

**INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE**

Report No.: AC3117

Date ISDS Prepared/Updated: 08/28/2007

I. BASIC INFORMATION

A. Basic Project Data

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| Country: Malawi | Project ID: P102176 |
| Project Name: MW-Public Sector SWAp | |
| Task Team Leader: Ross Worthington | |
| Estimated Appraisal Date: February 25, 2008 | Estimated Board Date: September 17, 2008 |
| Managing Unit: AFTPR | Lending Instrument: Specific Investment Loan |
| Sector: Central government administration (100%) | |
| Theme: Public expenditure, financial management and procurement (P);Administrative and civil service reform (S) | |
| IBRD Amount (US\$m.): | 0.00 |
| IDA Amount (US\$m.): | 25.00 |
| GEF Amount (US\$m.): | 0.00 |
| PCF Amount (US\$m.): | 0.00 |
| Other financing amounts by source: | |
| <u>BORROWER/RECIPIENT</u> | <u>0.00</u> |
| | 0.00 |

B. Project Objectives [from section 2 of PCN]

1. The proposed project development objectives (PDOs) are to build a viable and effective system of local governance through; (i) the design and implementation of an effective and equitable intergovernmental fiscal architecture; and, (ii) the enhancement of capacity of all forty Local Assemblies (LAs) in public financial management and the management of service delivery.

2. The project is expected, by project-end, to create LAs whose: (i) budget processes will interface with the national budget development, execution and monitoring system; (ii) financial management operations will conform to all relevant public finance legislation; (iii) expenditure systems will interface with national IFMIS, HRMIS and procurement systems allowing greater expenditure monitoring and control; (iv) public accountability will be enhanced through more timely and professional auditing; (v) reporting to the public on LA finances and budget execution will be improved so that ordinary citizens can understand budget allocations and executions; and, (vi) in national government entities involved in fiscal decentralization and facilitating LA

operations, particularly financial operations, having better functioning linkages to LAs in budget development, execution and reporting, financial administration and auditing.

3. A monitoring and evaluation plan will be prepared to track achievement of project's objectives and targets on a regular basis. Monitoring and evaluation (M&E) of the project will be done principally using the Government's own M&E systems which have been the target of considerable capacity building over the last three years. The government's PRSP, the Malawi Growth and Development Strategy (MGDS) M&E framework monitored by the Ministry of Economic Planning and Development (MEPD) to measure progress in those thematic and sub-thematic areas in which the project will operate, will provide data on project impact. The project's M&E plan and strategies will include performance indicators based on the MGDS and the National Decentralization Policy (NDP). This approach of basing the M&E framework on the Government's two major policy documents for decentralization will ensure that the framework remains focused on decentralization priorities, does not become overly complex and is results oriented.

4. Project primary target beneficiaries will be all Local Assembly Administration Secretariats and those cross-cutting government agencies involved in financial and human resources management. Ultimate recipients of project outcomes will be the users of the public services provided by Local Assemblies who would benefit from greater transparency, efficiency, and accountability in the management of core public resources at the local government level.

C. Project Description [from section 3 of PCN]

5. Despite the formal framework for decentralization, including fiscal decentralization, being constitutionally mandated and relatively well defined, its implementation has been fragmented and uncoordinated. This has resulted in LAs that cannot carry out their legislative responsibilities because of significant institutional and capacity constraints, particularly low and unpredictable funding through the IFA and weak financial management systems. The project is conceived as being part of a programmatic approach to capacity building in financial and general management in subnational and national government, either through a SWAp or some other pooled arrangement. The proposed operation, which has only minor civil works (e.g. rehabilitation of existing buildings) and no environment impacts - would have the following components.

5.1 Component 1: Design and Implementation of the System of Fiscal Intergovernmental Relations (\$16 million)

6. This component will review and redesign the existing intergovernmental fiscal architecture (IFA) and provide a capacity building fund for LAs and IFA related central agencies. This will support the development of capacity to manage decentralized financial management responsibilities, including accounting, audit, procurement, assets, payroll and associated human resource management (HRM) and ICT functions. The component objectives would be to: (i) undertake a comprehensive analysis of the design, operation and effectiveness of the legal framework of the existing intergovernmental fiscal architecture (IFA), to complement the fiscal review of the IFA already being done; (ii) to implement the recommendations of the IFA fiscal and legal reviews; (iii) to develop the financial and general management capacity of

LAs so they can effectively manage functions devolved under the Local Government Act (LGA) and NDP; and, (iv) to develop capacity in national functional counterparts to the Assemblies - National Local Government Finance Committee (NLGFC), Accountant General's Department (AGD), Central Internal Audit Unit (CIAU), Ministry of Finance Budget Division (MOFBD) and Ministry of Local Government and Regional Development (MOLGRD) where necessary to implement and operate the IFA and its associated financial management functions.

7. This component would have three subcomponents which focus on; (i) a review of the legal framework of the intergovernmental transfer system; (ii) implementation of the recommendations of the fiscal and legal reviews of the IFA; and, (iii) a Fiscal Decentralization Capacity Building Facility that builds the capacity to manage the IFA and implement the financial management components of the NDP as noted above.

8. The review of the legal framework of the IFA will complement the review of the fiscal components of the IFA. The recommendations of these two reviews will then form the basis for implementing a revised IFA which should provide greater predictability and volume of funds to LAs. The Fiscal Decentralization Capacity Building Facility subcomponent will utilize most of the component's funds and support capacity development activities for LA Secretariat staff, and their national functional counterparts where necessary, to implement and operate the financial management (including management of the budget cycle, IFMIS, HRMIS, internal audit, procurement and assets), ICT systems and related general management systems required of LAs to manage their own operations and to effectively interface with national government systems and functions that form part of the IFA or which result from increased fiscal decentralization. Interventions under this subcomponent will be coordinated with the GOM's planned rollout of IFMIS, HRMIS, e-procurement, computer assisted audit and other public finance projects over the next four years. This component would provide support through the provision of technical assistance, capacity building programs, equipment, software and other material necessary to support the proposed capacity building interventions.

5.2 Component 2: Local Assemblies Fiscal Operations Grants Facility (\$6 million)

9. The component objective would be to support all LAs to achieve minimal physical standards for their operational environment so they could function effectively. The component would have two subcomponents; (i) a basic needs based grant made on the basis of the gap between the existing operational environment in each LA and the GOM standard for equipping LA offices (70% of the component funds); and, (ii) a performance based grant for which LAs become eligible one year after the basic grant, based on improvements in operational performance (30% of the component funds). Many LAs operate from buildings in poor physical condition, with inadequate electrical, information and communications facilities, furniture, public service areas and similar basic administrative infrastructure. These deficiencies would be addressed by investing in administrative infrastructure and hardware needed for them to efficiently perform their duties through the provision of one-off grants to ensure that the minimum operating environment is put in place. This component will draw on the experience of similar Bank funded grant schemes which have operated in Zambia, Zimbabwe, South Africa, Uganda, Pakistan and Bangladesh, in the development of its funding and operational guidelines

to ensure that grants made under this component are equitable, justifiable and enhance performance.

5.3 Component 3: Support for Project Implementation and Operations.(\$3 million)

10. The component objective would be to support the preparation and implementation of the project through a modality that best suits the capacity of the implementing agency to carry out these functions. A Program Management Unit comprised either of; (i) civil servants; or, (ii) of a mix of civil servants and contracted staff for specialist positions such as in procurement and financial management (in which there is a labor market shortage), in the Department for Rationalization and Public Sector Reform (DRPSR) in the Office of President and Cabinet (OPC) are the most likely options.

11. The component focus would be on the administration, coordination, monitoring and evaluation, and supervision of the project in association with stakeholders, including the Association. This component would provide support through the provision of technical assistance, furniture, equipment, software and other material necessary to support the management of the implementation and operation of the project.

D. Project location (if known)

12. The focal coordination point for project preparation and implementation will be the new Department for Rationalization and Public Sector Reform (DRPSR) in OPC. This department has been established to lead and coordinate, as appropriate, all major public sector reforms including revitalization of the NDP in association with MOLGRD, MEPD and MOF. These three ministries will be represented on a project steering committee to be chaired by OPC. It is most likely that a Program Management Unit, comprising a mix of civil servants and consultants in key areas such as financial management and procurement, will manage the project within DRPSR.

E. Borrower's Institutional Capacity for Safeguard Policies [from PCN]

13. Not applicable

F. Environmental and Social Safeguards Specialists

Mr Warren Waters (AFTQK)

II. SAFEGUARD POLICIES THAT MIGHT APPLY

| Safeguard Policies Triggered | Yes | No | TBD |
|--|-----|----|-----|
| Environmental Assessment (OP/BP 4.01) | | X | |
| Natural Habitats (OP/BP 4.04) | | X | |
| Forests (OP/BP 4.36) | | X | |
| Pest Management (OP 4.09) | | X | |
| Physical Cultural Resources (OP/BP 4.11) | | X | |
| Indigenous Peoples (OP/BP 4.10) | | X | |
| Involuntary Resettlement (OP/BP 4.12) | | X | |
| Safety of Dams (OP/BP 4.37) | | X | |
| Projects on International Waterways (OP/BP 7.50) | | X | |
| Projects in Disputed Areas (OP/BP 7.60) | | X | |

Environmental Category: C - Not Required

III. SAFEGUARD PREPARATION PLAN

- A. Target date for the Quality Enhancement Review (QER), at which time the PAD-stage ISDS would be prepared: 01/25/2008
- B. For simple projects that will not require a QER, the target date for preparing the PAD-stage ISDS: N/A
- C. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing¹ should be specified in the PAD-stage ISDS.
N/A

IV. APPROVALS

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| <i>Signed and submitted by:</i> | | |
| Task Team Leader: | Mr Ross Worthington | 08/22/2007 |
| <i>Approved by:</i> | | |
| Regional Safeguards Coordinator: | Mr Warren Waters | 08/22/2007 |
| Comments: No SGP Specialist required if project remains as defined in PCN & ISDS. Later, should project involve land acquisition, construction or potential environmental or social impacts, consult ASPEN. | | |
| Sector Manager: | Mr Antonius Verheijen | 08/22/2007 |
| Comments: I concur with the rating of "C" for this project. | | |

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in-country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

