVTP and MWSIP series, as well as the Human Capital and Women’s Empowerment Project). An early PLR is planned to allow for possible adjustments to the program in light of implementation lessons and changes in country context.

Table 2: Indicative World Bank Group Investment and ASA Pipeline

CPF Focus Area	New IDA19 Investments (*regional)	Advisory Services and Analytics (ASA)	Cross-Cutting Analytics
1. Bolstering foundations for growth and accountability	<ul style="list-style-type: none"> ➤ Programmatic 2-series DPO (FY21/22) ➤ Statistical Capacity Building* (FY21); US\$54m 	<p>Core ASA:</p> <ul style="list-style-type: none"> • Public Expenditure Review: Strengthening Expenditure for Human Capital <p>Extended Core ASA:</p> <ul style="list-style-type: none"> • Debt Management • PFM TA • Citizen Engagement Roadmap 	<p>Core ASA:</p> <ul style="list-style-type: none"> ○ Malawi Poverty Assessment ○ Digital Economy 4 Development Diagnostic ○ Gender Assessment (including coordinated response to SGBV/SEA)
2. Promoting private sector-led jobs and livelihoods	<ul style="list-style-type: none"> ➤ Southern Africa Trade and Transport Facilitation Project Additional Financing (FY21)*; US\$22m ➤ Southern Africa Trade and Connectivity Project (the “Nacala Corridor”)* (FY21); US\$150m ➤ Mpatamanga Hydropower Project* (FY22); US\$300m ➤ Sustainable Transmission and Energy Access Project (FY22); US\$250m (tbc) ➤ Shire Valley Transformation Project – 2 (FY22); US\$175m (tbc) 	<p>Core ASA:</p> <ul style="list-style-type: none"> • JET-themed CEM (programmatic, starting with agriculture sector review) <p>Extended Core ASA:</p> <ul style="list-style-type: none"> • Sustainable Cities Review • IFC Advisory Services (Trade and Doing Business Projects) • Land Policy Dialogue • Water Platform • Airports PPP Viability Assessment • Transport InfraSAP 2.0 	
3. Strengthening human capital development	<ul style="list-style-type: none"> ➤ COVID-19 Additional Financing (FY21); US\$30m ➤ Malawi Education Reform Project (GPE and IDA; FY21); US\$150.7m ➤ Skills for a Vibrant Economy Project (FY21); US\$100m ➤ Social Support for Resilient Livelihoods Additional Financing (FY23); US\$40m (tbc) ➤ Human Capital Development and Women’s Empowerment (FY23); US\$100 (tbc) 	<p>Extended Core ASA:</p> <ul style="list-style-type: none"> • Malawi Human Capital Review • Maintaining Essential Health Services in the context of COVID-19 - ongoing • Social Protection / Shock Responsive Cash Transfers / COVID-19 review 	

Note: Investment amounts are subject to changes during appraisal, include national and regional window IDA allocations, as well as trust funds.

94. **Malawi will have access to an estimated allocation of SDR560.6 million under IDA19, subject to annual reviews of Policy and Performance Actions under the SDFP.**³⁴ As of May 31, 2020, Malawi was at

³⁴ Referenced IDA19 volumes are indicative. Actual performance-based allocations (PBA) will be determined annually and will depend on: (i) total IDA resources available; (ii) the number of IDA-eligible countries; (iii) the country’s performance rating, per-capita gross national income, and population; (iv) implementation of IDA’s Sustainable Development Finance Policy (SDFP); and (v) the performance and other allocation parameters for IDA borrowers.

moderate risk of external debt distress and thus subject to the SDFP; its core IDA allocation will be conditional on the country's satisfactory implementation of the agreed PPAs each year. In line with SDFP policy, Malawi may lose its set-aside of 10 percent in the event of missing PPAs. The PPAs have been agreed with the government and will be supported by the WBG through TA provided under Focus Area 1, as well as through the potential programmatic DPO and the IMF's ECF.

95. **The proposed pipeline unlocks additionality through IDA's Regional Window to enable access to larger markets.** The size of Malawi's domestic markets is a binding constraint. The CPF targets US\$350 million of potential financing from the Regional Window to reduce the cost of critical inputs and export goods along the Nacala Corridor through northern Mozambique, as well as opening Malawi to energy trade within the SAPP. Both initiatives are central to the CPSP's objective of creating new markets and catalyzing private investment. Beyond infrastructure, Malawi is participating in regional initiatives for higher education, disease surveillance, and data for development.

96. **Continuing the shift towards crisis preparedness, the CPF will help Malawi pre-position financing for disaster risk management.** During IDA18, Malawi utilized US\$120 million in Crisis Response Window financing to respond to Tropical Cyclones Kenneth and Idai through additional financing to the MRDRM Project and the DPO element of the CAT-DDO. Crisis Response Window financing helped to strengthen Malawi's DRM policy framework and create synergies within the WBG portfolio, particularly through linkages to the macro-fiscal dialogue and the WBG's engagement on integrated water resource and landscape management, resulting in IDA's investment in the MWSIP. Under the CPF, the WBG will further strengthen preparedness and mitigation instruments relevant to Malawi's chronic vulnerability.

B. Portfolio Management and a "Learning CPF"

97. **Achieving impact in Malawi requires a "Learning CPF," through which lessons are garnered in real time and fed back across different sector investments to enhance collective impact.** The application of a Learning CPF approach embraces the importance of adapting through the implementation cycle by: (i) collecting more frequent, targeted, and actionable information from across the portfolio; (ii) enabling more responsive feedback loops with beneficiaries; (iii) supporting projects and the broader portfolio to adapt to evidence; and (iv) introducing more results-based financing to link investments to performance. Given the heightened challenges of supervision during the pandemic, the CPF supports the embedding of the Geo-Enabled Monitoring System within government systems, while also supporting a harmonized approach to collecting data from citizens across the portfolio, streamlining grievance redress systems, undertaking common perceptions surveys and partnering with local think tanks and academic institutions to strengthen the environment for evidence-based dialogue, experimentation, and the institutionalization of rapid feedback loops.

98. **A net consolidation of the portfolio is expected over the CPF period. The number of active projects has expanded from 17 to 21 over the last three years, including both national and regional projects.** Eleven projects are due to close between FY21 and FY23, resulting in a net consolidation of the portfolio and an increase in average project size through the CPF period. This trajectory is expected to accelerate into IDA20 through the approach set out in this CPF, namely: (i) integration of multisector programs; (ii) greater use of additional financing; and (iii) greater utilization of Contingency Emergency Response Components to respond to crises.

99. **Under this CPF the WBG will establish a portfolio-based approach to responding to the high risk of sexual and gender-based violence and will aim to support a national approach.** Guided by the GBV Good Practice Note launched in October 2018, the WBG is applying new standards in SGBV risk identification, mitigation, and response to all new operations in sustainable development and infrastructure sectors. All World Bank-financed projects in Malawi are subject to an SGBV risk assessment

and specifically tailored mitigation measures. Based on the FY21 Country Gender Assessment and Evaluation of Coordinated Response to GBV/SEA, the WBG will explore opportunities to deliver a strategic social risk management capacity building program, to develop and deliver training programs for contractors and supervising consultants, and to harmonize grievance redress systems.

C. Partnerships and Donor Coordination

100. **Strengthening platforms for dialogue and coordination will be a key element in CPF delivery.** As recommended by the CLR of the previous Country Assistance Strategy, the WBG can play a key role in establishing country platforms for development partner dialogue with government in areas of comparative advantage. The WBG will seek to refinance the Agriculture Sector Wide Approach (P164445) to strengthen donor dialogue with the government in this critical sector, potentially linking funding to performance and policy, while also extending donor-funded work on governance including citizen engagement, PFM, and education. Malawi receives support through the WBG from the GPE and the Global Financing Facility for Women, Children, and Adolescents to enhance leadership and sector dialogue and thus increase impact. The WBG will continue to collaborate with United Nations bodies, especially on DRM, nutrition, and safety nets, to help develop shock-responsive systems that build resilience through the humanitarian-development nexus. The Malawi Water Platform will facilitate information exchange and harmonized approaches across multiple stakeholders engaged in landscape management and watershed services.

101. **Development partners are playing a major role in key sectors (Annex 12).** Development partners collectively cover many sectors: ensuring more effective technical coordination in alignment with MW2063 is key to strategic complementarity and impact. In Focus Area 1, the WBG will continue to maintain open dialogue on the strategic issues of economic policy, private sector participation/PPPs, PFM reform, and decentralization, particularly with the multilaterals and bilateral partners such as Germany, the United Kingdom, and the United States. The agriculture sector has an active group of development partners, as noted above. In human capital development, the WBG offers a distinct country systems perspective that complements the work of development partners and non-governmental organizations in these sectors. Increased coordination of development financing institutions, led by IFC as supported by the CPSD, can help target policy interventions to unlock private capital to strategic sectors. There is also appetite for coordination and co-financing infrastructure PPPs among the WBG, AfDB, European Investment Bank, Millennium Challenge Account, and Japan International Cooperation Agency, to be coordinated through the Trade, Industry, and Private Sector Development Partners Forum.

D. Financial Management, Procurement, and Country Systems

102. **Important improvements to the PFM environment have been introduced since the “Cashgate” scandal in 2013.** In 2018, a Public Expenditure and Financial Accountability (PEFA) assessment demonstrated progress in many areas of PFM performance, including tax collection and tax registration. Parliamentary oversight of budget proposals and scrutiny of audited annual financial reports now take place in line with the legal framework. Advances were also noted in procurement (linked to legislation), internal audit (focused on reporting), and financial transparency with increased reporting through the integrated financial management information system (IFMIS) and integration of national identification systems with payroll. These improvements—with strong support from the WBG, IMF, European Union, and Germany, as well as the United Kingdom and United States working at the local government level—were further reinforced through the delivery of WBG-financed DPOs during the previous CAS and in the intervening period.

103. **The PEFA assessment highlighted areas in need of improvement.** The study pointed to deteriorating scores for predictability in the availability of funds for commitment of expenditure. Intergovernmental fiscal relations (horizontal allocation formulas and consolidation of financial data for

general government) are outdated. Oversight of fiscal risk from SOEs and PPP arrangements remains a concern. Public debt reporting and effectiveness of internal controls for non-salary expenditure (commitment controls and degree of non-compliance with rules) require greater focus. Weak adherence to formal PFM rules, systemic collusion within the public sector, and poor sanctioning of bad behaviour further undermine the integrity of the system.

104. **The new administration has indicated its commitment to further strengthen the PFM environment.** In particular, the 2003 PFM Bill will be revised to strengthen the accountability of controlling officers within the PFM system, complemented by the phased rollout of the new IFMIS with support from the WBG, IMF, European Union, and Germany. An Access to Information Law has become effective, and the Anti-Corruption Bureau empowered to undertake its mandate. This will be bolstered by the United Kingdom’s increased support through its Tackling Serious and Organized Corruption Program, which will strengthen the systems regulating how money and services move through the economy and increase the risks of engaging in corruption through multifaceted support to the Anti-Corruption Bureau.

105. **Through the CPF, the WBG will further enhance its oversight of procurement.** Malawi was the first country to complete a Methodology for Assessing Procurement Systems assessment in 2018, following enactment of the 2017 Public Procurement and Disposal of Assets Law. Building on the lessons of this exercise, WBG support to procurement policy and practice will be further enhanced under the CPF. Public procurement spending contributes 14 percent to GDP, but smaller local firms have not been able to take advantage given the dominance of a narrow set of larger, well-connected players. The Digital Malawi Project will help to establish an e-procurement platform that will streamline the multiple layers of vetting and approval required for awards. The WBG will also help local MSMEs to enter the market through an e-Marketplace and through online training modules, with wider benefits for transparency, efficiency and equal opportunity in public procurement. As a result of COVID-19 restrictions, the WBG has introduced special measures to facilitate tender processes, is enhancing oversight of high-risk contracts, and has extended World Bank Facilitated Procurement for the Malawi COVID-19 Emergency Response Project.

VI. MANAGING RISKS TO THE CPF

106. **The CPF is rated as having substantial risk.** Although the recent and conclusive end of the last political cycle lowers the level of political risk in the short term, Malawi’s underlying governance issues remain substantial. COVID-19 also accentuates risks related to macroeconomic and fiscal stability, manifested by accumulating debt levels. Climate shocks and social and SGBV risks remain substantial and highlight the need for the CPF to further enhance WBG support to climate adaptation, prevention, and preparedness, as well as new approaches to social inclusion through the program.

Table 3: Systematic Operations Risk-Rating Tool

Risk Categories	Rating
1. Political and governance	Substantial
2. Macroeconomic	Substantial
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	Substantial
8. Stakeholders	Moderate
9. Other (Epidemiological risks)	Moderate
Overall	Substantial

107. **Political and governance risks: Substantial.** Since the start of multiparty politics in 1994, Malawi—although generally stable—has experienced regular political uncertainty. The temporary elevation of political risks during the period of elections contestation concluded with a smooth re-run and decisive outcome in 2020. Furthermore, the demonstration of effective legal recourse, popular participation, and active media highlighted institutional resilience, as well as an increasingly engaged, politically aware, and well-organized youth. The new government—with a five-year term that overlaps with much of the CPF—is taking concrete steps to deliver its commitments on rule of law, transparency, and accountability. Nevertheless, political and governance risks to achieving CPF objectives remain substantial, reflecting the realities of coalition and factional politics and the potential for anticorruption efforts to spill over into high-profile scandals. Given high expectations, Malawi also faces the risk of disappointment. Although many of these risks are outside the control and mandate of the WBG, the CPF proposes to invest in the enabling environment for political and economic accountability under Focus Area 1, while ensuring close monitoring of emerging risks through dialogue with local and international partners.

108. **Macroeconomic risks: Substantial:** Despite improvements in macroeconomic management in the last few years, the CPF will face substantial risks from macroeconomic instability, relating to: (i) continued vulnerability to weather shocks and lack of economic diversification; (ii) COVID-19's exacerbation of recent fiscal slippages, resulting in increasing debt vulnerability; and (iii) deterioration in the balance of payments. IMF partnership is critical, although the agreement to cancel and renegotiate the ECF creates uncertainty in the short term as the authorities renegotiate a new ECF. The country will need to tighten budget management, commitment controls and cash management as well as boost agricultural commercialization, and broaden the economic base, while also strengthening DRM and social protection programs. The CPF is designed to assist the country in these areas, including through intensive policy dialogue under the DPO. If the country fails to make sufficient macro-fiscal adjustment in order to resolve imbalances and lay the foundations for stable post-COVID-19 recovery, the risk of macro-instability, as seen in earlier years, will require increasingly close monitoring. Equally, if, as in some previous DPOs, the reform momentum stalls, IDA resources can be re-allocated towards scalable investments in Focus Areas 2 and 3.

109. **Institutional capacity for implementation and sustainability: Substantial.** Malawi's institutional capacity remains weak. Implementation of the CPF requires coordination across multiple agencies and institutions at central and local levels, as well as within parastatals. The well-known "implementation gap" between policies, procedures, and rules and their effective implementation will continue to pose risks to the delivery and sustainability of development interventions. External consultants play an important role in the design and day-to-day implementation of WBG-funded operations, but recent steps by the Ministry of Finance to cap project implementation unit fees may result in staff turnover across the portfolio. This could slow implementation but may also offer the potential to focus on skills development within national institutions. Public sector reform efforts will restart under high-level political leadership, with the intention to limit patronage-based decisions and align incentives for increased accountability. WBG-supported projects will continue to place a strong emphasis on country systems strengthening.

110. **Fiduciary risk: Substantial.** Malawi's political economy system encourages politicians to use development resources for short-term, visible, private goods for their constituents, while using spending/contracting as a means of extending patronage. Procurement and financial management risks to the CPF are therefore substantial. Weak managerial accountability and the absence of consistent application of disciplinary measures together undermine the technical systems intended to protect public funds. WBG-financed projects enable project implementation units to augment capacity with consultants where capacity gaps are identified during preparation. However, as mentioned above, the government's recent efforts to restrict compensation for consultants may put these positions at risk. WBG will strengthen its detailed fiduciary review of projects. Authorization of funds disbursements from the WBG to the

Designated Accounts of projects are managed by Authorized Signatories mandated by the Ministry of Finance. More broadly, fiduciary risk should be mitigated through the planned amendment to the 2003 PFM Bill to strengthen accountability controls, transparency, and oversight, and the new IFMIS will enable the Ministry of Finance to interface with the Human Resource Information Management System, the Reserve Bank of Malawi, the Malawi Revenue Authority and the national identification systems.

111. **Social risk: Substantial:** Despite progress on human capital, Malawi's social fabric remains riven with structural features that generate increased social risks, particularly for women and vulnerable groups. Indeed, the Committee of the Convention on the Elimination of all Forms of Discrimination Against Women has underscored the high levels of poverty, low levels of education and illiteracy, limitations in the access to health, basic sanitation, credit and employment, limited participation in political life, and the prevalence of domestic and sexual violence as some of the main issues confronting women from disadvantaged communities. Persons with disabilities, persons living with albinism,³⁵ and lesbian, gay, bisexual, transgender, and intersex (LGBTI) communities are amongst the most vulnerable, facing triple discrimination based on gender, their ascribed social identity and socioeconomic status. Experience also demonstrates that Malawi has limited capacity to mitigate and respond to social risks due to dispersed institutional responsibilities and limited or inadequate human and financial resources. Recent cases of SGBV under WBG-financed projects have highlighted the need for more proactive management of social risks, including through the Citizen Engagement Roadmap. Based on the ongoing Gender Assessment and Coordinated Response to SGBV/SEA Risks ASA, the WBG will strengthen risk management systems across the portfolio and within government systems.

112. **Climate and disaster risk: Substantial.** With more than 80 percent of the population dependent on rainfed agriculture, fluctuating weather patterns have a major impact on food security and macroeconomic stability. A climate shock can be expected during the CPF period. As noted in the CLR, severe drought and flooding in 2015/16 disrupted CAS objectives and led to portfolio reprioritization to save lives. By the time Tropical Cyclone Idai struck in 2019, Malawi and the WBG portfolio were better prepared. Looking ahead, the CPF proposes to pre-position shock-response mechanisms within projects that can deploy funds rapidly. Over the longer term, through the CPF, the WBG is supporting Malawi to become climate resilient, strengthening policies and institutions for DRM, securing vital watersheds and landscapes for more diverse livelihoods, and preparing resilient urban areas.

³⁵ In Malawi one in 130 people has albinism, over 134,000 in total. Albinism is a rare genetic condition present from birth that results in a lack of pigmentation in the skin, eyes and hair. Of the total population, 40 percent (about 53,000) are of primary and secondary school age. Yet going to school potentially puts them in danger. In recent years there have been a surge in killings of people with albinism with UN reporting over 160 cases of killings over the last five years. Other human rights violations against persons with albinism have also been reported in the country.

ANNEX 1: CPF RESULTS FRAMEWORK

Focus Area 1: Bolstering Foundations for Growth and Accountability		
<p>Focus Area 1 adopts a new, flexible approach to addressing selected, long-standing governance weaknesses that have held Malawi back from achieving broad-based economic development and growth. Drawing on the lessons of previous WBG engagement in the sector as well as the World Development Report 2017: Governance and the Law, the engagement strategy within this focus area shifts the World Bank's work towards supporting the demand for responsive and accountable government through increased transparency, citizen engagement, and decentralization, in parallel to supporting a revived reform agenda through policy and analytical work, as well as a potential new DPO series. The planned DPO is a key element in the broader CPF engagement strategy: gauging commitment to reform, shaping the agenda, and underpinning WBG investments in the energy, agriculture, and water sectors foreseen under Focus Area 2, and targeted in IFC's new Country Strategy. The DPO would promote reforms to increase agricultural productivity and market access. Second, it would support reforms to increase access to reliable energy. Third, it would seek to promote reforms to strengthen fiscal management and governance. The overarching objective is to support those calling for fundamental and long-pending reforms; however, the resources can be absorbed in scalable investments in the other two Focus Areas in case momentum for reform stalls.</p>		
<p>Objective 1.1: Strengthening fiscal and debt management for sustainability and resilience</p>		
<p>Intervention Logic: Improved fiscal management is key to effective implementation of government policy and serves as an anchor for macroeconomic stability and broader economic transformation. While recognizing the need for countercyclical fiscal policy to fight the ongoing COVID-19 pandemic, the government has highlighted the urgent need to control frequent expenditure overruns that have led to recurring high fiscal deficits and put macroeconomic stability at risk. Improved budget credibility through improved budget planning, more restrictive fiscal policies, and better management of fiscal risks will limit inflationary pressure and free up domestic savings for private sector credit. Lower deficits will break the cycle of sharply increasing debt servicing costs, which have risen from 10.6 percent of total revenues in 2012 to 31.2 percent in 2019.</p> <p>The CPF will support improved fiscal management through economic monitoring and analytics, technical assistance, and policy actions embedded in the potential DPO series. The CPF will support PFM strengthening system with a view to: (a) contributing to macro stability, including by limiting the accumulation of arrears through tighter commitment controls; (b) enabling efficient expenditures on priority services and investments, including by improving the predictability and timeliness of releases, strengthening public investment management and procurement, improving SOE corporate governance, and expanding the use of e-government; and (c) building trust in the budget and PFM system through improved financial oversight, accountability, and transparency. With a view to improving fiscal and debt sustainability, the CPF will support the government in achieving the PPA commitments under the IDA19 SDFP and embedded in the potential DPO and the IMF program. These efforts will be bolstered by a concerted effort to improve public access to comprehensive and timely fiscal information for better management of fiscal risks. The CPF will take a multi-pronged approach to SOE management, pursuing policy actions within the potential DPO series while supporting targeted reforms in key sectors such as agriculture, energy, and water.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
Indicator 1.1.1: Deviation of recurrent expenditure outturn	a) Framework for cash management and commitment control in place, including explicit provisions for Ministry of Finance to have the ability to	Ongoing Operations:

<p>from budget over previous four fiscal years (%) <i>Baseline:</i> 10 (2016/17–2019/20) <i>Target:</i> ≤ 5 (2020/21–2023/24) <i>Source:</i> MOF</p>	<p>ration resources in the event that budgeted inflows fall below projections, within a set of objective principles <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2022) <i>Source:</i> MOF</p> <p>b) Framework in place for effective prioritization, analysis, and oversight of public investment projects <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2024) <i>Source:</i> MOF</p>	<ul style="list-style-type: none"> • Digital Malawi Program Phase I: Malawi Digital Foundations Project (P160533) • Governance to Enable Service Delivery (P164961) <p>Proposed Operations:</p> <ul style="list-style-type: none"> • Malawi Growth and Resilience Development Policy Financing (P175072) • Regional Statistical Capacity Building (FY21) <p>ASA:</p> <ul style="list-style-type: none"> • Public Financial Management TA (EFO) • Malawi Economic Monitor series • Public Expenditure Review, focused on human capital development (FY21) • Debt Management TA (FY21) • Citizen Engagement Roadmap
<p>Indicator 1.1.2: Public debt report published biannually, including coverage of debt, guarantees, and contingent liabilities for extrabudgetary units and public corporations and including creditor and terms of loans, as well as details of guarantees <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2024) <i>Source:</i> SFDP FY21</p>	<p>a) Ministry of Finance conducts an annual review of domestic debt management, including the cost and risks of debt, and adjusts debt issuance to reduce the cost of domestic debt <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2022) <i>Source:</i> MOF</p> <p>b) Government publishes fiscal risk statement in budget documentation <i>Baseline:</i> No (2020) <i>Target:</i> Yes, annually (2021–24) <i>Source:</i> Government budget</p> <p>c) Number of SOEs included by Auditor General in a consolidated audit report for each FY that is submitted to parliament and published on Ministry of Finance/Auditor General website <i>Baseline:</i> 9 SOEs (2020) <i>Target:</i> 20 SOEs (2021–24) <i>Source:</i> Department of Auditor General</p>	
<p>Objective 1.2: Fostering access to information and transparency for demand-driven accountability</p>		
<p>Intervention Logic: Governance reform efforts in Malawi have historically suffered from an “implementation gap,” with poor public sector performance characterized by weak enforcement of the legal framework and a focus on form rather than function. The recent change in leadership in Malawi has opened the door to potential progress on the governance and accountability agenda, and the current administration has called for a “new era” of transparency and accountability in Malawi. To deliver this, the government is operationalizing the Access to Information Act, revising the 2003 PFM Act to strengthen the accountability of public officials, in particular the controlling officers, and opening new space for dialogue between non-government actors and decision-makers. In addition, the Ministry of Finance is phasing in a new IFMIS.</p> <p>To strengthen the evidence base for policy and to enhance citizen’s engagement, the CPF will invest in Malawi’s Data 4 Policy (D4P) environment, which promotes open access and data utilization by governments and citizens and will leverage possible funding from the IDA Regional Window to promote the</p>		

harmonization of methods and statistics, facilitated by the Southern African Development Community. The proposed Malawi Statistical Capacity Building Project (FY22) will support the collection of timely and high-quality data on poverty, labor, census, and demographics to inform policy. Building on the first phase of the Digital Malawi Project, the World Bank could consider a standalone project that promotes further adoption of GovTech systems, including e-procurement, which provides whole-of-government digital solutions that simplify procedures, are more accessible to citizens, and are accompanied by policies that promote greater transparency. Linked to this, the CPF will fully harness citizen engagement to strengthen the demand for accountable and responsive government as a lever for policy effectiveness. Learning lessons from the previous CAS, this CPF will move beyond traditional project-level impacts by promoting a deeper and more coordinated approach to citizen engagement within the WBG lending portfolio and identifying new and innovative entry points for collective action in the context of Malawi's evolving social contract.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Error! Reference source not found.: Improved PEFA score on public access to fiscal information <i>Baseline:</i> D (2020) <i>Target:</i> B (2024) <i>Source:</i> Malawi PEFA Assessment 2018 and PEFA methodology</p>	<p>a) Pre-Budget Statement, Enacted Budget, In-Year Reports, Mid-Year Review, and Year-End Report published online each year in a timely manner <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2024) <i>Source:</i> MOF</p> <p>b) Comprehensive Citizens Budget published each year <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2024) <i>Source:</i> MOF</p> <p>c) Access to Information Act operationalized <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2024) <i>Source:</i> Government of Malawi</p>	<p>Ongoing Operations:</p> <ul style="list-style-type: none"> • Digital Malawi Program Phase I: Malawi Digital Foundations Project (P160533) • Governance to Enable Service Delivery (P164961) <p>Proposed Operations:</p> <ul style="list-style-type: none"> • Malawi Growth and Resilience Development Policy Financing (P175072) (FY21 & FY22) • Malawi Statistical Capacity Building (FY22) <p>ASA:</p> <ul style="list-style-type: none"> • Mainstreaming Governance and Citizen Engagement (FY21) • Digital Economy 4 Development Diagnostic (FY21) • IFMIS EFO • Public Expenditure and Financial Accountability Assessment
<p>Indicator 1.2.2: Increase in citizen satisfaction (disaggregated by sex) with preparation and implementation of Local Authority Annual Investment Plans based on periodic beneficiary feedback survey (%) <i>Baseline:</i> N/A (2020) <i>Target:</i> 25% (2024) <i>Source:</i> GESD (P164961)</p>	<p>a) Improved citizen engagement on Local Authority Annual Investment Plans, as measured by performance measures relating to citizen engagement and access to information on the Local Authority Performance Assessment <i>Baseline:</i> N/A (2020) <i>Target:</i> Mean scores on performance measures relating to citizen engagement and access to information improved against previous year's mean scores (2024) <i>Source:</i> GESD (P164961)</p>	
<p>Indicator 1.2.3: Improved government capacity to deliver digital public services, as measured by number of</p>	<p>a) Shared digital services platform launched (d) <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2024) <i>Source:</i> Digital Malawi Project (P160533)</p>	

<p>transactions per year utilizing shared digital services platform <i>Baseline: 0 (2020)</i> <i>Target: 25,000 (2024)</i> <i>Source: Digital Malawi Project (P160533)</i></p>	<p>b) Increased procurement transparency through the publication of a percentage of procurement advertisements on the single electronic portal in key implementing agencies (d) <i>Baseline: 0% (2020)</i> <i>Target: 50% (2021)</i> <i>Source: Public Procurement and Disposal of Assets Authority</i></p> <p>c) Number of e-services and applications using shared services platform (d) <i>Baseline: 0 (2020)</i> <i>Target: 8 (2022)</i> <i>Source: Digital Malawi Project (P160533)</i></p> <p>d) Digital services developed based on priorities identified through citizen engagement (d) <i>Baseline: No (2020)</i> <i>Target: Yes (2022)</i> <i>Source: Digital Malawi Project (P160533)</i></p> <p>e) Number of public institutions utilizing high-speed internet connections under Digital Malawi project (d) <i>Baseline: 2 (2020)</i> <i>Target: 400 (2022)</i> <i>Source: Digital Malawi Project (P160533)</i></p>	
<p>Objective 1.3: Strengthening systems for intergovernmental fiscal transfers to improve services and accountability</p>		
<p>Intervention Logic: Both Malawi’s national strategies and WBG analytics have consistently identified decentralization as a vehicle to strengthen local service delivery. Local governments continue to struggle with capacity gaps, minimal financial accountability, and low incentives to perform. Human resource management has been particularly affected by fragmented decentralization, especially in key frontline services such as health and education, and fiscal transfers to local governments are often unpredictable in timing and lower than agreed. Citizens’ mounting frustration over the continued lack of government responsiveness has increased pressure on the new administration to transparently manage resources for service delivery. The MGDS III embraces decentralization as the means to realizing participatory planning, implementation, monitoring, and evaluation of policies and programs, and increased impact of development interventions at the local level. The National Decentralization Policy seeks to devolve administration and political authority to the district level; to integrate district- and local-level government agencies into one administration unit through institutional integration, manpower absorption, composite budgeting, and provision of funds for decentralized services; to transfer key implementation responsibilities to the districts; to assign functions and responsibilities to the various levels of government; and to promote popular participation in district governance and development.</p> <p>The CPF will support the government in the implementation of a results-driven approach to governance reform across levels of government. Through the US\$100 million Governance to Enhance Service Delivery Project (GESD), approved in FY20, the World Bank will support efforts to build confidence in Local Authority capability and country financing system, strengthening accountability relationships between local and central government and between local government and citizens, through results-based financing of local development priorities. As the GESD matures as a delivery mechanism, it will create a platform</p>		

for other World Bank-financed projects to support local service delivery, while also supporting the institutionalization of safeguards oversight at the local level. The collaboration between Digital Malawi and GESD will be essential in streamlining the design and implementation of the digital government system that will be interoperable between the central and local government offices making efficient for the service users and beneficiaries.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Error! Reference source not found.: Improved local-level service delivery, as measured by the number of Local Authorities that increase their performance assessment score by at least 10 points, cumulatively <i>Baseline:</i> 0 (2020) <i>Target:</i> 22 (2024) <i>Source:</i> GESD (P164961)</p>	<p>a) Annual Local Authority Performance Assessment conducted on time with quality assurance and results published and used to determine district allocation of performance-based grants <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2024) <i>Source:</i> GESD (P164961)</p> <p>b) District Development Fund released to local authorities on time and in full amount allocated in approved budget <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2024) <i>Source:</i> GESD (P164961)</p> <p>c) Gender-sensitive standards for selection of Annual Investment Plan projects in place (w) <i>Baseline:</i> No (2020) <i>Target:</i> National Local Government Finance Committee (NLGFC) Annual Report reports on use and impact of gender-sensitive standards (2024) <i>Source:</i> GESD (P164961)</p>	<p>Ongoing Operations:</p> <ul style="list-style-type: none"> • Governance to Enable Service Delivery (P164961) • Malawi Social Support for Rural Livelihoods Project (P169198) <p>Proposed Operations:</p> <ul style="list-style-type: none"> • Potential IDA20 expansion of GESD project into urban services <p>ASA:</p> <ul style="list-style-type: none"> • Mainstreaming Governance and Citizen Engagement (FY21)
<p>Indicator 1.3.2: Improved adequacy of fiscal transfers³⁶ (% net national revenue)³⁷ <i>Baseline:</i> 0.6 (2019) <i>Target:</i> 1.2 (2024) <i>Source:</i> MOF, NLGFC</p>	<p>a) Progressive improvement in transparency, policy coherence and accountability in intergovernmental fiscal transfer system <i>Baseline:</i> No fiscal decentralization strategy (2020) <i>Target:</i> NLGFC publishes annual report of intergovernmental fiscal transfer system, progress with strategic commitments, status of prior recommendations, and recommendations on at least one area of reform (2024) <i>Source:</i> NLGFC Annual Report</p>	

FOCUS AREA 2: PROMOTING PRIVATE SECTOR-LED JOBS AND LIVELIHOODS

In the face of strong COVID-19 headwinds, this focus area targets key short- and long-term strategies for boosting job creation and fostering sustainable livelihoods. As set out in MW2063, Malawi has an opportunity to overhaul its enabling environment for business and create new opportunities for women- and youth-led MSMEs, with a major focus on commercial agriculture and exports through deepening regional trade. On the back of a WBG CPSD, IDA, IFC, and MIGA aim to coordinate agribusiness, finance, energy, and connectivity investments to support economic diversification (see box 5). Catalytic investments will be

³⁶ Fiscal transfers are defined as discretionary development financing transfers to Local Authorities (District Development Fund and Infrastructure Development Fund).

³⁷ Net national revenue is defined as revenue collected less recurrent statutory expenditure (e.g. debt service, refunds and retentions, pensions, and gratuities).

underpinned by policy reforms supported through the CPF and future opportunities identified by a JET-themed Country Economic Memorandum. Climate change adaptation is a major concern for this Focus Area which aligns with the targets of the Africa Region Climate Business Plan, scaling up investments in sustainable landscapes and watersheds, promoting resilience through preparedness, and laying the foundations for sustainable and resilient urbanization.

Objective 2.1: Supporting MSME access to finance and services and expanding markets during COVID-19 and beyond

Intervention Logic: Promoting private sector-led jobs and livelihoods in Malawi will depend on efforts to boost MSME development, expand agricultural markets, and deepen regional integration. The MSME sector is the key driver of employment but is constrained by limited access to finance, entrepreneurship skills, and digital infrastructure. The banking system suffers from a lack of critical mass, low productivity, high operating costs, limited outreach, and narrow product variety. Domestic credit to the entire private sector falls below 10 percent of GDP, as compared to 28.4 percent for SSA. Improving the functioning of Malawi’s agriculture markets will require new public policies that reorient incentives toward productive diversification, together with substantial investment in irrigation schemes that can capture water and generate opportunities for a second harvest. Finally, while Malawi’s domestic market is too thin to drive sustainable growth, regional linkages are constrained by weak logistics and high costs. Efforts to deepen regional integration and trade will be key to attracting investment into new value chains and generating the growth needed to generate jobs and sustainable livelihood improvements in Malawi.

The CPF will support Malawi to achieve this objective through a coordinated and multi-pronged effort targeting access to finance, digital technologies, skills, increased market access and regional connectivity. The US\$86 million Financial Inclusion and Entrepreneurship Scaling Project, approved in August 2020, will promote the development of the MSME sector through access to a range of tailored financial products as well as business development services and entrepreneurship support, with a special focus on women-owned businesses and youth entrepreneurs. FINES is strategically connected to a range of other programs in the CPF, including IFC’s work on prioritizing inclusive finance and the US\$72.4 million Digital Malawi Project, which supports trade finance and digital financial services. The US\$95 million Malawi Agriculture Commercialization Project and the US\$160 million Shire Valley Transformation Program – Phase 1 are providing the basis for scalable commercial agriculture. The Shire Valley Transformation Project is the first in a series (phase 2 in FY22) that will establish core irrigation infrastructure through a PPP structure (deploying IFC transaction advice) and to integrate smallholder farmers into newly established commercial value chains and strengthen their land tenure. The US\$95 million Malawi AGCOM Project supports commercialization directly through the establishment of “productive alliances” of smallholder farmers seeking to diversify production into high-value commercial crops and off-takers. Finally, the CPF supports trade logistics, infrastructure and facilitation to deepen regional integration and improve the competitiveness of domestic enterprises. In FY21 national and regional IDA will provide US\$22 million of additional financing for the regional investment in the Southern Africa Trade and Transport Facilitation Project, enhancing trade and transit along the country’s North–South Corridor and at key border posts, whilst supporting improvements in road safety and health services. The US\$150 million Southern Africa Trade and Connectivity Project leverages IDA’s Regional Window to reduce trade and transport costs by investing in trade facilitation, road upgrading, and corridor value chains along the strategic Nacala Corridor with Mozambique. Given IFC’s engagement upstream in project development, considerable opportunities exist for downstream investment in dry ports and logistics, provided the enabling policies are in place, particularly trade policy.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
Indicator 2.1.1: Private sector credit-to-GDP ratio (%)	a) Percentage of MSMEs that have registered (%) ³⁸ Baseline: 7 (2019)	Ongoing Operations:

³⁸ The CPF team will endeavor to include gender-disaggregated targets at the PLR stage following the identification of reliable and timely data sources.

<p><i>Baseline:</i> 8 (2019) <i>Target:</i> 27.2 (2024) <i>Source:</i> World Bank calculation based on RBM data and WDI</p>	<p><i>Target:</i> 30 (2024) <i>Source:</i> Malawi Finscope MSME Survey 2019 and estimates by the World Bank</p> <p>b) Value of MSME loans provided by participating financial intermediaries through the Line of Credit, including the COVID-19 emergency facility <i>Baseline:</i> US\$0 (2019) <i>Target:</i> US\$47 million (2024) <i>Source:</i> FINES (P168577)</p> <p>c) Share of MSME loans provided by participating financial intermediaries that are directed to women-owned and youth-owned MSMEs (%) (w) <i>Baseline:</i> 0% (2019) <i>Target:</i> 40% to women-owned; 20% to youth-owned MSMEs (2024) <i>Source:</i> RBM and FINES (P168577)</p> <p>d) New investment generated (US\$) as a result of IFC supported reforms (IFC Upstream Engagements) <i>Baseline:</i> US\$0 (2020) <i>Target:</i> US\$26.5 million (2024) <i>Source:</i> IFC calculations</p>	<ul style="list-style-type: none"> • Financial Inclusion and Entrepreneurship Scaling (P168577) • Agricultural Commercialization (P158434) • Shire Valley Transformation – 1 (P158805) • Second Agriculture Sector Wide Approach Support Project (A-SWAP) (P164445) • Southern Africa Trade and Transport Facilitation (P145566) • Global Tea Macadamia Malawi (IFC – Advisory 603282 and Investment 38327) • Growth and Diversification of Eastern and Southern African Trade and Development Bank’s trade finance portfolio (MIGA) <p>Proposed Operations:</p> <ul style="list-style-type: none"> • Malawi Growth and Resilience Development Policy Financing (P175072) • Southern Africa Trade and Connectivity (FY21) • Southern Africa Trade and Transport Facilitation Additional Financing (FY21) • Shire Valley Transformation – Phase 2 <p>ASA:</p> <ul style="list-style-type: none"> • IFC Regional Doing Business • Mobilizing Long-Term Financing for Development (FY21)
<p>Indicator 2.1.2: Digital payments per capita (d) <i>Baseline:</i> ~14 (2019) <i>Target:</i> 18 (2024) <i>Source:</i> Central Bank; GPSS</p>	<p>a) Subscriber base for non-bank mobile money services (disaggregated by gender) (d) (w) <i>Baseline:</i> 7.7 million people, of which 40% female (2020) <i>Target:</i> 10 million, of which 50% female (2024) <i>Source:</i> RBM Payment Systems Report</p> <p>b) Share of adult population making a digital payment transaction (%) (d) <i>Baseline:</i> 27.6 (2017) <i>Target:</i> 50 (2024) <i>Source:</i> Findex</p>	
<p>Indicator 2.1.3: Increase in volume of sales of producer organizations within productive alliances (%) <i>Baseline:</i> 0 (2019) <i>Target:</i> 20% increase over baseline (2023) <i>Source:</i> AGCOM (P158434)</p>	<p>a) Productive alliances established under AGCOM project <i>Baseline:</i> 35 (2020) <i>Target:</i> 200 (2023) <i>Source:</i> AGCOM (P158434)</p> <p>b) Area provided with reliable new or improved gravity-fed irrigation and drainage services under SVTP (hectares) <i>Baseline:</i> 0 (2020) <i>Target:</i> 15,500 (2023) <i>Source:</i> SVTP-1 (P158805)</p> <p>c) Number of farmers, and female farmers specifically, reached with agricultural assets and services (w)</p>	

	<p><i>Baseline:</i> 162,485, of which 77,218 female farmers (2020) <i>Target:</i> 220,000, of which 88,000 female farmers (2023) <i>Source:</i> AGCOM (P158434); ASWAp SP II (P164445)</p> <p>d) Consolidation of communal areas into certified blocks suitable for commercial irrigated agriculture (number) <i>Baseline:</i> 0 (2020) <i>Target:</i> 7 (2023) <i>Source:</i> SVTP-1 (P158805)</p>	<ul style="list-style-type: none"> • JET-themed CEM with initial focus on agri-sector jobs (FY22) • Opportunities for Farmer-Led Irrigation Development (FY23)
<p>Indicator 2.1.4: Decrease in average time to clear border crossings at Muloza, Mwanza, and Dedza (%) <i>Baseline:</i> TBC Muloza; 10 hours at Mwanza; 25 hours at Dedza (2017) <i>Target:</i> 20% decrease over baseline (2024) <i>Source:</i> SATC (P164847)</p>	<p>a) National Single Window established <i>Baseline:</i> No (2020) <i>Target:</i> Yes (2022) <i>Source:</i> SATTFP-SOP 2 (P145566)</p> <p>b) Reduction in the number of agencies physically located at Dedza, Muloza, and Mwanza border posts in Malawi <i>Baseline:</i> 13 (2020) <i>Target:</i> 6 (2022) <i>Source:</i> SATC (P164847)</p> <p>c) Reduction in the percentage of consignments subject to physical inspection in Malawi (%) <i>Baseline:</i> 70 (2020) <i>Target:</i> 40 (2022) <i>Source:</i> SATC (P164847)</p>	
<p>Objective 2.2: Increasing resilience in urban and rural hotspots</p>		
<p>Intervention Logic: Malawi faces an environmental cycle of decline and degradation, in which population growth drives encroachment and unsustainable charcoal production and climate change magnifies the impacts on land and forests, leading to increased incidents of natural disasters. The Shire Valley in southern Malawi is a key hotspot; despite abundant natural resources it has an 80 percent incidence of extreme poverty. In the face of these pressures, there is a need to address systematically land tenure security, unsustainable land management practices, chronic shortages of public funding for environmental management, and weak local institutions. Integrated investments in watershed restoration will be critical for sustainable resilience and green recovery. In parallel, and as a consequence, Malawi is on the threshold of a period of rapid urbanization. Urban agglomeration can provide scale markets for Malawi’s rural products as well as hubs for a newly educated and skilled younger generation. Climate change management forms part of one of the top five priorities laid out in the MDGS III and remains a key enabler in the MW2063. Acknowledging that productive capacity in the agriculture sector—so key to Malawi’s economy—is undermined by climate change as well as poor environmental management, the strategy aims to put in place adaptation strategies to enhance preparation for and negate the effects of climate change, alongside mitigation strategies to reduce and sequester greenhouse gas emissions. In addition, the government’s National Forest and Landscape Restoration Strategy proposes an ambitious agenda to restore 4.5 million hectares of degraded landscapes by 2030 through soil and water conservation, conservation agriculture, farmer-managed natural regeneration, and agroforestry. In addition, urbanization is among the three core pillars of MW2063’s inclusive wealth creation agenda.</p>		

<p>The CPF proposes to scale up efforts to strengthen natural resource management, urban resilience and disaster preparedness. The principle instruments to achieve this will be (i) the ongoing US\$157 million Malawi Watershed Services Improvement Project – Series of Projects which invests in critical watersheds and landscape management in the Shire Valley, twinning ecosystems services and regulation with the development of financial mechanisms (performance-based grants, ecosystems payments) for sustainability; (ii) the ongoing Malawi Resilience and Disaster Risk Management Project, which is investing in updating the flood risk management plan for the Shire River Basin and in developing plans for flood-affected Blantyre City to enable resilient urban development; (iii) the ongoing US\$100 million Lilongwe Water and Sanitation Project which is ensuring reliable water supply and improved access to sanitation services in the capital while also supporting the development of city planning instruments. Looking ahead to IDA20, the WBG will explore larger investment in resilient urbanization through secondary cities linked to utility reforms and investments in water supply systems and district-level performance-based grants. In addition, ongoing investments in Malawi’s early warning and disaster preparedness systems will continue to mitigate the impact of worsening climate shocks, including through ensuring access to new innovations in risk financing.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 2.2.1: Proportion of farmers targeted under Malawi Watershed Services Improvement Project adopting sustainable landscape management practices (%) <i>Baseline:</i> 0 (2020) <i>Target:</i> 50 (2024) <i>Source:</i> MWSIP (P167860)</p>	<p>a) Agricultural land area on which soil and water conservation measures have been applied <i>Baseline:</i> 0 (2020) <i>Target:</i> 20,000 (2024) <i>Source:</i> MWSIP (P167860)</p> <p>b) Number of farmers receiving payments under the pilot Payment for Watershed Services scheme <i>Baseline:</i> 0 (2020) <i>Target:</i> 20,000 (2024) <i>Source:</i> MWSIP (P167860)</p> <p>c) Number of women gaining access to water for productive use (<i>w</i>) <i>Baseline:</i> 0 (2020) <i>Target:</i> 22,000 (2024) <i>Source:</i> MWSIP (P167860) + MRDRM (P161392)</p>	<p>Ongoing Operations:</p> <ul style="list-style-type: none"> • DRM Development Policy Financing with a CAT DDO (P165056) • Malawi Resilience and Disaster Risk Management Project (P161392; AF P171877) • Second A-SWAP (MDTF) (P164445) • Malawi Watershed Services Improvement Project (P167860) • Lilongwe Water and Sanitation Project (P163794) <p>Proposed Operations:</p> <ul style="list-style-type: none"> • Potential urbanization investment in IDA20 • Continuation of MWSIP in IDA20 <p>ASA:</p> <ul style="list-style-type: none"> • Land Policy Dialogue (FY21) • Malawi Urban Poverty Reduction and Inclusive Growth (FY22)
<p>Indicator 2.2.2: Number of additional people with improved water supply and sanitation services <i>Baseline:</i> 0 (2020) <i>Target:</i> 362,500, of which 100,000 from two lowest income quintiles (2023) <i>Source:</i> LWSP (P163794) + MRDRM (P161392)</p>	<p>a) Household water connections receiving improved water services under the Lilongwe Water and Sanitation Project <i>Baseline:</i> 0 (2020) <i>Target:</i> 27,594 (2023) <i>Source:</i> LWSP (P163794)</p> <p>b) Number of improved household sanitation facilities <i>Baseline:</i> 0 (2020) <i>Target:</i> 32,000 (2023) <i>Source:</i> LWSP (P163794)</p> <p>c) Percentage of Lilongwe Water Board and Lilongwe City Council female staff in decision-making roles (<i>w</i>) <i>Baseline:</i> 10 (2017)</p>	

	<p><i>Target: 30 (2023)</i> <i>Source: LWSP (P163794)</i></p>	
<p>Indicator 2.2.3: Number of people in areas with reduced flood risk due to project interventions <i>Baseline: 387,500 (2020)</i> <i>Target: 500,000 (2024)</i> <i>Source: MRDRM (P161392)</i></p>	<p>a) Number of DRM plans in affected district developed and informed by available knowledge and data products <i>Baseline: 2 (2020)</i> <i>Target: 17 (2024)</i> <i>Source: MRDRM (P161392)</i></p> <p>b) National Emergency Operations Center constructed and functional <i>Baseline: No (2020)</i> <i>Target: Yes (2024)</i> <i>Source: MRDRM (P161392)</i></p> <p>c) Number of new ex-ante risk financing instruments established in alignment with the National Disaster Risk Financing Strategy <i>Baseline: 0 (2020)</i> <i>Target: 2 (2022)</i> <i>Source: DRM DPF with CAT-DDO (P165056)</i></p> <p>d) Increased water storage capacity <i>Baseline: 47 Mm³ (2020)</i> <i>Target: 180 Mm³ (2024)</i> <i>Source: Department of Water Resources</i></p>	
<p>Objective 2.3: Boosting access to electricity, including from renewable sources</p>		
<p>Intervention Logic: Structural transformation through economic diversification hinges in large part on Malawi’s ability to improve access to reliable and affordable electricity, including in the Southern African Power Pool. Unreliable and expensive electricity is consistently cited as a binding constraint to private sector investment. On average, firms report that electricity outages cost them 5 percent of sales every year. Erratic supply increases operational costs and lowers productivity, sales, and incomes, while deterring growth prospects. Moreover, with only 11 percent of the population having access to grid-based electricity, a reliance on unsustainable charcoal production for fuel leads to deforestation and land degradation. The energy sector faces a lack of financing to maintain existing and develop new infrastructure, and their ability to mobilize capital is limited by inefficient SOEs that are mandated to deliver infrastructure. Cost recovery is low, which leaves the utilities in a weak financial position. The 2018 National Energy Policy aims to improve access to reliable and sustainable energy supply and investment in affordable alternative sources of energy form a key part of the MGDS III’s priority focus on energy. The strategy also emphasizes enhanced use of renewable and clean energy in underserved rural and urban communities. To attract investment, including from solar Independent Power Producers, the Electricity Supply Corporation of Malawi is pursuing reforms to establish cost-reflective tariff structures and reduce losses.</p> <p>The CPF will scale up efforts to strengthen access to clean electricity in Malawi. The World Bank-supported Integrated Resource Plan (IRP) for 2017–37 sets out a least-cost plan to achieve the 30 percent target electrification rate through both on- and off-grid sources. The US\$150 million Malawi Electricity Access Project will increase access by connecting an additional 300,000 households to the grid, and another 200,000 customers using off-grid solutions. The US\$130 million Mozambique-Malawi Regional Interconnector Project will connect the two countries’ transmission systems, enabling bilateral and regional power trade</p>		

within the Southern African Power Pool, while the proposed US\$250 million Sustainable Transmission and Energy Access Project will further increase access through the Western transmission line with Zambia. The US\$1.1 billion Mpatamanga Hydropower Project (expected FY22) a flagship public-private partnership in which the government and IFC are co-developers, is expected to double current generation capacity once it is fully operational. To diversify the energy base, the CPF will support solar projects that are expected to deliver 216MW of capacity, including Salima Solar (60 MW) which is supported through MIGA/IFC collaboration. To secure these and other private investments, reforms to turn around ESCOM’s financial viability as an off-taker—and in particular cost-reflective tariffs—will be supported through ongoing technical assistance.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 2.3.1: Number of additional people provided with access to electricity through new household connections, both on- and off-grid <i>Baseline:</i> 0 on-grid and 0 off-grid (2020) <i>Target:</i> 280,000 on-grid and 200,000 off-grid (2024) <i>Source:</i> Malawi Electricity Access (P164331)</p>	<p>a) Share of female-headed households newly provided with access to electricity through new household connections, both on- and off-grid (w) <i>Baseline:</i> 0% (2020) <i>Target:</i> 30% (2024) <i>Source:</i> Malawi Electricity Access (P164331)</p> <p>b) Number of small and medium enterprises connected to the grid <i>Baseline:</i> 0 (2020) <i>Target:</i> 1,000 (2024) <i>Source:</i> Malawi Electricity Access (P164331)</p> <p>c) Length of new transmission lines constructed between Mozambique and Malawi (km) <i>Baseline:</i> 0 km (2020) <i>Target:</i> 218 km (2023) <i>Source:</i> Mozambique-Malawi Regional Interconnector (P164354)</p> <p>d) Electricity wheeled through regional interconnection (MW) <i>Baseline:</i> 0 MW (2020) <i>Target:</i> 50 MW (2023) <i>Source:</i> Mozambique-Malawi Regional Interconnector (P164354)</p>	<p>Ongoing Operations:</p> <ul style="list-style-type: none"> • Malawi Electricity Access (P164331) • Mozambique-Malawi Regional Interconnector (P164354) • MIGA Salima Solar Power Project <p>Proposed Operations:</p> <ul style="list-style-type: none"> • Mpatamanga Hydropower (FY22) • Sustainable Transmission and Energy Access Project (FY22) <p>ASA:</p> <ul style="list-style-type: none"> • ESCOM TA (FY21)
<p>Indicator 2.3.2: Renewable energy generated (GWh/year) <i>Baseline:</i> 1,711 GWh (2020) <i>Target:</i> 3,587 GWh (2026) <i>Source:</i> World Bank, IFC estimates</p>	<p>a) Number of off-grid solar systems installed <i>Baseline:</i> 0 (2020) <i>Target:</i> 200,000 (2024) <i>Source:</i> Malawi Electricity Access (P164331)</p>	

FOCUS AREA 3: STRENGTHENING HUMAN CAPITAL DEVELOPMENT

Focus Area 3 focuses on protecting and deepening Malawi’s impressive gains as a first mover under the Human Capital Project, with a special focus on women and girls. Malawi has improved its Human Capital Index rating from 0.36 to 0.41 in the last ten years, surpassing the regional average and demonstrating the value of concerted action with strong development partner support. However, health and education outcomes could be negatively affected if COVID-19 diverts resources from routine services, and gains could deteriorate in the future if shock-responsive safety nets are not in place. The CPF will work to address key bottlenecks to achieving further human capital gains, taking a concerted approach to accelerate the demographic transition, strengthen the quality of

learning in schools, and upgrade safety nets provision through improved use of digital for targeting. Given the major role of development partners in the co-production of basic services in Malawi, the World Bank will use the forthcoming Human Capital Review, as well as the Gender Assessment and COVID-19 related analytics, to position its role in the sector through intensive consultation with partners.

Objective 3.1: Accelerating the demographic dividend through targeted health systems strengthening

Intervention Logic: Since 2000, Malawi has made remarkable progress on many key demographic and survival indicators, but poor nutrition and high rates of adolescent fertility endanger the country’s ability to harness its demographic dividend to boost productivity and growth. In the last two decades, the total fertility rate has dropped from 6.2 to 4.4, the under-five mortality rate has declined from approximately 180 deaths per 1,000 live births to 60, and life expectancy at birth has increased significantly from 47 to 67 years. However, despite progress over the last ten years in reducing stunting among children under the age of five, high population growth has led to an increase in the absolute number of stunted under-five children. Undernourished adolescent girls are predisposed to delivering low birth weight babies, which in turn increases the risk of neonatal mortality and stunting. Reducing adolescent fertility can therefore enhance education outcomes for girls and improve health outcomes given the links between early childbearing, stunting, and poor maternal health. There is a concern, however, that coverage of essential health services such as antenatal care, skilled deliveries, and childhood immunization has declined since April 2020 as the focus of the health system has shifted to tackling the COVID-19 pandemic.

The CPF supports this objective through quick response to the COVID-19 crisis as well as medium-term approaches targeting sustainable systems strengthening. In the short term the World Bank has ensured financing is available to support Malawi’s health system respond to the COVID-19 pandemic. In the first phase of the crisis, the WBG worked with the government to re-prioritize the ongoing regional project Southern Africa Tuberculosis and Health Systems Support Project while mobilizing US\$7 million for a new COVID-19 Emergency Response and Health Systems Preparedness Project. At the request of government, the World Bank is exploring additional financing for the Project to respond to the 2nd wave of COVID-19, including the vaccination program. A proposed new investment in human capital development will help consolidate efforts by the WBG and other partners to upgrade Malawi’s health systems with a focus on women’s empowerment. The proposed Human Capital Development and Women’s Empowerment Project (FY22) will address: (i) high levels of adolescent fertility (resulting in high dropout rates); and (ii) the poor quality of reproductive health services. The project will place special emphasis on improving women’s access to reproductive health services information, scaling up access to family planning and reproductive health services for adolescents, using youth-friendly family planning combined with life skills training. Finally, World Bank work to address malnutrition through multisector innovations complements the focus on human capital development and women’s empowerment. The US\$60 million Investing in Early Years for Growth and Productivity Project integrates approaches to nutrition, stimulation, and early learning. The IEY project also builds on analysis that shows the importance of engaging men to influence attitudes on maternal health as well other gender norms.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 3.1.1: Percentage of designated health facilities ready to treat COVID-19 (%) <i>Baseline:</i> 0 (2020) <i>Target:</i> 80 (2022)</p>	<p>a) Number of health staff trained in infection prevention and control per Ministry of Health-approved protocols <i>Baseline:</i> 0 (2020) <i>Target:</i> 870 (2022) <i>Source:</i> COVID-19 Emergency Response and Health Systems Preparedness (P173806)</p>	<p>Ongoing Operations:</p> <ul style="list-style-type: none"> • Adolescent Nutrition Sensitive Agriculture Pilot Project (JSDF) (P163923)

<p>Source: COVID-19 Emergency Response and Health Systems Preparedness (P173806)</p>		<ul style="list-style-type: none"> • Southern Africa Tuberculosis and Health Systems Support Project (P173228)
<p>Indicator 3.1.2: Adolescent girls aged 15-19 years who have begun childbearing (%) (w) <i>Baseline: 29 (2015)</i> <i>Target: 21 (2024)</i> <i>Source: IEY (P164771)</i></p>	<p>a) Share of women using a modern method of contraception (%) (w) <i>Baseline: 58 (2015)</i> <i>Target: 70 (2024)</i> <i>Source: Malawi Demographic Health Survey (2015/16)</i></p>	<ul style="list-style-type: none"> • Investing in Early Years for Growth and Productivity in Malawi (P164771) • Malawi COVID-19 Emergency Response and Health Systems Preparedness (P173806)
<p>Indicator 3.1.3: Children aged 6-23 months receiving a minimum acceptable diet (%) <i>Baseline: 13 (2020)</i> <i>Target: 46 (2024)</i> <i>Source: IEY (P164771)</i></p>	<p>a) Children aged 6-24 months who received micronutrient powder supplementation (%) <i>Baseline: 5 (2020)</i> <i>Target: 50 (2024)</i> <i>Source: IEY (P164771)</i></p> <p>b) Number of women and children who have received basic nutrition services under the IEY Project (w) <i>Baseline: 0 (2020)</i> <i>Target: 2.6 million (2024)</i> <i>Source: IEY (P164771)</i></p>	<ul style="list-style-type: none"> • Lilongwe Water and Sanitation Project (P163794) <p>Proposed Operations:</p> <ul style="list-style-type: none"> • Additional Financing: Malawi COVID-19 Emergency Response and Health Systems Preparedness (P173806) • Human Capital and Women’s Empowerment Project (FY23) <p>ASA:</p> <ul style="list-style-type: none"> • Maintaining Essential Health Services in the Context of COVID-19 • Gender Assessment (FY21)
<p>Objective 3.2: Improving learning outcomes and skills</p>		
<p>Intervention Logic: Malawi’s low overall learning levels in lower primary school are driven by huge learning gaps between schools. Chronic rates of high repetition and dropout among students, particularly in lower grades, represent a significant source of inefficiency. More than three percent of students drop out in Standard 1, with dropout rates rising to almost five percent in upper grades and to almost seven percent for girls. Fewer than two-thirds of students entering Standard 1 survive to Standard 5, and this rate has declined in the last five years. Those who do survive to upper primary learn very little. Girls obtain lower test scores in both lower and upper primary and are significantly less likely than boys to attend and complete post-primary education. Malawi needs a national reform program, radically different to earlier piecemeal approaches, that can address these severe deficiencies in the learning environment. Education and skills development are among the top five priority areas outlined in the MDGS III. On education, the strategy focuses on improving access and equity at all levels of the education system and on strengthening the quality of early childhood development services. These goals reflect those of the 2013 National</p>		

Education Policy, underpinned by the National Education Standards put forward in 2015. On skills development, the MDGS III aims to improve access and equity in skills training, to strengthen the quality of the labor force, and to enhance workforce capacities and support systems.

The CPF captures the World Bank’s growing engagement in Malawi’s education sector, from early childhood through tertiary and skills development, thereby providing an important opportunity for systems strengthening to improve learning outcomes. The ongoing IIEY Project supports 250 Community-Based Childhood Centers, training for instructors, and undergraduate and postgraduate training on early childhood development programs and interactive radio instruction. The US\$90 million Equity with Quality and Learning at Secondary Project improves the quality of science and mathematics instruction in Community Day Secondary Schools, using digital technologies in Teacher Training Centers and schools, and increases access to secondary education in selected remote areas. An FY21 US\$5 million AF will help make schools safe across the sector. The US\$150 million Malawi Education Reform Program (FY21), with financing from both GPE and IDA, aims to reach sufficient scale to address all lower primary level schools and raise adjusted years of learning. The planned FY21 US\$100 million investment in the Skills for a Vibrant Economy Project, with a special emphasis on young people and women’s empowerment, prioritizes industries where women are active. A programmatic ASA will provide the government with just-in-time policy guidance to support improved targeting of resources for equity in learning between schools and individual students. The portfolio will include a specific focus on gender gaps in education both in terms of access and learning outcomes, including through the EQUALS project by addressing the household financial constraint through scholarships to those in disadvantaged districts and supporting the learning environment with the recruitment of more female teachers and through interventions to address gender-based violence and disability in schools.

CPF Objective Indicators	Supplementary Progress Indicators	World Bank Group Program
<p>Indicator 3.2.1: Children aged 48-59 months who have achieved at least a 50% score on literacy and numeracy components of the MDAT <i>Baseline: 17 (2020)</i> <i>Target: 50 (2024)</i> <i>Source: IEY (P164771)</i></p>	<p>a) Children aged 36-59 months who completed at least one year of early learning in a CBCC (number) <i>Baseline: 0 (2020)</i> <i>Target: 50 (2024)</i> <i>Source: IEY (P164771)</i></p> <p>b) Model CBCCs upgraded and equipped (number) <i>Baseline: 0 (2020)</i> <i>Target: 250 (2024)</i> <i>Source: IEY (P164771)</i></p> <p>c) CBCC caregivers receiving integrated training package (number) <i>Baseline: 0 (2020)</i> <i>Target: 80 (2024)</i> <i>Source: IEY (P164771)</i></p>	<p>Ongoing Operations:</p> <ul style="list-style-type: none"> • Malawi Education Sector Improvement Project (with GPE) (P154185) • Equity with Quality and Learning at Secondary (P164223) • Eastern and Southern Africa Centers of Excellence (P151847) <p>Proposed Operations:</p> <ul style="list-style-type: none"> • Malawi Education Reform Program (with GPE) (P174329) (FY21) • Skills for a Vibrant Economy (P172627) (FY21) • Equity and Quality of Learning at Secondary – Additional Financing (FY21) <p>ASA:</p>
<p>Indicator 3.2.2: Improved learning at the primary school level, as measured by average percentage of correct answers in English and Math learning assessments at Grade 4 (% total and % female) (w)</p>	<p>a) Average pupil–classroom ratio in lower primary in public schools (number) <i>Baseline: 122 (2019)*</i> <i>Target: 100 (2024)</i> <i>Source: Education Management Information System (EMIS)</i></p> <p>b) Average ratio of pupils to qualified teachers in lower primary in public schools (number) <i>Baseline: 80 (2019)*</i></p>	

<p><i>Baseline:</i> 30.3 percent (English), 39.3 percent (Math) (total); 30.1 percent (English), 38.1 percent (Math) (female) (2019) (to be updated in 2021) <i>Target:</i> 32.0 (English), 42.0 (Math) (total); 32.0 (English), 42.0 (Math) (female) (2024) (to be confirmed after updated baseline) <i>Source:</i> Malawi Longitudinal Schools Survey</p>	<p><i>Target:</i> 74 (2024) <i>Source:</i> EMIS</p> <p>c) Student dropout rate in public schools (female and male) (%) (w) <i>Baseline:</i> 4.2% female, 3.5% male (2019)* <i>Target:</i> 3.7% female, 3.2% male (2024) <i>Source:</i> EMIS</p> <p>* To be updated following cleaning of EMIS data. It should be noted that a drop in learning indicators is likely following the impacts of COVID-19 on schooling.</p>	<ul style="list-style-type: none"> • Malawi Human Capital Review • Gender Assessment (FY21)
<p>Indicator 3.2.3: Improved learning at the secondary school level, as measured by student pass rates in math and science at the Malawi School Certificate of Education (% total and % female) (w) <i>Baseline:</i> TBD (2021) <i>Target:</i> TBD based on baseline (2024) <i>Source:</i> EQUALS (P164223)</p>	<p>a) Primary to secondary transition rate in remote schools from 13 selected districts for the EQUALS Project (% total, and # female) (w) <i>Baseline:</i> 32% total; 60,000 female students (2019) <i>Target:</i> 44.8% total; 85,000 female students (2024) <i>Source:</i> EQUALS (P164223)</p> <p>b) Share of CDSS meeting selected minimum standards for quality science and math instruction (%) <i>Baseline:</i> 0 (2020) <i>Target:</i> 40 (2024) <i>Source:</i> EQUALS (P164223)</p> <p>c) Share of CDSSs in the 13 remote districts meeting teacher establishment in Science and Mathematics (%) <i>Baseline:</i> TBD following completion of data collection (2021) <i>Target:</i> 40% (2024) <i>Source:</i> EQUALS (P164223)</p> <p>d) Share of CDSSs in 13 remote districts with functional gender-based violence redressal and adolescent hygiene support systems (%) (w) <i>Baseline:</i> 7.6% (2019) <i>Target:</i> 75% in 43 selected clusters (2024) <i>Source:</i> EQUALS (P164223)</p>	
<p>Indicator 3.2.4: Number of students (age 15 to 24) who complete formal apprenticeship programs or graduate from accredited or fully registered demand-driven programs, and % of which female (w)</p>	<p>a) Number of long-term and certificate-level skills development programs newly developed/revised with industry based on labor market demand <i>Baseline:</i> 19 (2019) <i>Target:</i> 178 (2024) <i>Source:</i> Skills for a Vibrant Economy (P172627)</p>	

<p><i>Baseline: 4,000, of which 35% female (2020)</i> <i>Target: 30,000, of which 45% female (2024)</i> <i>Source: Skills for a Vibrant Economy (P172627)</i></p>		
<p>Objective 3.3: Increasing access to shock-responsive safety nets</p>		
<p>Intervention Logic: In the face of recurrent shocks, safety nets strategies need to evolve to create opportunities for livelihoods and human capital. Safety nets are set to play a key role as Malawi considers a transition out of unsustainable and inefficient fertilizer support to smallholders. Studies have shown that those living in poverty in Malawi would benefit substantially more from cash than in-kind transfers. However, spending on safety net programs in Malawi is low, at 0.6 percent of GDP from 2011 to 2016, compared to an average of 1.2 percent across Africa. While safety nets cover about 25 percent of the population, they exclude a sizable portion of the target population, especially children and youth. Moreover, the adequacy of benefit levels is a concern, with many safety net transfers insufficient to make a meaningful impact on consumption. Social safety net programs need to evolve and meet the needs of current and future generations, while mitigating the negative impact that shocks have on human capital development and individual well-being. The MNSSP II envisions an inclusive and dynamic safety net system, better positioned to promote resilience. The MNSSP II is built around four key policy priorities: the provision of welfare support to meet the most pressing needs of the most vulnerable members of society; protection of assets to help families weather shocks and support them in graduating out of poverty; productivity enhancements to support increased income and accumulation of assets; and policy linkages to address vulnerability that results from social exclusion and marginalization.</p> <p>The CPF will support Malawi’s efforts to make access to safety nets more inclusive and responsive to the particular challenges posed by the ongoing COVID-19 pandemic. IDA’s US\$125 million Social Support for Resilient Livelihoods Project supports the transition toward an inclusive, shock-responsive safety net system, crucial for human capital development and promotion of resilience. In the wake of the COVID-19 pandemic, the SSRLP has reprioritized US\$40 million to finance the government’s emergency cash response to COVID-19 in urban hotspots. The urban response is a new element in Malawi’s social protection agenda and offers an opportunity for Malawi to increase mobile payments and improve rural-urban integration and resilience. In addition, the SSRLP incorporates both digital development and women’s economic empowerment, supporting girls’ education through cash transfer top-ups to encourage school attendance and strengthening the Malawi Unified Beneficiary Registry to support harmonized safety nets linked to digital payments. A planned FY22 social protection COVID-19 response review will evaluate lessons learned with a view to further strengthening a national shock-responsive safety net with options for disaster risk financing channels in the future.</p>		
<p>CPF Objective Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>World Bank Group Program</p>
<p>Indicator 3.3.1: Number of people benefiting from the new (COVID-19) emergency response cash transfer program (disaggregated by gender)</p>	<p>a) Number of existing rural SCTP beneficiaries receiving at least one monthly emergency cash top up <i>Baseline: 0 (2020)</i> <i>Target: 126,000 (2024)</i> <i>Source: SSRLP (P169198)</i></p>	<p>Ongoing Operations:</p> <ul style="list-style-type: none"> • Social Support for Resilient Livelihoods (P169198) <p>Proposed Operations:</p>

<p><i>Baseline:</i> 0 (gender breakdown TBC once enrollment complete) (2020) <i>Target:</i> 230,000 (gender breakdown TBC once baseline established) (2024) <i>Source:</i> SSRLP (P169198)</p>	<p>b) Number of new urban beneficiaries of emergency cash transfers covered by at least one monthly cash transfer <i>Baseline:</i> 0 (2020) <i>Target:</i> 109,000 (2024) <i>Source:</i> SSRLP (P169198)</p>	<ul style="list-style-type: none"> • Additional Financing for Social Support for Resilient Livelihoods (FY23) <p>ASA:</p> <ul style="list-style-type: none"> • Process Review of the COVID-19 Urban Cash Initiative
<p>Indicator 3.3.2: Proportion of households benefitting from social cash transfers with an improved food consumption score (% of which female-headed households) (w) <i>Baseline:</i> TBD via baseline survey during first year of implementation (2020) <i>Target:</i> TBD on basis of baseline (2024) <i>Source:</i> SSRLP (P169198)</p>	<p>a) Beneficiaries of SCTP (number, of which % female) (w) <i>Baseline:</i> 123,682, of which 63.4% female (2019) <i>Target:</i> 147,000, of which 68% female (2024) <i>Source:</i> SSRLP (P169198)</p> <p>b) Number of households covered by SCTP scalability mechanism <i>Baseline:</i> 0 (2020) <i>Target:</i> 250,000 (2024) <i>Source:</i> SSRLP (P169198)</p> <p>c) Proportion of beneficiaries receiving cash transfers via e-transfers (%) (d) <i>Baseline:</i> 0 (2020) <i>Target:</i> >50 (2024) <i>Source:</i> SSRLP (P169198)</p> <p>d) Beneficiary households participating in functional Savings and Loans Groups (number, of which youth- and women-headed households) (w) <i>Baseline:</i> 32,562, of which youth-headed n/a and 21,817 headed by women (2020) <i>Target:</i> 70,000, of which 17,500 headed by youth and 45,500 headed by women (2024) <i>Source:</i> MASAF IV</p>	

ANNEX 2: COMPLETION AND LEARNING REVIEW

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The World Bank**

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**INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**COMPLETION AND LEARNING REVIEW
OF THE COUNTRY ASSISTANCE STRATEGY**

**FOR
THE REPUBLIC OF MALAWI
FOR THE PERIOD FY13-FY17**

December 26, 2020

**Malawi Country Office
Eastern and Southern Africa Region**

**International Finance Corporation
Sub-Saharan Africa Region**

**Multilateral Investment Guarantee Agency
Economics and Sustainability Department**

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FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

Exchange Rate Effective as of December 9, 2020

Currency Unit: Malawi Kwacha (MK)

US\$1.00 = MK757

SDR 1.00 = US\$1.435

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CLR	Completion and Learning Review
CPF	Country Partnership Framework
DB	Doing Business
DPO	Development Policy Operation
FISP	Farm Input Subsidy Program
GDP	Gross Domestic Product
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFMIS	Integrated Financial Management and Information System
IMF	International Monetary Fund
MASAF	Malawi Social Action Fund
MDTF	Multi-Donor Trust Fund
MGDS	Malawi Growth and Development Strategy
MIGA	Multilateral Investment Guarantee Agency
NBS	New Building Society
OBA	Output-Based Aid
P4R	Program for Results
PER	Public Expenditure Review
PET-QSD	Public Expenditure Tracking and Quality of Service Delivery
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIU	Project Implementation Unit
PLR	Performance and Learning Review
PPP	Public-Private Partnership
PSR	Public Sector Reform
SME	Small and Medium-sized Enterprises
TA	Technical Assistance
WBG	World Bank Group

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I. INTRODUCTION

1. The Completion and Learning Review (CLR) is a self-evaluation by the World Bank Group (WBG) of the Country Assistance Strategy (CAS) for Malawi for FY13-FY17. The CAS was extended by one year from FY16 to FY17 following completion of the Performance and Learning Review (PLR) in FY15. The CLR: (i) evaluates the CAS program performance in achieving WBG expected outcomes; (ii) assesses WBG performance in the design and implementation of the program and discusses its alignment with the WBG's twin goals of eradicating extreme poverty and increasing shared prosperity; and (iii) draws lessons for the new Country Partnership Framework (CPF) for Malawi. The CLR uses the results framework updated during the PLR as the reference for assessing the CAS program. The CLR also draws on discussions with Bank Group staff, government officials and other stakeholders who have been involved in the delivery of WBG-supported projects and analytical and advisory work; as well as on World Bank documents including Implementation Completion Reports, Implementation Status Reviews and other project documents. A brief update on the progression of the WBG's country program following this CAS' completion and prior to the new Country Partnership Framework is provided in Annex F.

2. The WBG has had a long-standing engagement with Malawi (dating back to the 1960s). A small, peaceful and democratic country in Sub-Saharan Africa, Malawi is the sixth poorest country in the world, with a per-capita GDP of just US\$372 in 2015 and more than 70 percent of the population living below the international poverty line of US\$1.90 per person per day. Over past decades, the country's development progress has been negatively affected by both climate-related shocks and domestic political and governance shocks, which have collectively resulted in very little progress being made in reducing poverty – especially in rural areas where most Malawians live. During this period, weak governance and entrenched political clientelism have been obstacles to policy reform and development of the country, contributing to an “expectations” cycle in which new national leaders implement a wave of structural reforms influenced and funded by donors, and then reforms are diluted and even derailed by entrenched interests or political exigencies, leading to the suspension of donor budget support and the consequent destabilization of the Malawian economy. This cycle has been repeated several times in various ways over the past 20 years, including during the implementation of the FY13-FY17 CAS.

3. At the time of its launch, the CAS noted that “the authorities are fully committed to reform and a new International Monetary Fund (IMF) program offers an opportunity to institutionalize and better sequence reform.” In this context the CAS prioritized WBG support around three themes: (i) promoting sustainable, diversified and inclusive growth; (ii) enhancing human capital and reducing vulnerabilities; and (iii) mainstreaming governance for enhanced development effectiveness. It also emphasized that, within these three themes, WBG support would be demand-driven and selective and would continue to embrace the harmonization agenda, build up country systems, and engage with all key stakeholders.

4. Unfortunately, the first two years of CAS implementation were marked by a serious governance and public financial management crisis, popularly known as “Cashgate,” that engulfed the country in September 2013 and led to the suspension of donor budget support and consequent severe macro-fiscal problems. The WBG endeavored to respond to this challenge, as well as to the catastrophic floods in January 2015 that affected half the country, with changes to ongoing and proposed operations as well as with timely analytical and advisory work.

5. The March 2015 PLR concluded that, while the CAS remained relevant to Malawi's needs and development challenges, adjustments to the WBG's approach were required in response to the “fundamental shift in the landscape since the CAS was approved.” These adjustments included: a sharper

focus on public financial management (PFM) and public sector reform (PSR); a more cautious approach to budget support to ensure that reforms enjoyed the domestic commitment needed to maintain traction and paid greater attention to fiduciary oversight; and a deeper policy engagement on poverty alleviation. Following another shock in the form of the drought of 2016, the remaining years of the CAS period saw an uptick in reform implementation and in the overall progress of the economy, with Gross Domestic Product (GDP) forecast to increase by 4.5 percent in 2017 compared with 2.8 percent in 2015 and 2.5 percent in 2016.

6. Overall, the CAS program outcome is rated moderately satisfactory. This rating is based on the country team's self-evaluation (Annex B), an aggregate assessment of achievements made under the three CAS pillars and the outcomes and indicators set out in the CAS results framework as amended in the PLR. Within the thematic areas covered by the CAS, progress is rated moderately satisfactory for theme 1 on promoting sustainable, diversified and inclusive growth; satisfactory for theme 2 on enhancing human capital and reducing vulnerabilities; and moderately unsatisfactory for theme 3 on mainstreaming governance. However, even where progress has been made, concerns remain as to the sustainability of that progress, especially in the context of the large oscillations in performance that have characterized policy making in Malawi for many years.

7. WBG performance in designing and implementing the CAS has been rated as fair. The design of the original CAS took on board the lessons learned from the completion review for the previous CAS, including: the need for the strategy to be well aligned with the government's own goals and priorities, the importance of analytic work in increasing understanding and building consensus; the need to focus on capacity building; and the importance of engaging more with civil society and other non-government stakeholders. As highlighted above, in the face of governance and other shocks, the PLR made important adjustments to the WBG's approach. However, neither the CAS nor the PLR fully grappled with the challenging political economy dynamics of Malawi or how in practice the WBG could be more selective. Furthermore, the PLR did not address in depth the inherent tension between more ring-fencing of projects for fiduciary reasons and the WBG's overall commitment to the harmonization agenda.

8. With respect to CAS implementation, the WBG has delivered a large Analytic and Advisory Activities (AAA) program which has been praised for its quality and is playing an important role in building wider understanding and consensus in Malawi around critical development issues as well as providing the basis for the policy dialogue with government and other stakeholders and helping enable the resumption of budget support. A broad range of new lending operations has been approved. However, the planned consolidation of the portfolio down to seven operations at the end of the CAS period did not materialize, and in fact the current portfolio includes fourteen active projects compared with eleven at the time of the PLR.³⁹ Overall, the Bank portfolio continues to perform well with an average disbursement ratio over the CAS period of 36 percent (well above the average for Sub-Saharan Africa) and only two problem projects at the end of FY17. All but one of the twelve projects that closed during the CAS period were rated as either satisfactory or moderately satisfactory on completion and the Independent Evaluation Group (IEG) came to a broadly similar conclusion (adjusting the outcome rating of two projects from satisfactory to moderately satisfactory and the rating of one project from moderately satisfactory to moderately unsatisfactory).

9. At a broad level, the CAS is certainly well aligned with the WBG's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. But some of the more specific challenges with

³⁹ These numbers exclude regional projects.

respect to design and implementation are limiting the direct impact of the strategy as well as the sustainability of those impacts and point to a broad range of lessons to be learned and work to be done in the context of preparing the new CPF. These lessons include: (i) deepening understanding of the governance/political economy trap and how the WBG should respond; (ii) determining how to more effectively prioritize, be selective and focus on transformational investments; (iii) considering how best to use the range of WBG instruments to maximize development impact; (iv) supporting enhanced donor coordination; and (v) strengthening the WBG's organizational effectiveness.

II. PROGRESS TOWARDS CAS DEVELOPMENT OUTCOMES

A. SUMMARY OF CAS PROGRAM PERFORMANCE

10. The CAS program in Malawi during FY13-FY17 is rated moderately satisfactory. As noted above, this rating is based on an aggregate assessment of achievements made under the three CAS pillars and the outcomes and indicators set out in the CAS results framework as amended in the PLR. Of the seven outcomes highlighted in the CAS, two were achieved, three mostly achieved, and two partially achieved. After being off track at the time of the PLR, outcome 1.1 on economic management was achieved by the end of the CAS period, a significant accomplishment since strong macroeconomic and fiscal management are critical for both growth and poverty reduction. Outcome 2.1 on delivery of public services, on track at the time of the PLR, was also achieved, with progress being most notable in the areas of nutrition, HIV/AIDS and water and sanitation. With respect to the other two outcomes under theme 1 (on promoting sustainable, diversified and inclusive growth), Malawi was able to improve its ranking in the Doing Business indicators (outcome 1.2) and achieve some of the agricultural productivity indicators (outcome 1.3). But progress in addressing the infrastructure and service constraints to growth and private sector development was less than targeted. Similarly, for outcome 2.2 on lowering vulnerability and enhancing resilience, targets were mostly but not fully achieved. Finally, theme 3 on mainstreaming governance for enhanced development effectiveness was the poorest-performing theme, with both the outcome of improved public sector management and the outcome of strengthened social accountability being only partially achieved. Details of the evaluation are contained in the evaluation summary (Annex A) and evaluation matrix (Annex B), and the highlights are summarized below.

B. CAS PROGRAM IMPLEMENTATION AND ACHIEVEMENT OF STRATEGIC GOALS

Theme 1 – Promoting Sustainable, Diversified and Inclusive Growth

CAS outcome 1.1: Improved economic management (Achieved)

11. This outcome was achieved after being off-track at the time of the PLR. In the early CAS period, improvements in macro-economic management—including liberalization of the exchange rate and fuel price regimes, enhanced protection of vulnerable groups and stronger planning and budgeting—were supported by the Bank through the Rapid Response Development Policy Grant and the First Economic Recovery Development Policy Operation (DPO-1) and contributed to GDP growth of 5.2 percent in 2013 compared with 1.9 percent in 2012. In September 2013, however, a massive theft of public resources by a group of government and non-government individuals (generally referred to as “Cashgate”) exposed deeply entrenched corruption and fundamental weaknesses in the country's PFM systems and led to the suspension of donor budget support, sharp reductions in disbursements of aid funds through government systems, and a rapid deterioration in the country's fiscal situation and in private sector confidence. The DPO-2 was put on hold and then dropped while the WBG and other donors worked closely with the

previous and current governments to repair the financial control environment, primarily through the Public Finance and Economic Management Reform Program Multi-Donor Trust Fund (MDTF).

12. The new government of Peter Mutharika, elected in May 2014, committed to prudent macroeconomic policies and launched reforms to restore PFM controls and to address the dysfunctionality of the public service. Owing to severe weather shocks (floods in 2015 and drought in 2016), however, the fiscal deficit remained high as borrowing increased. The government did exercise a significant degree of spending constraint and implemented measures to improve domestic revenue collection, leading in 2016-17 to an improvement in fiscal performance, declining inflation and borrowing levels that remained within the approved target and below the IMF program ceiling. The WBG has supported such progress through the ongoing Agricultural Support and Fiscal Management DPO, which has focused on the “substance” as opposed to the “form” of institutional reforms and on policy changes that are hard to unwind, such as the rollback of the Farm Input Subsidy Program (FISP). It is hoped that this will help reduce the likelihood of a repeat of the “expectations” cycle. Underpinning the policy dialogue and DPO development has been a range of AAA activities, including the series of economic monitors and policy notes, enhanced poverty diagnostics and analysis, a public expenditure review (PER) and a country economic memorandum (CEM) entitled “From Falling Behind to Catching Up.”

CAS outcome 1.2: Improving ease of doing business through better economic infrastructure, regional integration, and access to demand-responsive vocational training (Mostly achieved)

13. After being off-track at the time of the PLR, this outcome was mostly achieved by the end of the CAS period. International Finance Corporation (IFC) and the Bank’s Trade and Competitiveness team have been working to address Malawi’s slide in the country’s performance against Doing Business (DB) indicators. After a decline in the country’s ranking each year from 2011 to 2014, the past four years have seen a steady improvement (from 171st of 189 economies in 2014 to 110th of 190 economies in 2018), earning Malawi a place among the ten most improved economies in that year. IFC and the Bank have helped the government achieve several key investment climate reforms, including revisions of the Companies Act, the Insolvency Act, the Credit Reference Bureau (Amendment Act) and the Lands Acts and subsequent adoption of the regulations and rules necessary for operationalization of such legislation. The Bank has been working directly with government officials to improve performance on other DB indicators.

14. Some progress has been made in improving the extent and quality of public infrastructure and services required for private sector development. In the financial sector IFC has supported the development and adoption of an effective legal framework for secured lending and the development of a web-based collateral registry and capacity building around the new secured transactions system. IFC has also facilitated US\$365 million in access to finance, of which US\$64 million was for small and medium-sized enterprises (SMEs). The Bank’s Financial Sector Technical Assistance Project has led to more people using formal banking services and has helped address some of the financial sector vulnerabilities that arose from the macroeconomic instability experienced by the country in 2012. In the power sector, the Bank is working with the government to strengthen the system and enhance capacity, but demand is still increasing more rapidly than supply resulting in a growing deficit and frequent power outages. Progress is also being made in increasing the use of public-private partnerships (PPPs) in infrastructure and enhancing the quality of trade, transport and telecommunications infrastructure and policies (with support from the Southern Africa Trade and Transport Facilitation Program, the Regional Communications Infrastructure Program and the Digital Malawi Project, as well as through Bank AAA and trust fund activities and IFC trade advisory services), albeit at a slower pace than planned. Finally, the Bank is helping through the Skills Development Project to increase enrollment in higher education, including in priority programs needed to

support the future development of the private sector, as well as helping to deliver quality post-graduate education and research through the Eastern and Southern Africa Higher Education Centers of Excellence Project. In a context of increasing global competition, however, more rapid and sustained progress is needed across all of these areas to facilitate private sector growth and development.

CAS outcome 1.3: Increased productivity and commercialization of agriculture and sustainable management of water resources for multiple uses (Mostly achieved)

15. This outcome was mostly achieved after being on track at the time of the PLR. Economic and weather shocks (including floods in 2015 and drought in 2016) had a negative impact on agricultural productivity growth and commercialization, but with the rebound in agricultural production in 2017 some outcome indicators were achieved. The Bank's Irrigation, Rural Livelihoods and Agricultural Development Project helped 45,000 farmers with irrigation and 650,000 farmers with an inputs-for-assets initiative, and the Agricultural Sector Wide Approach Support Project provided coherent and harmonized support to the agriculture sector to enhance food security and crop diversification, as well as to build analytical understanding and institutional capacity. Progress in the sector has also received support from the ongoing Shire River Basin Management Program Project, the Agricultural Commercialization Project and the Regional Agricultural Productivity Program for Southern Africa. In addition, as noted earlier, the Bank's Agricultural Support and Fiscal Management DPO has played a major role in assisting the government to make deep cuts and significant reforms to the costly and inefficient FISP. IFC has helped Malawi commercialize and diversify its export base through specific investments, for example in mango and banana processing. However, the IFC Agri-advisory Project, aimed at expanding New Building Society (NBS) Bank's lending (including for agribusiness) was not pursued due both to leadership changes within the NBS Bank and the discontinuation of the broader Africa Agri-Finance Advisory Program under which the agri-advisory program for Malawi was to have been implemented.

Theme 2 – Enhancing Human Capital and Reducing Vulnerabilities

CAS outcome 2.1: Improved access to quality education, reliable nutrition, HIV/AIDS services and sustainable water supply and sanitation services (Achieved)

16. After being on track at the time of the PLR, this outcome was achieved overall. Targets for provision of HIV/AIDS services under the HIV/AIDS National Strategic Program were surpassed, as were targets for community nutrition program coverage of children under the age of two through the Bank's Multi-Sectoral AIDS Project and an ongoing Nutrition and HIV/AIDS Project as well as through an ongoing Southern Africa Tuberculosis and Health Systems Support Project. Targets were also surpassed in the area of water and sanitation, with a total of 2.2 million people gaining access to improved water supplies and 73,000 gaining access to improved sanitation facilities under the Second National Water Development Project, which closed in October 2015. Progress in the education sector has been less robust, however. Under the Project to Improve Educational Quality in Malawi and the ongoing Malawi Education Sector Improvement Project, school infrastructure has been improved and grants to expand access and quality have been made. However, the latest available data (for FY16) show that the standard survival rate for girls has improved only modestly and the rate for boys has stagnated. In the health, education, and water and sanitation sectors broadly, policy dialogue and project development and implementation have been supported through a range of trust fund and AAA activities, including a health financing study, an evaluation study on the labor impact of HIV, a primary education public expenditure tracking and quality of service delivery (PET-QSD) study, work on strengthening social accountability in the education sector, and support on tariff reviews and willingness to pay in the water sector.

CAS outcome 2.2: Improved resilience for poor communities through adequate social safety nets, improved climate resilience, and enhanced capacity to respond to disaster risk (Mostly achieved)

17. This outcome was mostly achieved after being on track at the time of the PLR, mainly because progress in a number of areas was slower than targeted. In the area of social protection, good progress has been made with respect to the number of households being reached with public works projects that aim, among other things, to help improve family security, savings and the ability to pay for school fees, medicines, and agricultural inputs. This progress has been supported by the Bank through the Third and Fourth Malawi Social Action Fund (MASAF III and IV). The government is making progress in establishing a national social safety net platform (with support from the Bank under MASAF-IV), although the pace of implementation has been less swift than planned. In the area of climate change and disaster risk reduction, through the Malawi Flood Emergency Recovery Project, close to half a million households benefited from mitigation measures and/or flood adaptation interventions, and climate change and disaster risk reduction measures are increasingly being mainstreamed into investment planning in a range of sectors. The Bank was quick to respond to the drought emergency with a US\$104 million Malawi Drought Recovery and Resilience Project and, as with its support to the government in addressing the flood emergency, this effort provided a platform for leveraging support from other development partners in Malawi, mobilizing additional resources quickly and at scale. Investments in catchment management have been made with WBG support, though it will be some years before the full impact of such investments can be assessed. More broadly, the range of previously mentioned AAA on poverty has helped deepen understanding of the drivers of poverty in Malawi and the strategies for addressing them.

Theme 3 – Mainstreaming Governance for Enhanced Development Effectiveness

CAS outcome 3.1: Improved public sector performance because of better PFM, procurement, M&E systems, and enhanced statistics (Partially achieved)

18. This outcome was partially achieved after being deemed “on watch” at the time of the PLR. The depth of the challenges associated with Malawi’s public sector governance, particularly those related to PFM, proved to be much greater than anticipated at the time the CAS was launched—as clearly demonstrated by the “Cashgate” scandal—and resulted in significant adjustments in the WBG’s strategy at the time of the PLR. In the years since “Cashgate,” the government has focused on improvements in both PFM and PSR, and progress has been made including in the rollout of the Integrated Financial Management and Information System (IFMIS) to subnational governments, enhancing financial controls, strengthening auditing functions, and strengthening procurement processes. WBG support has followed a two-track approach of addressing specific system weaknesses through a restructured Financial Reporting and Oversight Improvement Project MDTF and the Public Finance and Economic Management Reform Program MDTF (as well as Technical Assistance (TA) for statistical capacity building), while supporting broader and more systemic PFM and PSR reforms through the DPO and associated AAA, including the PER. It should be noted, however, that the progress made to date has been below targets (hence the partial achievement of this outcome), and weak institutions and systems remain a major obstacle to improved public sector performance.

CAS outcome 3.2: Enhanced transparency on resource flows and service delivery (Partially achieved)

19. This outcome was partially achieved after being deemed “on watch” at the time of the PLR. Efforts are underway to increase the use of good governance tools in monitoring the use of resources and service

delivery, and the WBG has been supporting such efforts through a range of interventions including the DPO, the MDTFs for Financial Reporting and PFM, and two Social Accountability trust funds in the education sector that have been piloting innovative accountability tools. With support from the Mining Governance and Growth Support Project, work is also ongoing on the development of a modern computerized mining cadaster and other measures to enhance transparency in the sector. It is still too early to determine the overall effectiveness and impact of these measures, however, and one key deliverable—the carrying out of a Public Expenditure and Financial Accountability Assessment (PEFA)—has yet to be achieved.

C. CROSS-CUTTING THEMES IN THE CAS

20. The CAS emphasized two cross-cutting themes that came into play across each of the three main themes of the strategy: first, that the WBG would support Malawi in promoting the country’s goal of attaining gender balance in all sectors and programs; and second, that the WBG would strengthen its focus on regional integration as the most effective way to compensate for the country’s large infrastructure and connectivity gaps.

21. With respect to the gender focus of the WBG’s program, the CAS prioritized interventions to support: (i) more equal enrollment and retention of boys and girls in school; (ii) more equal access to financial markets and land; and (iii) more income opportunities for rural women. The results matrix included five indicators to measure progress with respect to gender and three of these were achieved, one was mostly achieved, and one was partially achieved — a much higher rate of achievement than for the CAS indicators as a whole. In addition, 80 percent of the operations approved during the CAS period were rated gender-informed (based on information from the Project Appraisal Document that gender has been taken into consideration in project design and gender-disaggregated indicators have been included in the Project Results Framework)—a rate similar to that over the three years immediately preceding the start of the CAS.⁴⁰

22. With respect to the focus on regional integration, the CAS and the PLR stressed the importance of the WBG promoting closer integration both through analytical work and regional projects. During the extended CAS period, a number of analytical reports that addressed issues of regional integration were completed (including the Diagnostic Trade Integration Study Update) and four regional projects were approved. However, these did not include either the expected energy connectivity projects or the accelerated program for economic integration. Moreover, of the three indicators in the results framework focused specifically on external trade, one was mostly achieved, one was partially achieved and the other not achieved (although with support from the Southern Africa Trade and Transport Facilitation Program, it is expected that the indicators will eventually be fully achieved). As noted previously, other dimensions of regional cooperation have been supported through a range of other regional projects including the Regional Communications Infrastructure Program, the Agricultural Productivity Program for Southern Africa, the Eastern and Southern Africa Higher Education Centers of Excellence Project and the Southern Africa Tuberculosis and Health Systems Support Project.

⁴⁰ These ratings are drawn from the corporate-wide review of the extent to which projects are gender-informed, which is carried out regularly by the Gender Cross-Cutting Solutions Area. This indicator is slightly different from the “gender responsive” indicator mentioned in the CAS.

III. WORLD BANK GROUP PERFORMANCE

23. Evaluation of the WBG's performance focuses on two key dimensions: (i) design and relevance of the CAS program; and (ii) implementation of the CAS program. Performance has been rated as fair.

A. CAS DESIGN AND RELEVANCE

24. The design of the CAS took on board the lessons learned from the completion review for the previous CAS. In particular the new CAS was well aligned with the government's goals, priorities and themes as set out in the government's poverty reduction strategy, the Second Malawi Growth and Development Strategy (MGDS II) and the Economic Recovery Program which helped reinforce government commitment. The new CAS also recognized the importance of analytic work (including joint analytic work) in increasing understanding of development challenges and building consensus around needed reforms as well as the value of moving towards more programmatic as opposed to project-based interventions to enhance impact. The reality of weak capacity within the government and the need to build this reality into project design were clearly recognized, as was the need to build capacity—especially with respect to financial management, procurement, project management and monitoring and evaluation—though how best to do this was not so clear. Finally, the new CAS recognized the important role of civil society (as well as the private sector and the media) in providing an alternative voice and that the WBG needed to engage more actively with all these stakeholders in addition to government.

25. Consistent with the need for alignment with government goals and priorities, the new CAS prioritized WBG support around the three themes of: (i) promoting sustainable, diversified and inclusive growth; (ii) enhancing human capital and reducing vulnerabilities; and (iii) mainstreaming governance for enhanced development effectiveness. Within those themes the CAS emphasized the need to “be selective in choosing proposed engagement areas that build on the WBG's strengths and comparative advantages, other assistance programs, and the absorptive and implementation capacity of Malawi.” In this regard the value of adopting a WBG approach, emphasizing AAA as well as lending activities, and having a judicious mix of policy, programmatic and project lending interventions was clearly recognized. The CAS also noted the importance of considering the use of innovative instruments such as the Program for Results (P4R) and output-based aid (OBA) where appropriate. It does appear, however, that the design of the CAS struggled with the issue of selectivity. The CAS noted that there was little selectivity with respect to the three themes themselves and therefore that the issue of selectivity had to be addressed within each theme, yet it could point only to two areas of more limited Bank engagement (health and transport), and even in these areas it noted that the Bank would remain involved in issues of HIV/AIDS as well as rural transport.

26. The CAS embraced the harmonization agenda. It emphasized the need to work with other development partners as well as with government in building up and, to the extent possible, using country systems for donor-supported activities. It focused on the need for strategic sectoral approaches, including undertaking joint diagnostics and working with government to develop government-owned action plans that development partners would jointly support through sector-wide approaches, with harmonized financing modalities to reduce transaction costs. It also emphasized the importance of helping the government move away from the Project Implementation Unit (PIU) implementation model and ensure that project management units were well integrated into regular government structures.

27. The results framework for the new CAS was built around three thematic areas and included six core results areas and seven CAS outcomes. These outcomes were to be supported by Bank financing (lending

and grants), AAA (Economic and Sector Work and non-lending TA), Bank-managed trust funds, policy advice, IFC investment and advisory services, Multilateral Investment Guarantee Agency (MIGA) de-risking instruments, and close coordination with other development partners. The framework also identified indicators and milestones for each results area and outcome. In some cases, however, the indicators and milestones were not clearly specified, posing challenges for the subsequent measurement of results. With respect to the governance mainstreaming approach laid out in theme 3, the CAS also noted that this could only be effective if it was given priority across all operations by the full Malawi country team and, in this regard, that a Governance Advisory Committee⁴¹ within the country team led by the Country Manager should be a cornerstone of CAS implementation.

28. The CAS recognized that there were considerable risks to successful attainment of the results targeted in the proposed CAS program. In particular it focused on the political environment for sustained commitment to the reform agenda, external and internal macroeconomic risks, weather-related shocks, risks from the lack of economic diversification, and risks arising from inadequate public sector management capacity and fiduciary and governance issues. Each of these risks were well specified along with proposed mitigation measures.

29. Unfortunately, by the time of the PLR, a number of these risks had come to pass. In particular “Cashgate” engulfed the country in September 2013 and led to the suspension of donor budget support and consequent severe macro-fiscal problems. In addition, January 2015 brought further problems in the form of catastrophic floods that affected half the country. In this context, the PLR concluded that the CAS still remained relevant to Malawi’s needs and development challenges. But it stressed that some adjustments to the WBG’s approach were needed—including a sharper focus on PFM and PSR, a more cautious approach to budget support to ensure that reforms would have the domestic commitment to maintain traction and greater attention to fiduciary oversight, and deeper policy engagement on poverty alleviation. It also indicated that, while the WBG should continue to pursue opportunities for transformational investments, a more systematic and intensive approach to fiduciary oversight should be undertaken, including increased financial ring-fencing of existing and new projects. It did not, however, address in-depth the tension between such ring-fencing of projects and the broader commitment of the WBG to the harmonization agenda.⁴² Some modifications to the results framework were made to accommodate implementation experience and emerging priorities. Finally, the CAS was extended by one year to allow time for the implementation of the adjusted CAS agenda and a more thoughtful preparation of a new CPF that would incorporate the lessons learned in the post-“Cashgate” period.

⁴¹ The idea behind the Committee was to ensure a coordinated approach across the technical and operational issues on governance across sectors. Draft Terms of Reference were prepared and although this committee was never formally established, the Country Office (CO) did in some way implement the concept. A core CO-based operations team (Country Manager, Operations Specialist, Financial Management Specialist, Procurement Specialist, staff participation, and some Task Team Leaders) was involved in all operations. The CO conducted biweekly operations meetings as well as portfolio meetings, including on Financial Management (FM)/governance. The CO also supported a large Trust Fund-financed programmatic FM framework program, which helped the strategic discussions with client and partners on governance issues. The team also delved deeply into some specifics; for example, a close team was formed in Agriculture including Task Team Leader, sector team, Country Manager, FM and procurement to work on improving the governance around a large fertilizer procurement process. Following this, new processes were later adopted by the client and fully supported by partners.

⁴² Although not well reflected in the PLR, it is understood that the tension between ring-fencing projects and the harmonization agenda was discussed extensively during PLR preparation. To address this tension it was felt necessary to proceed on two tracks with some ring-fencing essential in the aftermath of “Cashgate” while at the same time the Bank endeavored to help address systemic issues with a revamped Financial Reporting and Oversight Improvement Project and a new PSR program.

B. IMPLEMENTATION OF THE CAS

30. **AAA Activities.** Over the CAS period, most envisioned AAA activities were delivered as planned and several additional activities were undertaken in response to requests from the government and other stakeholders (Annex B). The WBG is generally well respected for the quality of its AAA work, which has helped underpin its policy dialogue and lending activities in Malawi. In fact, it is considered by the government as “*primus inter pares*” among donors when it comes to advice on policy issues, especially at the macro level and in agriculture and disaster response. Of particular importance has been the introduction of the new economic monitor series whose findings and recommendations are being well communicated and are helping to inform the debate among all concerned stakeholders about the progress of the economy and policy priorities. The government has demonstrated a strong demand for WBG advice, as evidenced in its request for TA for PFM and PSR reform, and for help in re-energizing the national poverty agenda. The Bank has been heavily engaged in helping to streamline and redesign the country’s agricultural subsidy program as a key component of the new series of DPOs. WBG non-lending TA activities (including IFC advisory services) are registering positive impacts in areas such as the structuring of infrastructure transactions, PPPs and energy efficiency options. Cross-country learning is an essential part of the development agenda, and Malawi is an active participant in various South-South learning exchanges.

31. **Trust Funds.** Underpinning the AAA work program and supporting the development and implementation of the lending program are a number of large Bank-managed MDTFs that have permitted a sector-wide pooled approach in key strategic areas and have provided effective platforms for coordinated donor policy dialogue (for example, on PFM and FISP reform and on education) as well as smaller trust funds supporting more catalytic activities. The PLR recorded an increase in trust funds to 36 from 29 at the start of the CAS and stressed that “further selectivity is needed for the remainder of the CAS period to ensure that the Trust Fund portfolio is consolidated and directly supports core strategic objectives and operations.” Subsequently, the number of trust funds fell to 27 at the end of the CAS period. Fund balances, after increasing from US\$22 million at the start of the CAS period to US\$95 million at the time of the PLR, fell to US\$26 million at the end of the CAS period—with the three biggest trust funds (for the Financial Reporting and Oversight Improvement Project, the Agricultural Sector Wide Approach Support Project and the Malawi Education Sector Improvement Project) accounting for more than three-quarters of the total balance. During the CAS period, about US\$60 million in new trust fund resources was mobilized for a broad range of operations and activities, particularly in education, agriculture, energy, water and telecommunications.

32. **Lending.** During the FY13-FY17 period, 18 Bank operations were approved compared with planned approvals of 20 operations. Total commitments amounted to US\$987.9 million (or US\$860.1 million, excluding regional IDA contributions) compared with a planned level of commitments (excluding regional IDA contributions) of US\$801 million (Annex C). Broadly speaking, the program was delivered as planned with the amount of funding approved exceeding in some cases what had been expected (for example, the Malawi Flood Emergency Recovery Project was approved for US\$80 million compared with an expected commitment of US\$50 million). There were also some slippages in operations (including the first Agricultural Support and Fiscal Management DPO, which slipped from FY16 to FY17, and the second DPO and the Shire River Basin Management Program, which both slipped from FY17 to FY18). These were offset, however, by the introduction of some operations that were not anticipated at the time of the PLR, including the Drought Recovery and Resilience Project for US\$104 million and the first phase of the Digital Malawi Program. After the hiatus following “Cashgate,” the resumption of policy-based lending by the Bank reflects an enhanced policy dialogue and has been much appreciated by the government, though it

remains controversial with some development partners (paragraph 38 below). As emphasized in both the CAS and the PLR, regional projects account for a significant amount of new commitments. The Bank moved ahead with one transformational project (the Shire River Basin Management Program) but not until FY18 and dropped another (support for the dam as part of the Lilongwe Water Supply Project). The Bank has yet to use the P4R or OBA instruments and has found it difficult to deliver on the PLR objective of a smaller number of large projects.

33. **Portfolio Size and Performance.** The consolidation of the portfolio forecast in the PLR in preparation for the new CPF has not occurred and, in fact, the current portfolio includes fourteen active projects (excluding regional projects) or twelve (if the two unexpected disaster response operations are excluded) compared with eleven at the time of the PLR and the target of consolidating down to seven. Overall, the Bank portfolio continues to perform well, with an average disbursement ratio over the FY13-FY17 period of 36 percent—well above the average for the Africa region as a whole. There were only two problem projects at the end of FY17, equivalent to 14 percent of the portfolio (Table 1). This is a notable achievement in a difficult, low-capacity and fragile state environment. Significant implementation challenges remain, however, including the choice of implementation model, recruiting and retaining suitably qualified staff, ineffective use of TA, delays between effectiveness and disbursement, and control and accountability weaknesses. These challenges, which were identified in the FY15 Country Portfolio Performance Review and the subsequent financial management review, derive from the operating environment in which Bank-financed projects are being implemented and can only be addressed in a sustainable way if meaningful PSR takes place.

Table 1. Portfolio Status Indicators by Year

FY	Active Projects	Net Commitments \$m	Total Disbursements \$m	Disbursements during FY \$m	Disbursement Ratio %	Problem Projects	Problem Projects %
2013	11	861.5	331.10	148.93	26.5	0	0
2014	12	925.05	394.29	151.48	27.3	2	16.7
2015	11	752.35	336.29	94.70	23.6	3	27.3
2016	9	672.76	330.90	158.29	36.1	1	11.1
2017	14	1096.06	495.63	205.99	68.8	2	14.3

34. **Project Ratings.** Twelve projects closed during the CAS period (including one IFC project for the Malawi trade portal). Bank staff rated the outcome of all but one of the operations (the Economic Recovery DPO) as either satisfactory or moderately satisfactory. IEG broadly agreed with these conclusions, adjusting the rating for two operations from satisfactory to moderately satisfactory and changing the rating of one project (the Business Environment Strengthening Project) from moderately satisfactory to moderately unsatisfactory. These ratings are above the average for the Africa Region.

35. **Fiduciary Management.** During the CAS period, the portfolio was impacted by an overall deterioration in fiduciary arrangements within the government, as reflected in a weak control environment and very weak measures to deal with noncompliance, leading to a culture of impunity amongst PFM practitioners and others involved in the execution and management of public funds. This state of affairs culminated in the plunder of public resources largely through abuse of the IFMIS. As a consequence of the weak control environment, the WBG took the decision to significantly diminish use of country systems (including use of government accounting software and reporting as well as government accounting staff) for Bank-financed or Bank-administered operations. Instead, Bank-financed operations increasingly employed ring-fencing

modalities in the form of PIUs with their own accounting software and other mitigation measures. During the period under review, the financial management performance of most projects was between satisfactory and moderately satisfactory due, in part at least, to these ring-fencing arrangements. Very few projects were rated moderately unsatisfactory and only one was rated unsatisfactory. Efforts to deal with some of the control weaknesses were initiated during this period, including enhancing access controls to IFMIS and other system-imbedded controls. However, some of the key control areas remain unresolved or only were partially resolved (commitment controls and bank reconciliation are examples). The major factor significantly undermining PFM and requiring firm and urgent action is continuous and comprehensive application of measures to deal with noncompliance in order to inculcate a desirable culture in the use of public resources.

36. Safeguards Management. The nature and scope of projects delivered during the CAS period required, at most, partial environmental assessments. Instruments were prepared by the client, and performance ratings for delivered projects ranged from moderately unsatisfactory to satisfactory. Most of the projects experienced inadequate client capacity to prepare, implement, monitor and report on environmental and social safeguards. However, with the engagement of the Environmental Affairs Department at the national level and Environment Subcommittees at the district level, and drawing on WBG technical support, client technical capacity has improved—although there are still inadequate numbers of personnel. Client engagement with WBG safeguard policies has helped to highlight gaps in national environmental policies and has informed the proposed Environmental Management Act. This act, which is now awaiting approval by Parliament, includes the establishment of a Malawi Environment Policy Authority with more independence and service delivery capacity and enhanced social safeguard policies.

37. WBG Collaboration. There has been strong World Bank Group collaboration in delivering CAS outcomes, particularly relating to the ease of doing business, private sector development and agriculture. IFC's portfolio in Malawi as of the end of FY17 had a committed balance of US\$15.5 million, all of which had been disbursed (Annex E). During the CAS period, IFC committed to Malawi a total of US\$17.24 million in the agri-business and financial sectors, of which US\$2.24 million was in trade finance. In addition, IFC's Advisory Services portfolio currently consists of seven projects in the finance and markets, trade and competitiveness and cross cutting advisor solutions areas, with a total of US\$6.6 million in funds managed by IFC. During the CAS period, MIGA continued to explore cross-border investment opportunities in the country, leading to the issuance in June 2019 of a USD\$58.5m guarantee for a new 60 MW solar photovoltaic plant in Salima. The Project is supported by the MIGA Guarantee Facility under the IDA18 Private Sector Window. MIGA, working closely with the IFC and the World Bank, is exploring further cross-border investments opportunities to scale up support in strategic sectors, including the renewables power sector.

38. Donor Coordination. In keeping with the strategy outlined in the CAS and confirmed in the PLR, the WBG has remained actively engaged in the donor coordination process and has stepped up its engagement with civil society, the private sector and other stakeholders outside of government. With respect to donor coordination, however, there remain widely diverging views regarding such critical issues as budget support and the value-added of PIUs, and many in government would like to see the WBG using its convening power more directly in support of government priorities and the need for more effective coordination of donors around those priorities. The increased engagement of the WBG with other stakeholders, including in civil society and the private sector, has been welcomed—though, here too, there is a perception that the WBG can and should be doing more. Meeting the expectations of this broad group of stakeholders is particularly challenging in a context where the WBG has fewer staff in the country office

than many bilateral donors but is still expected to play a lead role in policy dialogue and coordination with donors and other partners.

IV. ALIGNMENT WITH CORPORATE GOALS

39. The CAS was well aligned with the WBG twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. Poverty reduction was the core objective underlying the CAS, which was well aligned with the country's second plan to reduce poverty (MGDS II). Moreover, the focus on reducing both poverty and inequality was further enhanced in the PLR, which recognized that absolute poverty remained stubbornly high (at 50.7 percent in 2010/11 compared with 52.4 percent in 2004/5) and was even increasing in rural areas and that inequality was also increasing, with the Gini coefficient rising from 0.39 in 2004/5 to 0.45 in 2010/11. In recognition of the country's evident lack of progress in reducing rural poverty and in response to a direct request from the government, the PLR emphasized the importance of a stepped-up engagement by the WBG to better understand the drivers of rural poverty and help the government develop an effective strategy for addressing them.

40. In this regard, the WBG has undertaken some deeper analysis of the drivers of poverty in Malawi and reflected this analysis in a recent CEM that endeavors to understand the puzzle of Malawi's development performance and identify ways for Malawi to achieve robust and stable growth that includes the poor. The lending program has focused on cross-sectoral interventions that attack poverty from different, complementary angles. Of particular importance have been the operations designed to benefit poor smallholder farmers, including the recent DPO that focused on improving the poverty targeting of fertilizer and other subsidies in the agricultural sector and to rebalance spending towards irrigation, diversification of agriculture and a scaled-up social safety net program as well as towards operations such as the Shire River Basin Management Program, IFC work on improving farmers' access to capital and the MASAF social protection program.

41. To ensure that the CAS would have maximum impact on achieving corporate goals, the overall program probably needed to be more focused and selective. As noted above, the CAS has struggled with the issue of selectivity and, while in the Malawi context a very broad range of activities and programs are needed for poverty reduction and shared prosperity, considering in a more rigorous way where the WBG can have maximum impact relative to other partners and the government on its own will be important going forward.

V. LESSONS LEARNED

42. This section highlights key lessons learned during the CAS period and suggestions for the new CPF. They focus on the following five broad areas: (i) deepening understanding of the governance/political economy trap and how the WBG should respond; (ii) determining how to more effectively prioritize, be selective and focus on transformational investments in the future WBG program; (iii) considering how best to use the range of WBG instruments for maximum development impact; (iv) reinvigorating the harmonization agenda and supporting enhanced donor coordination; and (v) strengthening the WBG's organizational effectiveness. More project-specific lessons learned and suggestions for the new CPF are included in the Results Matrix (Annex B).

A. GOVERNANCE/POLITICAL ECONOMY TRAP

43. The CAS rightly focused on mainstreaming governance for enhanced development effectiveness as one of its three themes, and the results matrix reflects many important lessons learned with respect to governance. These include: the need for political will at the highest levels of government; the critical importance of strong macroeconomic management; the need to focus on implementation of laws, not just on their enactment; the importance of institutional capacity building; and the value of strong community engagement. But the experience of the past few years has only reinforced the perception that Malawi is stuck in a dynamic in which periods of reform and progress are followed by periods in which entrenched political clientelism stalls or even dismantles reform progress. As a result, poverty is not decreasing, inequality is rising, and serious damage continues to be done to the country's environment and natural resources. In this context the following lessons have been derived from discussions within the WBG as well as with government officials, development partners, and other stakeholders:

- i. Issues of governance and the political economy trap are at the core of the slow progress on reform and development that Malawi is making and need to be analyzed in greater depth.⁴³ The World Bank's latest World Development Report "Governance and the Law" provides an excellent framework for deeper analysis of such issues in Malawi, and the WBG has already begun to draw on this framework and benefit from the advice of those involved in its preparation.
- ii. There are challenges on both the demand side (citizens not demanding enough in terms of good governance) and on the supply side (with the corruption of the political culture and system) which most certainly are not easy to address. In fact, it is likely to take a long time to address such challenges.
- iii. Nonetheless there are potential opportunities that need to be further explored. These include the following:
 - a. The public at large is increasingly aware of and concerned about such issues—especially the younger generation—and are learning more and providing feedback through the media, including social media.
 - b. The judiciary has on occasion played an important role in pushing back on abuses of system and needs to be encouraged and strengthened.
 - c. The committee system of Parliament has demonstrated some effectiveness in taking up governance issues and needs to be supported.
 - d. The new National Development Planning Commission may provide an opening for greater dialogue on governance issues and the reform of the public sector (including the strengthening of incentives, technologies and other systems) that is so urgently needed.
 - e. The continued push for further decentralization may open up other opportunities.
 - f. It is important to focus on ways of enhancing the role of institutions outside of government, including the private sector, civil society, religious leaders, and local leaders.

⁴³ This is not, of course, a new insight. Country teams have grappled with this issue in the past, including through a series of "deep dive" discussions with international and Malawian academics and experts over several weeks at the time of the preparation of the PLR.

- g. With a little encouragement, the grievance redress mechanisms in WBG-supported projects could provide the basis for a broader approach to social accountability.
- iv. In addition to helping deepen understanding of the governance and political economy trap that Malawi is in and supporting opportunities for change and reform, some partners of the WBG are encouraging the WBG to speak out more boldly on governance issues, including issues of corruption.

B. PRIORITIZATION/SELECTIVITY

44. The CAS emphasized the importance of prioritization and selectivity. But in practice—and in terms of both design and implementation—it was able to make relatively little progress in this respect. Feedback from within the WBG and from development partners points to the need for the WBG to better prioritize and be more selective. In this regard the following lessons have been emphasized:

- i. Even more focus needs to be placed on the importance of economic growth, as without higher average growth rates it will not be possible for Malawi to achieve its goals of poverty reduction and sustainable development. In particular, focusing on how to enhance smallholder productivity should remain the top priority. But bearing in mind the very real constraints to progress in the agriculture sector, the WBG should also focus more directly on one or two of the other critical sources of growth, such as mining, tourism, or labor-intensive manufacturing.
- ii. Private sector development has to be at the core of any strategy for economic growth, but currently the private sector is either not growing at all or only growing very slowly. Its basic needs (such as energy, water, and rural roads) are not being met. Helping meet such basic needs should be a top priority for the WBG.
- iii. There are opportunities for transformational investments that are not being realized, and collectively the WBG could be playing a larger role in working with private developers and the government to help make those investments a reality.
- iv. There are many development partners supporting Malawi in a variety of different sectors. This should enable the WBG to be much more selective in terms of the sectors it supports. The WBG should consider limiting its engagement in some sectors to AAA work and policy dialogue and relying on other partners to provide the needed financial support.

C. OPTIMAL USE OF WBG INSTRUMENTS

45. The WBG has a broad array of instruments at its disposal. Most are under deployment in the Malawi program, and a number have been used to greater effect in recent years, such as: more focused, timely and demand-driven knowledge products successfully underpinning lending activities and the policy dialogue; a more effective approach to budget support, and; close collaboration across the Bank, IFC and MIGA for private sector development. Still, the WBG team and other partners believe that more can be done to ensure optimal use of WBG instruments.

- i. The quality and impact of AAA work has strengthened in recent years. But there is still scope for ensuring a more systematic process of policy and program analysis and formulation as the basis for further DPO support, as well as better linkages to investment operations. In addition, national partners are encouraging the WBG to engage more collaboratively with ministerial planning

departments as well as with local universities and think tanks in its knowledge program, both as a means of enhancing the relevance and impact of the program and as a way to help build national capacity to undertake such work.

- ii. The resumption of DPO support by the WBG has been welcomed by the government and most, but not all, of the WBG's development partners. Going forward the government hopes that there can be a clearer division of labor between the Bank and the IMF, with the Bank focusing more on structural constraints to growth and the IMF concentrating on macroeconomic stability.
- iii. Although the CAS emphasized the importance of considering use of innovative instruments such as P4R and OBA, neither of these instruments has been put into use. Nonetheless, there do appear to be opportunities for building on the success of the Sector-Wide Approach/Disbursement Linked Indicator approach and using the P4R instrument in a number of areas where more programmatic and results-based support—together with a strong focus on institutional development and capacity building—could enhance development impact. The potential for moving in this direction will depend, in part at least, on whether there is clear government commitment to strengthen its own fiduciary and safeguard management systems.
- iv. The CAS emphasized the importance of the WBG as a whole (World Bank plus IFC plus MIGA) pursuing opportunities for transformational investments, but this has proved to be more challenging than expected. Given the importance of such investments for the future of the country and the potential value-added of the WBG in this regard, it would be useful to better understand what in practice has constrained the realization of such opportunities and what can be done to address those constraints.
- v. Trust funds are an integral part of the Malawi portfolio and support activities in a variety of sectors. It would be useful to review the current and expected portfolio of trust funds to determine whether they can be linked more closely to other instruments, including planned financial support and piloting of key initiatives.
- vi. The evaluation matrix points to a range of ways in which to enhance the overall impact of WBG instruments, including: adopting more innovative and flexible approaches; focusing more directly on data systems improvements; emphasizing more the importance of impact evaluations; including strong community engagement and participatory approaches; and building stronger linkages across WBG financed projects and activities.

D. DONOR COORDINATION AND HARMONIZATION

46. The CAS reiterated WBG support for the harmonization agenda. However, such support and the agenda as a whole were negatively impacted by the "Cashgate" scandal and the actions the WBG and other partners took in response to the scandal, such as the deferral of budget support. With the resumption of budget support by the Bank and a return to more normal relations between the government and development partners, it would be useful to examine what more can be done to enhance donor coordination and harmonization at a time when a number of donors who used to favor harmonization are still focused on third-party implementation as opposed to use of country systems.

- i. While the overall structure for donor coordination is in place and generally perceived to be satisfactory, there is a generally shared perception amongst both government officials and development partners that the government needs to be more in the driver's seat with respect to

donor coordination. It would be useful to examine why this is not happening and what can be done to change the situation.

- ii. Government officials have requested that the WBG—and the WBG should consider whether and how it can—use its convening power to further contribute to increased harmonization including a return to budget support by other development partners and greater development partner support for the strengthening of country systems.
- iii. It will be important to reinvigorate efforts to ensure that development partners have a common understanding of the constraints Malawi faces, and the main pathways through which those constraints can be addressed.
- iv. Further work may be needed on the development of overall sector strategies that are government-owned and around which development partners are aligned. In addition, there are differing arrangements and modalities for operationalizing such strategies and it appears that some arrangements are more effective than others. It would be useful to dig deeper into this issue to determine what arrangements are likely to be the most effective in the Malawian context.
- v. The issue of project management units is extremely contentious. The CAS was strongly supportive of the mainstreaming of such units into government structures and pointed to a number of WBG operations that were being implemented without PIUs. But “Cashgate” set back the process of helping the government move away from the PIU implementation model, and there are differing views as to how quickly to move back to such a strategy as well as how best to implement it. Experience from other countries suggests that this is a critical dimension of aid effectiveness, and that a clearly thought-through strategy that is supported by all concerned ministries and collaborating development partners needs to be put in place as soon as possible.

E. WBG ORGANIZATION

47. The WBG is one of the development partners in Malawi that is most respected by national stakeholders, both within and outside of the government. It would be useful to give further consideration to how the WBG can best organize itself to draw on that respect and goodwill to further enhance its development impact.

- i. The government clearly values the convening power of the WBG, including with respect to the donor coordination and harmonization agenda, and, as noted above, would like to see the WBG use that convening power more actively on such issues as budget support and use of country systems. The WBG should carefully consider what more it can and should be doing in this regard, how best to do it, and how much it will cost.
- ii. The PLR stressed that effective cross-sectoral cooperation is a strong feature of the WBG program in Malawi. It would be useful to revisit this issue to determine whether such cross-sectoral cooperation can be further enhanced (including on governance and private sector development) and how it can be leveraged in support of greater selectivity and more transformational investments.
- iii. It would be hard to overestimate the importance of the WBG effectively and systematically engaging with a broad range of stakeholders, both inside and outside of government. But in practice this is not easy to do, it will inevitably be very time and resource intensive, and the WBG is likely to come under criticism for not engaging enough—especially with stakeholders outside of

government. The WBG should examine its current practices in this regard and determine whether there are opportunities to improve its effectiveness and efficiency going forward.

- iv. The WBG has rightly stepped up its communications efforts, and this has been noticed and generally welcomed as, for example, with the communications around the economic monitors. It would be useful to reflect on current communications practices, including what has worked and not worked and how to make sure that good communications become everyone's business going forward.
- v. The presence of a strong Country Office is critical to the WBG's overall effectiveness in Malawi. It would be useful to examine whether there are opportunities for further decentralization to the Country Office including, for example, having more Task Team Leaders in the field (which is seen as a big plus by government counterparts).

Annex A: Status of Malawi FY13 -17 CAS Results Matrix (Summary Table)

Description	Status at CLR	Overall rating
Theme 1: Promoting Sustainable, Diversified, and Inclusive Growth		MS
Results Area 1.1: Conducive structural and macroeconomic policies to restore internal and external balance		HS
Outcome 1.1: Improved Macroeconomic Management	Achieved	
Indicator 1.1.1: Variance in primary expenditure between approved and actual outturn	Achieved	
Results Area 1.2: Improving ease of doing business through improved economic infrastructure, regional integration, and better access to demand-responsive skills development		MS
Outcome 1.2: Improved ease of doing business, through better economic infrastructure, regional integration and access to demand-responsive vocational training	Mostly Achieved	
Indicator 1.2.1: Cost to formally start a business	Achieved	
Indicator 1.2.2: Number of days taken to formally start a business	Not Achieved	
Indicator 1.2.3: % of the adult population that is formally banked	Mostly Achieved	
Indicator 1.2.4: Proportion of women within the adult population that is formally banked	Mostly Achieved	
Indicator 1.2.5: Annual electricity losses per year in the project areas	Not Achieved	
Indicator 1.2.6: Power capacity deficit (gap between system capacity and peak-load) reduced	Achieved	
Indicator 1.2.7: Increased use of public-private partnerships (PPP) in infrastructure	Partially Achieved	
Indicator 1.2.8: One-stop border post (OSBP) at Songwe and other locations	Not Achieved	
Indicator 1.2.9: Number of export products requiring an export permit (reduce to strengthen policy uncertainty)	Mostly Achieved	
Indicator 1.2.10: Number of agencies operating at border (Mwanza and Songwe, reduced to shorten delays)	Achieved	
Indicator 1.2.11: Student intake in tertiary education	Partially Achieved	
Indicator 1.2.12: Number of recommended laws/regulations/amendments/ codes enacted or government policies adopted	Achieved	
Results Area 1.3: Strengthening productivity in a diversified economy		MS
Outcome 1.3: Increased productivity and commercialization of agriculture and sustainable management of water resources for multiple uses	Mostly Achieved	
Indicator 1.3.1: Average national maize yield (mt/ha)	Mostly Achieved	
Indicator 1.3.2: Average national irrigated rice yield (mt/ha)	Achieved	
Indicator 1.3.3: Legume production as share of total agricultural production	Achieved	
Indicator 1.3.4: Enhanced planning and control of water flows in Shire River Barrage enables improvements in generation and irrigation capacity, and water supply	Achieved	
Indicator 1.3.5: New loans and outstanding portfolio/SME (#) property to SMEs (#)	Not Achieved	
Indicator 1.3.6: New loans and outstanding portfolio/SME (\$)	Not Achieved	

Description	Status at CLR	Overall rating
Indicator 1.3.7: New loans and outstanding portfolio/agribusiness loans (#)	Not Achieved	
Indicator 1.3.8: New loans and outstanding portfolio/agribusiness loans (\$)	Not Achieved	
Theme 2: Enhancing Human Capital and Reducing Vulnerabilities		S
Results Area 2.1: Improved delivery of public services		S
Outcome 2.1: Improved access to quality education, reliable nutrition, HIV/AIDS services and sustainable water supply and sanitation services	Achieved	
Indicator 2.1.1: Standard 5 survival rates	Partially Achieved	
Indicator 2.1.2: Community nutrition program coverage of under-two-year-old children	Achieved	
Indicator 2.1.3: Men and women 15-49 who have had more than one sexual partner in the last 12 months reporting use of a condom in last intercourse (%)	Achieved	
Indicator 2.1.4: % of infants born to HIV+ women enrolled in PMTCT services in target districts who receive a DNA PCR test for HIV within 2 months of birth	Achieved	
Indicator 2.1.5: Number of people provided with new or improved water supply through the project	Achieved	
Indicator 2.1.6: Number of people provided with improved sanitation facilities through the project	Achieved	
Results Area 2.2: Lowering vulnerability and enhancing resilience		MS
Outcome 2.2: improved resilience for poor communities through adequate social safety nets, improved climate resilience and enhanced capacity to respond to disaster risk	Mostly Achieved	
Indicator 2.2.1: Social safety net (SSN) established	Mostly Achieved	
Indicator 2.2.2: Beneficiaries with savings of at least 50% of public works wage one year after participation	Partially Achieved	
Indicator 2.2.3: Vegetation cover change as percentage of baseline in selected catchments (= approx. 100,000 ha)	Partially Achieved	
Indicator 2.2.4: People served by improved flood management, including mitigation and adaptation (early warning)	Achieved	
Indicator 2.2.5: Improved mainstreaming of gender-aware climate and disaster risk reduction issues with focus on vulnerable communities within sector investment planning (especially in Bank and IFC-supported sectors and programs)	Achieved	
Theme 3: Mainstreaming Governance for Enhanced Development Effectiveness		MU
Results Area 3.1: Improving public sector management		MU
Outcome 3.1: Improved public sector performance because of better PFM, procurement, and M&E systems, and enhanced statistics	Partially Achieved	
Indicator 3.1.1: Number of sub-national governments covered by the IFMIS rollout	Achieved	
Indicator 3.1.2: Number of audit observations resolved	Partially Achieved	
Indicator 3.1.3: Status of MG1 and the sub-MG (SMG) accounts at the Reserve Bank of Malawi	Partially Achieved	
Indicator 3.1.4: Strengthened transparency, accountability, and capacity of public procurement, focusing on the eight top-spending ministries and parastatals	Partially Achieved	

Description	Status at CLR	Overall rating
Results Area 3.2: Strengthening social accountability for service provision		MU
Outcome 3.2: Enhanced transparency on resource flows and service delivery	Partially Achieved	
Indicator 3.2.1: Number of good governance tools used and scaled up including citizen feedback and redress mechanisms, transparency in the use of resource flows (e.g. expenditure tracking, independent budget analysis, PETS, citizens charters)	Not Achieved	
Indicator 3.2.2: Geodata management center providing online access	Partially Achieved	
Indicator 3.2.3: Modern computerized mining cadaster in use	Partially Achieved	

Annex B: Malawi FY13-17 CAS Results Matrix Evaluation

Results Area	Overall Rating	Indicator	Baseline/ target	Status at CLR	Lessons Learned and Suggestions for the New CPF	Bank Program instruments
Theme 1: Promoting Sustainable, Diversified, and Inclusive Growth						
Results Area 1.1: Conducive structural and macroeconomic policies to restore internal and external balance						
Outcome 1.1: Improved macroeconomic management	Achieved	Indicator 1.1.1: Variance in primary expenditure between approved and actual outturn	Baseline: 9.2% (2012) Target: 5% (FY17) Actual: 1.2% (FY1Y) Improved Macroeconomic Management	Achieved	<p>Strong macroeconomic and fiscal management is an essential pre-requisite for sustainable economic development and poverty reduction, and the foundation for the goals set out in Malawi's CAS.</p> <p>Restoring and entrenching macro-economic stability is a prerequisite for fostering private investment in the economy. It is important for the Government to develop a track record in sound economic management over the medium term as what matters for growth is that the private sector perceives that macroeconomic policies aim to achieve stability at all times, not just occasionally.</p> <p>Careful prioritization of expenditures is needed to create fiscal space that would allow Government to respond to shocks without endangering macroeconomic stability. The Government has failed to consistently contain spending within the targeted limits for prolonged periods of time - putting in question its capacity to maintain</p>	<p>PROJECTS Projects Closed during CAS Period to Date:</p> <ul style="list-style-type: none"> • Rapid Response Development Policy Grant (P126155, FY13) • Economic Recovery DPO (P133663, FY14) <p>Ongoing projects:</p> <ul style="list-style-type: none"> • Agricultural Support and Fiscal Management DPO (P153753, FY17) <p>TRUST FUNDS:</p> <ul style="list-style-type: none"> • Public Finance and Economic Management Reform Program - MDTF (P129055, FY12) <p>NON-LENDING Delivered during CAS Period to Date:</p> <ul style="list-style-type: none"> • TA Debt Management Reform Plan (P130093, FY14) • Public Expenditure Review (P133262, FY15) • Malawi Economic Monitor 2015-16 (P153806, FY16) • Malawi Economic Monitor 2016-17 (P160741, FY17)

					<p>a stable macroeconomic environment. While it has managed to attain stability in some key macroeconomic indicators in the face of intense external shocks and introduced key reforms such as the politically contentious reforms of the Farm Input Subsidy Program, most reforms are often times not internally driven but rather more externally influenced e.g. fulfillment of the conditions for resuming budget support by development partners.</p> <p>Strengthening fiscal management (both budget planning and execution) is key to achieving stability. Malawi has a tendency of originating fiscal slippages that follow a predictable cyclical pattern with over expenditures in pre-election years. In addition, there is a range of public finance management reforms that need to be initiated and completed for any economic stability to have meaningful impact and influence positive behavior among the economic actors. As observed, the government demonstrates significant difficulty in undertaking the required fiscal adjustments and controlling its expenditure overruns (particularly in the public-sector wage bill, subsidy programs and interest payments), managing the large stock of domestic arrears as</p>	<ul style="list-style-type: none"> • Malawi Policy Note Series (P147757, FY15) • Reducing Poverty, Inequality and Vulnerability (P124004, FY15) • Programmatic Poverty Analysis (P148050, FY16) • Enhanced Poverty Diagnosis (P154211, FY16) • TA and Statistical Capacity Building (P155848, FY15) • Country Economic Memorandum (P154607, FY16) <p>Ongoing:</p> <ul style="list-style-type: none"> • Macroeconomics and Fiscal Management Programmatic Approach (P151551, FY14) • Gender Policy Notes (P143054, FY15) <p><u>OTHER PARTNERS</u> IMF</p>
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					<p>well as controlling its appetite for contracting non-concessional loans.</p> <p>An undiversified economic structure may be exogenous in the short run but endogenous to governance, institutions and policies over the long run. With weak institutions and limited policy buffers, the adverse consequences of negative shocks tend to cumulate, so low growth becomes entrenched.</p>	
Results Area 1.2: Improving ease of doing business through improved economic infrastructure, regional integration, and better access to demand-responsive skills development						
Outcome 1.2: Improved ease of doing business, through better economic infrastructure, regional integration and access to demand-responsive vocational training	Mostly Achieved	Indicator 1.2.1: Cost to formally start a business	Baseline: 83.7% of income per capita (DB 2012) Target: 75% (FY17) Actual: 42.2% (DB 2017)	Achieved	Lessons learned with respect to trade and competitiveness: 1) Political will at the highest levels of Government is a prerequisite for reforms aimed at improving the business environment to be implemented. Stronger political will has been observed recently, that has speeded up finalization of a number of legal reforms necessary for improvement of the business environment. 2) The enactment of laws alone is not sufficient but that the reforms should translate into improvements on the ground. Implementation of the reforms, and sensitization to the intended beneficiaries are equally of utmost importance. Technical officials (at the senior, mid-level and junior positions) play a critical role in ensuring that the	PROJECTS Projects Closed during CAS Period to Date: <ul style="list-style-type: none"> Regional Trade Facilitation Project (P070235, FY01-FY13) Infrastructure Services Project (P057761, FY06-FY13) Business Environment Strengthening Project (P103773, FY07-FY13) Malawi Trade Portal (P151674, FY17) Ongoing Projects: <ul style="list-style-type: none"> Energy Sector Support Project (P099626, FY11) Financial Sector Technical Assistance Project (P122616, FY11) Skills Development Project (P131660, FY14)
		Indicator 1.2.2: Number of days taken to formally start a business	Baseline: 39 days (DB 2012) Target: 30 days (FY17) Actual: 37 days (DB 2017)	Not Achieved		
		Indicator 1.2.3: % of the adult population that is formally banked	Baseline: 19% (2011, Finscope Survey) Target: 40% (FY17)	Mostly Achieved		

			Actual: 33% (2014 Finscope Survey)		<p>reforms are indeed implemented, and that results are attained and sustained. There is recognizable interest, enthusiasm and expertise among technical officials in main line Ministries to effectively implement reforms to improve the business environment. This has led to some momentum in finalizing some of the pieces of legislation.</p> <p>3) There is need to continually engage officials in a structured way and to continue building their capacity, including through peer-learning from other countries on the Continent that are making strides in this area.</p> <p>4) Innovative and flexible approaches which ensure stakeholder buy-in have been a key element of success for IFC projects. Creating technical working groups of public-private stakeholders ensured relevance and strong adoption of a newly launched IT system for the financial sector. Creating a joint forum enabled teams and ministries to learn from and leverage each other's success.</p> <p>Lessons learned with respect to energy: It is important to enhance the capacity of the PIU for:</p> <ul style="list-style-type: none"> - effective contract management; 	<ul style="list-style-type: none"> • Regional: Southern Africa Trade and Transport Facilitation Program (North-South Corridor) SOP2 (P145566, FY15) • Regional: Eastern and Southern Africa Higher Education Centers of Excellence (P151847, FY16) • Regional Communication Infrastructure Project Phase 3 (P111432, FY09) • Digital Malawi Program Phase I (P160533, FY17)⁴⁴ <p>IFC</p> <ul style="list-style-type: none"> • IFC investment climate advisory services (Malawi PSD Prog (# 599814)) • IFC investment climate advisory services (Malawi IC Prog (# 601590)) • IFC trade advisory services (Malawi Trade Prog (# 601527)) • Development of legal framework and capacity for Warehouse Receipt Systems (GWFP II # 31404) • Setting up of Collateral Registry (Malawi STCR (#599868)) • Strengthening Credit Infrastructure (Malawi Credit Reporting Project (#601844))
Indicator 1.2.4: Proportion of women within the adult population that is formally banked	Baseline: 17% (2011) Target: 30% (FY17) Actual: 28% (2014 Finscope Survey)	Mostly Achieved				
Indicator 1.2.5: Annual electricity losses per year in the project areas	Baseline: 17.4% (2012) Target: 14% (FY17) Actual: 18% (ESCOM, December 2016)	Not Achieved				
Indicator 1.2.6: Power capacity deficit (gap between system capacity and peak-load) reduced	Baseline: Capacity 283 MW (2012) Target: Capacity 354 MW (FY17) Actual: 365 MW (2016)	Achieved				
Indicator 1.2.7: Increased use of public-private partnerships	Baseline: 5 PPP schemes in place (2012) (rail, lake, immigration, road traffic,	Partially achieved				

⁴⁴ Approved in FY17 but not yet effective.

	(PPP) in infrastructure	cargo handling) Target: 9 PPP schemes in place (FY17) Actual: 5 schemes completed, 2 at contracting stage and 4 at planning stage (FY17)		<ul style="list-style-type: none"> - timely delivery of the training component; - speedy execution of contracts and follow-up of delivery of materials; and - closer monitoring and supervision of engineers and contractors. <p>A particular challenge in the power sector is the capacity of the Government and the national power utility to engage with the private sector in the development and financing of new generation projects. Priority projects in the IRP cannot be funded entirely through public/concessional finance. Private capital flows through PPPs and concessions will need to be mobilized to fill the financing gap. Yet, the capacity of the line ministries and the national power utilities to negotiate complex legal agreements, understand risk and its allocation, and the roles of the public and private sectors in these transactions is very limited. A comprehensive capacity building program will need to be undertaken relatively quickly to ensure that discussions/negotiations are not unduly delayed or stalled due to the absence of knowledge/awareness of the above parameters.</p>	<ul style="list-style-type: none"> • IFC advisory services on PPPs (e.g., Malawi Water PPP (# 599358)) <p>TRUST FUNDS</p> <ul style="list-style-type: none"> • Lilongwe CDS Phase 3 (P123926, FY11-FY14) • Financial Reporting and Oversight Improvement TA (MDTF, P130878, FY13) • Increased Access to Finance through Biometric Technology (P115688) • Renewable Energy Resource Mapping and Geospatial Planning (P151289) • Malawi Trade Portal Trust Fund (P151674) • Malawi-Skills Development Project for Implementation Support (P131660) <p>NONLENDING Delivered during CAS Period to Date:</p> <ul style="list-style-type: none"> • Diagnostic Trade Integration Study Update (P133601, FY14) • Multimodal Transport Development Study MTDS (P144768, FY14) • TA Transaction Advisory on Concession Renegotiation of Railways (P127524, FY14) • TA Rural Roads Project Component Preparation Support (P129249, FY14)
	Indicator 1.2.8: One-stop border post (OSBP) at Songwe and other locations	Baseline: Not implemented (2012) Target: Implemented (FY17) Actual: Not implemented (FY17)	Not Achieved		
	Indicator 1.2.9: Number of export products requiring an export permit (reduce to strengthen policy uncertainty)	Baseline: 25 items (13) Target: 8 (FY17) Actual: 10 (FY17)	Mostly Achieved		
	Indicator 1.2.10:	Baseline: 14 (2013)	Achieved	Lessons learned with respect to education:	

		Number of agencies operating at border (Mwanza and Songwe, reduced to shorten delays)	<p>Target: At most 10 (FY17)</p> <p>Actual: 10 (FY17)</p>		<p>1) Data systems improvements should be prioritized in all WB operations to enable accurate measurement of results.</p> <p>2) To the extent possible, results-based financing through disbursement-linked indicators should be applied at the systems level to secure equal traction around improvements in key service delivery areas like HEMIS.</p>	<ul style="list-style-type: none"> • TA Infrastructure PPPs (P131741, FY14) • TA Lilongwe Water Supply Policy Dialogue (P148272, FY15) • Malawi Urbanization Review (P146675, FY15) • Higher Education Study Dissemination (P153416, FY15) • Higher Education Policy Note (P123408, FY14) <p>Ongoing:</p> <ul style="list-style-type: none"> • Warehouse Receipt Financing Project (P154286, FY14) • Malawi FSAP Development Module (P161095, FY17) • Financial Strengthening for ESCOM (P157215, FY16) • Fingerprinting to Reduce Risky Borrowing (P151121) <p><u>OTHER PARTNERS</u> AfDB, USAID, DFID, EU, EIB, JICA, France</p>
		<p>Indicator 1.2.11: Student intake in tertiary education</p>	<p>Baseline: 117 per 100,000 inhabitants (2012)</p> <p>Target: 166 per 100,000 inhabitants (FY17)</p> <p>Actual: 137 per 100,000 inhabitants (FY16)</p>	Partially Achieved		
		<p>Indicator 1.2.12: Number of recommended laws/ regulations/ amendments/ codes enacted or government policies adopted</p>	<p>Baseline: 0 (2015)</p> <p>Target: 2 (2016)</p> <p>Actual: 6 (2017)</p>	Achieved		

Results Area 1.3: Strengthening productivity in a diversified economy						
Outcome 1.3: Increased productivity and commercialization of agriculture and sustainable management of water resources for multiple uses	Mostly Achieved	Indicator 1.3.1: Average national maize yield (mt/ha)	Baseline: 1.9 mt/ha (2012) Target: 2.1 mt/ha (FY17) Actual: 2.0 mt/ha (FY17)	Mostly Achieved	Lessons learned with respect to agriculture 1) The CAS recognized the potential for drought and floods. But the magnitude of the disasters experienced in the 2014/15 and 2015/16 agricultural seasons was much greater than could have been predicted and resulted in very low results. Although the 2016/17 season was better in terms of rainfall, infestation of the fall army worm impacted on production. In addition, most farmers had sold their productive assets to cope with the food shortages that resulted from the floods/drought of previous years and this affected their ability to purchase agricultural inputs. 2) The Bank supported Agriculture Sector Wide Approach Program Support Project has been very successful in creating a coherent and harmonized support to the agriculture sector, with good successes in institutional capacity building as well as in food security/diversification. 3) Achievement of indicator 1.3.3 is a little uncertain because it is not clear as to how the baseline was	PROJECTS Projects Closed during CAS Period to Date: <ul style="list-style-type: none"> • Infrastructure Services Project (P057761, FY06-FY13) • Irrigation, Rural Livelihoods, and Agricultural Development Project (P084148, FY06, AF FY10, AF II FY13-FY15) • Agricultural Sector Wide Approach Support Project (P105256, FY08, AF FY12, II AF P148964, FY14-FY17) Ongoing Projects: <ul style="list-style-type: none"> • Shire River Basin Management Program (Phase I) Project (P117617, GEF P127886, FY12) • Regional Agricultural Productivity Program for Southern Africa (P094183, FY13) • Agricultural Commercialization Project (P158434, FY17)⁴⁵
		Indicator 1.3.2: Average national irrigated rice yield (mt/ha)	Baseline: 1.5 mt/ha (2012) Target: 3.6 mt/ha (FY17) Actual: 3.7 mt/ha (FY17)	Achieved		
		Indicator 1.3.3: Legume production as share of total agricultural production	Baseline: 5% (2012) ⁴⁶ Target: 15% (FY17) Actual: 27% (FY17)	Achieved		
		Indicator 1.3.4: Enhanced planning and control of water flows in Shire River Barrage enables improvements in generation and irrigation	Baseline: No agreed planning framework or decision support (2012) Target: Multi-sector integrated Shire Basin Plan and decision support system	Achieved		

⁴⁵ Approved in FY17 but not yet effective.

⁴⁶ Measured as legume production (groundnuts and pulses) over production of total cereals and legumes. Not considered an adequate measure of diversification.

		capacity, and water supply	operational (FY17) Actual: Plan in place (FY17)		calculated. It is important to be very clear as to how indicators are calculated to ensure the same methodology can be used at the time of the PLR and CLR.	<p>IFC</p> <ul style="list-style-type: none"> • IFC portfolio to improve SME access to finance (IFC Equity stake in NBS Bank (# 29536)) • IFC integrated capital and advisory services for medium-sized farmers through commercial banks (NBS Bank (# 29536)) • Malawi Mangoes (FY14, ongoing) • Setting up of Collateral Registry (Malawi STCR (#599868)) <p>TRUST FUNDS:</p> <ul style="list-style-type: none"> • Agricultural Sector Wide Approach Support Project MDTF Project Execution (P131702, FY12, AF P148964, FY14-FY17) • Agriculture Development Program - GEF (P106671, FY08-FY16) <p>NONLENDING Delivered during CAS Period to Date:</p> <ul style="list-style-type: none"> • Public Expenditure Review (P133262, FY15) • Malawi Urbanization Review (P146675, FY15) • Growth and Competitiveness (P151674, FY17) <p>Ongoing:</p>
Indicator 1.3.5: New loans and outstanding portfolio/SME (#) property to SMEs (#)	Baseline: 5000 (2010) Target: 25,000 (2015) Actual: Outstanding SME portfolio (#): 1,657 (end 2014); Credit secured with movable property to SMEs (#): 5,348	Not Achieved				
Indicator 1.3.6: New loans and outstanding portfolio/SME (\$)	Baseline: 10,400,000 (2010) Target: 52,000,000 (2015) Actual: Outstanding SME portfolio (\$): 13,518,713 (end 2014)	Not Achieved				
Indicator 1.3.7: New loans and outstanding portfolio/	Baseline: 0 (2010) Target: 15,000 (2015) Actual: 0	Not Achieved				

		agribusiness loans (#)				<ul style="list-style-type: none"> Institutional and Non-technical Drivers of Service Performance in Agriculture (P161623, FY17) <p>OTHER PARTNERS EU, Norway, DFID, Irish Aid, USAID, AfDB, UNDP, JICA, FICA, FAO, MCC, IFAD</p>
		Indicator 1.3.8: New loans and outstanding portfolio/Agribusiness loans (\$)	Baseline: 0 (2010) Target: 20,000,000 (2015) ⁴⁷ Actual: 0	Not Achieved		
Theme 2: Enhancing Human Capital and Reducing Vulnerabilities						
Results Area 2.1: Improving delivery of public services						
Outcome 2.1: Improved access to quality education, reliable nutrition, HIV/AIDS services and sustainable water supply and sanitation services	Achieved	<i>Education:</i> Indicator 2.1.1: Standard 5 survival rates	Baseline: boys: 60% (2010) Target: boys: 68% (FY17) Actual: boys: 60% (FY16) Baseline: girls: 57% (2010) Target: girls: 66% (FY17) Actual: girls: 62% (FY16)	Partially Achieved	Lessons learned from the Project to Improve Education Quality in Malawi: 1) Open Distance Learning (ODL) is a rapid way of improving availability of teachers in rural or remote areas but needs to be supported with comprehensive plans that ensure adequacy of wage bill and personnel management system to ensure teachers are recruited and deployed in areas of severe shortage; 2) Rigorous impact evaluations should be undertaken in a timely manner to assess effectiveness of new interventions and complemented by well-documented implementation challenges.	PROJECTS Projects Closed during CAS Period to Date: <ul style="list-style-type: none"> Multi-Sectoral AIDS Project (P073821, FY04-FY13) Third Malawi Social Action Fund – APL II Project (P110446, FY08-FY14) Second National Water Development Project (P096336, FY07, AF FY11-FY16) Project to Improve Education Quality in Malawi (P114847, FY10-FY15) Ongoing Projects: <ul style="list-style-type: none"> Nutrition & HIV/AIDS Project (P125237, FY12, AF P156129, FY16)

⁴⁷ Indicators 1.3.5 to 1.3.8 were based on IFC financing to NBS Bank in 2010. However, following the economic woes in Malawi in 2011-2012, the Bank almost failed and is now in recovery. Once the Bank is back in normal operations, the indicators should be reset.

						<ul style="list-style-type: none"> Malawi Education Sector Improvement Project (P154185, FY17) Regional: Southern Africa Tuberculosis and Health Systems Support Project (P155658, FY16) <p>TRUST FUNDS</p> <ul style="list-style-type: none"> Support to Disadvantaged Children (P114847, FY10-FY15) Promoting Inclusion of Children with Disabilities (P126025, FY11-FY16) Support to Lilongwe Water Board for Tariff Review and Willingness-to-Pay Study (P148272, FY13-FY15) Support for Nutrition Activities and Policies (P125237) Malawi Teacher Deployment TA (P155972) Malawi GPE II (P154185) <p>NONLENDING Delivered during CAS Period to Date:</p> <ul style="list-style-type: none"> Public Expenditure Review (P133262, FY15) Reducing Poverty, Inequality and Vulnerability (P124004, FY15)
		<p><i>Nutrition security:</i> Indicator 2.1.2: Community nutrition program coverage of under-two-year-old children</p>	<p>Baseline: 0% (2010) Target: 25% (FY17) Actual: 74.5% (FY17)</p>	Achieved	<p>Nutrition security: The participation of parents can exceed projections with strong engagement and participation of traditional leaders and local opinion leaders including school leaders and religious leaders. Strong community engagement is key to successful implementation of nutrition interventions that requires strong focus on behavioral change.</p>	
		<p><i>HIV/AIDS Services:</i> Indicator 2.1.3: Men and women 15-49</p>	<p>Baseline: Women: 27.3% (2010); Men: 23.6% (2010)</p>	Achieved		

		who have had more than one sexual partner in the last 12 months reporting use of a condom in last intercourse (%)	<p>Target: 33% (men and women) (FY17)</p> <p>Actual: Women: 40%; Men: 35% (FY17)</p>			<ul style="list-style-type: none"> • Programmatic Poverty Analysis (P148050, FY16) • Malawi Enhanced Poverty Diagnosis (P154211, FY16) • Malawi Primary Education PET-QSD Study (P148735, FY15) • Malawi HIV and Labor Impact Evaluation (P121256, FY13) • TA and Statistical Capacity Building (P155848, FY15) • Binding Constraints to Service Delivery (P157493, FY16) • Strengthening Social Accountability in the Education Sector (P147837) • Malawi Education Sector TA (P155972, FY15) • Malawi Education Sector Program Development (P158242, FY17) <p>Ongoing:</p> <ul style="list-style-type: none"> • Health Financing (P157774, FY17) <p>OTHER PARTNERS FTI CF, GDC, UNICEF, DFID, Norway, USAID, CIDA, Global Fund, GIZ, German Embassy, KFW, JICA</p>
		Indicator 2.1.4: % of infants born to HIV+ women enrolled in PMTCT services in target districts who receive a DNA PCR test for HIV within 2 months of birth	<p>Baseline: 25% (2010)</p> <p>Target: 45% (FY17)</p> <p>Actual: 45% (FY17)</p>	Achieved		
		<i>Water & Sanitation:</i> Indicator 2.1.5: Number of people provided with new or improved water supply through the project	<p>Baseline: 0 (3/2012)</p> <p>Target: 1.7 million (FY17)</p> <p>Actual: 2.2 million (FY16)</p>	Achieved	Lessons learned from the Second National Water Development Project: 1) The project implementation experience highlights the significance of integrating catchment area protection initiatives and water supply and sanitation interventions; 2) Strengthening the institutional capacity and governance of the Water Boards will need to take	

		Indicator 2.1.6: Number of people provided with improved sanitation facilities through the project	Baseline: 0 (3/2012) Target: 70,000 (FY17) Actual: 73,682 (FY16)	Achieved	center stage in any future interventions, not as a means to an end, but as an end in itself. However, institutional strengthening and reform is a long-term objective that cannot be fully achieved within the framework of a specific project time span; 3) Partial water system improvements may limit the effectiveness of investments provided. Enhancing the water systems production capacity would be more effective if distribution capacity is also taken into account.	
Results Area 2.2: Lowering vulnerability and enhancing resilience						
Outcome 2.2: Improved resilience for poor communities through adequate social safety nets, improved climate resilience, and enhanced capacity to respond to disaster risk	Mostly Achieved	<i>Social Safety Net System:</i> Indicator 2.2.1: Social safety net (SSN) established	Baseline: Public Works Programs (2012) Target: Unified Beneficiary Registry (UBR) established in 20 districts (FY17) Actual: UBR established in 12 districts (FY17)	Mostly Achieved	Lessons learned from MASAF: 1) Future operations working with decentralized structures need to incorporate capacity building and components around grievance redress, district level project supervision and oversight, citizen engagement and fiduciary management. 2) The potential for the wider Bank resilience building portfolio to achieve significant gains among poor people depends on a deliberate push for linkages and synergies around complementary Bank financed projects (e.g. MASAF Public Works; Shire River Basin Management Project and Floods	PROJECTS Projects Closed during CAS Period to Date: <ul style="list-style-type: none"> • Third Malawi Social Action Fund – APL II Project (P110446, FY08-FY14) • Irrigation, Rural Livelihoods, and Agricultural Development Project (P084148, FY06, AF FY10, AF II FY13-FY15) • Agricultural Sector Wide Approach Support Project (P105256, FY08, AF FY12, II AF P148964, FY14-FY17)
		Indicator 2.2.2: Beneficiaries with savings of at least 50% of public works	Baseline: 13,500 (2012) Target: 100,000 (of which 62% female) (FY17)	Partially Achieved		

		wage one year after participation	Actual: 44% of beneficiaries generated some savings from the public work wages		and Emergency Drought Recovery Projects)	Ongoing Projects: <ul style="list-style-type: none"> • Shire River Basin Management Program (Phase I) Project (P117617, GEF P127866, FY12) • Strengthening Safety Nets Systems MASAF4 (P133620, FY14, AF P148617, FY15, AF II P160519, FY17) • Regional Agricultural Productivity Program for Southern Africa (P094183, FY13) • Malawi Floods Emergency Recovery Project (P154803, FY15) • Malawi Drought Recovery and Resilience Project (P161392, FY17) • Regional: Multi-sectoral Plans for Disaster and Climate Resilience in Sub-Saharan Africa (P156705, FY16) • Agricultural Commercialization Project (P158434, FY17)⁴⁸
		<i>Climate Change Resilience and Capacity to Respond to Disaster Risk:</i> Indicator 2.2.3: Vegetation cover change as percentage of baseline in selected catchments (= approx. 100,000 ha)	Baseline 0% (2012) Target: 8% (FY17) Actual: 2% for selected catchments in Shire river basin; 2% in forest reserves and national parks (2014)	Partially Achieved	3) Strong government commitment to expand and strengthen social protection under the Malawi National Social Support Program 2; provides a platform for future SP operations to promote jobs creation, human capital investments, resilience, livelihoods, and response to shocks objectives. 4) Innovations championed under the SP operations to improve the delivery of services can have synergies across the wider Bank portfolio, and Government sectors e.g. improved targeting under the Unified Beneficiary Registry, promotion of harmonized payments mechanisms are platforms that can be replicated and utilized by other operations.	
		Indicator 2.2.4: People served by improved flood management, including mitigation and adaptation (early warning)	Baseline: 0 (2012) Target: 200,000 (FY17) Actual: 486,633 households and 180,000 people	Achieved	Lessons learned on Indicator 2.2.4 1. The approach of connecting a detailed analytical work i.e. DRM TA with the investment program in Shire River Basin Management Program and then Malawi Flood Emergency Recovery Project has effectively improved the understanding of	

⁴⁸ Approved in FY17 but not yet effective.

					<p>the client of the holistic approach to flood risk in the country. There is now a deeper appreciation of the early warning system, flood forecasting and flood intervention by the client.</p> <p>2. There is need of more support toward capacity building in flood modeling for future planning and flood risk management.</p>	<p>TRUST FUNDS</p> <ul style="list-style-type: none"> • Effective Management of the Nkhotakota Wildlife Reserve Project (GEF, P110112, FY12) • Nyika Trans-Frontier Conservation Area Project (GEF, P108879, FY11) • Disaster Risk Management in Malawi Country Plan II (GFDRR, P125171) • Shire River Basin Management Program (P127866, FY12) • Agricultural Sector Wide Approach Support Project MDTF Project Execution (P131702, FY12, AFII P148964, FY14-FY17) <p>NONLENDING</p> <p>Delivered during CAS Period to Date:</p> <ul style="list-style-type: none"> • TA Effective and Inclusive Targeting Mechanisms in Africa – Malawi (P123372, FY14) • TA Disaster Risk Management (P122473, FY14) • Adolescent girls in Malawi (P155660, FY17) • Reducing Poverty, Inequality and Vulnerability (P124004, FY15)
		<p>Indicator 2.2.5: Improved mainstreaming of gender-aware climate and disaster risk reduction issues with focus on vulnerable communities within sector investment planning (especially in Bank and IFC-supported sectors and programs)</p>	<p>Progress: Mainstreaming evident in at least three sectors (11/2014)</p> <p>Target: Mainstreaming evident in at least four sectors (FY17)</p> <p>Actual: Mainstreaming evident in four sectors (FY17)</p>	Achieved	<p>Lessons learned on Indicator 2.2.5</p> <p>1. There is increased awareness of the impact of disaster in other sectors.</p> <p>2. The process of mainstreaming DRM in other sectors has also increased the discourse around DRM and Climate Change Adaptation in the country thereby promoting significant interest and awareness across sectors.</p>	

						<ul style="list-style-type: none"> • Programmatic Poverty Analysis (P148050, FY16) • Malawi Enhanced Poverty Diagnosis (P154211, FY16) • TA and Statistical Capacity Building (P155848, FY15) • Malawi Floods Post-Disaster Needs Assessment 2015 (P154774, FY17) <p>Ongoing:</p> <ul style="list-style-type: none"> • Malawi Gender Policy Note (P143054, FY15) • Developing Safer School Programs in Malawi (P154381, FY16) • Business Plan for Development of the Climate Innovation Centre: Launchpad Malawi (P158198, FY17) • Building a Shock Responsive Safety Net and Preparing for Future Crises (P162379, FY17) • Malawi Country Environmental Analysis (P162772, FY17) <p><u>OTHER PARTNERS</u> KfW, UNICEF, UNDP, DFID, GEF, FAO, Norway, Ireland Aid, TerrAfrica Partnership, MCC, GFDRR</p>
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Theme 3: Mainstreaming Governance for Enhanced Development Effectiveness						
Results Area 3.1: Improving public sector management						
Outcome 3.1: Improved public sector performance because of better PFM, procurement, M&E systems, and enhanced statistics	Partially Achieved	Indicator 3.1.1: Number of sub-national governments covered by the IFMIS rollout	Baseline: 22 (2012) Target: 34 (FY17) Actual: 35	Achieved	Indicator 3.1.1: The IFMIS support system has enhanced the governance for budget planning and execution at the local councils, though more needs to be done. The IFMIS support system needs to be further strengthened with respect to both capacity and infrastructure. The infrastructure deficit was a major constraint for the effective and efficient running of government business including the IFMIS at the local councils. Indicator 3.1.3: There was a significant improvement in bank reconciliations. However, the periodic monthly timelines remain challenging.	PROJECTS Projects Closed during CAS Period to Date: <ul style="list-style-type: none"> Third Malawi Social Action Fund – APL II Project (P110446, FY08-FY14) Ongoing: <ul style="list-style-type: none"> Agricultural Support and Fiscal Management DPO (P153753, FY17) TRUST FUNDS <ul style="list-style-type: none"> Public Finance and Economic Management Reform Program - MDTF (P129055, FY12) Financial Reporting and Oversight Improvement Project (MDTF, P130878, FY13) Procurement Capacity Building Project (P126649, FY12-FY16) NONLENDING Delivered during CAS Period to Date: <ul style="list-style-type: none"> Public Expenditure Review (P133262, FY15) Decentralization Note (P123238, FY13) Malawi Urbanization Review (P146675, FY15)
		Indicator 3.1.2: Number of audit observations resolved	Progress: 21 (2012) Target: 70 (FY17) Actual: NA	Partially Achieved It is understood that there is improvement in the process of audit observations resolution through established procedures. However, firm statistics are not available.		
		Indicator 3.1.3: Status of MG1 and the sub-MG (SMG) accounts at the Reserve Bank of Malawi	Progress: 0 (03/2015) Target: 100% MG1 and SMGs within 1 month after the end of each month (FY17) Actual: NA	Partially Achieved Significant improvements in bank reconciliations but not done within one month and old tractions remain unresolved.		
		Indicator 3.1.4: Strengthened transparency, accountability,	Baseline: 0 (2012) Target: 18: Agriculture, Health,	Partially Achieved Some progress was made as institutions now have procurement		

		and capacity of public procurement, focusing on the eight top-spending ministries and parastatals	Education, Transport and Public Works, Roads Authority, Irrigation and Water, ESCOM, Malawi Housing, National Statistical Office, Foreign Affairs, Internal Security, Labor, Water Boards (2017) Actual: NA	staff in place and prepare annual procurement plans. Procurement processes such as preparation of bid documents, evaluation reports and contract documents are in place. However, there are governance issues in all institutions as fraud and corruption are still prevalent. In addition, transparency remains an issue because entities are not fully complying with the requirements of procurement planning, record keeping or procurement reporting.		<ul style="list-style-type: none"> • Leadership for Results Malawi (P144974, FY15) • TA and Statistical Capacity Building (P155848, FY15) <p>Ongoing:</p> <ul style="list-style-type: none"> • Malawi FSAP Development Module (P161095, FY17) <p><u>OTHER PARTNERS</u> Norway Statistical Capacity Building Project, EU, UN, DFID</p>
Results Area 3.2: Strengthening social accountability for service provision						
Outcome 3.2: Enhanced transparency on resource flows and service delivery	Partially Achieved	Indicator 3.2.1: Number of good governance tools used and scaled up	Baseline: 2 (2011) Target: 6 (FY17) Actual: NA	Not Achieved There are several planned efforts to use good governance tools, however, there is	Indicator 3.2.1: Malawi slipped from conducting regular PEFA Assessments in 2007, 2009 and 2011, to the current (overdue) PEFA in 2018. Hence, the information on outcomes/progress	<u>PROJECTS</u> Projects Closed during CAS Period to Date: <ul style="list-style-type: none"> • Rapid Response Development Policy Grant (P126155, FY13)

		including citizen feedback and redress mechanisms, transparency in the use of resource flows (e.g. expenditure tracking, independent budget analysis, PETS, citizens charters)		insufficient information on the number and their effectiveness to assess achievement of the outcome. One of the key expectations relating to conducting PEFA Assessment to identify progress on PFM systems is yet to be achieved.	on PFM reforms were not assessed. The proposed PEFA Assessment is very critical for Malawi and the Government needs to ensure traction for the actual assessment to take place. Also, the Government should ensure that slippages are avoided for future PEFA Assessments.	<ul style="list-style-type: none"> Economic Recovery DPO (P133663, FY14) <p>Ongoing Projects:</p> <ul style="list-style-type: none"> Mining Governance and Growth Support Project (P120825, FY11) Agricultural Support and Fiscal Management DPO (P153753, FY17) <p>TRUST FUNDS:</p> <ul style="list-style-type: none"> Public Finance and Economic Management Reform Program - MDTF (P129055, FY12) Financial Reporting and Oversight Improvement Project (P130878, FY13) Mining Governance and Growth Support Project (P120825) Strengthening Social Accountability in the Education Sector (P147837) Social Accountability Strengthening Project (P147819) <p>NONLENDING</p> <p>Delivered during CAS Period to Date:</p> <ul style="list-style-type: none"> Public Expenditure Review (P133262, FY15) Malawi Primary Education PET-QSD Study (P148735, FY15) Decentralization Note (P123238, FY13)
		Indicator 3.2.2: Geodata management center providing online access	Baseline: No (2012) Target: Yes (FY17) Actual: Work is ongoing and will be completed by project completion in April 2018	Partially Achieved	Indicators 3.2.2 and 3.2.3: Computerization simplifies processes and enables access to information by several players. While this should accelerate the work and make it easier for different players to be up to date on their counterpart's progress it also at the same time makes those who previously were custodians of information and decision makers feel that they have lost power. It is therefore important to sensitize all those who lose from the computerization and also get top level management support for the changes.	
		Indicator 3.2.3: Modern computerized mining cadaster in use	Baseline: No (2012) Target: Yes (FY17) Actual: Work is ongoing and will be completed by project	Partially Achieved		

			completion in April 2018			<ul style="list-style-type: none">• Binding Constraints to Service Delivery (P157493, FY16) <u>OTHER PARTNERS</u> OAP, GPSA
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Annex C: IDA Lending Program FY13-17 Planned vs Actual

Credits/Grants			
Planned	Estimate (\$m)	Delivery Status	Actual (\$m)
<u>FY 13</u>		<u>FY 13</u>	
Rapid Response Program Policy Grant	50.00	Delivered: P126155	50.00
Rapid Response Program Irrigation, Rural Livelihoods and Agricultural Development AF	50.00	Delivered: AF to P084148	50:00
Rapid Response Program Third Malawi Social Action Fund AF	50.00	Delivered: AF to P110446	50.00
Development Policy Operation	50.00	Delivered as Economic Recovery DPO 1: P133663	50:00
Regional: Agricultural Productivity Program for Southern Africa	10.00	Delivered with increased amount: P094183	29.80
<i>Subtotal</i>	<i>210.00</i>	<i>Subtotal</i>	<i>229.80</i>
<u>FY 14</u>		<u>FY 14</u>	
Development Policy Operation (DPO 2)	50.00	Dropped	
Malawi Social Action Fund 4	50.00	Delivered as Strengthening Safety Nets Systems – MASAF IV: P133620 with a reduced amount	32.80
Higher Education and Skills Development	40.00	Delivered as Skills Development Project: P131660, with an increased amount	50.90
Regional: Energy Connectivity Interconnector		Dropped	
<i>Subtotal</i>	<i>140.00</i>	<i>Subtotal</i>	<i>83.70</i>
<u>FY 15</u>		<u>FY 15</u>	

Credits/Grants			
Planned	Estimate (\$m)	Delivery Status	Actual (\$m)
Strengthening Safety Nets Systems - MASAF IV AF (added at PLR)	75.00	Delivered: AF to P133620	75.00
Flood Emergency Recovery Project (added at PLR)	50.00	Delivered: P154803	80.00
Regional: Southern Africa Trade and Transport Facilitation Program	20.00	Delivered: P145566 with an increased amount	69.00
<i>Subtotal</i>	<i>145.00</i>	<i>Subtotal</i>	<i>224.00</i>
<u>FY 16</u>		<u>FY 16</u>	
Development Policy Operation 1	50.00	Dropped	
Public Sector Reforms/TA	5.00	Dropped	
Lilongwe Water Supply	71.00	Delivered after the CAS Period in FY18: P164354 for \$100m	
Regional: Accelerated Program for Economic Integration (APEI) I	10.00	Dropped	
Regional: Power Interconnector	20.00	Delivered after the CAS Period in FY20: P164354 for \$15m	
		New Regional: Southern Africa TB and Health Systems Project	17.00
		New Regional: Africa Centers of Excellence – P151847	12.00
<i>Subtotal</i>	<i>156.00</i>	<i>Subtotal</i>	<i>29.00</i>
<u>FY 17</u>		<u>FY 17</u>	
Development Policy Operation II	50.00	Delivered as Agricultural Support and Fiscal Management DPO: P153753 with an increased amount	80.00
Shire Valley Transformation Project	160.00	Rescheduled to FY18	
		Dropped	

Credits/Grants			
Planned	Estimate (\$m)	Delivery Status	Actual (\$m)
<i>Regional: APEI II</i>	10.00	New – Emergency Response: Second AF for Strengthening Safety Nets Systems Project – MASAF IV	70.00
		New - Agricultural Commercialization Project	95.00
		New - Digital Malawi Program Phase I:	72.40
		New – Emergency Response: Drought Recovery and Resilience Project	104.00
		<i>Subtotal</i>	
<i>Subtotal</i>	220.00		421.40
Total	871.00		987.90

Annex D: WB Malawi Portfolio FY13 -17

Project ID	Project Name	Board Approval	Closing Date	Net Commitment Amount (\$m)
National Projects				
P084148	Irrigation Rural Livelihoods and Agricultural Development	11/29/2005	06/30/2015	102.70
P096336	Second National Water Development Project	05/24/2007	10/31/2015	169.17
P105256	Agricultural Development Programme Support Project	06/24/2008	12/30/2016	62.00
P106671	Agriculture Development Program - GEF	06/24/2008	09/15/2013	5.80
P110446	3rd Social Action Fund APL II	06/20/2008	06/30/2014	114.00
P114847	Project to Improve Education Quality in Malawi	06/17/2010	06/30/2015	50.00
P122616	Financial Sector Technical Assistance Project	03/24/2011	08/31/2017	28.20
P099626	Energy Sector Support Project	06/28/2011	07/31/2018	84.70
P120825	Mining Governance and Growth Support Project	03/31/2011	03/31/2018	25.00
P125237	Nutrition and HIV/AIDS Project	03/27/2012	08/31/2018	80.00
P117617	Shire River Basin Management Program	06/14/2012	01/31/2018	125.00
P127866	Shire River Basin Management Program - GEF	06/14/2012	01/31/2018	6.58
P126155	Rapid Response Development Policy Grant	07/17/2012	06/30/2013	50.00
P133663	Economic Recovery Development Policy Operation 1	03/28/2013	12/31/2013	50.00
P130878	Financial Reporting and Oversight Improvement Project	03/07/2013	04/30/2018	8.00
P133620	Strengthening Safety Nets System - MASAF IV	12/18/2013	12/31/2019	177.79
P131660	Skills Development Project	06/19/2014	06/30/2019	50.90
P148964	Second AF to Agricultural SWAP Support Project	03/19/2014	12/30/2016	100.00
P154803	Malawi Floods Emergency Recovery Project	05/07/2015	12/31/2019	80.00
P154185	Malawi Education Sector Improvement Project	08/31/2016	12/31/2020	44.90
P161392	Malawi Drought Recovery and Resilience Project	11/08/2016	01/31/2021	104.00
P153753	Malawi Agricultural Support and Fiscal Management DPO	05/04/2017	03/31/2018	80.00
P158434	Malawi Agricultural Commercialization Project	05/23/2017	05/31/2023	95.00
P160533	Digital Malawi Program Phase I: Malawi Digital Foundations Project	06/05/2017	06/30/2022	72.40
Regional Projects				
P111432	Regional Communications Infrastructure Program - Phase 3	06/25/2009	06/30/2016	20.00
P094183	Agricultural Productivity Program for Southern Africa	03/14/2013	01/31/2020	29.80
P145566	Southern Africa Trade and Transport Facilitation Program SOP2	04/29/2015	12/31/2021	69.00
P151847	Eastern and Southern Africa Higher Education Centers of Excellence	05/26/2016	12/31/2022	12.00
P155658	Southern Africa Tuberculosis and Health Systems Support Project	05/26/2016	12/31/2023	17.00

Annex E: IFC Committed and Outstanding Portfolio FY13–17

Malawi Portfolio (\$mn)	FY13	FY14	FY15	FY16	FY17
Total IFC Committed Amount	25.4	24.0	23.7	24.8	15.5
Loan Committed Amount	18.3	21.2	19.3	15.7	9.5
Equity Committed Amount	0.5	0.5	0.5	-	-
Guarantee Committed Amount	6.6	2.2	3.8	9.1	6.0

IFC Advisory Services Portfolio		
Primary Business Line	Project	Total Funds Managed by IFC (US\$ m)
Cross-Cutting Advisory solutions	Malawi Water PPP	1.5
Finance and Markets	Malawi Credit Reporting Project	0.5
Finance and Markets	Secured Transactions & Collateral Registries Malawi	1.2
Trade and Competitiveness	Malawi IC - PSD	0.4
Trade and Competitiveness	Malawi Trade Facilitation	0.7
Trade and Competitiveness	Malawi Warehouse Receipts Program	1.0
Trade and Competitiveness	Promoting competition in SSA	1.3
		6.6

Annex F: From CAS to CPF – The intervening years: FY18-20

This Annex provides information on the WBG's engagement with Malawi after the official closing of the CAS, leading up to the preparation of the new proposed CPF FY21-25.

Background to the delay of the follow-on CPF:

Malawi's Country Assistance Strategy (CAS) concluded at the end of June 2017, as per the Performance and Learning Review of March 2015. With a view to producing a timely CPF following the completion of the CAS, the WB had commissioned a Systematic Country Diagnostic during FY17. However, due to the delayed release of the updated Integrated Household Survey results to July 2018, the SCD was only finally released in December 2018.

At that time, Malawi was entering a political cycle. With national elections due to be held in May 2019, World Bank management decided to delay the Regional Operations Committee meeting on the CPF Concept Note until the elections were concluded. However, the poll results were contested, and Constitutional and Supreme Court rulings overturned the results and called for fresh elections. The ROC review of the CPF Concept Note was, in turn, delayed until September 30, 2019. Partly in light of the overall political uncertainty, the ROC advised the WBG team to subject the Concept Note to further review and consideration and revert to a second ROC review of a new Concept Note.

Election re-runs were held in July 2020 with a conclusive victory by the Tonse Alliance. With political clarity restored, the WBG was well placed to revive the CPF process, now reflecting the priorities emerging from the new government and taking into account the impact of the COVID-19 pandemic. The CPF is due to be delivered to Executive Directors in January 2021.

The intervening years: FY18-20

The WBG continued to operate during FY18-20, committing new financing of US\$1 billion, on the basis of the CAS areas of priority. Analytical and Advisory Services also continued and included the Malawi Economic Monitor Series and the November 2017 Country Economic Memorandum: *From Falling Behind to Catching Up*, which were both influential in agenda setting.

The key lesson of the CAS period – Malawi's weak governance environment – underscored the WBG's programming following the CAS closure. The WB's governance agenda re-focused on decentralization linked to the delivery of basic services and established stronger linkages with key development partners such as the US and UK. The resulting FY20 US\$100 million *Governance to Enable Service Delivery Project* (GESD) which aims to provide a performance-based grant through country systems to the district level includes a stronger focus on citizen engagement as a channel for a future national approach to feedback mechanisms and grievance redress. At the same time, the WB also pulled back from direct support to the procurement of a new IFMIS due to procurement concerns, reflecting the governance and political economy risks highlighted in the CLR.

The experience of policy-based lending during this period was challenging. During the CAS period, the US\$80 million Agricultural Support and Fiscal Management DPO in FY17 was intended as the first in a two-part series. The second in the series was prepared but was, however, required to be withdrawn before submission to the Board in FY18. In summary, it was felt by key partners at the time that Malawi's governance trajectory was not conducive to a DPO, and that policy progress was insufficient. During FY20, a revived effort was made by the WB to reinvigorate the economic policy dialogue through the so-called "Roadmap" process. Although helpful in deepening the policy dialogue on agriculture, trade and energy, the work never reached fruition given the onset of the elections period.

In March 2019, Malawi and the region were hit by Tropical Cyclone Idai. The WB delivered the US\$70 million *Disaster Risk Management Development Policy Financing with CAT DDO* project with immediate release of a US\$40 million tranche of budget support. The project was one element of the WB's response to Cyclone Idai. This disaster re-emphasized the vulnerability of the southern Shire Valley (where poverty is most acute) as well as Malawi's fiscal and institutional vulnerability. The objective of the CAT-DDO was to strengthen the institutional framework and coordination mechanisms for national disasters and climate resilience; increase climate and disaster resilience in physical developments and infrastructure; and strengthen adaptive social protection mechanisms and government financial capacity to respond to disasters. By way of complementary financing, the WB also prepared an Additional Financing for the ongoing FY17 *Drought Recovery and Resilience Project* to further strengthen institutional capacity and preparedness.

The water sector accounts for the largest share of new investments made during the FY18-20 period, totaling US\$422 million. Building on the lessons learned from the *Shire River Valley Basin Management Project* during the CAS period, the WB initiated the FY18 *Shire Valley Transformation Project Phase 1 (SVTP-1)* which aims to transform the potential for commercial agriculture in the Shire Valley through the creation of a major irrigation scheme. The FY18 *Lilongwe Water Supply and Sanitation Project* recognized the crisis in Lilongwe itself and prepared the city and the Lilongwe Water Board for future supply investments (see the new CPF FY21-25 on the proposed *Central Region Bulk Water Project* which aims to connect the new distribution network in the city with a new source of supply). Finally, the FY20 *Malawi Watersheds Services Improvement Project (MWSIP)* proposes a longer-term partnership to support Malawi in restoring degraded land and watershed hotspots. As of October 2020, these projects are now initiating implementation on the ground, reflecting the long lead-time required in Malawi.

Importantly, all three of the water investments were designed with a clear programmatic sequence in mind and linked with other investments in the portfolio. Both the SVTP-1 and the MWSIP were designed as the first in a Series of Projects, underlining the long-term partnership for transformation of economic opportunities reflected in the designs. The *Lilongwe Water Supply and Sanitation Project* equally positions Lilongwe city for a new series of investments in urban services and resilience, starting during the new CPF with the *Central Region Bulk Water Project*. These projects, which make up over one third of total new investments during this period, are clearly framed around the structural drivers of resilience, and reflect a shift away from drought/flood responses towards prevention.

Through large financing of the energy sector and the initiation of new work to support SME-lending, the WB initiated a shift towards addressing binding constraints to structural transformation. The *Electricity Access Project* focuses on grid and off-grid connections, as well as providing considerable technical assistance to the sector. In fact, through this Project the government initiated the preparatory work for the *Mpatamanga Hydropower Project*, co-developed with the IFC. In addition, the IFC and MIGA initiated exploratory work to support transactions by Independent Power Producers in the solar sector, resulting in June 2019 in MIGA's support for the development, construction and operation of a new 60 MW solar photovoltaic plant. Finally, the WB initiated the preparation of a line of credit to SMEs to help address the top constraint to SME development as cited in the 2019 FinScope Survey, and to support entrepreneurship skills, innovation and financial inclusion. The resulting project was approved in FY21 as the US\$86 million *Financial Inclusion and Scaling Entrepreneurship Project*.

The design of these projects reflected the lesson that had emerged from the CLR on targeting the binding constraints to structural transformation. They also respond to the recommendation for WBG coordination to strengthen on key opportunities to achieve transformative impact, specifically on job creation. These efforts are proposed to further continue through the new CPF FY21-25.

IDA Investments FY18-20

Project ID	Project Name	FY	Commitments (\$M) - Total
P158805	Shire Valley Transformation Program - I	2018	160.0
P163582	Lower Shire Valley Landscape Project	2018	5.6
P163794	Lilongwe Water and Sanitation Project	2018	100.0
P164223	Equity with Quality and Learning at Secondary	2019	90.0
P164331	Electricity Access Project	2019	150.0
P164771	Investing in Early Years for Growth and Productivity in Malawi	2019	50.0
P165056	Disaster Risk Management Development Policy Financing with Cat DDO	2019	70.0
P164961	Governance to Enable Service Delivery Project	2020	100.0
P167860	Malawi Watershed Services Improvement Project	2020	157.0
P169198	Social Support for Resilient Livelihoods Project	2020	125.0
P171877	Additional Financing to the Malawi Resilience and Disaster Risk Management Project	2020	80.0
P173806	Malawi COVID-19 Emergency Response and Health Systems Preparedness Project	2020	7.0
			1094.6

ANNEX 3: SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

As of March 1, 2021

Indicator	FY18	FY19	FY20	FY21
Portfolio Assessment				
Number of Projects Under Implementation ^a	12.0	12.0	16.0	16.0
Average Implementation Period (years) ^b	4.2	2.3	2.2	2.5
Percent of Problem Projects by Number ^{a, c}	0.0	8.3	6.3	12.5
Percent of Problem Projects by Amount ^{a, c}	0.0	6.0	5.9	8.9
Percent of Projects at Risk by Number ^{a, d}	8.3	25.0	18.8	18.8
Percent of Projects at Risk by Amount ^{a, d}	15.0	21.3	28.1	19.8
Disbursement Ratio (%) ^e	27.1	20.5	12.4	12.1
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by IEG by Number	97	7
Proj Eval by IEG by Amt (US\$ millions)	3,429.9	383.6
% of IEG Projects Rated U or HU by Number	36.8	28.6
% of IEG Projects Rated U or HU by Amt	31.3	24.9

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX 4: OPERATIONS PORTFOLIO (IDA, GRANTS AND CO-FINANCING)

(Data as of March 1, 2021)

Overall Portfolio including Grants & Co-financing (\$million)	
Total Commitments	1,869.68
Total Disbursed	719.10
Total Undisbursed	1,193.49
Percentage Disbursed	37.9%
Total # of Projects in portfolio	21

Project ID	Project Name	Fiscal Year	Board Approval Date	Revised Closing	Proj. Age in Yrs	Last ISR Supervision Rating		Original Amounts (\$US\$ million)			
						DO	IP	IDA	Other Grants	Undisb	Co-financing
National											
P133620	Strengthening Safety Nets Systems - MASAF IV	2014	12/18/2013	3/31/2021	7.2	MS	MS	177.79	0.00	0.06	0.00
P154185	Malawi Education Sector Improvement Project (MESIP)	2017	8/31/2016	7/30/2021	4.5	MS	S	0.00	44.90	7.47	0.00
P158434	Malawi Agricultural Commercialization Project	2017	5/23/2017	5/31/2023	3.8	MS	MU	95.00	0.00	67.99	0.00
P158805/ P163582	Shire Valley Transformation Program – 1*	2018	10/18/2017	12/31/2023	3.4	S	MS	160.00	5.59	133.87	0.00
P160533	Digital Malawi Program Phase I: Malawi Digital Foundations Project	2017	6/5/2017	6/30/2022	3.7	MS	MS	72.40	0.00	58.17	0.00
P161392	Malawi Resilience and Disaster Risk Management Project	2017	11/8/2016	1/31/2024	4.3	MS	S	184.00	0.00	76.34	0.00
P163794	Lilongwe Water and Sanitation Project	2018	12/20/2017	6/30/2023	3.2	S	MS	100.00	0.00	57.09	0.00
P164223	Equity with Quality and Learning at Secondary (EQUALS)	2019	3/13/2019	12/31/2025	2.0	S	MS	90.00	0.00	85.43	0.00
P164331	Malawi - Electricity Access Project	2019	6/20/2019	6/30/2024	1.7	S	MS	150.00	0.00	148.06	0.00
P164445	Second Agriculture Sector Wide Approach Support Project	2018	4/7/2018	12/31/2021	2.9	MS	MS	0.00	55.00	4.36	0.00
P164771	Investing in Early Years for Growth and Productivity in Malawi	2019	12/19/2018	6/28/2024	2.2	MS	MU	50.00	0.00	36.66	10.00
P164961	Malawi Governance to Enable Service Delivery Project	2020	4/30/2020	9/30/2025	0.8	MS	MS	100.00	0.00	104.05	0.00
P165056	MALAWI-Disaster Risk Management Development Policy Financing with CAT DDO	2019	6/6/2019	6/21/2022	1.7	S	S	70.00	0.00	0.00	0.00
P167860	Malawi Watershed Services Improvement Project	2020	6/19/2020	7/31/2026	0.7	S	S	157.00	0.00	163.87	0.00
P168577	Financial Inclusion and Entrepreneurship Scaling Project	2021	8/25/2020	9/30/2025	0.5	S	S	86.00	0.00	75.55	0.00
P169198	Social Support for Resilient Livelihoods Project	2020	12/10/2019	12/31/2024	1.2	S	S	125.00	0.00	98.74	17.00

P173806	Malawi COVID-19 Emergency Response and Health Systems Preparedness Project	2020	4/14/2020	5/31/2022	0.9	S	MS	7.00	0.00	2.43	0.00
Total National (17 Projects)								1,624.19	105.49	1,120.14	27.00
Regional											
P145566	Southern Africa Trade and Transport Facilitation Program - SOP2	2015	4/29/2015	12/31/2021	5.8	MS	MS	69.00	0.00	24.41	0.00
P151847	Eastern and Southern Africa Higher Education Centers of Excellence	2016	5/26/2016	12/31/2022	4.7	MS	MS	12.00	0.00	3.77	0.00
P155658	AFR RI-Southern Africa Tuberculosis and Health Systems Support Project	2016	5/26/2016	12/31/2023	4.7	S	S	44.00	0.00	29.71	0.00
P164354	Mozambique - Malawi Regional Interconnector Project	2020	9/17/2019	12/31/2023	1.3	S	S	15.00	0.00	15.46	0.00
Total Regional (4 Projects)								140.00	0.00	73.35	0.00
Grand Total:								1,764.19	105.49	1,193.49	27.00

*Includes the GEF component - Lower Shire Valley Landscape Project

Active ASA (as of March 1, 2021)

Task ID	Task Name	Global Practice	AIN Sign-Off	Concept Approval	ACS FY	ACS Date	Age (months)
P166402	Impact Evaluation of Emergency Response and Post-Crash Care in Malawi and Tanzania	Other	12/19/2017	10/2/2018	2022	4/29/2022	38.4
P168432	Malawi Mainstreaming Governance and Citizen Engagement	GOV	7/27/2018	8/16/2019	2021	6/30/2021	31.2
P170615	Using Remote Tracking to Detect and Deter Medications Theft in Malawi	HNP	10/25/2019		2021	6/25/2021	16.2
P172063	Malawi: Digital Economy for Africa Country Diagnostic	FCI	9/25/2019	5/13/2020	2021	04/20/2021	17.2
P174948	Malawi Poverty Assessment FY21	PE	8/19/2020	03/12/2021	2022	11/30/2021	6.4
P175020	Malawi Economic Monitor	MTI	8/6/2020		2022	5/31/2022	6.8
P175553	Process Evaluation of COVID-19 responsive Urban expansion of Social Cash Transfer Program	SP&J	11/3/2020	02/01/2021	2022	9/30/2021	3.9
P176290	Malawi: Overcoming Challenges to Transform Human Capital	HNP	02/03/2021	03/19/2021	2022	12/31/2021	0.9
P176395	Malawi Country Gender Assessment and Evaluation of Coordinated Response to GBV/SEA.	SSI	02/08/2021	02/23/2021	2021	06/30/2021	0.7

ANNEX 5: IFC PORTFOLIO (INVESTMENT AND ADVISORY)

As of March 1, 2021

Active Investment Portfolio (US\$m)			
<i>Client</i>	<i>Product</i>	<i>Industry Group Sector</i>	<i>Total</i>
MHPCL Mpatamanga Malawi Hydro	Loan	Infrastructure	2.3
FCB Malawi	Guarantee	Trade Finance	3.2
Global Tea and Commodities Ltd	Loan	Agribusiness & Forestry	2.0
Total			7.5

Active Advisory Portfolio (US\$m)		
Project Name	Primary Business Line Name	Total Funds Managed by IFC (US\$m)
Mpatamanga Malawi Hydro	IFC Transaction Advisory	\$5.2
Southern Africa Power Project	Infrastructure	\$3.5
Malawi Trade Facilitation	Creating Markets Advisory	\$2.2
Global Tea Macadamia Malawi	Manufacturing, Agribusiness & Services	\$1.0
Malawi Shire Valley Irrigation Project	IFC Transaction Advisory	\$0.8
Indicator Based Reform Advisory	Africa-wide (DB Reforms)	N.A.
Total		\$12.7

ANNEX 6: MIGA GUARANTEE PORTFOLIO

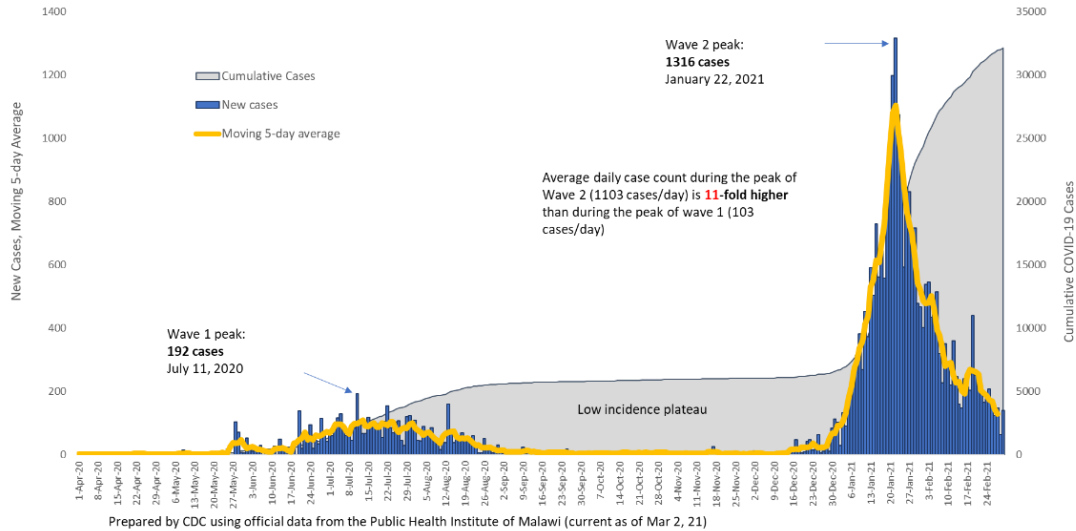
As of March 1, 2021

Project name	Effective date	Expiration date	Investor	Sector	Gross Exposure
Salima Solar Power	05/24/2019	05/23/2039	JCM Power International LTD	Energy	US\$ 37.3
Salima Solar Power	06/07/2019	06/06/2039	InfraCo Africa LTD	Energy	US\$ 21.3
Total					US\$ 58.6

ANNEX 7: COVID-19 IN MALAWI

1. **Health impact.** Following a first wave between June and August 2020, a second wave of COVID-19 has spread quickly in the early months of 2021 with both new infections and deaths increasing exponentially. In less than two months since the beginning of the second wave, the cumulative number of confirmed cases and deaths have more than quadrupled with a marked increase in local transmission and hospitalizations.

Figure 7.1. COVID-19 in Malawi



2. **Economic impact.** 2020 growth projections have been lowered from 4.8 percent to 0.8 percent. Key channels include a global recession, reduced demand, increased trade costs, and reductions in exports, remittances, tourism, and foreign investment. These effects have combined with a drop in domestic demand due to social distancing behavior and policies. The impact on poverty will be particularly acute in urban areas where the sizeable informal services sector has been heavily affected. Poverty is expected to worsen with the pandemic. An estimated 12 percent of the economically active population have experienced job losses due to the crisis.

3. **Government response:** A second “State of National Disaster” was declared on January 12, 2021 with the re-introduction of measures including a curfew, wearing of masks, routine disinfection of public buildings and school closures.

- The Ministry of Health is developing an *enhanced* COVID-19 preparedness and response plan, to complement the National Vaccine Deployment Plan covering rollout to 20 percent of the population (3.8 million) in Phase 1. A first shipment of 1,476,000 doses arrived 5 March 2021. The country is also expected to receive additional vaccine doses from the African Union and will mobilize resources for subsequent phases.
- Social protection benefits are also proposed to expand to cover around 35 percent of the urban population while those impacted by COVID-19 in rural areas would also receive a frontloaded top-up cash transfer.
- The Reserve Bank of Malawi has announced several key initiatives, including establishing an Emergency Liquidity Assistance framework to support banks, a moratorium on interest and principal payments on a case-by-case basis, reducing fees and increasing transaction amounts for mobile money and e-payments. As of June 2020, about 2,000 enterprises accessed the moratorium to restructure

their loans.

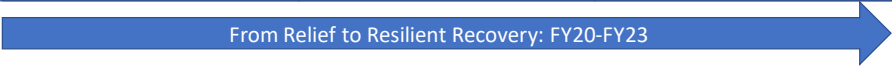
4. **WBG response.** The WBG COVID-19 response is integrated with the proposed broader Country Partnership Framework for FY21-25 and in line with the WBG Approach Paper on COVID-19 as well as IFC's 'Rescue, Restructure, Recovery' approach to help businesses manage the impact of COVID-19. **In the Relief phase, to save lives** the Board of Executive Directors approved a US\$7.0 million Emergency Response and Health System Preparedness COVID-19 Project under the Multi Phased Approach in support of the government's contingency plan in April 2020. Under the Pandemic Emergency Facility, Malawi also received additional funds of US\$1.2 million. To *protect the poor and vulnerable*, the World Bank restructured the Social Support for Resilient Livelihoods Project to re-prioritize US\$40 million towards the COVID-19 Urban Cash Initiative covering 185,000 poor households as well as COVID-19 top-ups to rural beneficiaries. To continue the focus on *strengthening policies and institutions*, the government triggered the release of US\$30 million under the CAT-DDO to address fiscal constraints emanating from, and required by, the pandemic. To support *sustainable business growth* the World Bank introduced a US\$22 million emergency MSME facility within the new Financial Inclusion and Entrepreneurship Scaling project, with the longer-term aim of increasing access to financial services, promoting entrepreneurship and MSME capabilities.

5. **In the Restructuring phase**, the World Bank supported adjustments to ongoing investments to support improved water treatment, school and market sanitation with a focus on girls in urban areas, and more labor-intensive works to generate employment and livelihoods in rural communities. In addition, the World Bank has re-started dialogue with the new government on a reform agenda to strengthen fiscal management and governance, increase agricultural productivity and market access, increase access to reliable energy, and strengthen the resilience of the private sector and households. Upcoming projects being prepared in the education sector including the Malawi Education Reform Project and Skills for a Vibrant Economy Project will include a Contingent Emergency Response Component which could be used as additional effort to support implementation of enhanced COVID-19 response.

6. **To initiate a Resilient Recovery**, the government has requested World Bank assistance for the procurement and deployment of the vaccine across the country, while also laying foundations for health systems strengthening. The WB is also exploring a budget support series to lift market distortions and enable private sector participation in energy and agriculture. In addition, projects worth over US\$250 million, including the recently declared effective Malawi Watersheds Services Improvement Project and the Malawi Governance to Enable Service Delivery Project, are expected to enable immediate injection of capital into the economy. IFC is providing technical assistance to enable expedited release and clearance of COVID-19 response imports.

Table 7.1 CPF Indicative Pipeline and COVID-19 Response

	Relief	Restructuring	Resilient Recovery
Save lives	<p><i>Public health emergency</i></p> <ul style="list-style-type: none"> • Approved FY20: Fast-track COVID Emergency Preparedness Project (\$7.5m) 	<p><i>Restructuring health systems</i></p> <ul style="list-style-type: none"> • FY21: Additional; Financing for COVID-19 response project to cover vaccine rollout (\$14m) 	<p><i>Pandemic-ready health systems</i></p> <ul style="list-style-type: none"> • FY23: New Health & demographics Human Capital Project
Protect the poor & vulnerable	<p><i>Social emergency</i></p> <ul style="list-style-type: none"> • Approved FY20: Re-prioritization of \$40m from within the Social Support for Rural Livelihoods Project to urban poor 	<p><i>Restoring human capital</i></p> <ul style="list-style-type: none"> • FY21: Education Reform Project (GPE & IDA) 	<p><i>Putting people back to work</i></p> <ul style="list-style-type: none"> • FY21: Skills for a Vibrant Economy Project
Sustainable business growth and employment	<p><i>Economic emergency</i></p> <ul style="list-style-type: none"> • Approved FY21: \$86m Financial Inclusion and Scaling Entrepreneurship project incl. emergency liquidity for SMEs 	<p><i>Firm restructuring and debt resolution</i></p> <ul style="list-style-type: none"> • FY21: PPIAF and FCI ASA on impact of COVID on PPPs & mobilizing long-term finance for infrastructure 	<p><i>Green business growth & job creation</i></p> <ul style="list-style-type: none"> • FY22: Mpatamanga Hydropower Project • FY22: Shire Valley Transformation 2
Strengthening policies & institutions	<p><i>Maintain line of sight to long-term goals</i></p> <ul style="list-style-type: none"> • Approved FY20: Release of \$30m of CAT-DDO to address immediate fiscal concerns 	<p><i>Policy and institutional reforms</i></p> <ul style="list-style-type: none"> • Ongoing: Digital Malawi project supports e-government 	<p><i>Investments to rebuild better</i></p> <ul style="list-style-type: none"> • FY21 FY23: New DPO Series under discussion tackling structural governance and constraints to the business environment



ANNEX 8: HIGHLIGHTS OF THE IFC COUNTRY PRIVATE SECTOR DIAGNOSTIC

1. The FY21 joint IFC-World Bank Country Private Sector Diagnostic (CPSD) assesses opportunities for the private sector to play a larger role in meeting Malawi's development challenges, and where the government could take action to facilitate growth, investment, and job creation across key sectors. The diagnostic prioritizes ten areas for action to private sector growth and investment in the coming 3-5 years, as the country charts a path toward economic recovery from the COVID-19 crisis. The full report elaborates on the analytical underpinnings for these recommendations, and provides details on additional, complementary actions to facilitate the jobs and economic transformation agenda in high priority sectors and economy wide. The CPSD recommendations are as follows:

Strengthen macro-fiscal fundamentals and foundations for growth

- Strengthen public financial and investment management through more realistic budget planning, stronger prioritization, and stricter fiscal discipline, in part to limit the need for domestic borrowing, avoid incurring arrears, reduce interest rates, and maintain available credit for the private sector;
- Domesticate key provisions of the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards to increase private sector confidence in investment dispute resolution in Malawi;
- Promote the use of collateral registry systems and the National Switch amongst financial institutions to facilitate longer term and more affordable financing to private sector borrowers.

Increase access to reliable power

- Improve management and performance of ESCOM, and continue the phased increase in the national electricity tariffs to allow cost recovery, which will help the national utility become financially sustainable and thus a more reliable contractual partner with current and potential independent power producers (IPPs);
- Ensure adequate resource allocation to support the development and implementation of energy projects—most notably the Mpatamanga Hydropower Project, but also the approval, tendering, contracting, construction, and completion of new solar and wind IPP projects.

Improve access to markets

- Leverage engagement in the Nacala Corridor Development Trilateral Committee and African Continental Free Trade Agreement negotiations to eliminate non-tariff barriers to trade, harmonizing rules and regulations that will reduce the time and cost of trade for Malawi's traders;
- Reduce the cost of mobile phone ownership and mobile broadband data services by rationalizing trade, tax, and levy policies, and promote infrastructure sharing, to encourage wider mobile penetration and broadband access to low-income and rural residents.

Promote commercial agriculture

- Implement the new Control of Goods Act to ensure transparency and predictability in administration of import and export controls, including wider public-private dialogue on the Act's proposed Export Mandate to mitigate the risk of new market distortions;
- Approve and gazette backlogged legislation, namely the Seed Bill and National Fertilizer Bill, and provide operational guidelines to support timely implementation;
- Improve resource allocation toward productive investments in the agriculture sector, including by adjusting the Affordable Inputs Program to reduce inefficiencies in distribution, improve targeting to farmers most likely to benefit from the subsidy, and ensure fiscal sustainability.

ANNEX 9: STATUS OF WOMEN'S EMPOWERMENT

- 1. Malawi has a significantly high number of girls who are stuck in a vicious cycle of school drop-out, poor health, and reduced economic opportunities.** Malawi's high rate of early marriage and childbearing is associated with factors such as low household wealth and lower decision-making power once girls become adults. Nearly four in ten girls marry before the age of 18, and three in ten girls have their first child before the age of 18. As a result, the completion rate for secondary school for Malawian girls remains very low. This low secondary completion reduces the stream of young women who can enter technical and vocational education and training and university education, contributing to weaker employment outcomes for young women.
- 2. A large proportion of girls in Malawi have experienced early marriage and childbearing.** The World Development Indicators show that Malawi has one of the highest rates of adolescent fertility in the world, with 132 births per 1,000 women between the ages of 15 and 19 in 2018. Early marriage is widespread, with 28 percent of adolescent girls reporting that they were currently or previously married. Out of every 100 girls who begin Standard 1 of primary school, only three will enter secondary education. Of those three, only one will enter university. The *Malawi Economic Monitor: Investing in Girl's Education* (2018) notes significant negative impacts resulting from the persistently high rate of child marriage and the lack of education for girls, with these impacts including lower earnings for women, higher rates of population growth, substantial health risks, higher rates of intimate partner violence, and higher levels of poverty.
- 3. Girls do not perform as well as boys in school.** Data from the 2018 National Census shows that in Malawi, female literacy rates (65.9 percent) remain significantly lower than male rates (71.6 percent). Further, the proportion of female-headed households with at least one member of their household having completed primary or secondary school is lower than that of their male counterparts. The inequality in access to education at higher levels contributes to the female productivity disadvantage.
- 4. The 2019 FinScope Survey estimates that there are 11 percent female owners of MSMEs in Malawi against 89 percent male owners.** It also identifies that most women and youth-led entrepreneurs are not aware of the process or the importance of formalizing, which is expected given that they mainly operate as a micro and small business. Savings and Credit Cooperative Associations and Village Savings and Loan Organizations provide easier access to finance, particularly for women and youth-led businesses. The product offerings are however limited by the tenure of loans and loan amounts. Even among microenterprises, where women are relatively better represented compared to among larger enterprises, significant gender gaps exist. Research estimates a 31 percent gender gap in the profits of micro enterprises in Malawi, with women's businesses less likely to be formal and smaller than those owned by men (World Bank, 2019). The gender profit gap among microenterprises is still sizeable (22 percent) after controlling for key individual and firm characteristics. Women's lower application of capital (partly, though not fully, explained by sector choice) is important in explaining the gender gap in profits, as is their greater domestic responsibilities which reduce the amount of time women spend working on their businesses.
- 5. Malawi's women encounter discrimination due to many factors, including discriminatory customary practices.** The Constitution recognizes that men and women enjoy equal rights; it mandates equal parental responsibility for husbands and wives; and prohibits polygamy. In addition, the Deceased Estates Act (promulgated in 2011) gave female spouses and children the right to inherit the marital estate in the case of the death of a husband. However, the implementation of the legislation is still limited due to prevailing gender norms and cultural barriers. This leads to women's inability to own, dispose of, and inherit property, which in turn results in women's economic dependence on men, entrapping them in

polygyny and abusive relations, which, amongst other negative impacts, increases the risk of HIV infection and reduces their ability to get treatment.

6. **The poverty headcount rate for female-headed households is around 5 percent higher than for male-headed households.** The gender gap in poverty at the household head level likely reflects the degree to which women rely on spouses and other adult male family members for access to certain assets, as many of these female household heads are widows or divorced/separated women. And in spite of a higher participation in agriculture women tend to be less productive than men in agriculture and in the non-farm sectors as a result of their limited ownership of assets and their limited access to credit and other inputs. Agriculture labor activity is, on average, 44 percent lower on female-managed plots, with 34 percent of this gap explained by differences in access to labor markets and 29 percent explained by differences in access to credit. Other research finds that female-managed plots in Malawi are 25 percent less productive than male-managed plots, with the gender gap explained mostly by women's lower participation in export crop farming and lower use of male adult labor. Gender gap in returns to household size and child dependency ratio are also significant, hinting at the disproportionate burden of childcare on women (Kilic et al, 2015).

7. **The government has reiterated its commitment to promoting gender equality and protecting children.** To fulfill this commitment, it has established a National Gender Policy (2015), with an associated Gender Equality Act (2013), and a National Gender Program for the implementation of the policy. It has signed several regional and international conventions on protecting women and children including the Child Care, Protection and Justice Act (2010) to provide protections for girls against early and forced marriage. In 2017 the Parliament voted to amend the constitution to end marriage below the age of 18 and remove the provision for girls to marry at age 15 with parental consent. The Malawi Growth and Development Strategy III provides mid-term planning tools for the implementation of the gender policy. It has also provided for Gender Transformative Approaches, which aim to create opportunities to actively challenge gender norms and to address inequities between persons of different gender. This approach includes increasing equitable access to, and control and utilization of, social and economic services by women.

8. **While the number of cases has been relatively low so far, even compared to neighboring countries, the COVID-19 pandemic will likely exacerbate existing gender gaps.** The experience of the countries that faced the 2014-16 West Africa Ebola outbreak highlights some of the risks to gender equality, including the potential redirection of public resources away from key reproductive and sexual health programs (with implications for maternal mortality and access to family planning) and the temporary closure of schools, which contributed to a 50 percent increase in teenage pregnancy in Sierra Leone during the Ebola outbreak (Bandiera et al, 2019). Women's incomes and economic empowerment may also be disproportionately hit, as women: tend to have smaller and less profitable businesses (so lower ability to absorb economic shocks); tend to be more concentrated in consumer-facing sectors that may be harder hit by coronavirus, and; because women carry disproportionate responsibility for caring for the sick and for children. Indeed, emerging data from a Facebook Future of Business Survey indicates that across Sub-Saharan Africa, women-owned businesses are more likely to have reported temporarily closed due to COVID-19.⁴⁹ Finally, there is already emerging evidence from across the world that the pandemic may have contributed to an increase in gender-based violence, such as through the impacts of poverty-induced stress, household isolation with abusive partners, and an increase in exploitative relations

⁴⁹ <https://blogs.worldbank.org/developmenttalk/global-state-small-business-during-covid-19-gender-inequalities>. Note that survey sampling is representative of Facebook Business Page administrator population and not of any country's business population.

between women and men (for a detailed description of potential channels for increased SGBV during the pandemic, see Peterman et al, 2020).

9. **Recent analytical work on gender has informed the CPF.** This work includes work covering issues around adolescence (such as girls' schooling, early marriage, and early childbearing), agricultural productivity, and entrepreneurship. Examples include: (i) World Bank Group. 2016. Adolescent Girls in Malawi: Policy Brief; J. Montalvao, M. Frese, M. Goldstein, and T. Kilic. 2017; (ii) Soft skills for hard constraints: evidence from high-achieving female farmers. World Bank; T. Kilic, A. Palacios-Lopez, and M. Goldstein. 2015; (iii) "Caught in a productivity trap: a distributional perspective on gender differences in Malawian agriculture." *World Development* 70, 416–63; F. Campos, M. Goldstein, and D. McKenzie, D. 2018; (iv) "How Should the Government Bring Small Firms into the Formal System." World Bank Policy Research Working Paper No. 8601; and (v) World Bank Group. 2019. *Profiting from Parity: Unlocking the Potential of Women's Business in Africa*. World Bank.

ANNEX 10: DOING BUSINESS INDICATORS' RANKINGS AND SCORES FOR MALAWI (2015, 2020)

1. Surveys indicate the most problematic factors for doing business in Malawi relate directly to inefficiencies in the public sector. This is reflected in Malawi's relatively low ranking of 109th out of 190 economies in the 2020 *Doing Business* index, though the country has made significant progress since 2015 (see below). In 2015, Malawi made starting a business easier by streamlining company name search and registration and by eliminating the requirement for inspection of company premises before issuance of a business license. Yet despite signs of progress, starting a business remains a challenge for firms (only a slight improvement in still-low rankings – e.g. Zambia ranks 117th) while rankings have considerably worsened across aspects of dealing with construction permits, getting electricity, registering property, and paying taxes. Overall, while the investment climate may seem to have a modern framework enabling a rule-based system of economic governance, in practice, it tends to be deal-based and characterized by a lack of transparency and considerable uncertainty. Informal misapplication of official policy and legal frameworks, whether due to weak institutional capacity for enforcement or due to rent-seeking for personal gain or as proxy for the government's fiscal interests, has colored the business environment with the perception of corruption. Malawi was perceived to be the 123rd most corrupt country (out of 180) by Transparency International in 2019, having regressed considerably since 2012.⁵⁰

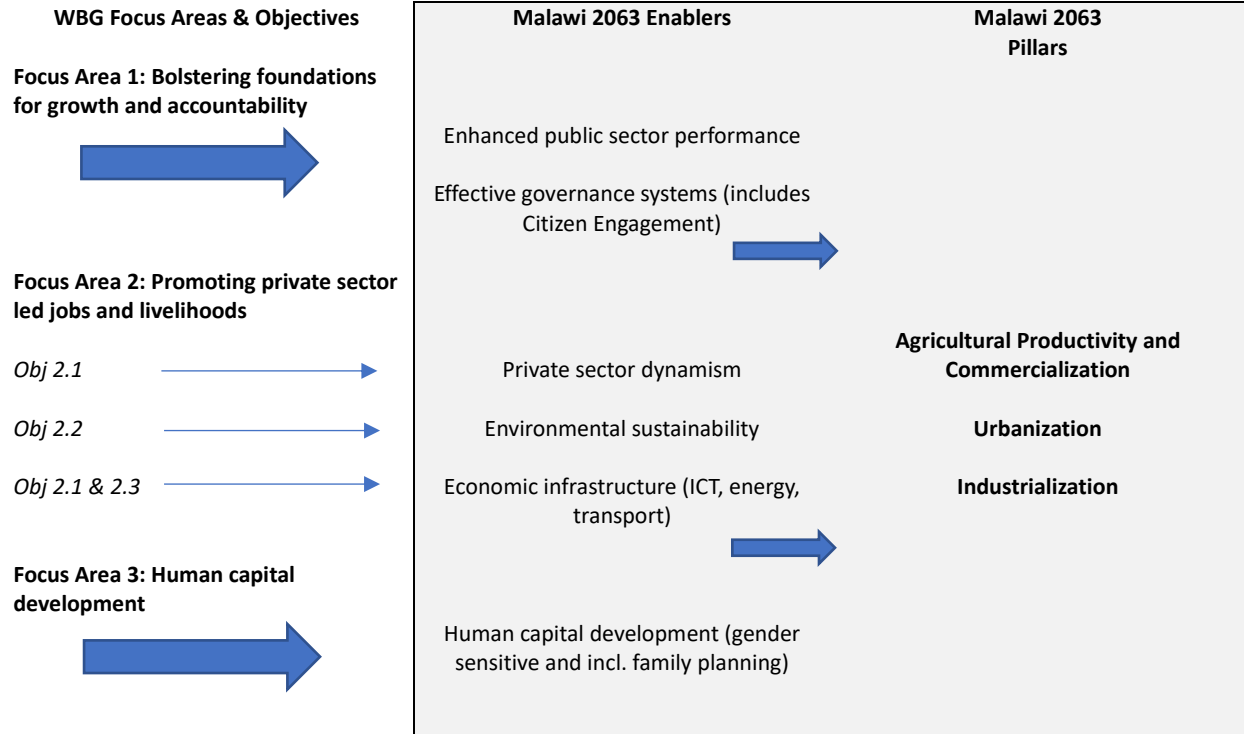
Table 10.1. Doing Business Indicators' Rankings and Scores for Malawi (2015, 2020)

Indicators	DB Ranking			DB Score (distance to frontier)		
	DB 2020	DB 2015	Change	DB 2020	DB 2015	Change
Overall	109	164	55	60.9	49.20	-11.7
Starting a Business	153	157	+4	77.9	68.5	-9.4
Dealing with Construction Permits	128	72	-56	63.1	75.1	_12
Getting Electricity	171	181	-10	45.4	35.8	-9.6
Registering Property	90	76	-14	64.9	71.1	+6.2
Getting Credit	11	151	+140	90.0	25.0	-65
Protecting Minority Investors	79	132	+53	58.0	45.0	-13
Paying Taxes	135	103	-32	62.4	71.4	+9
Trading across Borders	127	170	+43	65.3	37.4	-27.9
Enforcing Contracts	149	154	+5	47.4	43.7	-3.7
Resolving Insolvency	134	166	+32	34.9	19.0	-15.9

Source: World Bank (2015, 2020)

⁵⁰ See: https://www.transparency.org/files/content/pages/2019_CPI_Report_EN.pdf

ANNEX 11: ALIGNMENT OF THE CPF FY21-25 WITH MALAWI 2063



ANNEX 12: DEVELOPMENT PARTNER ACTIVITIES IN MALAWI

Priority Sectors	IFC	World Bank	MIGA	UK	IMF	Japan (JICA)	USAID	Germany	European Union	AfDB	Iceland	Norway	Ireland	Flanders	IFAD
Health		✓		✓			✓	✓			✓	✓	✓		✓
Governance / PFM / Macro		✓		✓	✓		✓	✓	✓	✓	✓	✓			
Agriculture/Agribusiness/Food Security	✓	✓		✓		✓	✓	✓	✓	✓		✓	✓	✓	✓
Social Protection		✓		✓			✓	✓	✓				✓		
WASH/Water Resources		✓		✓		✓	✓		✓	✓	✓	✓			
Industry/Trade/Investment	✓	✓		✓			✓	✓	✓	✓					
SME Development		✓		✓		✓	✓	✓	✓	✓		✓		✓	
Access to Finance	✓	✓					✓	✓	✓	✓				✓	
ICT	✓	✓													
Education		✓		✓		✓	✓	✓	✓		✓	✓			
Energy	✓	✓	✓	✓		✓	✓	✓		✓					
Disaster Risk Management		✓		✓			✓		✓	✓				✓	✓

ANNEX 13: MAP OF MALAWI

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