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Report No:PAD2080

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED SECOND ADDITIONAL IDA GRANT
IN THE AMOUNT OF SDR34.2 MILLION
(US\$47.68 MILLION EQUIVALENT)

AND A

PROPOSED SECOND ADDITIONAL IDA CREDIT
IN THE AMOUNT OF SDR16.0 MILLION
(US\$22.32 MILLION EQUIVALENT)
INCLUDING A US\$11 MILLION IDA CREDIT FROM THE CRISIS RESPONSE WINDOW

AND RESTRUCTURING

TO THE

REPUBLIC OF MALAWI

FOR THE

STRENGTHENING SAFETY NETS SYSTEMS PROJECT – FOURTH MALAWI SOCIAL
ACTION FUND (MASAF IV)

October 26, 2016

Social Protection and Labor Global Practice
Africa Region

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CURRENCY EQUIVALENTS
(Exchange Rate Effective September 30, 2016)

Currency Unit = Malawi Kwacha (MWK)
US\$1 = MWK 720
US\$ = SDR 0.71642989

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
CAS	Country Assistance Strategy
COMSIP	Community Savings and Investment Promotion
CP	Cooperating Partner
DA	Designated Account
DL	Disbursement Letter
ESMF	Environmental and Social Management Framework
ESMP	Environmental and Social Management Plan
EU	European Union
FIRP	Food Insecurity Response Plan
GDP	Gross Domestic Product
GoM	Government of Malawi
IFMIS	Integrated Financial Management Information System
IGA	Income-generation Activity
KfW	<i>Kreditanstalt für Wiederaufbau</i> (German Development Bank)
LA	Local Authority
LDF	Local Development Fund
LDF-TST	Local Development Fund-Technical Support Team
MASAF	Malawi Social Action Fund
MFEPD	Ministry of Finance, Economic Planning, and Development
MGCDSW	Ministry of Gender, Children, Disability and Social Welfare
M&E	Monitoring and Evaluation
MIS	Management Information System
MNSSP	Malawi National Social Support Program
NCB	National Competitive Bidding
NSSP	National Social Support Policy
NLGFC	National Local Government Finance Committee
NSSSC	National Social Support Steering Committee
PAD	Project Appraisal Document
PDNA	Post-Disaster Needs Assessment
PDO	Project Development Objective
PIC	Project Implementation Committee
PIM	Project Implementation Manual
PMP	Pest Management Plan
PWP	Public Works Program

SBD Standard Bidding Document
SCT Social Cash Transfer
UBR Unified Beneficiaries Registry

Regional Vice President:	Makhtar Diop
Country Director:	Bella Bird
Senior Global Practice Director/Director:	Michal Rutkowski
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Practice Manager:	Dena Ringold
Task Team Leader:	Ivan Drabek

MALAWI
Second AF for Strengthening Safety Nets Systems Project -
Fourth Malawi Social Action Fund (MASAF IV)

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ADDITIONAL FINANCING DATA SHEET

Malawi

Second AF for Strengthening Safety Nets Systems Project MASAF IV (P160519)

AFRICA

GSPDR

Basic Information – Parent									
Parent Project ID:	P133620	Original EA Category: B - Partial Assessment							
Current Closing Date:	30-Jun-2018								
Basic Information – Additional Financing (AF)									
Project ID:	P160519	Additional Financing Type (from AUS): Scale Up and Restructuring							
Regional Vice President:	Makhtar Diop	Proposed EA Category: B - Partial Assessment							
Country Director:	Bella Bird	Expected Effectiveness Date: 10-Jan-2017							
Senior Global Practice Director:	Michal Rutkowski	Expected Closing Date: 31-Dec-2019							
Practice Manager/Manager:	Dena Ringold	Report No: PAD2080							
Team Leader(s):	Ivan Drabek								
Recipient									
Organization Name	Contact	Title	Telephone	Email					
Government of Malawi	Goodall Gondwe	Minister of Finance	265-1789355	finance@finance.gov.mw					
Project Financing Data–Parent (Strengthening Safety Nets Systems - MASAF IV-P133620)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P133620	IDA-53430	Effective	18-Dec-2013	13-Aug-2014	16-Sep-2014	30-Jun-2018	30-Jun-2018		
P133620	IDA-56100	Effective	26-Mar-2015	18-Aug-2015	16-Sep-2015	30-Jun-2018	30-Jun-2018		
P133620	IDA-D0450	Effective	26-Mar-2015	18-Aug-2015	16-Sep-2015	30-Jun-2018	30-Jun-2018		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P133620	IDA-53430	Effective	SDR	21.40	21.40	0.00	21.40	0.00	100.00
P133620	IDA-56100	Effective	SDR	4.80	4.80	0.00	0.00	4.80	

P133620	IDA-D0450	Effective	SDR	48.40	48.40	0.00	17.05	31.35	35.23
Project Financing Data – Second AF for Strengthening Safety Nets Systems Project MASAF IV (P160519)									
<input type="checkbox"/>	Loan	<input type="checkbox"/>	Grant	<input checked="" type="checkbox"/>	IDA Grant				
<input checked="" type="checkbox"/>	Credit	<input type="checkbox"/>	Guarantee	<input type="checkbox"/>	Other				
Total Project Cost:		70.0			Total Bank Financing:		70.0		
Financing Gap:		0.0							
Financing Source – Additional Financing (AF)								Amount	
RECIPIENT									
International Development Association (IDA)								22.32	
IDA Grant								47.68	
Financing Gap									
Total								70.0	
Policy Waivers									
Does the project depart from the CAS in content or in other significant respects?							No		
Explanation									
Does the project require any policy waiver(s)?							No		
Explanation									
Team Composition									
Bank Staff									
Name	Role	Title	Specialization	Unit					
Ivan Drabek	Team Leader (ADM Responsible)	Senior Operations Officer	Team Leader, Social Safety Net Systems, PWs and CD	GSPDR					
Muderis Mohammed	Team Member	Senior Social Protection Specialist	Social Safety Net Systems	GSPDR					
Steven Maclean Mhone	Procurement Specialist	Procurement Specialist	Procurement	GGODR					
Trust Chamukuwa Chimaliro	Financial Management Specialist	Financial Management Specialist	Financial Management	GGODR					
Boyenge Isasi Dieng	Team Member	Consultant	Social Safeguards	GSURR					
Deliwe Ziyendammanja	Team Member	Team Assistant	Team Assistant Field-based	AFMMW					

Khurshid Banu Noorwalla	Team Member	Program Assistant	Team Assistant HQ	GSPDR
Maiada Mahmoud Abdel Fattah Kassem	Team Member	Finance Officer	Finance Officer	WFALA
Christine M. Makori	Counsel	Senior Counsel	Legal Counsel	LEGAM
Jane Kibbassa	Environmental Safeguards	Sr. Environmental Specialist	Environmental Safeguards	GEN01
Vasantt Jogoo	Team Member	Consultant	Environmental Safeguards	
Peter Pojarski	Team Member	Consultant	Social Protection Operations	GSPDR
Greshom Sichinga	Team Member	Consultant	Operations	GSPDR

Extended Team

Name	Title	Location
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Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Malawi		Northern Region	Northern Region	Northern Region	
Malawi		Central Region	Central Region	Central Region	
Malawi		Southern Region	Southern Region	Southern Region	

Institutional Data

Parent (Strengthening Safety Nets Systems - MASAF IV-P133620)

Practice Area (Lead)

Social Protection & Labor

Contributing Practice Areas

Cross Cutting Topics

- Climate Change
- Fragile, Conflict & Violence
- Gender
- Jobs
- Public Private Partnership

Sectors / Climate Change					
Sector (Maximum 5 and total % must equal 100)					
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation benefits %	Co-
Health and other social services	Other social services	75	64		
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	20	93		
Education	Primary education	5			
Total		100			
Themes					
Theme (Maximum 5 and total % must equal 100)					
Major theme	Theme	%			
Social protection and risk management	Social Safety Nets/Social Assistance & Social Care Services	80			
Human development	Nutrition and food security	10			
Social protection and risk management	Natural disaster management	5			
Social protection and risk management	Social Protection and Labor Policy & Systems	5			
Total		100			
Second AF for Strengthening Safety Nets Systems Project MASAF IV (P160519)					
Practice Area (Lead)					
Social Protection & Labor					
Contributing Practice Areas					
Cross Cutting Topics					
[X] Climate Change					
[] Fragile, Conflict & Violence					
[X] Gender					
[X] Jobs					
[] Public Private Partnership					

Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Health and other social services	Other social services	50		
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	30		
Agriculture, fishing, and forestry	Irrigation and drainage	15		
Industry and trade	Agro-industry, marketing, and trade	5		
Total		100		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Social protection and risk management	Social Safety Nets/Social Assistance & Social Care Services	50		
Social protection and risk management	Social Protection and Labor Policy & Systems	50		
Total		100		
Consultants (Will be disclosed in the Monthly Operational Summary)				
Consulting services to be determined				

I. Introduction

1. This Project Paper seeks the approval of the Board of Executive Directors to provide a grant in an amount of SDR34.2 million (US\$47.68 million equivalent) and a credit in an amount of SDR16.0 million (US\$22.32 million equivalent) of which US\$11.0 million from IDA Crisis Response Window¹ for a second Additional Financing (AF) and a Level 1 restructuring to the Strengthening Safety Nets Systems Project (SSNSP) - Malawi Social Action Fund (MASAF) IV parent project and first AF. The purpose of the proposed second AF is to scale up project activities to respond to the urgent need for assistance arising from the drought situation across Malawi that led to widespread food shortages. The proposed project is being processed under OP 10.00 paragraph 12, referring to projects in situations of urgent need of assistance or capacity constraints.

2. The parent project's performance is currently rated Satisfactory for development objectives and Moderately Satisfactory for implementation progress. All audits are satisfactory and the Government of Malawi (GoM) is substantially in compliance with all credit covenants. All proposed activities will be consistent with the development objectives of the parent operation. The expected closing date of the proposed second AF will be December 31, 2019. Adjustments in some targets in the Results Framework will be needed, to reflect the additional outputs from the proposed second AF.

II. Background And Rationale

A. Country Context

3. The Republic of Malawi continues to suffer from persistent volatility in macroeconomic policy and performance, with a stop-go cycle that has damaged private sector investment and job creation and hampered efforts to diversify the economy. In the short term at least, there are likely to be growth consequences resulting from fiscal consolidation and/or monetary tightening, as the Government is forced to undertake adjustments within a tight fiscal framework. Improving macroeconomic management is an essential prerequisite if Malawi is to succeed in meeting the twin goals of ending extreme poverty and boosting shared prosperity.

4. Malawi is largely an agricultural country, with about 85 percent of its population living in rural areas and is ranked as the 16th least-developed country in the world according to the 2015 United Nations Development Programme Human Development Report. It is a landlocked country neighboring Tanzania, Zambia, and Mozambique. Over 70 percent of the population lives below the income poverty line, and 29.8 percent is considered to be in severe poverty. Although poverty is more widespread in rural than urban areas, income inequality is significantly more pronounced in urban areas². Almost 80 percent of the working age population is employed, with 86 percent men and 75 percent women constituting Malawi's labor force. Malawi's economy is

¹ Management informed the Executive Directors of its intention to allocate an indicative amount of US\$11.0 million equivalent to support Malawi's response to the impact of the drought caused by El Niño at a technical briefing on October 12, 2016. See the note entitled "IDA Crisis Response Window Support for Lesotho, Madagascar, Malawi, and Mozambique for an El Niño Drought Response" IDA/SecM2016-0195, dated October 6, 2016 for additional information.

² United Nations Development Programme (2015). *Human Development Report 2015: Work for human development: Malawi briefing note for countries on the 2015 Human Development Report.*

predominantly agrarian, with 85.1 percent of households engaged in agricultural activities and agriculture accounting for 30 percent of Malawi's gross domestic product (GDP) as well as 80 percent of its exports (mainly tobacco). In 2013 and 2014, growth remained positive at 6.3 percent and 6.2 percent respectively. Growth in 2015 slowed down to 2.8 percent following the challenges of macroeconomic instability, late arrival of rains, and the severe floods experienced in January 2015. In recent years, the annual average inflation rates have hovered around 20 percent, reaching a peak of 27.3 percent in 2013 and declining to 21.3 percent in 2015. Current development policies and strategies for Malawi are reflected in the 'Vision 2020', which was developed in 1998 and presents the country's development goals to be achieved by the year 2020.

5. Southern Africa is currently in the grip of an intense drought that has expanded and strengthened since the earliest stages of the 2015–2016 agricultural season, and was driven by one of the strongest El Niño events of the last 50 years. Malawi is one of the affected countries. The 2015–2016 agricultural season was greatly affected by the strong El Niño conditions and resulted in erratic rains and prolonged dry spells across most parts of the country. In particular, the country experienced a delayed start of the 2015–2016 agricultural season by two to four weeks followed by erratic and below average rains in November and December 2015. Subsequently, prolonged dry spells resulted in severe crop failure, particularly in the southern region and parts of the central region. It is estimated that the impacts of El Niño on both GDP and household consumption would be more pronounced in Malawi than in other affected countries. A 29 percent decline in maize production in Malawi would result in a 2.2 percent decline in overall GDP, given the much larger share of maize in total GDP. Reduced GDP and related incomes would affect households' consumption in similar proportions.

6. The drought hit Malawi at a time when the country's economy was particularly vulnerable because of the combined effects of the 2015 floods and 2015–2016 drought. The cumulative economic impact of drought is estimated at US\$295.2 million, which is equal to 5.6 percent of Malawi's GDP. By far, agriculture has been the hardest hit sector experiencing the largest economic cost because of a significant loss in crop production. The second most affected sectors, electricity and water, experienced an 8.0 percent loss, which is equivalent to MWK 9,286 million (US\$13.3 million). As a supply shock to Malawi's predominately agrarian economy, the drought drove up food prices notably for maize resulting in food price inflation. Non-food inflation is likely to be indirectly affected through a possible exchange rate depreciation and higher public domestic borrowing. To finance immediate food purchases, the International Monetary Fund has allowed the Government augmented access to borrow beyond program limits. Inflation is expected to remain high during 2016, mainly driven by food price inflation. A 2016 Post-Disaster Needs Assessment (PDNA) provides an extensive analysis of the current drought situation. The PDNA estimates total needs at US\$500.2 million. Droughts and dry spells in Malawi cause, on average, a 1 percent loss of GDP annually. Most drought episodes have occurred in El Niño years, during which the country experiences rainfall deficits.

7. The proposed operation is closely coordinated with the PDNA-identified response. The Government has played a leading role in conducting the PDNA and will be leading the development and implementation of the recovery interventions and facilitating the participation and coordination of all other relevant national and international stakeholders. The Government will also ensure the management of the financial resources allocated for recovery and the monitoring of the outcomes of the interventions. The Government will be involved through its

sector line ministries at both national and district levels. District-level authorities will play a key role in the delivery of interventions at the community level. Such a responsibility would entail local governments to augment their capacity to take on additional roles. International partners present in Malawi will support the Government's efforts in the implementation of the recovery process according to their respective sector-specific roles. The Government will ensure that these interventions are coordinated, that they align to existing Government plans and strategies, and that they do not duplicate and/or overlap with existing strategies.

8. The proposed operation is also in line with the three themes for the current Malawi Country Assistance Strategy³ (CAS) 2013–2016, extended until 2017. The CAS aims to contribute to Malawi's efforts toward more diversified, competitive, shock-resilient socioeconomic growth, through a program with the following three thematic areas: (a) Promoting Sustainable, Diversified, and Inclusive Growth; (b) Enhancing Human Capital and Reducing Vulnerabilities; and (c) Mainstreaming Governance for Enhanced Development Effectiveness. The operation, and this AF, primarily focuses on Outcome 2.2 of Theme 2. Improved resilience for poor communities through adequate social safety nets, improved climate resilience, and enhanced capacity to respond to disaster risks.

B. Sector Context

9. The GoM has prioritized social protection by including it as the third theme in the second Malawi Growth and Development Strategy (2011–2016). A National Social Support Policy (NSSP) was approved in June 2012, followed by the Malawi National Social Support Program (MNSSP) approved in April 2013.⁴ The NSSP outlines the need for better coordination, targeting, and a rebalancing of expenditures to make way for a more effective social protection system that has a goal to reduce poverty and enable poor households to move out of poverty and vulnerability.

10. A range of policies and programs exist for protection of the elderly, the disabled, and children. The Malawi NSSP and the Malawi MNSSP have prioritized five social protection subprograms, which are all being implemented: social cash transfer (SCT), public works program (PWP), school meals, village savings and loans and microfinance. These were identified after analyzing the population living below the poverty line in the country consisting of the moderately poor needing employment, skills building, capital, productive assets, and protection from capital/assets depletion; the ultra-poor with labor-needing survival, employment, and productive assets; and the ultra-poor in need of survival and human capital development and protection.

11. The social protection system is still underfinanced, with large dependence on donor support. The high levels of vulnerability of the poor to shocks have been further exposed by the emergency drought situation in 2016. For almost two decades the GoM's efforts to reduce poverty have focused on its flagship safety nets program of cash transfers through public works, supported by the World Bank with a series of MASAF projects⁵ implemented by the Local Development Fund-Technical Support Team (LDF-TST). As part of the World Bank support, MASAF public

³ The World Bank. *Country Assistance Strategy for the Republic of Malawi for the Period 2013–2016*, Report No: 74159-MW, December 17, 2012

⁴ These two documents are part of the same package—one of them is a strategy (NSSP) and the other one is a detailed program of actions.

⁵ MASAF, MASAF II, and MASAF III.

works beneficiaries have been organized into savings groups under the MASAF-supported Community Savings and Investment Promotion (COMSIP). More recently, the SCT program supported by a number of cooperating partners (CPs) has targeted the most vulnerable and labor-constrained households. However, these key programs have worked in isolation from each other and the delivery of safety nets remains fragmented and inadequate.

12. The latest World Bank-supported project—MASAF IV—has a new design that transitions from the MASAF III social fund approach to a safety net systems approach focused on reducing vulnerability. The MASAF IV follows the example of successful safety net programs in the region and is designed as a second generation safety net, which would improve and finance existing key safety net programs and support the establishment of the building blocks for a coordinated and systematic approach to safety nets. MASAF IV is designed to reduce poverty through cash transfers and income generating productive assets to households through three key channels: (a) productive community-driven public works that increase the income and food security of households and communities; (b) livelihoods and savings programs; and (c) SCTs to labor-constrained households. It has supported the productive public works, SCTs, savings and livelihood groups, and the capacities of implementing agencies and ministries to support the key building blocks of a safety net system. The SCT program, supported by a number of development partners, including the European Union (EU), *Kreditanstalt für Wiederaufbau* (German Development Bank, KfW), and Irish Aid, has targeted the most vulnerable and labor-constrained households. MASAF IV became effective in September 2014, and aims to establish a systematic approach to productive safety nets. MASAF IV also supports the development of a unified registry of beneficiaries that will be used by all noncontributory social assistance providers.

Coordination

13. Coordination of social safety net programs is under the Ministry of Finance, Economic Planning, and Development (MFEPD) within its Directorate of Poverty Reduction and Social Protection through the National Social Support Steering Committee (NSSSC). The NSSSC is a high-level committee comprising principal secretaries and development partners. The NSSSC is supported by the National Social Support Technical Committee, which has various technical subcommittees, including on public works, village savings and loans, and cash transfers. Coordination among programs is improving following the frequent meetings that take place among the various technical committees with implementing agencies and feeding into the NSSSC for approvals and guidance; however, it will take some time to reach a stage where all programs are effectively coordinated.

Coverage

14. The MNSSP categorizes the poor population in three groups: (a) general poor, (b) ultra-poor with labor, and (c) the ultra-poor, labor-constrained households, which is the most vulnerable of all. Appropriate interventions have been mapped to these categories: for example, cash transfers for the ultra-poor labor-constrained households; public works for the ultra-poor not labor constrained, and so on. However, not all poor households are covered by the interventions because of resource limitations and inefficiencies following poor targeting. There are large gaps in coverage including leakages and duplication in some program interventions particularly the Farm Input Subsidy Program according to recent World Bank research (draft Poverty Assessment for

Malawi 2016). The Government is considering policy directions to improve targeting and delivery of appropriate productive safety nets and appropriate agriculture inputs and interventions for the most vulnerable rural poor who are dependent on agriculture for their on-farm and off-farm livelihoods.

15. The coverage of the Government's main social assistance programs is increasing, but is still not reaching all the eligible poor. For example, the SCT program is currently covering 18 out of 28 districts at a 10 percent labor-constrained, ultra-poverty level (national average). The SCT program is being financed district by district, as willing donors enter the program. The SCT funds 10 percent of all the poor in each district, using the national ultra-poverty level of 10 percent as a guideline. However, many districts have ultra-poverty levels higher than 10 percent. This approach excludes a number of districts and a significant number of the ultra-poor in districts with ultra-poverty levels above 10 percent. Similarly, the PWP has national geographical coverage, but only manages to include a limited number of the ultra-poor with labor because of the lack of funding. With a unified beneficiary registry under development and a better functioning system of targeting (both of which are now being modernized under MASAF IV) the main social protection programs can be scaled up immediately in geographic and population terms. However, for this to happen, additional sources of financing need to be secured.

Monitoring and Evaluation Systems

16. The Government has a central Monitoring and Evaluation (M&E) Division in the MFEPD, which captures information from the district level where the programs are implemented. However, there are capacity gaps at the district level because of few M&E staff and their low skill levels, which are currently being enhanced through the Local Development Fund (LDF). The main Government programs, which are also donor funded (including MASAF IV), have impact evaluations as part of their design. For the SCT program the Government, with support from United Nations Children's Education Fund, conducted a three-year impact evaluation study (from 2013 to 2015) for the SCT districts of Mangochi and Salima. The findings have shown significant impact of the SCT program on welfare indicators and this has informed the Government's decision to scale up. To give a few examples, according to that evaluation, the SCT program has achieved its primary objective of ensuring food security and improving consumption among the ultra-poor labor constrained households. The program's impact on total per capita annual household consumption represents an increase of 23 percent over baseline; this increase is 53 percent among the poorest households. Consistent with this is a strong improvement in food security, demonstrated by an increase of 15 percent in the number of meals per day. Diet diversity has also improved, with significant increases in the budget share devoted to meats, fish, and poultry products. The program also generated strong positive impacts on the material well-being of children. The SCT program has had noticeable impacts on the ownership of both agricultural and non-agricultural assets. The end line impact on agricultural asset expenditure represents more than 80 percent of the baseline expenditure.

17. While the central M&E exists, M&E for the social protection sector per se is still under development. Results of the evaluations of the public works have also been taken into account in the MASAF IV design. The MASAF IV model has already modified the MASAF design in ways that would respond to challenges and issues raised in the impact evaluation of the PWP under MASAF III. The analysis of MASAF III, which had a different approach to the PWP, indicates

that some of the effects may pose questions as to how the program influenced the food security and the use of agricultural inputs by the participating and nonparticipating communities. The evaluation also indicates that the number of days of work and the amounts of cash transferred may have been too small to have an influence. To respond to those findings, MASAF IV increases the focus on an integrated social protection system, increases the number of days worked, and focuses on the lean season and repeater beneficiaries.

Drought Situation and Response

18. In response to the dry spells, the GoM declared a state of disaster in April 2016, and a PDNA was initiated in mid-May under the leadership of the GoM, with the assistance of the World Bank and the United Nations. The PDNA Report of 2016 suggests that the simplest and easiest approach to use social protection in a disaster response is to scale up preexisting safety nets. Currently the most widely used social protection programs in Malawi are the SCT (partially funded under the World Bank-financed MASAF IV project) and the PWP (predominantly financed under MASAF IV). The proposed second AF would support the expansion of the SCTs, the productive public works, savings, and livelihood groups, and the capacities of implementing agencies and ministries to support the key building blocks of a safety net system. The expansion would utilize the strengths of the systems-building approach of MASAF IV for tackling emergencies and will put that approach to the test. MASAF IV will be strengthened and monitored to allow more resources to be channeled through the established mechanisms and to test the complementarity between programs and partners.

Implications of the Emergency Situation

19. **In order to estimate the drought impact and recovery needs, the GoM, with the support of development partners, has prepared a Food Insecurity Response Plan (FIRP) and a Post Disaster Needs Assessment (PDNA).** The objective of the FIRP is to address the immediate life-saving and life-sustaining needs generated by the crisis from July 2016 to March 2017. The FIRP estimates that around US\$395.1 million is needed for humanitarian responses, of which US\$233.8 million are associated with food security. Complimentary to the FIRP, the PDNA focuses more on medium to long-term measures (over the next three-year period). According to the PDNA, drought related damages and losses across fourteen sectors total US\$366 million, with the agriculture sector making up the largest proportion (US\$256 million), followed by irrigation (US\$31.9 million) and water supply and sanitation (US\$19.1 million) sectors. Recovery needs across all sectors have been estimated at US\$500.2 million over a period of three years. Food security needs make up over half (54 percent) of the total recovery costs, i.e. an estimated US\$268 million. These needs are based on a broad six-pillared Drought Recovery Strategy that underpins all sectors.

C. Project Background and Rationale for an Additional Financing and Level 1 Restructuring

20. The US\$32.8 million equivalent original project was presented to the World Bank Board and approved on December 18, 2013. The main credit became effective on September 16, 2014. A first AF in the amount of US\$72.4 million was approved by the World Bank Board in March 2015. The project's current closing date is June 30, 2018.

21. The original project financing estimates were US\$107.0 million over four years. The full amount of financing was not available at the time of negotiations of the original project because of limited IDA availability. Therefore, the first AF of US\$72.4 million only served to secure the full amount of project funding as initially appraised. The first AF was necessary to meet the original project's development targets.

22. **Value Addition and Rationale for Bank Financing of the Project.** The Bank's financing of the proposed activities is commensurate with its international mandate and comparative advantage for supporting countries in sustainability recovering from natural disaster shocks and building their resilience towards future disaster risk reduction and mitigation. In the case of this project, the Bank's specific value addition lies in: (a) addressing the large financing resource gap that exists in the multi-partner response (of US\$54 million) towards meeting the urgent and unprecedented food security and nutritional needs of the severely drought affected communities across the country in the early recovery period; and (b) supporting sustainable medium-term drought recovery and resilience building for sectors that have been most impacted and prioritized for livelihood recovery, including agriculture, irrigation, water resources and water supply and sanitation, and disaster risk reduction. The project makes use of the Bank's global leadership and expertise in shaping, leveraging and financing an integrated multi-sectoral disaster response that ensures that critical recovery interventions are implemented in a synchronized and simultaneous manner. Financing such programmatic multi partner recovery programs also leverages the Government's and Bank's convening power for the coordination of interventions among stakeholders, and helps establish comprehensive program oversight and monitoring mechanisms to improve governance and accountability.

23. **Eligibility for Crisis Response Window (CRW) Financing.** In order to contribute to Malawi's overall drought recovery needs of US\$500 million identified under the Post Disaster Needs Assessment (PDNA), the Bank is proposing a funding package of US\$223.25 million, of which US\$20 million are from the CRW. Out of the US\$20 million CRW resources, the second AF for MASAF IV will receive US\$11 million in IDA CRW Credit for the total US\$70 million AF. The remaining US\$59 million will be funded through a regular IDA credit and an IDA grant. The second AF for MASAF IV meets CRW eligibility criteria in that: (a) it responds to a declaration of state of National Disaster by the President of Malawi with effect from April 13, 2016, covering 24 of Malawi's 28 districts; (b) the GDP growth estimates for 2016 have been revised to 2.6 percent from 5.0 percent on account of the drought; (c) the cumulative impact of drought losses directly related to GDP equal 5.6 percent of Malawi's GDP; (d) the drought has hit some of the poorest parts of Malawi and is very likely to have pushed people further into poverty. The share of the population living below the international poverty line (US\$ 1.9/day in 2011 PPP prices) is expected to increase, from 69.6 percent in 2015 to 69.8 percent in 2016; (e) the double shock of drought in 2015/16 and floods in 2015 have reduced agricultural production, leading to food shortages, which in turn have pushed up the rate of inflation; (f) agricultural crop estimates from Feb-March 2016 show that overall food production has declined by 12.4 percent from the 2014/15 season, which was already down by about 30 percent compared to the 2013/14 season; and (g) the annual food security assessment conducted in May 2016 by the Malawi Vulnerability Assessment Committee (MVAC) estimates that a minimum of 6.5 million people (or 39 percent of the country's projected population of 16.8 million) will not be able to meet their annual foods requirements during the 2016/2017 consumption period. In addition to the significant impacts in Malawi, the drought is considered one of the worst drought events in Southern Africa in more than

35 years, with severe food shortages in Malawi, Lesotho, Swaziland and Zimbabwe. Across the region, an estimated 32 million people will be food insecure between June 2016 and March 2017.

24. The overarching goal of MASAF IV is to reduce vulnerability of poor and vulnerable households by providing support to improve incomes, resilience, productive assets, and ability to manage risks and shocks. It takes an integrated, cross-sectoral approach to safeguarding people and the environment on which their livelihood depends, through linkages between agriculture, food security, water, irrigation, social welfare, vulnerability, poverty, children, and gender issues. The program is designed on the basis of the following principles: (a) fair and transparent client selection; (b) timely, predictable transfers; (c) gender equity; (d) participatory planning; and (e) environmental protection. The MASAF IV approach is in line with and follows the in-country initiative and guidelines for area and watershed management and development for building food security, livelihoods, and resilience against natural disasters through community identified and managed public works, livelihood programs, and SCTs.

Project Status

25. The overall progress toward meeting the development objectives is Satisfactory. Implementation under all the three project components is rated Satisfactory. The original credit is fully disbursed and the AF in the amount of SDR53.2 million (US\$75.0 million equivalent at the time of approval, US\$73.1 million equivalent now) is effective and has a disbursement rate of 32⁶ percent.

26. Three cycles of public works have been completed so far—two cycles of 12 days each in November/December 2015 and in January/February 2016, and a 24-day cycle in August/September 2016, each cycle covering about 450,000 beneficiary households. Out of the 450,000 households, that participated in the January/February 2016 round, about one half (225,000) were selected and public works were implemented under the new MASAF IV approach, while all beneficiaries that participated in the August/September 2016 round were selected and public works were implemented under the MASAF IV approach. The MASAF IV approach is based on catchment management and targets repeater beneficiaries in the subsequent rounds of public works. The training and other preparatory activities for catchment management approach have been completed in all the districts and the latest cycle of public works (24 days in July/August) fully utilized the new approach throughout the whole country. Significant progress has also been made under the livelihood and skills development program, where over 22,000 beneficiaries have been trained and over 60 cooperatives have been supported with value chain grants, health and nutrition training and grants, and other technical and financial matching grants. Further progress was made in the area of a Unified Beneficiaries Registry (UBR), with the UBR concept and proposal, the UBR program requirements document, the UBR technical specification document, the UBR roadmap, and a work plan and budget already developed, while a harmonized data collection tool that provides variables for all social protection programs is currently being prepared.

27. Under public works, the labor to capital ratio was originally designed to be 80:20 to maintain strong labor intensity. However, in response to government requests, in the first public

⁶ Funds that have been disbursed from the IDA grant account but have not been documented yet are also included.

works round under the first AF the World Bank allowed a 60:40 ratio of labor to capital. As issues with accountability in the use of the capital funds were discovered, the higher capital ratio was suspended. Measures are being introduced for strict monitoring of capital expenses under public works.

Rationale for Additional Financing and Level 2 restructuring

28. This proposed emergency second AF has a dual rationale: (a) to provide much needed lifesaving support to the most vulnerable Malawians in a time of need and (b) to widen the beneficiary base and strengthen beneficiaries' resilience within a very short time frame, in preparation for possible additional shocks. As the first AF has only disbursed approximately 32 percent, funds from the first AF will provide quick pre-financing of some of the emergency needs until the proposed second AF is effective. The proposed second AF would then cover the gap by continuing to finance the MASAF IV development program as defined under the first AF and would stabilize the resilience levels in expectation of possible future shocks.

29. Social protection programs can play a fundamental role in protecting the poor from shocks and the effects of disasters and can be a key building block to safeguard the livelihoods of affected households. There is empirical evidence that the poor are less able to cope with crises than are the non-poor in the face of disasters. Social safety nets have been used across the world to protect the poor from the effects of disasters. When implemented and strengthened ex ante, they can build resilience to help the poor weather a shock; when implemented ex post, they can help the poor with recovery and restoration of their pre-shock livelihoods. Social protection programs in Malawi, including the PWP, SCTs, and savings and investment promotion have been proposed to be used to protect those affected by droughts, assist in their recovery efforts, and build their resilience to disasters. The proposed second AF for MASAF IV will continue the system-based approach, including ongoing targeting and financing of long-term programs that aim at building resilience. At the same time, the AF will add resources and will expand the number of beneficiaries to tackle the emergency drought situation.

30. According to the PDNA, the recovery strategy should include the provision of extended support to affected households through the expansion of the existing social safety nets. The PDNA report states that the following social protection interventions could be scaled up: (a) SCTs (under social protection); (b) public works cash-for-work programs (under social protection); and (c) public works—input-for-assets programs (under agriculture). While supporting affected families' recovery from the current drought, these interventions are expected to reduce the vulnerability of Malawians in the long term and strengthen their ability to withstand future shocks. The combined focus on immediate response in the form of SCT and PWP, as well as systems investments will facilitate and increase the efficiency of future emergency responses.

31. Under the proposed second AF, the SCTs would be scaled up by US\$45.3 million to increase the number of districts covered from 2 districts to 11 districts. Thus, the SCT program will reach full national coverage. The PWP, providing short-term employment in four cycles a year, will be scaled up with US\$15 million and offered to an additional 1,000,000 households in 2016 and 2017. Nearly US\$2 million will be added for livelihood and skills development. These additional funds would ensure program coverage, over a period of three years, until the end of 2019. While the PDNA only assesses the needs over a period of 18 months, the duration of the

proposed second AF goes beyond that period to fulfill not only the short-term humanitarian objective, but also the resilience and system-building objective of MASAF IV.

32. **The project development objective (PDO)** of the original project is to strengthen Malawi’s social safety net delivery systems and coordination across programs. With the proposed second AF, the PDO would be modified to better reflect expected project outcomes, which are not fully reflected in the current PDO formulation. The proposed revised PDO is “to improve resilience among poor households and to strengthen Malawi’s social safety net delivery systems and coordination across programs.” While the World Bank does not have a single adopted definition of ‘resilience’, for the purposes of this project and its development objective, resilience will be broadly understood as “the ability of a system, community, or society exposed to hazards to resist, absorb, accommodate to, and recover from the effects of a hazard in a timely and efficient manner, including through the preservation, restoration, and improvement of its essential basic structures and functions.”⁷ The resilience of a community with respect to potential hazards is determined by the degree to which the community and its members have the necessary resources and assets, and is capable of organizing itself both before and during times of need.

33. The revision of the PDO does not introduce any new elements in the second AF, but is a retrofitting of the PDO wording to already existing project elements. The proposed new wording better captures the extensive work already being done under the Productive Safety Nets component in building community strength and sustainable poverty alleviation. This element of the PDO is already reflected in the activities, as well as in the existing Results Framework. In addition, the new wording provides a reference point to the efforts of the emergency financing to support the vulnerable and improve their coping mechanisms in times of crisis. Some targets from the Results Framework will be adjusted to reflect the outputs from the additional funds. The list of indicators will remain the same, as they already provide measurement for the improvements to the resilience of the target households. A sub indicator on the number of beneficiaries for the emergency PWP will be added to the first outcome indicator ‘number of beneficiaries by gender’.

34. **The outcome indicators** will remain (a) number of beneficiaries by gender; (b) percentage of households with asset value above critical threshold; and (c) establishment of an integrated and functional national safety net delivery system. The Results Framework also includes a number of intermediate outcome indicators, which follow the improvements in resilience and are sufficient to provide an assessment of the resilience aspect of the PDO. The list of intermediate results indicators will remain the same and the targets will be revised to reflect the outputs from the additional funds.

35. The project design remains unchanged. The project has three main components:

- Component 1: Productive Safety Nets
- Component 2: Systems and Capacity Building
- Component 3: Project Management

⁷ This definition is based on the definition published by the United Nations Office for Disaster Risk Reduction (<https://www.unisdr.org/we/inform/terminology>).

Component 1: Productive Safety Nets (Original Credit and First AF US\$93.8 million; Second AF US\$62.3 million)

36. Component 1 has three subcomponents.

37. **Subcomponent 1.1: Productive Community-driven Public Works.** This subcomponent finances payments made to eligible beneficiaries in exchange for labor in community-driven public works. Community-driven productive public works create assets and provide temporary employment in the same communities for multiple years and they are designed to increase impact on household-level incomes and food security and reduce households' exposure to risks associated with climate change and other disasters.

38. **Subcomponent 1.2: Livelihoods and Skills Development.** This subcomponent finances grants to eligible households to invest in livelihoods and skills development. The grants increase household-level incomes and assets through savings and investments in livelihood opportunities through COMSIP groups. The grants promote investments that increase incomes and assets of households, reduce risks of food insecurity, and promote better nutrition and health. The subcomponent also finances training in nutrition, health, and income-generating enterprises. This work has been going on successfully in Malawi for some time, with non-World Bank financing, and the World Bank has joined the successful model with MASAF III.

39. **Subcomponent 1.3: Social Cash Transfers.** This subcomponent finances support to capacity building, technical assistance, and cash transfers targeted to the poorest and most vulnerable labor-constrained households. The program was piloted in Malawi in 2006 with the view of becoming a nationwide program. Since then it has increased its coverage to 18 districts, with donor financing, notably from the EU and KfW, and also with the GoM and Irish Aid covering one district each. The World Bank has joined this successful program through MASAF IV to cover two more districts.

Component 2: Systems and Capacity Building (Original Credit and First AF US\$5.0 million; Second AF US\$1.7 million)

40. This component supports investments in strengthening the unified registry, targeting and management information systems (MIS), capacity building, technical assistance, training, staff, and equipment, including for the safety net platform.

Component 3: Project Management (Original Project and First AF US\$9.0 million; Second AF US\$6.0 million)

41. Component 3 supports coordination and supervision of the project including additional capacity development, harmonization, and training and building linkages with all development practitioners in related areas.

Estimated Schedule of the Emergency Response

42. The immediate emergency response is envisaged for the period September 2016 to May 2017, which, for the purposes of this operation, will henceforth be called the 'critical period'. This immediate response aims at alleviating the effects of the droughts on the most vulnerable

population during the most difficult period of the year—the lean season. To quickly mobilize response activities, MASAF IV will begin the interventions by using available funds from the ongoing project (first AF) and will then transition to funds from the second AF. While the new regular MASAF IV targeting methodology uses the repeater beneficiaries approach to strengthen and graduate its beneficiaries out of poverty, an emergency targeting will be used for the second AF. This emergency targeting will use data from the PDNA and FIRP and should not be understood as a separate system of targeting, but rather, as an extension of the regular social assistance targeting in times of crisis. The emergency targeting has different dimensions in the PWP and in the SCTs program. In the PWP, the emergency targeting will use community-based targeting to expand the PWP to additional people, who will be included in additional one-time public works rounds. In the context of the SCTs, the emergency targeting would mean the urgent inclusion and expansion of the SCT program to nine new districts. The target group in these districts would be determined in the same way as in the other SCT-participating districts. However, the proposed second AF, with project restructuring, would allow these nine new districts to be included in the program immediately. If it were not for this second AF, these nine districts would not have had clear prospects for joining the program in the short to medium term. Their urgent inclusion would allow for an additional 566,000 most vulnerable people from labor-constrained households to receive lifesaving support.

Box 1. The MASAF IV Targeting Explained

The MASAF IV targeting has a number of steps, and the community-based processes are an inherent part of it. The targeting comprises all the operations required to identify households and determine eligibility, including planning, training, data collection, entry and analysis, and enrolment. The whole targeting process will take around three months and retargeting will normally be done every two to three years. The steps in the targeting process are the following:

- Sensitizations of stakeholders (at the district level)
- Preparation of the logistic plan
- First community meeting
- Training process
- Data collection and quality check
- Data entry and ranking
- Second community meeting
- Data entry (appeals) and re-Ranking
- Final approval of ranked households
- Third community meeting

43. The critical period interventions will include:

(a) **Four rounds of emergency public works (non-repeater beneficiaries)** in all affected districts listed by the PDNA conducted on the basis of the emergency targeting:

- (i) Round 1. August/September 2016 (completed), US\$4.00 million, 225,000 beneficiary households (1,240,000 beneficiaries);

- (ii) Round 2. November/December 2016, US\$4.00 million, 225,000 beneficiary households (1,240,000 beneficiaries);
 - (iii) Round 3. February/March 2017, US\$4.00 million, 225,000 beneficiary households (1,240,000 beneficiaries);
 - (iv) Round 4. April/May 2017, US\$4.00 million, 225,000 beneficiary households (1,240,000 beneficiaries).
- (b) **Two bimonthly rounds of emergency SCTs in nine new districts**, previously not included in the SCT program:
- (i) Round 1. Payment in January 2017, US\$2.00 million, 103,000 households (566,500 beneficiaries). However, some transfers are expected to start earlier as soon as targeting is completed;
 - (ii) Round 2. Payment in March 2017, US\$2.00 million, 103,000 households (566,500 beneficiaries);
 - (iii) Round 3. Payment in May 2017, US\$2.00 million, 103,000 households (566,500 beneficiaries).
- (c) **Ongoing PWP and SCT interventions:**
- (i) Three rounds for PWP (August/November/February), each for 450,000 repeater beneficiary households (2,475,000 beneficiaries), US\$24 million total;
 - (ii) Five payment rounds (August/October/December/February/April) for 21,500 SCT beneficiary households (118,250 beneficiaries) in Dedza and Nkhata Bay, at US\$2 million.

III. Proposed Changes and Appraisal Summary

Summary of Proposed Changes	
<p>The proposed second AF would scale up project activities to respond to emergency needs caused by a natural disaster situation. The PDO would be modified to “to improve resilience among poor households and to strengthen Malawi’s social safety net delivery systems and coordination across programs.” The original PDO is “to strengthen Malawi’s social safety net delivery systems and coordination across programs.”</p> <p>The project components and activities would remain the same as described in the project appraisal document (PAD) for the original project, but would be expanded to include all districts participating in the Project (including original 2 and 9 new districts under the social cash transfers program), irrespective of the sources of financing. This will facilitate utilization of the undisbursed amounts from the first AF for emergency response measures envisaged under the Second AF, while also preserving the original project scope. The Results Framework is modified to update the targets for some PDO and intermediate results indicators.</p>	
Change in Implementing Agency	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Project's Development Objectives	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]

Change in Results Framework	Yes [X] No []
Change in Safeguard Policies Triggered	Yes [] No [X]
Change of EA category	Yes [] No [X]
Other Changes to Safeguards	Yes [] No [X]
Change in Legal Covenants	Yes [X] No []
Change in Loan Closing Date(s)	Yes [X] No []
Cancellations Proposed	Yes [] No [X]
Change in Disbursement Arrangements	Yes [] No [X]
Reallocation between Disbursement Categories	Yes [] No [X]
Change in Disbursement Estimates	Yes [X] No []
Change to Components and Cost	Yes [X] No []
Change in Institutional Arrangements	Yes [] No [X]
Change in Financial Management	Yes [] No [X]
Change in Procurement	Yes [] No [X]
Change in Implementation Schedule	Yes [X] No []
Other Change(s)	Yes [] No [X]
Development Objective/Results	
Project's Development Objectives	
Original PDO	
<p>The PDO of the original project is to strengthen Malawi's social safety net delivery systems and coordination across programs.</p> <p>The proposed revised PDO is "to improve resilience among poor households and to strengthen Malawi's social safety net delivery systems and coordination across programs." The revised wording of the PDO better captures the extensive work being done under the Productive Safety Nets component and also provides a reference point to the efforts of the emergency financing to support the vulnerable and improve their coping mechanisms in times of crisis.</p>	

Change in Results Framework

Although the PDO is modified, the main Results Framework (list of indicators) will not be changed, as it already reflects measurements for resilience. A sub indicator on the number of beneficiaries for the emergency PWP will be added to the first outcome indicator 'Number of beneficiaries'.

Some results (targets) are adjusted to reflect the changed implementation timing and available data.

Compliance**Covenants - Additional Financing (Second AF for Strengthening Safety Nets Systems Project MASAF IV - P160519)**

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
IDAT	Cash Transfers	The Recipient shall engage an independent expert to verify the list of Social Cash Transfer Beneficiaries for the purpose of Part A.3 (a) of the Project, in accordance with the provisions of Section III of Schedule 2 of the FA.	31-May-2017			New
IDAT	Cash Transfers	The Recipient shall submit to the Association a technical audit report satisfactory to the Association in accordance with the provisions of Section II.B.4 of Schedule 2 of the FA relating to the Social Cash Transfers made for the period following the Effective Date of the Project, and thereafter, submit to the Association not later than June 30 in each fiscal year, a technical audit report relating to the Social Cash Transfers made in the said fiscal year.	30-June-2017			New

Covenants - Parent (Strengthening Safety Nets Systems - MASAF IV - P133620 and P148617)

Ln/Cr/TF	Finance Agreement Reference	Description of Covenants	Date Due	Status	Recurrent	Frequency	Action
		The recipient shall not later than November 30, 2015, engage an independent expert to verify the list of SCT beneficiaries for the purpose of part A.3 (a) of the project in accordance with the provisions of Section III of this schedule, whose terms of reference, qualifications and experience, and terms and conditions of employment shall be satisfactory to the Association.	30-Nov-2015	Complied with			Added with first AF
		The recipient shall not later than June 30, 2016, submit to the Association a technical audit report satisfactory to the Association relating to the SCTs made for the period following the effective date of the project, and thereafter, submit to the Association not later than June 30 in each year, a technical audit report relating to the SCTs made in the said year.		Complied with	<input checked="" type="checkbox"/>		Added with first AF
IDA-53430	Project Steering Committee	Schedule 2 A. 1. (b). The Project Steering Committee shall meet at least semiannually and shall be responsible for project oversight, including among others: (a) reviewing the		Complied with	<input checked="" type="checkbox"/>	Continuous	

		proposed annual work plans and budgets for the project; (b) providing overall project oversight, guidance, coordination, and harmonization with the recipient's relevant policies; and (b) identifying necessary project adjustment					
IDA-53430	Annual Work Plans	Schedule 2 D 1. Not later than May 31 in each calendar year (or one month after the effective date for the first year of project implementation), the recipient shall prepare or cause to be prepared for the purpose of forwarding to the Association a draft annual work plan and budget for the project (including training and operating costs) for the subsequent calendar year of project implementation			<input checked="" type="checkbox"/>	Yearly	
IDA-53430	Cash Transfers	The recipient shall engage an independent expert to verify the list of cash transfer beneficiaries of the project.	30-Nov-2015	Complied with	<input type="checkbox"/>		Revised at first AF
IDA-53430	Cash Transfers	The recipient shall not later than June 30, 2016, submit to the Association a technical audit report satisfactory to the Association relating to the SCTs made for the period following the effective date of the project, and thereafter, submit to the Association not later than June 30 in each year, a technical audit report relating to the			<input checked="" type="checkbox"/>		Revised at first AF

		SCT made in the said year.					
IDA-53430	Project Monitoring, Reporting and Evaluation	Schedule 2 II A. 1 The recipient shall monitor and evaluate the progress of the project and prepare project reports in accordance with the provisions of Section 4.08 of the general conditions and on the basis of the indicators acceptable to the Association. Each project report shall cover the period of six calendar months, and shall be furnished to the Association not later than forty-five days		Complied with	<input checked="" type="checkbox"/>	Continuous	
IDA-53430	Project Monitoring, Reporting and Evaluation	Schedule 2. Section II B 2. Without limitation on the provisions of Part A of this section, the recipient shall prepare and furnish(or cause to be prepared and furnished) to the Association not later than forty-five days after the end of each calendar quarter, interim unaudited financial reports for the project covering the quarter, in form and substance satisfactory to the Association.		Complied with	<input checked="" type="checkbox"/>	Quarterly	
IDA-53430	Project Monitoring, Reporting and Evaluation	Schedule 2. Section II B 3. The recipient shall have its financial statements audited in accordance with the provisions of Section 4.09 (b) of the general conditions. Each audit of the financial statements shall cover the period of one fiscal year of the		Complied with	<input checked="" type="checkbox"/>	Yearly	

		recipient. The audited financial statements for each such period shall be furnished to the Association not later than six months after the end of the year					
IDA-53430	Project Monitoring, Reporting and Evaluation	Schedule 2. Section II B 4. The recipient shall have a technical audit of the delivery of funds for each cash transfer installment under Part A.3(a) of the project carried out by auditors acceptable to the Association and according to terms and reference satisfactory to the Association as set forth in the Project Implementation Manual (PIM).	Complied with	<input checked="" type="checkbox"/>	Yearly		

Conditions

Source Of Fund	Name	Type
IDAT	Withdrawal conditions	Disbursement

Description of Condition

Notwithstanding the provisions of Part A of this section, no withdrawal shall be made: for payment made prior to the date of this Agreement

Source Of Fund	Name	Type
IDAT	Withdrawal conditions	Disbursement

Description of Condition

Notwithstanding the provisions of Part A of this section, no withdrawal shall be made: for payments made under Category (1), unless the Recipient has exhausted the funds and allocated in Category (1) of Section IV.A.2 of Schedule 2 to the Additional Financing Agreement;

Source Of Fund	Name	Type
IDAT	Withdrawal conditions	Disbursement

Description of Condition

Notwithstanding the provisions of Part A of this section, no withdrawal shall be made: for payments made under Category (2), unless the Recipient has exhausted the funds and allocated in Category (2) of Section IV.A.2 of Schedule 2 to the Additional Financing Agreement;

Source Of Fund	Name	Type								
IDAT	Withdrawal conditions	Disbursement								
Description of Condition										
Notwithstanding the provisions of Part A of this section, no withdrawal shall be made: for payments made under Category (3), unless the Recipient has exhausted the funds allocated in Category (3) of Section IV.A.2 of Schedule 2 to the Additional Financing Agreement;										
Source Of Fund	Name	Type								
IDAT	Withdrawal conditions	Disbursement								
Description of Condition										
Notwithstanding the provisions of Part A of this section, no withdrawal shall be made: for payments made under Category (4), unless the Recipient has exhausted the funds allocated in Category (4) of Section IV.A.2 of Schedule 2 to the Additional Financing Agreement.										
Risk										
Risk Category		Rating (H, S, M, L)								
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		Moderate								
8. Stakeholders		Substantial								
9. Climate Change and Disaster		Moderate								
OVERALL		Substantial								
Finance										
Credit Closing Date - Second AF for Strengthening Safety Nets Systems Project MASAF IV (P160519)										
Source of Funds	Proposed Additional Financing Loan Closing Date									
IDA recommitted as a Credit	31-Dec-2019									
IDA Grant	31-Dec-2019									
Change in Disbursement Estimates (including all sources of Financing)										
Explanation:										
The proposed second AF will also extend the project until December 31, 2019.										
Expected Disbursements (in US\$, Million)(including all Sources of Financing)										
Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Annual	0.00	0.00	32.43	18.73	18.84	0.00	0.00	0.00	0.00	0.00

Cumulative	0.00	0.00	32.43	51.16	70.00	0.00	0.00	0.00	0.00	0.00
Allocations - Second AF for Strengthening Safety Nets Systems Project MASAF IV (P160519)										
Source of Fund	Currency	Category of Expenditure	Allocation		Disbursement % (Type Total)					
			Proposed		Proposed					
IDA	USD		22.32		100.00					
		Total:	22.32							
IDAT	USD		47.68		100.00					
		Total:	47.68							
Components										
Change to Components and Cost										
Explanation:										
Components description and substance do not change. The new component costs are described below, and include the final total costs from the original and the AFs.										
Current Component Name	Proposed Component Name		Current Cost (US\$, millions)	Proposed Cost (US\$, millions)	Action					
Productive Safety Nets	Productive Safety Nets		93.80	156.06	Revised					
Systems and Capacity Building	Systems and Capacity Building		5.00	6.70	Revised					
Project Management	Project Management		9.00	15.04	Revised					
	Total:		107.80	177.80						
Other Change(s)										
Implementing Agency Name			Type		Action					
Local Development Fund - Technical Support Team			Implementing Agency		No Change					
Change in Financial Management										
Explanation:										
Change in Implementation Schedule										
Explanation: The project would be extended until December 31, 2019, to ensure resilience of the response. All the three project components would receive funding from the proposed second AF to complete their activities. The original credit and the first AF, however, would be fully disbursed by the original closing date and will not be extended.										

IV. Appraisal Summary

Economic and Financial Analysis

Explanation:

The original project appraisal conducted an extensive economic analysis, reflected in annex 8 of the PAD for MASAF IV (Report No: 82617-MW, November 20, 2013, Project Appraisal Document on Strengthening Safety Nets Systems Project - Fourth Malawi Social Action Fund). The appraisal of the second AF largely confirmed the conclusion of that analysis. The resources spent by the GoM on safety nets in recent years are far less than what would be needed to effectively reduce extreme poverty and vulnerability. The GoM's annual budget for social protection programs was US\$53.2 million in 2014–2015. This spending accounted for only 2.9 percent of total government expenditure and represented approximately 0.8 percent of GDP. The introduction of the productive community-driven PWP and SCTs aims to have an impact on extreme poverty.

Ultra-poverty is estimated at 28.1 percent in rural Malawi, which roughly represents 815,000 households (approximately 4.5 million people). If the program were to have perfect targeting of the poorest beneficiaries, reductions in poverty would average 8.6 percentage points (about 230,000 households getting out of extreme poverty). The effects would be variable across districts, ranging from 2.5 percentage points to 17.6 percentage points. The poverty gap (depth), which shows how far below the poverty line households are on average, that is, average of the ratio of the ultra-poverty gap to the ultra-poverty line, (currently at 7.9 percent) would fall dramatically by 4.4 percentage points. Consistent with these results, overall inequality would be expected to fall. These results suggest that, even though perfect targeting is never attained, this program has an important potential to reduce extreme poverty in rural Malawi.

Malawi's economy is largely agrarian, with the agricultural sector contributing about 30 percent to GDP, making Malawi's economy particularly vulnerable to climate shocks. While Malawi was on a strong growth path in 2013 and 2014, the consecutive disasters in 2015 and 2016 substantially affected the economy. Annual average inflation rates have hovered above 20 percent in recent years, reaching a peak of 27.3 percent in 2013. The country's fiscal position has deteriorated registering a fiscal deficit of 5.8 percent of GDP in 2014–2015. This has been driven by a rise in the domestic debt stock with reduced financing from development partners compounded by high interest rates.

The 2014–2015 rainfall season was characterized by a late onset of rains and disastrous floods followed by dry spells, leading to a significant decline in agricultural output and a subsequent drop in annual GDP growth. Agricultural output contracted by 3.9 percent while the production of maize in particular, the country's staple food, declined by an average of 30 percent compared to 2014. Malawi is experiencing a second consecutive year of disasters, which has lowered growth prospects and worsened the food security situation, resulting in losses associated with GDP of MWK 206,666 million (US\$295.2 million), which is equal to 5.6 percent of GDP. By far, agriculture has been the hardest hit sector experiencing the largest economic cost because of a significant loss in crop production. Crop and animal production loss is estimated at 10.0 percent, which is equivalent to MWK 183,275 billion (US\$261.8 million), with maize as the most affected crop registering 73.2 percent of total crop production losses.

Natural disasters typically affect the poor more than the non-poor. There is empirical evidence that the poor are less able to cope with crisis than are the non-poor in the face of disasters. Social safety nets (social assistance programs) are one type of program that has been used across the globe to protect the poor from the effects of disasters. These are particularly implemented ex post, that is, after the disaster has already struck. Social protection refers to noncontributory transfers (in cash or kind), targeted at the poor and vulnerable to catch those falling toward economic destitution or at the permanently poor above a minimum income level.

SCTs (direct assistance in the form of cash to the poor) and PWP (provision of unskilled manual workers with short-term employment on projects such as feeder road construction and maintenance, irrigation infrastructure,

reforestation, and soil conservation) have been widely used in many parts of the world to offer protection to the poor and vulnerable population who have been affected by disasters.

After natural disasters, PWPs can provide a number of benefits. First, they provide direct income transfers to affected households, which can allow households meet consumption shortfalls and other immediate needs. The labor-intensive nature of workfare programs also provides employment relief that can be used to create and restore infrastructure in the affected areas hit by a natural disaster. In addition, their relative administrative simplicity makes them easy to be adapted in various other existing delivery mechanisms such as being implemented under social protection arrangements. That implies that resources can be quickly mobilized.

The SCTs program has an impact on extreme poverty. Assuming that the program achieves perfect targeting of the most vulnerable of the poorest beneficiaries, reductions in ultra-poverty would average 12.4 percentage points. This underscores the gains that can be achieved by improving the targeting effectiveness in the program. A recent evaluation of the SCT program impact in two other districts (Salima and Mangochi) showed significant effects of the program on poverty and consumption levels. The program has impacts on individual poverty figures including headcount, poverty gap, and squared poverty gap. Individuals are poor if their household per capita consumption is lower than the poverty line. The ultra-poor are identified as those households whose per capita consumption is lower than the food poverty line. The SCT program has had a strong impact on all three indicators of poverty. For example, recipient households, and therefore, individuals in these households, are 15 percent less likely to be living below the ultra-poverty line. The poverty gap represents the average consumption shortfall relative to the poverty line and the squared poverty gap measures the severity of poverty by giving more weightage to individuals farther away from the line. The program has significant impacts on the ultra-poor poverty gap, by 13 percent and on the ultra-poor squared poverty by 11 percent, indicating that the program is reaching the very poorest.

Livelihoods and skills development, through COMSIP groups, has a high potential to boost the effects of the safety nets program. Evidence from MASAF III suggests sizable benefits with per capita savings among poor people averaging US\$21.55. Evidence further shows that 79 percent of COMSIP group members reported to have generated income above 50 percent of the initial wages received from PWP. The assessments of savings and investment activities also found evidence of profits and asset accumulation such as livestock, low cost houses, and farm implements. Accounting for further improvements under MASAF IV, it is expected that this component constitutes a strong complement to the effects anticipated with the PWP and SCT programs. Graduation of participants in those programs will be more likely with a successful intervention in the COMSIP front, which will therefore help ensure long-term sustainability of the safety nets systems.

Technical Analysis

Explanation:

The task team expects no major differences from the technical analysis carried out at appraisal of the ongoing MASAF IV, including the first AF. The proposed second AF would primarily scale up the SCT program to cover nine additional districts. In addition, it would scale up the productive public works (PWP) to provide additional funding to meet emergency transitory needs of the population affected by the drought. Finally, it would also scale up COMSIP livelihood support activities in affected areas.

SCTs would continue to be targeted to the labor-constrained households and would use the Proxy Means Targeting and community verification, which has been developed in the two districts already covered by the program under the project. Currently, the SCT program is implemented in 18 out of 28 rural districts in Malawi and covers 170,000 households, or nearly 1 million people, out of which two districts (Dedza and Nkhata Bay) with 21,500 household beneficiaries are already funded under the World Bank-financed project, while the remaining 16 districts are funded by other donors and the GoM. Irish Aid will provide funding for one more district by the end of the year. The proposed emergency second AF would scale up the SCT program to the remaining nine districts that are currently not covered by the program: Lilongwe, Dowa, Kasungu, Rumphi, Nkhotakota, Ntchisi, Blantyre, Chiradzulu, and Karonga. It is estimated that approximately 103,000 households

(about 560,000 persons) will benefit from the program in those districts. Full national coverage with the program would be achieved once the implementation of the proposed second AF starts. The proposed second AF would also provide continuous funding for SCTs in Dedza and Nkhata Bay districts for 18 months after the first AF closes in June 2018. The proposed second AF would also continue supporting the overall improvement of social safety net delivery systems: targeting, registry, MIS, and payment system, already supported under the first AF.

Productive community-driven public works would continue to follow criteria and principles which select labor-intensive works focused on increasing the livelihood and resilience opportunities of households and communities. Using emergency targeting based on PDNA districts and FIRP data on population at risk, additional one-time groups of beneficiaries would be added to PWP rounds. As part of the emergency response, four rounds of public works, each covering 24 days, would be provided, based on the vulnerability and emergency needs outlined in the PDNA. These rounds would target a different group of beneficiaries from the regular repeater beneficiaries under the MASAF IV PWP approach (to treat temporarily affected or people in need but who are not treated because of the lack of funds). The emergency rounds and the regular rounds would be coordinated as much as possible with regard to timing of implementation. The emergency rounds would be utilizing the same administration mechanisms for the program that is currently used by the LDF and the districts. To address the emergency nature of the needs, the currently effective project financing (from the first AF) would be used to pre-finance two rounds of emergency public works planned for the second AF. After the second AF becomes effective, it would fund respective rounds of regular MASAF IV to compensate for the emergency rounds pre-financed by the original financing.

Communities' priorities would continue to be used for the selection of subprojects for the second AF. A menu of subprojects may include those related to water supply and irrigation, storage facilities for maize and other grains, maize mills, oil mills, afforestation, nurseries for seedling cultivation, soil and water conservation through check dams for gully transformation, solar stoves, fishponds, and so on.

The livelihood and skills development activity would continue to provide support to the COMSIP Cooperative Union, which is the implementing agency for the savings and investment activities. COMSIP would continue financing investment grants for savings groups and for their skills development. Specific interventions to be supported through the proposed AF would be focused on strengthening existing COMSIP groups and forming new ones especially in the new districts to which the SCT program is expanding. The support will include skills training and linking vulnerable households with livelihood services and help them to cope with the impact of drought and improve their resilience to shocks. The support through the proposed second AF would also strengthen the capacity of implementing institutions to effectively deliver livelihood activities.

Project Implementation Manual (PIM). The PIM detailing the technical, operational, and management aspects of the program for each project component has been developed, discussed with project stakeholders, and approved by the World Bank. The PIM was updated for the purposes of the first AF and would be again updated for the purposes of the proposed second AF, reviewed by the World Bank, and approved before effectiveness.

The unified national registry, targeting, MIS, and M&E systems for MASAF IV would continue to be supported under the proposed second AF to improve and consolidate targeting and payments for cash transfers for public works, SCTs, and other safety nets programs. The system would create a unified registry for public works beneficiaries and SCTs. A combination of safety net delivery instruments such as the development of a unified national registry system, targeting system, MIS, and M&E systems would continue to be supported.

The proposed second AF would use the same implementation arrangements that had already been set up for the parent project. The LDF-TST will continue to play the overall management, coordination, and technical support function of the project. The LDF will also further strengthen coordination and collaboration with the Ministry of Gender, Children, Disability and Social Welfare (MGCDSW) and other partners supporting the implementation of SCT. When analyzing past and ongoing implementation support, it was concluded that coordination among stakeholders could be further developed in more detail and set in some formal arrangement.

Therefore, a Memorandum of Understanding will be developed to formalize the coordination among different stakeholders involved.

As the proposed second AF constitutes a response to the transitory shock that affected the existing project beneficiaries as well as additional vulnerable population, the LDF will also coordinate the support with other humanitarian response activities.

The LDF will recruit and assign one staff member per district to coordinate and effectively monitor the implementation of the project component in conjunction with local government technical sector staff.

Currently, the Government is considering a possible institutional restructuring to merge the LDF with the National Local Government Finance Committee (NLGFC). The objective of merger is to institutionalize the LDF into a permanent government structure in the medium to long term and synergize its function with the functions currently exercised by the NLGFC. The Government confirmed that the proposed process for the restructuring of the LDF will not disrupt the MASAF IV project operation and the project management function of the LDF would be further strengthened.

Social Analysis

Explanation:

Social Analysis

The proposed second AF for MASAF IV would utilize safeguards instruments developed and disclosed during the first AF, and under which two social safeguard policies were triggered: Physical Cultural Resources (OP 4.11) and Involuntary Resettlement (OP 4.12). A Resettlement Policy Framework was prepared covering involuntary resettlement and was disclosed on February 17, 2015. The proposed second AF for MASAF IV fully integrates social safeguards considerations into its design.

Appropriate management of social risks in the SCT, construction of productive community-driven public works, livelihood and skills development, and capacity building subprojects will be incorporated into Environmental and Social Management Plans (ESMPs) and Resettlement Action Plans. Communities will actively take part in the selection and implementation of the subprojects themselves.

The responsibility for safeguards implementation was transferred to the district level during MASAF III. However, issues of capacity at the district level to include safeguards as part of regular planning and implementation processes arose. In response, the LDF-TST allocated funds for overall support to safeguards implementation and monitoring, and this resulted in improved Environmental and Social Management Framework (ESMF) and ESMP screening and implementation under the oversight from the Ministry of Environmental Affairs and Climate Change, which is now undertaking quarterly monitoring missions.

COMSIP has also made significant progress, including the recruitment of a safeguards specialist, to develop and ensure implementation of ESMPs. While staff turnover is a challenge, there have been developments within the GoM's structure that have the potential to strengthen environmental and social safeguards implementation during the project cycle.

Staff shortage at the district level remains an issue but there are ongoing efforts to strengthen staffing at this level and training has also been revised and improved over time, based on the 2012 Environmental and Social Audit Report, which recommended continued and increased emphasis on the activity.

Citizen engagement (CE) activities have to go beyond communications and stakeholder consultations, requiring a two-way interaction process that increases greater citizen voice and participation throughout the project cycle and holds Government agencies accountable. Public consultations, including gender and vulnerable groups focus group discussions, and social surveys were conducted as part of project preparation - notably during the Post Disaster Need Assessment carried out in June 2016. These activities sought feedback on Component I in particular and informed the design, implementation and monitoring and evaluation of the project. Moreover, the

project incorporated CE methodologies including an overall grievance redress mechanism and provisions for project-affected people to collaborate and participate in sub-project activities design and selection. Feedback from project-affected persons can be submitted via multiple tools (telephone, written letters and in person) to respective District Commissioner Offices. The LDF Social Specialist will be responsible for compiling feedbacks and routing them through the proper channels for consideration. Special attention will be paid to the inclusion of women, youth and the elderly in order to ensure adequate voice and representation. Additionally, a satisfaction survey will be carried out during project reviews to assess effectiveness of the mechanism and GRM, and a final survey will be carried out among project's beneficiaries.

Environmental Analysis

Explanation:

Under MASAF IV, three environment-related World Bank operational policies were triggered, including: Environmental Assessment (OP 4.01), Pest Management (OP 4.09), and Forest Management (OP 4.36). An ESMF, incorporating social safeguards 4.11 (Physical Cultural Resources) and 4.12 (Involuntary Resettlement), and Pest Management Plan (PMP) were prepared covering those operational policies. The ESMF, PMP, and Resettlement Policy Framework were first publically disclosed in October 2013. The same policies were applied for the first AF and an updated ESMF was prepared and disclosed on February 17, 2015.

The environmental analysis for the proposed second AF for MASAF IV follows the general directions of MASAF IV and the first AF for MASAF IV, and the lessons of experience from the predecessor programs. The safeguards that were triggered under the parent program and AF1 continue to be applicable to the proposed second AF. As safeguards implementation arrangements remain unchanged, the ESMF (including its ESMP) prepared for the first AF will continue to remain in force. Capacity development at the district level, which is of significant importance for successful environmental management under the program, will continue to be supported and strengthened with increased budget allocations. An exercise to review and assess the COMSIP PMP, developed under the project, was conducted in April 2016. It concluded that the plan is still able to govern the use of chemicals and pesticides under the stated component in COMSIP.

Training of dedicated staff will be strengthened to increase awareness and environmental sensitivity among stakeholders. LDF's staff will continue to oversee and monitor all safeguards-related activities at corporate, district, and community levels, under the overall support of the Ministry of Environmental Affairs and Climate Change, which currently undertakes quarterly monitoring missions to assess the quality and effectiveness of ESMPs. In the oversight of environmental issues in its livelihood activities, COMSIP relies on its enterprise projects toolkit as a screening toolkit. With its increased responsibilities, COMSIP's staffing needs will be addressed to improve its environmental and social oversight activities.

The subprojects under the proposed second AF will be similar in nature and scope to the parent project. They will generate impacts that are site-specific, minimal to moderate in significance, and mostly reversible with proper mitigation measures. Lessons learned from past and ongoing projects will be applied to improve environmental performance. The ESMF for the first AF for MASAF IV contains adequate guidelines and procedures for assessing the environmental impacts and provides guidance on how to reduce, mitigate, or offset adverse impacts, while enhancing positive ones. The ESMF for the first AF for MASAF IV, therefore, remains valid for the proposed second AF, and does not need further updating or redisclosure.

Risk

Explanation:

The overall risk rating for the operation is Substantial (see annex 2). Some of the more important elements of risk are briefly discussed below.

Political and governance (Substantial). The persistence of entrenched political interests may impede the passage or implementation of the Government's bolder governance and Public Financial Management/Public Sector Reforms, as has happened many times in Malawi's history. The World Bank Group is heavily invested in macro, fiscal and governance reform and is attentive to the political realities of reform—but it would be unwise to underestimate the resilience of vested interests and the risks inherent in reforms that necessarily cut against those with influence. This risk can be mitigated to some extent by building broad public support for policy reforms—as public pressure to restore the credibility of government institutions is high, and there is much greater public scrutiny of government performance after 'cashgate'. With regard to specific issues related to the project, appropriate anticorruption instruments are in effect (for example, Code of Conduct, Internal Procurement Committees, and Integrity Committees) but implementation/enforcement is weak because of the lack of enforcement of rules. This risk is managed by annual audits of the project accounts. Appropriate follow-up action on audit issues is instituted regularly. Monitoring of the use of project resources includes the NLGFC. Malawi also has an Anticorruption Bureau which investigates and prosecutes corrupt practices in government institutions and other stakeholders.

Macroeconomic (Substantial). Maintaining macroeconomic stability is also a major source of risk, and is exacerbated by external shocks and climate-induced natural disasters. Although encouraging steps have been taken toward restoring macroeconomic balance, the path ahead will continue to be difficult, especially given continued food security challenges and a weakening external environment. The Government's ability to contain public spending and increase domestic revenues is unproven, and a restoration of full donor budget support is dependent on visible gains in improving the control environment. Similarly, with its reliance on a few primary exports and a relatively undiversified economy, Malawi remains vulnerable to external demand and price shocks as well as to weather-related disasters, as demonstrated by the floods and drought of 2015–2016. The demonstrated volatility of aid flows in a heavily aid-dependent country also features heavily in this equation. With further external shocks and a continued lack of budget support, it will be hard for the Government to manage the fiscal gap and maintain macroeconomic stability; service delivery will also deteriorate further, and counterpart government support for important new projects will be very hard to mobilize. These risks are partially mitigated by continued close policy dialogue on macroeconomic and fiscal management issues, including through the Malawi Economic Monitor series, as well as continued investment in disaster risk management and resilience. The World Bank Group's longer-impact efforts to improve physical and social resilience form a prominent part of the current Country Assistance Strategy, and additional risk mitigation measures will need to be explored jointly by donors and Government, including against the volatility of aid flows.

Institutional (Substantial). A possible restructuring of the implementing agency, LDF-TST, is being considered by the Government. While this restructuring can be seen as positive development in the long term, unless the transition is carefully managed, it may have implications on the effective implementation of the existing program and on the proposed expansion through this AF support. The Government confirmed that the proposed process for the restructuring of LDF will not disrupt the MASAF project operation and the project management function of LDF will be further strengthened.

Fiduciary (Substantial). In 2013, large-scale fraud was found to have been committed through collusion by government staff and potentially others, and by tampering with the Integrated Financial Management Information Systems (IFMIS). The incident was fully described in the original PAD. The new Government that came to office in May 2014 followed up on the case and a credible set of immediate and medium-term actions to strengthen the fiduciary and financial management systems in Malawi were introduced, in coordination with development partners. The Government is at an advanced stage of replacing the existing IFMIS and also addressing the overall control environment of the government system. Still, the case confirmed the known control weaknesses in and around IFMIS at the national level.

An agreement has been reached with the GoM to deploy additional technical and functional resources as well as to enhance information system security. Support is being provided under the Financial Reporting and Oversight Improvement Project and implementation of agreed actions will be monitored by the World Bank team. The

MASAF IV Project is not affected by the national-level IFMIS. Local councils use a different IFMIS platform called Serengeti Navigator. A consultant is being recruited, with funding from the EU, to check the security of the local council IFMIS and ensure measures are taken to address identified weaknesses. However, most of the local councils do not use this IFMIS to process MASAF transactions and produce reports: instead, they use Excel spreadsheets. The LDF has been requested to work with the NLGFC to ensure that all local councils start using this IFMIS to process transactions and produce reports. This will ensure timely production of reports required for disbursement and project monitoring. The World Bank will continue to play an active role in ensuring that the overall fiduciary environment is strengthened in Malawi and that risks are highlighted and discussed with the authorities on an ongoing basis.

Stakeholders (Substantial). MASAF is the largest safety nets program in the country and has been in place for almost two decades. The MASAF IV approach of system building needs to be ring-fenced within the LDF-TST, to focus entirely on the social protection program. This may face resistance by stakeholders at the national level. Secondly, MASAF is one of the World Bank-funded projects that is very popular among communities. It is possible that the project could be politicized.

To mitigate this risk, extensive consultations throughout the preparation process have been carried out with all stakeholders. These consultations express the need to refocus MASAF IV that has been outlined in the original PAD and continue throughout implementation. In addition, enhanced social accountability measures are in place through the use of community scorecards, putting financial management and resource utilization in the public domain; a grievance mechanism and a system of responses is also in place and the project is using a community targeting mechanism.

Other Risks - Climate Change and Disaster (Moderate). The project was screened for short- and long-term climate change and disaster risk. Elements of responsiveness were built into the operational level implementation mechanisms. The existing AF is already utilizing those elements, including scalability and institutional capacity building.

V. World Bank Grievance Redress

44. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Malawi Fourth Social Action Fund (MASAF IV: Strengthening Safety Nets Systems) (P160519)

Project Development Objectives

Original Project Development Objective - Parent:

The Project Development Objective of the project is to strengthen Malawi's social safety net delivery systems and coordination across programs.

Revised Project Development Objectives

The Project Development Objective is to improve resilience among poor households and to strengthen Malawi's social safety net delivery systems and coordination across programs.

Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Number of direct beneficiaries of PWP - regular beneficiaries	<input type="checkbox"/>	Text	Value	0	985,635 (53% female)	985,635 (of which 50% female)
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			Indicator was incorrectly entered in the Bank's system as a breakdown indicator
Marked for Deletion	Beneficiaries of Safety Nets Programs - (Unconditional)	<input type="checkbox"/>	Text Sub Type	Value	0	21,568	21,000
				Date	18-Oct-2013	15-Mar-2016	30-Jun-2018

	Social Cash Transfers (number) (Number, Core Breakdown)		Breakdown	Comment	Indicator incorrectly entered as a sub-indicator		
New	Number of direct beneficiaries of PWP - emergency response	<input type="checkbox"/>	Number	Value	0.00	0.00	902000.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
New	Number of direct beneficiaries of Social Cash Transfers (SCT)	<input type="checkbox"/>	Number	Value	0.00	21000.00	123711.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Percentage of households with asset value above critical threshold	<input type="checkbox"/>	Text	Value	33% livelihood and skills development, 25% PWP, 4.9% SCT	33% livelihood and skills development, 25% PWP, 4.9% SCT	no set target
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment		Assessment is under way, results are due by end- 2016	
Revised	Establishment of an integrated and functional national safety net delivery systems	<input type="checkbox"/>	Text	Value	0	2	35
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment		2 districts with integrated and functional safety net delivery system	35 districts with integrated and functional safety net delivery system

Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	Percentage of households having at least three meals per day	<input type="checkbox"/>	Number	Value	21.20		70.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment		Assessment is under way, results are due by end-2016	
Revised	Percentage of households reporting that asset depletion is prevented as a result of transfers (SCT, PWP)	<input type="checkbox"/>	Number	Value	0.00		40.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment		Assessment is under way, results are due by end-2016	
Marked for Deletion	% of beneficiaries that feel project investments/ PWP investments reflected their needs (Percentage, Core)	<input type="checkbox"/>	Number Sub Type Breakdown	Value	0.00		80.00
				Date	18-Oct-2013	15-Mar-2016	30-Jun-2018
				Comment			Indicator was incorrectly entered in the Bank's system as a breakdown indicator
Revised	Percentage of participants paid within the agreed time frame (two weeks for PWP and within a month for SCT)	<input type="checkbox"/>	Text	Value	50 for STC, 54 for PWP	100 for STC, assessment under way for PWP	100
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			

Revised	Percentage of beneficiaries receiving full entitlement (PWP, SCT)	<input type="checkbox"/>	Text	Value	0	100	100
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Percentage of beneficiaries staying in the program for a minimum of three years (PWP, SCT)	<input type="checkbox"/>	Percentage	Value	0.00	0.00	80.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
New	Percentage of beneficiaries who feel project investments/PWP reflected their needs	<input type="checkbox"/>	Percentage	Value	74.10		80.00
				Date	01-Sep-2014	28-Sep-2016	
				Comment	Based on MASAF III Beneficiary Assessment	Assessment is under way, results are due by end-2016	
New	Percentage of people reporting improvement in the natural resource and environment and its benefit to communities as a result of public works activities	<input type="checkbox"/>	Percentage	Value	0.00		60.00
				Date	01-Sep-2014	28-Sep-2015	31-Dec-2019
				Comment		Assessment is under way, results are due by end-2016	
Marked for Deletion	% of people reporting improvement in the natural resource and environment and its benefit to communities as a result of PW activities (Percentage, Custom)	<input type="checkbox"/>	Amount(USD)	Value	0.00		60.00
				Date	18-Oct-2013	15-Mar-2016	30-Jun-2018
				Comment			Unit of measure for this indicator was incorrectly entered in the Bank's system as

							'Amount USD'
Revised	Percentage of households that report improved access to social services	<input type="checkbox"/>	Text	Value	0		No set target
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment		Assessment is under way, results are due by end-2016	These are demand-driven interventions based on community priorities.
Revised	Percentage of households that report improved access to and use of small scale irrigation	<input type="checkbox"/>	Text	Value	5		no set target
				Date	30-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment	Based on MASAF III achievements	Assessment is under way, results are due by end-2016	These are demand-driven interventions based on community priorities
Revised	Number and type of productive community assets completed (re-forestation, road construction and maintenance, irrigation)	<input type="checkbox"/>	Text	Value	0	4,069 hectares re-afforested, 5,050 roads constructed/maintained, 656 small scale irrigation schemes completed	no set targets
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			These are demand-driven interventions based on

							community priorities
Revised	Percentage of subprojects screened for ESMF	<input type="checkbox"/>	Percentage	Value	0.00	80.00	100.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Percentage of subprojects for which safeguard mitigation plans are developed and are being implemented	<input type="checkbox"/>	Percentage	Value	0.00	80.00	100.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Percentage of subprojects selected and implemented following participatory community-based planning approaches	<input type="checkbox"/>	Percentage	Value	0.00	100.00	100.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Percentage of subprojects or investment for which arrangement for community engagement and or operation and maintenance are established	<input type="checkbox"/>	Percentage	Value	0.00	30.00	70.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Percentage of people engaging in diversified income-generation activities (off-farm and on-farm)	<input type="checkbox"/>	Percentage	Value	63.00		80.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment	63% is for old groups, 0 for new groups	Assessment is under way, results will be known by end-2016	80% for old groups, 50% for new groups
Revised	Percentage increase in household level savings	<input type="checkbox"/>	Text	Value	84 (old groups) 0 (new groups)		100.00 (old groups) 70 (new groups)
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019

				Comment	Baseline for old groups based on COMSIP groups only for the period 2009-2013	Assessment is under way, results are due by end-2016	
Revised	Percentage increase in household productive assets by type	<input type="checkbox"/>	Percentage	Value	0.00		25.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment		Assessment is under way, results are due by end-2016	
Revised	Number of people trained on livelihood development activities	<input type="checkbox"/>	Number	Value	0.00	22000.00	0.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			No set target, it will be based on the number of groups formed and related training needs
Revised	Number of people trained on skill development activities	<input type="checkbox"/>	Number	Value	0.00	2201.00	
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			No set target, as it will depend on group demands for skills development activities, i.e. product value addition.

Revised	Number of COMSIP and other livelihood groups formed and strengthened	<input type="checkbox"/>	Number	Value	4457.00	5241.00	6697.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment	Number of groups formed under COMSIP only so far		
Revised	Number of groups/cooperatives accessing grants for investments	<input type="checkbox"/>	Number	Value	0.00	95.00	400.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Number of Local Authorities implementing harmonized targeting instruments to select beneficiaries	<input type="checkbox"/>	Number	Value	0.00	2.00	35.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			End target based on the assumption that all Local Authorities will have targeting systems for PW.
Revised	Percentage of beneficiaries who are aware of project information and project supported investments	<input type="checkbox"/>	Percentage	Value	0.00		100.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment		Assessment under way, result will be known by end-2016	
Revised	Percentage of grievances registered related to delivery of project benefits that are actually addressed	<input type="checkbox"/>	Percentage	Value	0.00		100.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment		Assessment under way, result will	

						be known by end-2016	
Revised	Number of Local Authorities with operational harmonized targeting mechanism	<input type="checkbox"/>	Number	Value	0.00	2.00	35.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Number of Local Authorities with operational MIS	<input type="checkbox"/>	Text	Value	0	2	35
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Number of Local Authorities with operational M&E system	<input type="checkbox"/>	Text	Value	0	2	35
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Number of extension workers trained and supported with equipment	<input type="checkbox"/>	Number	Value	0.00	1116.00	1350.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			
Revised	Number of Local Authorities with community safety net plans developed in a participatory approach	<input type="checkbox"/>	Number	Value	0.00	28.00	35.00
				Date	01-Sep-2014	28-Sep-2016	31-Dec-2019
				Comment			

PDO Level

Resilience: Percentage of households with asset value above critical threshold

Coordination: Establishment of integrated and functional national safety net delivery systems

Intermediate Results I: Improved food security in household (Public Works and SCT)

Outcome indicators

Resilience: Percentage of households having at least three meals per day

Resilience: Percentage of households reporting that asset depletion is prevented as a result of transfers (SCT, PWP)

Output indicators

Resilience: Percentage of participants paid within the agreed time frame (two weeks for PWP and within the month for SCT)

Resilience: Percentage of beneficiaries receiving full entitlement (PWP, SCT)

Resilience: Percentage of beneficiaries staying in the program for a minimum of three years (Public Works, SCT)

Intermediate Results II Indicators: Improved access to natural resources and social economic services - PWP

Outcome indicators

Resilience: Percentage of beneficiaries who feel project investments/PWP reflected their needs (core)

Resilience: Percentage of people reporting improvement in the natural resource and environment and its benefit to communities as a result of public works activities

Resilience: Percentage of households that report improved access to social services

Resilience: Percentage of households that report improved access to and use of small-scale irrigation

Output level indicators

Resilience: Number and type of productive community assets completed (reforestation, road construction and maintenance, irrigation schemes)

Intermediate Results III Indicators: Increased household income opportunities and resilience to shocks (COMSIP and other livelihoods)

Outcome indicators

Resilience: Percentage of people engaging in diversified IGAs (off-farm and on-farm)

Resilience: Percentage increase in household-level savings

Resilience: Percentage increase in household productive assets by type

Output level indicators

Resilience: Number of people trained on livelihood development activities

Resilience: Number of people trained on skill development activities

Resilience: Number of COMSIP and other livelihood groups formed and strengthened

Resilience: Number of groups/cooperatives accessing grants for investments

Intermediate Results IV Indicators: Improved service delivery at community level (capacity building and system strengthening)

Outcome indicators

Coordination: Number of LAs implementing harmonized targeting instruments to select beneficiaries

Coordination: Percentage of beneficiaries who are aware of project information and project-supported investments (core)

Output level indicators

Coordination: Number of LAs with operational harmonized targeting mechanism

Coordination: Number of LAs with operational MIS

Coordination: Number of LAs with operational M&E system

Coordination: Number of extension workers trained and supported with equipment

Coordination: Number of LAs with community safety net plans developed in a participatory approach

Indicator Description Table

Number	Indicator	Description
	PDO Level Indicators	
1	Number of beneficiaries by gender	Beneficiaries of the MASAF IV Project interventions segregated by gender – beneficiaries of regular PWs, emergency PWs and SCT programs.
2	Percentage of households with asset value above critical threshold	Percentage of beneficiary households from livelihood groups (PWP, SCT) and COMSIP who improve their asset levels above a defined critical threshold value of asset as a result of the MASAF IV project interventions. A critical asset threshold is a point below which households cannot move out of poverty traps (Liverpool and Winter-Nelson, May 2010, IFPRI discussion paper 00971).
3	Establishment of integrated and functional national safety net delivery system	The MASAF IV Project supports establishment of safety net delivery systems including UBR, targeting, and MIS in local authorities. The assumption is that all local authorities will have functional systems by the end of the project (2019), which will be integrated to form a national unified registry that will cater as a national database for targeting eligible beneficiaries of various social protection programs that will be accessible to all organizations implementing these programs. This is expected to address issues of inclusion and exclusion and make social protection interventions more effective in helping the poorest and the most vulnerable get out of the poverty trap.
	Intermediate Results I Indicators: Improved food security in household (Public Works and SCT)	
4	Percentage of households having at least three meals per day	Percentage of PWP and SCT beneficiary households supported by the MASAF IV Project who are able to eat at least three meals per day. Basic information, including eating patterns of beneficiaries will be collected at the onset of the PWP and SCT programs.
5	Percentage of households reporting that asset depletion is prevented as a result of transfers (SCT, PWP)	Percentage of PWP and SCT beneficiary households supported by the project who report that assets which could have been sold to address various household basic needs were not sold because of the cash transfers received under the project
6	Percentage of participants paid within the agreed time frame (two weeks for PWP and within the month for SCT)	Percentage of PWP beneficiaries who were paid their wages within two weeks of completing work on public assets and SCT beneficiaries who were paid within the scheduled pay month
7	Percentage of beneficiaries receiving full entitlement (PWP, SCT)	Percentage of PWP beneficiaries who received the appropriate wage rate for the number of days they worked on a public asset and SCT beneficiaries who received the full amount of money as determined at enrollment into the program
8	Percentage of beneficiaries staying in the program for a minimum of three years (PWP, SCT)	Percentage of PWP and SCT beneficiaries who are maintained in the programs for a period of three years, that is from year 1 to year 3, to enable meaningful impact from the project

Intermediate Results II Indicators: Improved access to natural resources and social economic services – PWP		
9	Percentage of beneficiaries who feel project investments/PWP reflected their needs (core)	Percentage of PWP beneficiaries who feel that interventions being implemented in their area are those that address their most felt needs in line with what was incorporated in their village action plans
10	Percentage of people who report improvement in the natural resource and environment and its benefit to communities as a result of Public Works activities	Percentage of people in the subproject catchment area who report that there are noticeable and substantial improvements in the natural resource and environment as a result of PWP interventions implemented under the project
11	Percentage of households that report improved access to social services	Percentage of PWP and SCT beneficiary households who report improved access to social services as a result of project interventions
12	Percentage of households that report improved access to and use of small-scale irrigation	Percentage of households who directly benefit from small-scale irrigation schemes constructed under the MASAF IV Project
13	Number and type of productive community assets completed; <ul style="list-style-type: none"> • Reforestation • Road construction and maintenance • Small-scale irrigation schemes 	Number and type of productive community assets completed under the PWP
14	Percentage of subprojects screened for ESMF	Percentage of subprojects implemented under the project that were screened for ESMF
15	Percentage of subprojects for which safeguard mitigation plans are developed and being implemented	Percentage of subprojects implemented under the project for which safeguard mitigation plans are developed and being implemented
16	Percentage of PW subprojects selected and implemented following participatory community-based planning approaches	Percentage of PWP subprojects funded by the project based on community expressed needs generated through the village action plans and further expressed through project interest forms
17	Percentage of subprojects or investment for which arrangement for community engagement and/or operation and maintenance are established (core)	Percentage of subprojects or investment funded by the project for which arrangement for community engagement and or operation and maintenance are established, for example, village natural resource management committees for maintenance of forestation subprojects

Intermediate Results III Indicators: Increased household income opportunities and resilience to shocks (COMSIP and other livelihoods)		
18	Percentage of people engaging in diversified IGAs (off-farm and on-farm)	Percentage of people that directly benefited from the project either through COMSIP or other livelihood groups such as beneficiaries of small-scale irrigation schemes that engage in diversified IGAs
19	Percentage increase in household-level savings	Percentage increase in household-level savings measured from COMSIP and other livelihoods groups supported by the project
20	Percentage increase in household productive assets by type	Percentage increase in household productive assets by type measured from COMSIP and other livelihoods groups supported by the project
21	Number of people trained on livelihood development activities	Number of people trained on livelihood development activities such as irrigation scheme management
22	Number of people trained on skill development activities	Number of people trained on skill development activities such as product value addition to enable project beneficiaries to produce high-value products that are able to compete in the market and generate more income
23	Number of COMSIP and other livelihood groups formed and strengthened	Number of COMSIP and other livelihood groups formed and strengthened with support from the project
24	Number of groups/cooperatives accessing grants for investments	Number of COMSIP and other livelihood groups that access grants from the project
Intermediate Results IV Indicators: Improved service delivery at community level (capacity building and system strengthening)		
25	Number of Local Authorities implementing harmonized targeting instruments to select beneficiaries	Number of councils implementing harmonized targeting instruments to select beneficiaries
26	Percentage of beneficiaries that are aware of project information and project-supported investments (core)	Percentage of beneficiaries who are aware of MASAF IV project information and project-supported investments
27	Percentage of grievances registered related to delivery of project benefits that are actually addressed (core)	Percentage of grievances registered through a grievance redress system related to delivery of project benefits that are actually addressed
28	Number of Local Authorities with operational harmonized targeting mechanism	A targeting mechanism developed and operational in all local authorities by the end of the project
29	Number of Local Authorities with operational MIS	A comprehensive MIS that supports development of a unified registry of beneficiaries and targeting mechanism in place and operational in all councils
30	Number of Local Authorities with operational M&E system	All councils updating project information in the district database on time and submitting reports to the LDF-TST on time

31	Number of extension workers trained and supported with equipment	Number of extension workers who are actively involved in MASAF IV project interventions who are trained and supported with equipment such as bicycles
32	Number of Local Authorities with community safety net plans developed in a participatory approach	Preparation of community safety net plan will be a prerequisite for funding PWP subprojects and therefore an important key performance indicator.

Annex 2: Additional Appraisal Information

A. Financing

45. The proposed second AF for MASAF IV will support three subcomponents of the original Component 1: Productive Safety Nets: (a) Productive Community-driven Public Works to finance additional rounds of public works; (b) Livelihoods and Skills Development to finance grants for increasing household-level incomes and assets through COMSIP groups; and (c) Social Cash Transfers to finance cash transfers targeted to the poorest labor-constrained households as well as activities for capacity building and technical assistance.

46. Currently, the SCT program in participating districts applies a nationwide cutoff of 10 percent over the eligible population. This effectively means that a significant exclusion error exists in districts that have ultra-poverty rates above 10 percent. However, at the same time a number of districts (nine) remain totally without any coverage of the SCT program. Therefore, after a careful consideration and broad partner discussion it was decided that the proposed second AF will provide US\$70 million to (a) scale up the SCT program to nine new districts and (b) to extend its coverage for all World Bank–financed districts (9 + 2) until the end of 2019. As the first AF was not legally limiting the scope of coverage of the SCT program, it is hereby clarified that the Bank and the recipient have agreed to consider national coverage for all districts from both sources, first AF (immediately) and second AF (upon approval). The geographical scope under Components 1 and 2 is expanded to include all districts participating in the project, irrespective of the sources of financing (e.g. the first AF and the second AF). This will facilitate utilization of the undisbursed amounts from the first AF for emergency response measures envisaged under the proposed second AF, and will provide for a smooth transition between the sources of financing. The increase in the coverage of the SCT program within each district will remain as an element of future policy discussion.

47. The proposed second AF will also provide additional rounds of public works under the PWP. Table 1 shows the project costs by component. Table 2 provides information on the remaining undisbursed amounts under the first AF, and the available amounts under the second AF⁸, by financing category. Financing of emergency activities will begin immediately using the funds under the first AF. Once the available funds from the first AF in a certain disbursement category are depleted, the second AF will take over and begin disbursing towards the same type of activities.

⁸ The table only includes first AF and second AF, as the original credit is already fully disbursed.

Table 1. Project Costs by Component

Project Components	IDA Financing (Original and First AF, US\$, millions)	IDA Financing (Second AF, US\$, millions)	IDA Financing Total (US\$, millions)	% of Total Financing
1. Productive Safety Nets	93.8	62.3	156.1	87.8
(a) Productive Community-Driven Public Works	73.8	15	88.8	—
(b) Livelihoods and Skills Development	10	2	12	—
(c) Social Cash Transfers	10	45.3	55.3	—
2. Systems and Capacity Building	5	1.7	6.7	3.8
3. Project Management	9	6.0	15.0	8.4
Total	107.8	70	177.8	100

Table 2. Financing by Disbursement Category, First AF and Second AF

Category	Undisbursed IDA Financing (First AF, US\$)	New IDA Financing (Second AF, US\$)	Available IDA Financing Total (US\$)
(1) Goods, works, non-consulting services, consultants' services and Operating Costs under Part 1 (a) of the Project	47,861,065	15,000,000	62,861,065
(2) Goods, consultants' services, Operating Costs and Training under Parts 1(b) and 1(c) of the Project	4,510,029	10,777,195	15,287,224
(3) COMSIP Grants under Part 1(b)(i) of the Project	5,406,197	1,500,000	6,906,197
(4) Social Cash Transfers under Part 1(c)(i) of the Project	4,486,290	35,022,805	39,509,095
(5) Goods, non-consulting services, consultants' services, Training and Operating Costs under Parts 2 and 3 of the Project	9,757,324	7,700,000	17,457,324
Total	72,020,905*	70,000,000	142,020,905

Source: Client Connection

*out of US\$72.0 million of undisbursed funds under first AF, US\$22.2 million been disbursed but not yet documented in Client Connection. According to LDF's calculations, out of US\$22.2 million of disbursed but undocumented funds, US\$7.1 million has been disbursed to the district councils and liquidated, and another US\$9.9 million has been disbursed to the district councils and awaiting liquidation.

B. Implementation Arrangements

48. The proposed second AF will use the same implementation arrangements that had already been set up for the parent project. The LDF-TST will continue to play the overall management, coordination, and technical support function of the project. As reflected in the parent project, the proposed second AF will continue to support the existing social protection and safety nets platform as defined under the NSSP. The platform lays out a number of safety net programs focused on communities and households. The LDF will supervise, coordinate, integrate, and channel financing and knowledge and technical assistance to each subprogram that are in its implementation area. Such a structure will then allow the GoM to coordinate CPs support for safety nets in a rationalized, coherent, predictable, and integrated manner to achieve impact on vulnerability as articulated in the NSSP and the MNSSP. As this AF constitutes a response to the transitory shock that affected the existing project beneficiaries as well as the additional vulnerable population, the LDF will coordinate the support with other humanitarian response activities.

49. The district councils will be responsible for the implementation of the social protection programs. Following the program principles, the districts will also be responsible for supporting communities to identify productive community-driven public works, SCT beneficiaries, and livelihood activities. The LDF mechanism itself is operationally under the Ministry of Local Government and Rural Development and will also have oversight from MFE PD. Under MASAF IV, the MFE PD plays a key role in providing policy direction for safety nets.

50. The proposed second AF will support the expansion of SCTs to an additional nine districts to reach the full coverage of SCT to all districts nationwide. The LDF will further strengthen coordination with MGCDSW and other partners supporting the implementation of SCT in other districts.

51. Currently, the Government is considering a possible institutional restructuring to merge the LDF with the NLGFC. The objective of the merger is to institutionalize the LDF into a permanent government structure in the medium to long term and synergize its function with the functions currently exercised by the NLGFC. The MFE PD and the Ministry of Local Government and Rural Development have been tasked to come up with a proposal on the merger of the institutions for further review and approval by the cabinet.

52. The restructuring of the LDF can be seen as a positive development in the long term. However, unless the transition is carefully managed, it may have implications on the effective implementation of the existing program and on the proposed expansion through the proposed second AF. The Government confirmed that the proposed process for the restructuring of the LDF will not disrupt the MASAF project operation and the project management function of the LDF will be further strengthened. The task team has requested an official assurance that the merger will not take place in the short term and proper consultations will be conducted with the World Bank and other partners before the decision on the merger is finalized.

53. A recent review of the implementation capacity of the existing project revealed that there were some weaknesses in the capacity at the local level. With the increasing scale and coverage of the project components, including the SCT and PWP, the effective implementation of the project will require specific investment in local-level capacity in all project districts. In this regard, the

LDF will recruit and assign one staff member per district to coordinate and effectively monitor the implementation of the project component in conjunction with local government technical sector staff. These additional staff members will also perform the certification (justification) functions described in the section on Financial Management below. The project will also hire consultants for the MGCDSW to be placed in the nine SCT districts to assist with targeting and serve in the secretariat of the SCT program in the districts. In addition, the LDF-TST will further strengthen its system for more regular monitoring and technical support to local-level implementers. This will be complemented by more regular independent technical reviews and spot checks.

54. To ensure smooth coordination and clear distribution of tasks, the MFEPD, the MGCDSW, and the LDF-TST will sign a Memorandum of Understanding for the implementation of the SCTs program by December 31, 2016. The Memorandum of Understanding will be developed in consultation with the World Bank, and, as a minimum, will include a description of the tasks to be undertaken by each partner and their roles and responsibilities. The MGCDSW will undertake an evaluation of the targeting process in Dedza and Nkhata Bay, compare that with other SCT districts, and review the Proxy Means Targeting formula for SCT programs. This will be financed under MASAF IV by December 15, 2016. The PWP planning, implementation, and monitoring arrangement including costing of the PWP will be reviewed to provide lessons learned. By November 14, 2016, the LDF-TST will recruit 35 new officers to be stationed in each district, to coordinate and liaise between the LDF and districts, as well as to provide support and advice to districts on the implementation of MASAF IV-related activities. Finally, the LDF-TST, MFEPD, accountant general, NLGFC, and MGCDSW will discuss and agree on a mode of payment for the recurrent/supervision costs for the SCT that are incurred by the MGCDSW, with a view of streamlining, speeding up payments, and providing flexibility to the MGCDSW in their day-to-day supervision work. The agreed model will then be submitted to the World Bank for review and approval.

C. Procurement

55. The proposed second AF for MASAF IV had the concept memorandum approved before July 1, 2016. Therefore, procurement for this project will be carried out in accordance with the ‘Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers’, dated January 2011 and revised in July 2014; and ‘Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers’, dated January 2011 and revised in July 2014; and Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised in January 2011, and the provisions stipulated in the Legal Agreement. National Competitive Bidding (NCB) will be carried out in accordance with the Malawi Public Procurement Act of August 2003, which has been reviewed and found satisfactory to the World Bank with a few exceptions.

Prior Review and Associated Thresholds under the Proposed Second AF for MASAF IV

56. All goods or non-consulting services contracts estimated to cost US\$1 million equivalent or more will be subject to IDA review in accordance with the procedures in Appendix I of the Procurement Guidelines and approved Procurement Plan. Works contracts estimated to cost US\$7

million or more will be subject to IDA review in accordance with the procedures in Appendix I of the Procurement Guidelines and approved Procurement Plan.

57. Consultancy contracts with firms estimated to cost US\$200,000 equivalent or more and consultancy contracts with individuals estimated to cost US\$100,000 equivalent or more will be subject to IDA review in accordance with the procedures in Appendix I of the Consultant Guidelines and approved Procurement Plan.

58. The World Bank has reviewed the Procurement Plan and will prior review future updates of the Procurement Plan as well as the set of Standard Bidding Documents (SBDs) to be used for goods and consulting services. The format of the Procurement Plan and SBDs, the procurement methods, and the thresholds for prior review should be reviewed and jointly agreed by the LDF and IDA.

59. Contracts which are not subject to prior review will be selectively reviewed by the World Bank or on behalf of the World Bank by an independent procurement auditor during project implementation and will be governed by the procedures set forth in paragraph 4 of Appendix I to the relevant guidelines. All documentation used for the procedures of contracting, recruitment of consulting services, evaluation, and award shall be retained for subsequent examination by auditors and IDA supervision missions.

60. Annual procurement post reviews will be undertaken and aim to (a) verify that the procurement and contracting procedures and processes followed were in accordance with the agreed procedure manual; (b) verify technical compliance, physical completion, and price competitiveness of each contract in the selected representative sample; (c) review and comment on contract administration and management issues as dealt with by executing agencies; (d) review capacity of executing agencies in handling procurement efficiently; and (e) identify improvements in the procurement process in the light of any identified deficiencies.

Use of Bank Guidelines

61. The World Bank's SBDs and Standard Bid Evaluation forms for goods under International Competitive Bidding will be used. Because the Government has prepared SBDs for procurement of goods under NCB, procurement of goods under NCB will be carried out using these documents. The World Bank's Standard Bid Evaluation forms will be used for NCB contracts with necessary modifications.

62. Selection of consultants estimated at US\$200,000 equivalent or above, will be carried out in accordance with the 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers', dated January 2011 and revised in July 2014. The World Bank's Standard Request for Proposals and evaluation forms will be used.

Modifications to NCB Procedures

63. The following additional procedures shall apply to NCB:

- (a) No bidder or potential bidder shall be declared ineligible to bid for reasons other than those provided in Section I of the Procurement Guidelines;

- (b) Standard bidding documents acceptable to the World Bank shall be used for any procurement process under NCB; each bidding document and contract financed from the proceeds of the Financing shall include provisions on matters pertaining to fraud and corruption as defined in paragraph 1.16(a) of the Procurement Guidelines. The World Bank may sanction a firm or individual, at any time, in accordance with prevailing World Bank sanctions procedures, including by publicly declaring such firm or individual ineligible, either indefinitely or for a stated period of time: (i) to be awarded an World Bank-financed contract; and (ii) to be a nominated sub-contractor, consultant, supplier or service provider of an otherwise eligible firm being awarded an World Bank-financed contract;
- (c) In accordance with paragraph 1.16(e) of the Procurement Guidelines, each bidding document and contract financed from the proceeds of the Financing shall provide that: (i) the bidders, suppliers, and contractors and their subcontractors, agents, personnel, consultants, service providers or suppliers, shall permit the World Bank, at its request, to inspect their accounts, records and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the World Bank; and (ii) the deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to obstructive practice as defined in paragraph 1.16(a)(v) of the Procurement Guidelines;
- (d) Unquantifiable criteria, such as local content, technology transfer, and managerial, scientific, and operational skills development, shall not be used in the evaluation of bids; and
- (e) Contracts shall not be split into small lots, and the award of contracts shall not be restricted to small enterprises for purposes of promotion of the participation of such small enterprises.

Procurement Arrangement under Community-driven Development

64. The Social Cash Transfer and public works programs are implemented following the Local Authority window handbook. All procurements are being done by the LAs using the Request for Quotations and National Competitive Bidding procedures under the Malawi Public Procurement Law.

65. It is expected that procurement records will be kept at both the local and district levels and these should include advertisements for local contractors, their selection process, signed contracts, and financial records.

66. Based on the post procurement review that the World Bank had undertaken in 2015, it was noted that procurement under the MASAF LDF was satisfactory as there was an updated Procurement Plan; record keeping was good; World Bank guidelines, MASAF Local Community Hand Book, and the Financial Manual as well as Malawi Public Procurement Law, rules, and regulations were adhered to in undertaking procurement. There was no declaration of misprocurement. Training of district procurement officers has just been completed and this is expected to further strengthen the procurement function at the local authority level.

Overall Capacity of MASAF LDF to Undertake Procurement under the Proposed Second AF for MASAF IV

67. The overall procurement risk of MASAF LDF to undertake activities under the project has been rated low as currently there are adequate and experienced staff who can undertake procurement under the project.

D. Financial Management and Disbursement Arrangements

68. The financial management arrangements for the LDF and district councils have been assessed as satisfactory for the purposes of implementing the MASAF IV and the subsequent AFs, including this second AF. The financial management risk has been assessed as substantial. The details of the assessment are summarized further in the following sections.

69. **Accounting and reporting.** The LDF has a computerized accounting system used for the project's transaction processing and reporting. The system is only installed at the secretariat. The system has been in operation for more than two years and has enabled the LDF to process transactions and prepare reports accurately and on time. Transactions from districts are posted in the system using liquidation reports. All the districts have computerized IFMIS but only a few process project transactions and produce reports using the computerized system. The project module of the IFMIS has now been activated and the staff trained on its usage. However, all districts are still using Excel spreadsheets. The districts will be encouraged to use computerized IFMIS to process and report on MASAF transactions. This will ensure accurate, complete, and timely reports from districts. Transactions from districts are a major component of reports that the LDF uses for disbursements and quarterly reporting to the World Bank. Delays in reporting by districts are still being experienced. For the current pilot districts under cash transfers, the advances and liquidations are operating well, as designed. The LDF is current on all reporting requirements covering both audited financial statements and quarterly interim reports.

70. **Staffing.** The LDF has adequate, qualified, and experienced staff for the proper management of a financial management system. Most of the staff members have been with the organization for several years. The staff numbers in the districts have recently been increased to acceptable levels for both accounting and internal audit. However, given the control and accountability issues at the district level it is recommended that the project will recruit a project officer who will also act as a justification (certification) officer for each district. The project officer will ensure that funds are used for the intended purpose and incurred in accordance with agreed policies and procedures.

71. **Funds flow.** Funds for use by communities are transferred from the LDF account to the NLGFC, then to district accounts. This process takes two weeks to one month, and sometimes longer. It will be necessary to look into ways for optimizing and speeding up this process. Funds required by the MGCDSW for supervision will be transferred to the MGCDSW on a quarterly basis subject to an FM assessment aimed at establishing if proper arrangements are in place to ensure proper use of funds.

72. **Internal controls.** The internal and external audit reports show a number of control and accountability issues that need addressing to further improve the financial management

arrangement at both the LDF and districts but more importantly at the district level. Most of the issues in these audits are common control matters that can easily be rectified. The LDF and NLGFC are strongly urged to deal with control and accountability issues reported in audits. Some of the observations made in the audit are as follows:

- Payments made to individuals instead of companies
- Payment vouchers without supporting documentation
- Fuel not accounted for through the register
- Irregular preparation of bank reconciliation statements
- Payments made without raising payment vouchers
- Unauthorized and uncountersigned payment vouchers
- Unsubstantiated clearance of unreconciled debits on bank statements

73. The internal audit reports also indicate weaknesses in controls, especially lack of or inadequate documentation to support expenditure. The recommendation for justification officers in districts is mainly to deal with this weakness.

74. **Fraud and corruption.** The LDF has put in place antifraud and anticorruption measures, including subscription to an anonymous whistleblowing arrangement run by Deloitte. Fraud and corruption cases involving MASAF activities have been reported in the past and some of them have been credible. These arrangements continue under MASAF IV including the proposed additional finance. The LDF is further urged to sensitize the communities and encourage them to report any instances of fraud. This will be done during community project launches and any other meetings involving communities.

75. **Disbursement arrangements.** The disbursement arrangements will be the same as for the MASAF IV first AF that uses report-based disbursement.

76. To ensure that funds are readily available for project implementation, the recipient will open, maintain, and operate an exclusive Designated Account (DA) at a commercial bank acceptable to IDA. Deposits into and payments from the DA will be made in accordance with the provisions stated in the financing agreement and disbursement letter. Disbursements under this credit and grant will be report based. Withdrawal applications will be prepared by the LDF and signed by authorized signatories, as designated by the representative of the recipient.

77. The amount to be claimed and advanced under the first application will be determined based on initial project needs. The DA will be replenished based on interim financial reports. The DA will be audited annually by external auditors acceptable to IDA as part of the overall project audit. The documentation supporting expenditures will be retained at the LDF and will be readily accessible for review by the external auditor and periodic World Bank supervision missions. All disbursements will be subject to the conditions of the financing agreement and disbursement procedures defined in the disbursement letter.