



Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 08-May-2021 | Report No: PIDC237265



BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P175792		Low	Invigorating local market & competition in Public Procurement through e-Government Marketplace
Region	Country	Date PID Prepared	Estimated Date of Approval
AFRICA EAST	Malawi	08-May-2021	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Government of Malawi	Malawi - Public Procurement and Disposal of Assets Authority (PPDA)	

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PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	0.41
Total Financing	0.41
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	0.41
Global Governance Program	0.41

B. Introduction and Context

Country Context

Malawi is a landlocked, low-income country, with an agriculture-based economy, developing private sector and relatively weak governance environment. Malawi’s Gross National Income (GNI) per capita was estimated at US\$320 in 2016. Aid accounts for 22% of the GDP. Malawi’s economy is dominated by a very small number of large firms. The World Bank’s “Doing Business Report of 2018” ranks Malawi at 110 out of



190 countries for the ease of establishing and running a business. Malawi is the 122 least corrupt nation out of 175 countries, according to the 2017 Corruption Perceptions Index reported by Transparency International.

Public Procurement is an integral part of the Government agenda. Public procurement is estimated to account for more than 14% of the GDP. Increase in efficiency in this area would have a substantive monetary and developmental impact, hence procurement ranks high on the Government agenda. The Public Finance Management Rolling Plan (PFM RP) 2017-2020 (draft) identifies “strengthening the efficiency and transparency of procurement systems” among the key strategic areas. The Malawi Growth and Development Strategy (MGDS III) (2017-2022) emphasizes the need to continue with the PFM reforms including public procurement. It is also noteworthy that introduction of an e-procurement system is a Government priority area and work is under way through the World Bank funded Malawi Digital Migration Project.

In February 2019, the World Bank, in cooperation with the Government of Malawi (GoM), completed assessing the Public Procurement system using (MAPS) . The GoM adopted the key recommendations that came out of the MAPS-II assessment, including:

1. Constitution of the Public Procurement Technical Advisory Group;
2. Amendment of the Public Procurement and Disposal of Public Assets Act, 2017 (PPD Act, 2017);
3. Preparation of Regulations for the PPD Act, 2017;
4. Updating and publishing of Desk Instructions and Standard Bidding Documents in line with the PPD Act, 2017;
5. Improvement of the PPDA website;
6. Removal of multiple layers of vetting and approvals prior to award of contracts;
7. Fast tracking implementation of e-GP;
8. Establishment of linkage between procurement plan, allocation of budget and availability of funds to ensure timely payment;
9. Enforcement of use of open tendering method as a default method of procurement;
10. Development of training and professionalization strategy;
11. Conduct extensive training of PDE staff on procurement process, contract management, documentation and record keeping;
12. Support local private sector participation on national public procurement market to enhance competition;
13. Conduct procurement audits/reviews with collaboration with the National Audit Office; and
14. Engagement of CSOs and building of their capacity to participate in procurement process and contract management.

Sectoral and Institutional Context

Public procurement systems and markets are a potentially fruitful pathway to promote competition and support the growth of SMEs because government procurement expenditures are an important share of the



GDP. In most developing countries, Governments are one of the largest, if not the largest, procurer of goods and services. Therefore, they are very attractive targets for all private sector enterprises, most of which are SMEs.

Local private sector companies are facing several constraints in entering the public procurement market in Malawi. Currently, the market is dominated by a few large national firms. The local private sector is facing a series of constraints including a lack of access to finance, lack of consistent application by government agencies, lack of information on requirements and procedures, and difficulties in obtaining bidding documents due to the absence of online public procurement portals with the required functionality. Per the results of a survey about market competition in Malawi (available at the Competition and Fair Trading Commission (CFTC)), "when asked to rate the prevalence of Anti-Competitive Market Practices in the market, eight percent said they are hugely prevalent while 44 percent said they are significantly prevalent and 32 percent said they are moderately prevalent. Only six percent said they are insignificant."

The Ministry of Industry, Trade and Tourism’s Micro, Small and Medium Enterprise Policy (October 2017) seeks to promote the development of inclusive markets, focusing on marketing capacity building in peri-urban, rural areas and the informal sector through ensuring empowerment of Micro, Small and Medium Enterprises (MSMEs) via public procurement. According to Malawi Micro, Small and Medium Enterprises (MSME) Policy (2019), MSMEs are defined based on the total number of employees, total investment and sales turnover. Accordingly, businesses that employ at most 99 workers, generate annualized turnover of up to K500 million or with maximum assets (excluding land and building – for manufacturing enterprises) of K250 million. Businesses within the MSME sector are classified using the same set of criteria. Accordingly, micro enterprises are those engaging up to four people, or employing capital under K1, 000,000.00 and a turnover of up to K5, 000, 000.00. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized activities engaging between 5 to 20 people or with capital investment of K20,000,000.00 and turnover of up to K50 million. Medium enterprises employ between 21 to 99 people or use capital investment of K250 million and a turnover of up to K500 million. The Public Procurement and Disposal of Public Assets (Act 27 of 2017) permits the granting of preference to benefit a bid by MSMEs and the setting aside or reservation of work for MSMEs. Although it was found that there were approximately 1 000 000 MSMEs [Trade and Tourism’s policy (based on 2012 survey)] in Malawi, most of them are micro businesses and retailers. This policy document also sets the following procurement targets:

Outputs	Performance Indicators	Target	Baseline	Source of Verification	Assumptions (A)/ Risks
Allocation of public procurement to MSMES improved	Percentage of Public procurement offered to MSMEs	30%	0	ODPP Reports, Procurement Plans	A: Stakeholder commitment to implement the act

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Participation of MSMEs in public procurement increased	Percentage/Share of MSMEs participating in Public procurement	30%	0	Progress reports: ODPP	
Use of e-GM by MDAs	Percentage of Goods purchased by MDAs using the e-GM	30%	0	Progress report from system on the use of e-GM by MDAs	

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The challenging target is the 30% share of MSMEs participating in public procurement, given that the bulk of the expenditure involves infrastructure projects (i.e. works contracts) and no availability of market study on the characteristics of the SMEs in Malawi may pause serious obstacles to successfully implement the policy.

Recognizing the importance of competition and SMEs participation in public procurement markets, the PPDA took various steps to expand opportunities for private sector companies the development of SME guidelines, Additionally, PPDA is in the process of upgrading its website to provide a single platform for information on public procurement. Malawi Public Procurement Regulation Part VIII has provisioned the use of Information Technology and electronic media also mentioning the security and audit requirements. Developing E-government procurement (e-GP) is one of PPDA’s key priorities to modernize the system and use digital technologies to replace or redesign paper-based procedures throughout the public procurement process. E-GP systems can reduce transaction costs and enhance competition in public procurement processes through increased access to procurement opportunities, thereby removing barriers for participation of local private sector companies in public procurement processes. The development of an e-GP system and its pilot phase will be funded by the Digital Malawi Program Phase I: Digital Foundations Projects, financed by the World Bank.

Change Management is an important element for deploying a system. Some elements of change management will be added in the contract for the firm developing the e-marketplace for internal change management. Since e-GM will be interfaced to e-GP, the e-GM will benefit from g the external change management planned for e-GP. Additionally, the project will finance hiring a communication specialist to help in development of communication strategy for the roll-out of e-GM

The priorities identified under this project will aim to create the demand and market for SMEs in public procurement market as well as build the capacity of the local private sector to enter and compete to win government contracts and implement government’s reform priorities to boost the local private sector. The project aims to give opportunities to the local vendors and SMES, MSEMES, and Women-LED SMESs. 30% relate to opportunities exclusively offered to MSMEs. The marketplace will primarily focus on the local



market. For the international vendors, e-GP system is being developed under a different project, which will have those procurement services incorporated.

Relationship to CPF

The new CPF for the period of FY 21-25 currently under the concept note stage focus on supporting MSMEs and creating markets during COVID, and beyond. The CPF clearly indicates the need on building on the lessons of the MAPS, the WB's support to procurement policy and practice will be further enhanced under the CPF.

The concept note for the CPF indicates that public procurement spending contributes to 14 percent to GDP, but smaller local firms have not been able to take advantage of participating in the public procurement market given that a narrow set of larger, well-connected firms dominate the market. The WB *Digital Malawi Project* will support the government to establish an e-procurement platform which will streamline the multiple layers of vetting and approval required for awards. The WB will also help local MSMEs to enter the market through an e-Marketplace and through online training modules, with wider benefits for competition and transparency in public procurement.

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C. Project Development Objective(s)

Proposed Development Objective(s)

Invigorating local market & competition in Public Procurement through development of e- Government Marketplace (e-GM)

Key Results

The activities proposed under this project will complement the activities included under Digital Malawi Program Phase I: Digital Foundations (P160533). The digital projects include financing development of e-GP and updating SBDs and desk instructions that were identified as part of MAPS assessment action plan. This project will aim to achieve the following results:

- Setting up of an e-GM;
- Developing e-Learning to facilitate SME and entrepreneur access to and participation in the public procurement market

D. Preliminary Description

Activities/Components

Various steps had been taken by PPDA to improve competition and enhance SMEs access to the public procurement market through different initiatives. Other priorities identified under this project attempted to



improve public procurement market dynamics at both the demand and supply sides, to successfully implement the government’s policy:

Creating incentives for demand:

1- Setting up of a Government e-Marketplace: An e-Marketplace will be developed where private sector companies, including small businesses and entrepreneurs can jointly build searchable "catalogue of catalogues" one-stop portal, to provide the visibility and credibility that are impossible for an individual business or entrepreneur to build it. An e-Marketplace portal is a platform for B2G transactions. It is like Amazon for all official procurements by government ministries and departments for common use items, such as papers, cleaning materials, printer toners, decorative handicrafts, event services, laptops, furniture or even automobiles, within an authorized threshold. The objectives of an e-Marketplace platform are:

- Enhancing transparency and efficiency in retail procurement
- Achieving cashless and paperless transactions successfully
- Cost savings on Government expenditure on procurement with increased competition
- Easier availability of products and services for Government buyers during normal and crisis situations
- Creating new linkages between businesses and Government
- Creating new jobs for the local private sector

SMEs and entrepreneurs can showcase and sell their products and services for government departments at the e-marketplace, which ultimately generates healthy competition. An e-Marketplace will significantly lower barriers to entry for suppliers who wish to do business with the Government, thus facilitating small businesses to tap into a huge new market. Just like any other advanced e-commerce online portal, business takes place in a matter of minutes and there will be no lengthy paperwork as in the high-value procurements despite it being part of the Government. Selling through the e-marketplace provides small businesses and entrepreneurs with tools and opportunities that are typically unreachable to retailers with fewer resources. For sustainability of the system, fee structure can be defined. When MSME gets a contract, they have to pay a percentage as a service fee to use the system. Advertisement of the products and services by large businesses with a disclaimer that those ads are not promoted by Government. An e-Marketplace can also be an enabler for Data sharing which will be useful for analyzing growth of MSMEs, employment provided by MSMEs, and market competitiveness. The availability of electronic data platforms can lead to big data analytics and Artificial Intelligence based applications. This can be a game changer for Government evidence-based decision making, leading to fit for purpose reforms and policies. The e-Marketplace B2G data sharing can be helpful in improving the public image due to proof of the Government’s commitment to lowering barriers to entry for small businesses The e-Marketplace and the e-GP system are inter-linked systems, and the extent to which the e-Marketplace can be embedded into the e-GP system that will be implemented in the country. e-GP allows entrepreneurs to upload their catalog items and service details with availability, price, price validity and delivery options following the data definition standards. Government departments can search for items and services with different search criteria and place a direct order, or compare between the desired number of seller prices and choose the one best suited to them. To facilitate online orders, the marketplace should offer credit card payment facilities, including built-in harmonized tariff codes and United

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Nations Standard Products and Services Code (UNSPSC) categorization tools. Logistical capacity of the e-GM is a critical aspect for the overall success. One option is to design a three-tiered model – supplier, purchaser and logistics. The logistic firm can be part of the marketplace and then can add their offered rates in the system. MSME can select a logistic firm from the system while posting their catalog OR the purchaser can select a logistic firm while placing the order. The cost of logistic can be added to the overall order cost. The supplier performance can be monitoring and feedback from purchaser to be recorded in the system for both MSME and suppliers. The other option that a postal service can be outsourced for the delivery following the Amazon model. The cost of the delivery will be included in the cost. The options will be discussed with PPDA and logistical approach will be finalized.

The e-GP System currently being planned in Malawi will use the goods and services classification standard UNSPSC across the system from planning to contract execution. The procuring entities will use the e-Marketplace for all kinds of shopping purposes that are allowed according to the PPDA and regulations of Malawi. Similarly, the e-Marketplace also uses the same classification and coding standard for its catalog items, which will facilitate the seamless integration of the e-Marketplace with the e-GP System in future. The system is preferred to be COTS provided as the SaaS solution with a customization to meet the legislative requirements of the country. There will be no additional hardware to be procured to host the system. The Procurement Plan is being prepared for the activities and timelines. The integration of the e-Marketplace with the e-GP system is envisioned in the following two ways:

- E-GM runs independently and interface with the e-GP system through web services.
- Making the e-GM an integral part of the e-GP system by embedding the e-Marketplace system

Creating capacity to suppliers:

2- e-Learning for SMEs and Entrepreneurs: To be able to take advantage of all of the benefits of the e-Marketplace, SMEs and entrepreneurs would benefit from capability building. e-learning would likely be the most effective format for a training program – suppliers could access the training via handheld devices, i.e. mobiles, iPad, computers or laptops. Proposed topics for the e-learning include doing business with the government, the ethical use of e-GM, etc. During the spread of COVID-19, e-learning/ online sessions will be used to deliver the training to users of the system.

Environmental and Social Standards Relevance

E. Relevant Standards		Relevance
ESS Standards		
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant



ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

Legal Operational Policies**Safeguard Policies****Triggered****Explanation (Optional)**

Projects on International Waterways OP 7.50

No

This project does not involve International Waterways.

Projects in Disputed Areas OP 7.60

No

This project does not involve Disputed Areas.

Summary of Screening of Environmental and Social Risks and Impacts

Initial screening of the proposed activities indicates low risk for environment and social impacts.

CONTACT POINT**World Bank**

Contact : Nazaneen Ismail Ali

Title : Senior Procurement Specialist

Telephone No : 5220+33379 /

Email :

Contact : Khalid Bin Anjum

Title : Senior Procurement Specialist

Telephone No : 5355+336 / 9

Email :

Contact : Komana Rejoice Lubinda

Title : Senior Procurement Specialist

Telephone No : 5394+3203 /

Email :

Borrower/Client/Recipient

Borrower : Government of Malawi



Implementing Agencies

Implementing Agency :	Malawi - Public Procurement and Disposal of Assets Authority (PPDA)		
Contact :	Ellias Hausi	Title :	Director General
Telephone No :	2650887083261	Email :	ehausi@hotmail.com
Contact :	Gloria Nngoma	Title :	Manager
Telephone No :	2650887083261	Email :	mukalimo@gmail.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

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