Integrated National Financing Strategy for Malawi

August, 2024

"Sustainable development is the pathway to the future we want for all. It offers a framework to generate economic growth, achieve social justice, exercise environmental stewardship and strengthen governance."

BAN KI-MOON

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AAAA	Addis Ababa Action Agenda
ADMARC	Agricultural Development and Marketing Corporation
AIP	Affordable Inputs Program
ATI	Agricultural Transformation Initiative
CDCS	Country Development Cooperation Strategy
CDF	Constituency Development Fund
DFA/LLFA	Development Finance Assessment/ Local Level Finance Assessment
DFIs	Development Finance Institutions
ECA	Export Credit Agency
EDF	Export Development Fund
ESCOM	Electricity Supply Corporation of Malawi Ltd
EU	European Union
FSDR	Financing for Sustainable Development Report
GDP	Gross Domestic Product
GOM	Government of Malawi
ICT	Information and Communications Technology
IDA	International Development Association
ILO	International Labour Organisation
IMF	International Monetary Fund
INFFs	Integrated National Financing Framework
INFS	Integrated National Financing Strategy
IPP	Independent Power Producer
LDCs	Least Developed Countries
M&E	Monitoring & Evaluation
MAIIC	Malawi Agricultural and Industrial Investment Corporation
MAIP	Multi- Annual Indicative Programme
MDBs	Multi-lateral Development Banks
MEM	Malawi Economic Monitor
MIP-1	MW2063 First 10-Year Implementation Plan
MITC	Malawi Investment and Trade Centre
MoFEA	Ministry of Finance and Economic Affairs
MRA	Malawi Revenue Authority
MSMEs	Micro, Small & Medium-sized Enterprises
MUSCCO	Malawi Union of Savings and Credit Cooperatives
MW2063	Malawi 2063
NAPA	National Academy for Public Administration
NBM	National Bank of Malawi
NES	National Export Strategy
NLGFC	National Local Government Finance Committee
NPC	National Planning Commission
ODA	Official development Assistance
OECD	Organisation for Economic Co-operation and Development
PFM	Public Finance Management
PPPC	Public Private Partnership Commission
PPPs	Public Private Partnerships
RDBs	Regional Development Banks
SDGs	Sustainable Development Goals
TDB	Trade and Development Bank
UK	United Kingdom
UNDP	United Nations Development Programme
VAT	Value Added Tax

Foreword

It is with great honour and profound responsibility that I present the Integrated National Financing Strategy (INFS) for Malawi, a pivotal component of our overarching Integrated National Financing Framework (INFF). This strategic document represents not just the blueprint for our path towards sustainable development but a commitment to the prosperity and well-being of every Malawian as we align with the 2030 Agenda and its 17 Sustainable Development Goals (SDGs).

In September 2015, the world leaders adopted the 2030 Agenda for Sustainable Development, signalling a global commitment to eradicate poverty, protect the planet, and ensure prosperity for all. Malawi, as a dedicated member of the global community, embraced this agenda, recognizing the critical need for a coherent, strategic approach to mobilize, manage, and align financing with our national development priorities.

The journey to this moment has been both challenging and inspiring. Developing countries, including Malawi, are faced with the daunting task of navigating macroeconomic volatility while striving to mobilize adequate finance to meet the SDGs. Our challenges are compounded by the need to address healthcare, hunger, poverty, and reliance on an agriculture-dependent economy, amidst a backdrop of climate change volatility, geopolitical events, and socio-economic disparities.

Recognizing these challenges, the Government of Malawi, with invaluable support from the United Nations Development Programme (UNDP) in consultation with other development partners, embarked on a comprehensive process to articulate the INFS. This strategy is a testament to our collective resolve to identify, analyze, and bridge financing gaps through innovative regulatory, policy, financial, and business process reforms. It reflects our ambition to enhance domestic public and private financing, leverage international financing, and foster effective governance and coordination mechanisms.

The INFS is the culmination of extensive consultations and collaborations with a diverse range of stakeholders, including ministries, departments, agencies, the private sector, civil society, academia, and international partners. This inclusive approach has enriched our strategy, ensuring that it is both comprehensive and aligned with Malawi's development aspirations in the Malawi 2063.

As we present this strategy, I wish to extend my deepest gratitude to all who have contributed to this monumental effort. The expertise, insights, and dedication of each participant have been invaluable in shaping a strategy that is both visionary and pragmatic.

The INFS is not just a document but a roadmap for action. It calls for a collective effort from all sectors of society to mobilize resources, implement reforms including those proposed by key development partners, and monitor progress towards our shared goals. As the Minister of Finance and Economic Affairs, I pledge the Government's unwavering commitment to lead this charge, ensuring transparency, accountability, and effective stewardship of our resources.

As we move forward, let us be guided by the spirit of unity, innovation, and resilience. Together, we will navigate the path to sustainable development, ensuring that no one is left behind and that the future we build is inclusive, resilient, prosperous, and sustainable for all Malawians.

Hon. Simplex Chithyola Banda, MP
Minister of Finance and Economic Affairs
Republic of Malawi

Preface

The Integrated National Financing Framework in Malawi comes at a critical time when Malawi is in the process of accelerating the implementation of the Sustainable Development Goals (SDGs) and fast tracking the implementation of its First 10-year implementation plan (MIP-1) to realize the aspirations in the Malawi 2063 against the backdrop of macroeconomic and fiscal uncertainties. MW2063 outlines a path to becoming an inclusive, self-reliant, industrialized upper-middle-income country by 2063, with the MIP-1 aiming at achieving a lower-middle-income status and meeting most of the SDGs by 2030. Mobilizing adequate financial resources, both domestic and global, is the cornerstone and key to success in achieving these objectives.

The Government of Malawi, with support from the United Nations (UN) in Malawi, through UNDP technical leadership and financial support from the Joint SDG Fund Program advanced the Integrated National Financing Framework (INFF) to effectively mobilize and align diverse financial resources towards achieving the SDGs and national development priorities. The INFF is a pivotal step forward, outlining how MIP-1 will be financed and implemented through a resilient financial ecosystem that relies on public, private, and innovative financing sources. Leveraging policy and regulatory reforms, financial instruments, and business processes, the INFF stands as a testament to Malawi's commitment to transforming not only its economy but the lives of its people in pursuit of sustainable development goals.

The INFF is more than a financing strategy; it is a blueprint for collaboration. It calls upon state and non-state actors in ensuring the appropriate governance framework, partnerships, and monitoring framework are in place to ensure its success. The UN remains committed to ensuring further technical and financial support to the INFF to ensure sustainable and inclusive growth, and achieving the SDGs, having recognized that this set of interdependent goals hold the key to sustainable human development in Malawi.

On behalf of the UN, I would like to thank the Minister of Finance and Economic Affairs, Honorable Simplex Chithyola Banda MP, and his Ministry for the leadership in the INFF formulation process and for providing the graciously approving the Integrated National Financing Strategy document. I would also like to acknowledge the Director General of National Planning Commission, Dr. Thomas Munthali and his team for the steadfast collaboration with the Ministry of Finance and Economic Affairs.

Let me also express my gratitude to the UN Resident Coordinator, Madam Rebecca Addah-Dontoh, for steadfast commitment to successfully coordinate the formulation process of the INFF in which UNDP Malawi partnering with UNICEF benefitting from the system-wide support of the United Nations throughout this journey.

Allow me to acknowledge and thank all other public and private stakeholders, including the private sector, the civil society/non-governmental organizations, development partners, think tanks / academia and other stakeholders for their undivided commitment to contribute immensely input to the consultation process on the INFF process. Finally let me sincerely again thank the Joint SDG Fund Program for their technical and financial support to the INFF process in Malawi.

Fenella Frost
Resident Representative
United Nations Development Programme Malawi

Acknowledgements

The completion of the Integrated National Financing Strategy (INFS) for Malawi represents a significant milestone in our nation's journey towards achieving the Sustainable Development Goals (SDGs) by 2030 and the aspirations of the long-term development of Malawi by 2063. This achievement was made possible through the support and collaboration of a wide array of stakeholders, whose dedication and expertise have been instrumental in articulating a comprehensive Integrated National Financing Framework (INFF) to bolster Malawi's development agenda.

We extend our heartfelt gratitude to the United Nations Development Programme (UNDP) for its unwavering support through the the SDG Fund Joint Programme in guiding the Government of Malawi throughout the process of developing the INFF. The UNDP, under the technical guidance of its Development Impact Advisory Team (DIAT), and with overarching policy guidance from the Senior Managers of UNDP and the Ministry of Finance and Economic Affairs, has been critical in facilitating this comprehensive approach.

Special thanks go to the Ministry of Finance and Economic Affairs through the Debt and Aid Management Unit, which led and coordinated this assignment on behalf of the Government of Malawi. The collaborative effort, in consultation with the National Planning Commission (NPC) and other sector ministries, departments, and agencies, has ensured a holistic and inclusive process. The extensive consultations with development partners, including bilateral and multilateral partners, civil society, academia, and the private sector, have enriched the INFS, underscoring the collective commitment to sustainable development in Malawi.

Our appreciation also extends to the team of experts from International Financial Consulting Ltd., led by Diana Smallridge and supported by Niklas Kesseler and Sarah Maiguwa. Their professionalism, expertise, and dedication have been pivotal in ensuring the quality and relevance of the INFS. Furthermore, we recognize the essential role of Hannock Kumwenda, a national consultant and lead for stakeholder engagement, whose efforts have greatly contributed to the engagement process and the INFS' overall success.

The Government of Malawi acknowledges the critical role of the private sector in job and wealth creation and its significant contribution to development finance. The insights and engagements from this sector have been key to shaping a strategy that is both ambitious and achievable.

This collaborative effort reflects our shared commitment to fostering sustainable development and achieving the SDGs in Malawi. As we move forward, the INFS will serve as a blueprint for mobilizing public and private financing from domestic and international sources, bridging financing gaps, optimizing financial flows, and implementing regulatory, policy, financial, and business process reforms aimed at achieving sustainable development and building an inclusively wealthy, resilient, and industrialized nation by 2063.

The journey towards 2030 is a collective one, and the success of the INFS is a testament to the power of partnership and collaboration. We extend our deepest gratitude to each individual and organization involved in this process. Together, we are laying the foundation for a prosperous, inclusive, and sustainable future for all Malawians.

Prof. Betchani Tchereni
Secretary to the Treasury
Ministry of Finance and Economic Affairs
Republic of Malawi

Executive Summary

In September 2015, the United Nations (UN) established the Sustainable Development Goals (SDGs), offering a universal roadmap for peace and prosperity for people and the planet, now and into the future. These 17 Goals, integral to the 2030 Agenda, have ignited a global movement, encouraging countries to align their development agendas with these global objectives, fostering international collaboration between developed and developing countries.

Malawi, aligning with this global vision, has pledged to achieve the SDGs by 2030. Despite the government's commitment to development and reform, Malawi faces significant challenges due to macroeconomic instability, hindering its ability to secure necessary funding for the SDGs—a common issue among developing nations. The country grapples with healthcare, hunger, and profound poverty issues, disproportionately affecting women. In 2021, Malawi was ranked as the world's fourth poorest country, with a significant portion of its population living on less than USD 1.90 a day.[1] This poverty level is partly attributed to the economy's heavy reliance on agriculture for both exports and food security, lack of sectoral diversification, and susceptibility to weather and climate crises, compounded by limited revenue and unsustainable debt. While poverty levels saw a marginal reduction from 71.7% in 2010 to 70.3% in 2016, recent challenges such as the COVID-19 pandemic, geopolitical tensions, and population growth have driven inflation up, escalating poverty rates to 74%.[2]

The progress towards achieving the SDGs has been uneven, with notable stagnation and even regression in areas like Quality Education (SDG 4). However, there has been modest advancement in Gender Equality (SDG 5), Clean Water and Sanitation (SDG 6), Affordable and Clean Energy (SDG 7), Decent Work and Economic Growth (SDG 8), and Sustainable Cities and Communities (SDG 11), with Climate Action (SDG 13) being the only goal on track for 2030.

Over the past two decades, Malawi's fiscal management has been characterized by deficits, largely addressed through tax increases and borrowing. Factors such as the Affordable Input Program (AIP), pandemic-related fiscal pressures, expansionary government policies, and diminished tax revenues have exacerbated the fiscal deficit, reaching 9.1% of GDP in FY21/22.[3] Both the International Monetary Fund (IMF) and the Ministry of Finance and Economic Affairs (MoFEA) have initiated a concerted exploration of solutions for Malawi's pressing financial needs and reform support, aiming to achieve more sustainable debt levels. Beyond managing debt, there is a critical need for Malawi to diversify its financing sources to effectively address economic challenges and fulfill its SDG commitments.

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[1] German Federal Ministry for Economic Cooperation and Development: "World Data Lab", 2022 https://worldpoverty.io/map; accessed 21-10-2022

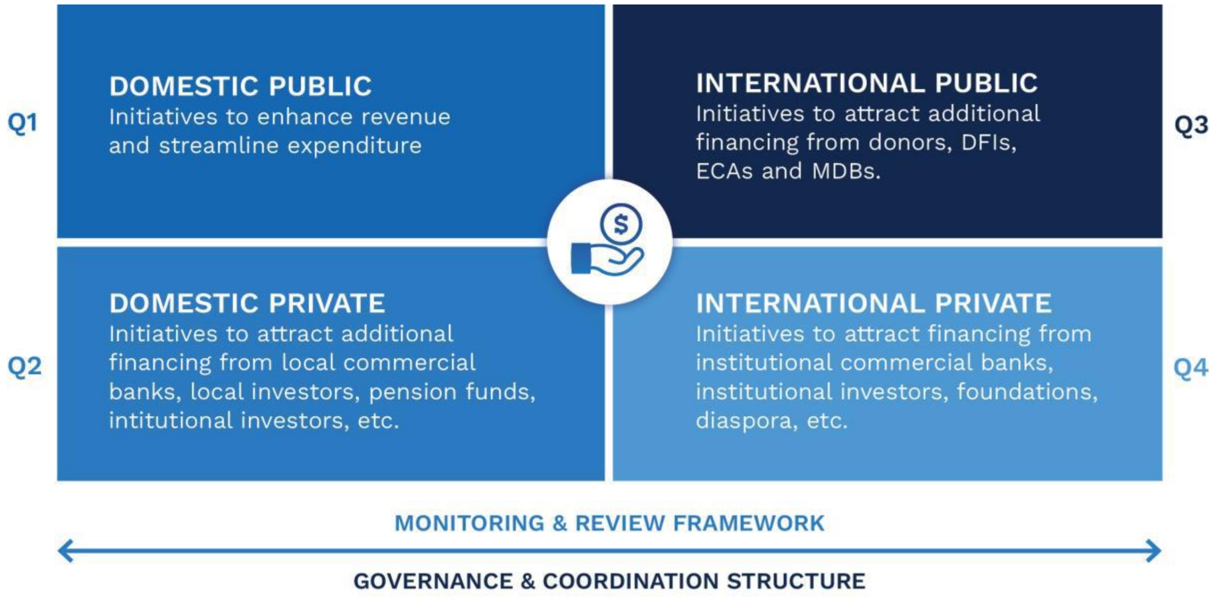
[2] World Bank, "Country Overview", *World Development Indicators*, The World Bank Group, https://www.worldbank.org/en/country/malawi/overview, accessed 16-10-2022

[3] IMF: "Country Report No.2021/269", 20-12-2021,

The Integrated National Financing Strategy (INFS) Framework

The Integrated National Financing Framework (INFF) outlines the public and private funding sources that will be used to support and implement each nation's national development agenda. Country-ownership at the highest levels of government is the hallmark of the INFF. Through the creation of the INFF High Level Forum and the coordination of the funding dialogues, which form the foundation of the INFF, it adopts a whole-of-society approach. The Integrated National Financing Strategy (INFS), which is the focus of this report, is a building block of the INFF and has been developed to fill funding shortfalls and find new sources of funding for the SDGs. The INFS builds on the first block of the INFF-Local Level and Development Finance Assessment (LLFA/DFA), which is a diagnosis of financial flows and state of the economy. The INFS framework explores sources of finance from public and private sources in both domestic and international markets.

The INFS Framework



Methodology

The methodology for formulating the Integrated National Financing Strategy (INFS) involved a comprehensive, stepwise approach to identify, analyze, and address financing for Malawi's Sustainable Development Goals (SDGs). This process was designed to pinpoint existing financial resources, recognize financing gaps, and propose actionable initiatives to enhance financial inflows from various sources. The methodology unfolded in the following manner:

Step 1: Identification of Existing Financing Sources and Gaps

Initial efforts focused on leveraging the Development Finance Assessment (DFA) and Local Level Finance Assessment (LLFA) to outline current financing mechanisms supporting Malawi's SDGs. Utilizing the SDG dashboard, we assessed the progress and identified critical areas where Malawi lags in its SDG objectives, highlighting the presence of financial gaps. This phase's primary goal was to delineate the scope and objectives of the financing strategy, aiming to bridge these gaps, seize financing opportunities, and alleviate constraints impeding the mobilization of development finance.

Step 2: Analysis and Initiative Development

The subsequent phase involved an in-depth analysis of the reasons behind these financing gaps and exploration of strategies to mobilize additional financial resources for development. We dissected existing financing flows across four key quadrants: domestic, international, public, and private, aiming to unveil initiatives that, once realized, could catalyze further financial opportunities. These initiatives fell into two principal categories:

DOMESTIC PUBLIC	Domestically available resources to finance SDGs in Malawi can be improved through better public debt management, favorable macroeconomic and monetary policies, and tightening revenue capture by the government, amongst others. The Malawi budget cycle and Public Financial Management system, including Medium-Term Expenditure Framework, public investment systems all play a central role in management of expenditures, and will be optimally utilised to allocate public funds more efficiently.
DOMESTIC PRIVATE	Incentive structures can be designed to increase domestic private financing from local pension funds, insurance companies, mutual funds, and other institutional investors. State-owned entities, like Malawi Agricultural and Industrial Investment Corporation (MAIIC), engaged in development financing and the National Bank of Malawi's (NBM) development bank facilities can and should play a central role as government-owned financing partners to catalyse private capital and act as a robust resource channel for SDG-aligned investments.
INTERNATIONAL PUBLIC	These are donor country level, development finance flows through bilateral DFIs and aid agencies providing ODA and other instruments. Financing from MDBs is also a prominent source of SDG financing in Malawi and can be better aligned to national priorities. Export Credit Agencies are increasingly applying an SDG approach, including Africa Trade Insurance, of which Malawi is a shareholder.
INTERNATIONAL PRIVATE	International private sources are available, and they include remittances, corporate philanthropy, family offices, impact investors, and other sources and mechanisms. In Malawi, Foreign Direct Investment is a key source of finance that remains untapped, mostly because the business environment is not favourable. Therefore, an important part of this strategy is a mapping of steps the government will take to attract FDI to the country.

1. **Direct Financing Initiatives:** These are measures designed to immediately enhance Malawi's ability to meet its financing needs for the SDGs. Examples include improving the financial management capabilities of the Ministry of Finance and Economic Affairs (MoFEA) and streamlining operations of state-owned enterprises to boost efficiency and profitability.
2. **Enabling Initiatives:** The second category comprises initiatives aimed at creating conducive conditions for augmenting financial flows. This involves setting up frameworks, policies, and infrastructures that indirectly foster an increase in available financial resources for development. Several of these initiatives are already in progress, indicating a proactive move towards strengthening Malawi's financial foundation for SDG achievement.

The proposed initiatives within the INFS framework are organized into four distinct types of reforms. These serve as the mechanisms by which Malawi intends to broaden its financial base. Specifically crafted to either directly enhance the nation's financial outcomes or to modify behaviors in a manner that promotes increased financial returns, these reform categories embody the strategic pathways for financial expansion in Malawi.

Regulatory Reforms: These reforms involve introducing new or amending existing regulations to better address specific areas or issues, enhancing their effectiveness, efficiency, and legality. Simplifying the firm registration process, for instance, plays a crucial role in attracting new investment to Malawi and bolstering the performance of existing companies, ultimately leading to sustained improvements in revenue generation.

Policy Reforms: Policy reforms are the processes by which governing bodies or officials identify, evaluate, and adopt preferred strategies to tackle specific challenges or achieve desired outcomes. This could lead to modifications in laws, procedural rules, and the operational frameworks of government entities responsible for implementing these policies.

Financial Instruments: This category includes a variety of financial tools aimed at increasing or mobilizing additional funds. Among these are risk management solutions such as insurance and guarantees, alongside investment options and borrowing mechanisms like equity investments and debt financing through financial institutions and capital markets. These financial products may be refined or newly introduced to support Malawi's economic expansion.

Business Processes: Improvements in business processes refer to changes in the operational methodologies of the government, state-owned enterprises, and both public and private sector organizations, aimed at enlarging the financial pool. Digitalizing the mechanisms for tax filing and collection, for example, can optimize business activities and significantly enhance Malawi's capacity for revenue collection.

Step 3: Prioritizing INFS Initiatives

Prioritizing the initiatives within the INFS ensures the optimal use of scarce resources to meet urgent and significant needs. Through a thorough assessment of the political landscape and strategic prioritization, the government can channel its focus and resources towards initiatives poised to yield substantial impacts. This process of prioritization enhances the strategic allocation of resources, directing investments towards the most efficient and impactful initiatives, thereby maximizing the utility of constrained financial resources.

Furthermore, this step guarantees a comprehensive approach to national development, harmonizing the advancement of various sectors and domains. By emphasizing initiatives that contribute both to economic development and social progress, the government avoids the pitfall of pursuing economic expansion at the detriment of addressing poverty or neglecting social welfare. The essence of prioritization lies in its ability to bolster governmental efficiency and effectiveness; by concentrating on key areas such as health, education, or agriculture, it minimizes redundancies across departments, leading to a more cohesive and targeted strategy for program execution. This strategic focus ensures that governmental efforts are synchronized, streamlined, and successful in realizing their intended objectives.

Step 4: Finalizing the INFS Development Process

The concluding phase of crafting the INFS involves establishing a clear timeline (Short-term, Medium-term, or Long-term), determining the sequence of actions, and assigning governance and coordination duties.

- **Short-term Interventions**: These are actions that meet at least three prioritization criteria or serve as essential prerequisites for critical medium- or long-term efforts. These interventions are designed for immediate implementation, aiming to lay the groundwork for more extensive initiatives.
- **Medium-term Interventions**: These actions satisfy two of the established prioritization criteria and are slated for execution in the foreseeable future, aiding in the progression towards the SDGs. They build upon the foundation set by short-term interventions, pushing further the agenda for sustainable development.
- **Long-term Interventions**: These are strategic actions that meet one of the prioritization criteria and offer significant prospects for Malawi's sustained growth and development. Long-term interventions also encompass those that, due to current policy limitations or infrastructure deficits, cannot be promptly actioned but are vital for the country's future development trajectory.

Initiative Prioritization

The prioritization of initiatives within the INFS is strategically designed to achieve three key objectives: capture immediate opportunities while planning for future reforms, maintain consistency and longevity in policy measures, and enhance cooperation between government bodies and the private sector, leveraging support and expertise from international development partners.

The selection of initiatives is guided by several crucial criteria:

- **Potential for Revenue Generation**: This assesses the capacity of an initiative to directly increase revenue, such as through cost reduction or more efficient resource allocation, and its potential for indirect revenue benefits, such as those arising from enhancing the capabilities of public and private entities. This can lead to long-term advantages, including knowledge transfer and the development of more sophisticated products. High-revenue-generating initiatives are given precedence.
- **Feasibility of Implementation**: An initiative is deemed highly implementable if it improves upon an existing policy, enjoys political backing, or aligns with immediate goals under MIP-1, thus integrating seamlessly with existing governance and monitoring frameworks. Such initiatives are prioritized due to their straightforward execution path.
- **Enhancement of Malawi's Investment Appeal**: Critical for attracting investment, initiatives aimed at bolstering Malawi's reputation for accountability, transparency, and minimized risk are essential. These efforts position Malawi more favorably as an investment destination and are therefore prioritized.
- **Sustainability of Efforts**: Evaluating the sustainability of an initiative involves considering its long-term benefits across political, economic, and environmental spheres. Those initiatives that promise enduring positive impacts are prioritized, reflecting a commitment to sustainable development in all its dimensions.

Strengthening Domestic Public Financing Initiatives

The government has pinpointed key areas for reform to broaden the scope of domestic public financing, including:

- **National Fiscal Revenue Mobilization**: Efforts will be directed towards refining business registration processes to foster domestic investment and, consequently, increase tax revenue. This initiative will be supported by a comprehensive review of tax incentives and rates, alongside the digitization of tax collection systems, to maximize tax revenue collection from both public and private sectors. Moreover, the government aims to fortify international partnerships to combat tax evasion effectively. A national investment strategy will also be developed, aligning with Malawi 2063 and the 10-year implementation plan, and incorporating the SDG investor map to cultivate a more conducive investment climate.

- **Local Government Revenue Enhancement**: The government plans to expand and enhance a digital platform for municipal tax payments, leveraging insights from the successful implementation of Msonkho Online by the MRA, and to bolster property tax collection mechanisms. This initiative will be complemented by the integration of a local Public Financial

Management (PFM) system with the national PFM system (IFMIS), ensuring robust revenue management at the local level.

- **Public Debt Management**: Until debt restructuring is complete, and the economic landscape stabilizes, the Government of Malawi (GoM) will pause acquiring additional market-rate loans. A Medium-Term Debt Management Strategy (MTDS) for 2022-2024 will be established to guide this process.
- **Public Financial Management (PFM)**: The government will introduce incentives for public officials to enhance their commitment to public financial management, linking rewards to the fulfillment of specific performance targets. Additionally, efforts to eliminate non-essential activities will be intensified, and the criteria for selecting and prioritizing government-funded projects will be refined. Changes will also be made to the budget calendar to allow for the earlier development and distribution of the Fiscal Strategy statement, delineating the nation's priorities more clearly.
- **Empowering Public Sector Institutions**: To bolster investment in Malawi, pivotal public institutions such as ADMARC, EDF, MAIIC, and various agricultural marketing boards will undergo reconstruction or receive financial support. ESCOM will see reforms based on an objective assessment to enhance electricity delivery. The capacity of the National Planning Commission will be expanded to offer training on gender inclusion and diversity, establish gender focus groups within government bodies, and work alongside MITC and MIPA to devise a national standard for project assessment, thus improving the project evaluation process.

- Improve Business registration processes.
- Draw on international resources to exchange tax information with relevant overseas authorities to crack down on tax avoidance.
- Continue to develop and implement a digital local tax payment platform building on lessons learned from the MRA's Msonkho Online.
- Conduct Community Outreaches.
- Refrain from taking additional market rate loans until the debt restructuring is complete and the economy is stabilized.
- Conduct a comprehensive review of its public service manager and staff remunerations with an emphasis on creating incentives to serve the public and reduce inefficient activities.
- Develop better selection and prioritization criteria for selecting projects which the government invests in and are captured in the budget.
- Revise the budget calendar such that Fiscal Strategy statement, stating the national priorities, is prepared, and circulated earlier.
- Implement a Single Treasury Account (STA): All ministries and SOEs will deposit revenues in a STA to streamline the management and disbursement of public funds.
- To improve provision of electricity, the government will also restructure ESCOM based on an independent assessment of the company.
- Create gender focus groups in Government institutions and Ministries to provide training and workshops on the importance of gender inclusion and diversity.
- Work with MITC to strengthen the project appraisal process by developing a country-wide standard methodology for project appraisal.

Enhancing Domestic Private Financing Initiatives

To bolster domestic private financing, the government has earmarked several areas for development, including:

Mobilization of Domestic Financing Sources Efforts will be directed towards establishing investment caps on a variety of domestic assets and addressing the reserve requirements that have historically hindered the diversification of investments by private sector financiers. Regulatory enhancements aimed at simplifying the process for starting businesses will be implemented to ensure adherence to best practices. Additionally, the government will commit resources to conducting feasibility studies and legal assessments to further stimulate enterprise development. A renewed commitment to engaging with the private sector will be manifested through the establishment of a Public-Private Partnership (PPP) center and the formulation of a PPP development strategy, emphasizing skill and knowledge enhancement across the workforce. The government will also seek to attract impact investors and collaborate with organizations to strengthen Climate Adaptation Plans and enhance Insurance Coverage, further solidifying the framework for domestic private financing.

Enhancing Financial Access for MSMEs

The Government of Malawi (GoM) is set to launch a dedicated financing strategy aimed at agricultural Microfinance Institutions (MFIs), designed to mitigate financing risks. Concurrently, the government will introduce grant programs for smallholders, aligned with impact investment goals, to support MFIs focused on social objectives. Incentives will be provided to domestic investors to channel investments into key sectors, alongside measures to improve Small and Medium-sized Enterprises' (SMEs) access to capital. These efforts will be complemented by initiatives to fortify the financial system and evaluate the impact of support mechanisms for SMEs, ensuring a robust and responsive framework for nurturing business growth and development.

Enhancing International Public Financing Efforts

The Government has charted a course to widen the scope of international public financing through several strategic initiatives:

Based on the prioritisation criteria, the Government aims to implement the following initiatives for Domestic Private Financing first to ensure alignment with MIP-1:

Q1 DOMESTIC PUBLIC	Q3 INTERNATIONAL PUBLIC
Q2 DOMESTIC PRIVATE	Q4 INTERNATIONAL PRIVATE

- Incentivize investment portfolio diversification.
- Improve regulations for establishing businesses.
- Honour government obligations to the private sector.
- Develop a Finance Strategy to de-risk Agriculture MFI financing.
- Source and implement Grant Schemes to help capitalize MFIs with social goals.

Fostering International Collaboration: An incentive system will be instituted at both the institutional and civil servant levels to enhance the reporting on the allocation and utilization of international donor funds, ensuring transparency and promptness. Concurrently, efforts to conclude debt restructuring agreements with Afreximbank and TDB will be prioritized to maintain access to short-term loans for eligible private entities. Additionally, the pursuit of further concessional funding from sources like the World Bank, African Development Bank (AfDB), and bilateral Development Finance Institutions (DFIs) will continue.

Leveraging the Green Climate Fund for Climate Action: The government commits to developing a comprehensive and cost-efficient national plan for climate adaptation and mitigation, including a significant focus on the generation and trading of carbon credits. This initiative aims to empower local expertise in climate resilience, environmental stewardship, and reducing urban-rural disparities. Supporting this endeavor will be the formulation of a climate policy targeting greenhouse gas (GHG) emission reductions and the establishment of criteria for issuing green bonds.

Investment De-risking Strategies: Projects that align with the Sustainable Development Goals (SDGs) will be introduced to leading providers of blended finance and guarantees, in line with the SDG investor map. Mirroring the practices of OECD countries that offer investment insurance in developing nations, the Government of Malawi (GoM) will collaborate with these countries to offer political risk insurance to investors focusing on SDG-compatible ventures within Malawi. This approach is designed to enhance the investment appeal and competitive edge of local SMEs.

Boosting International Private Financing

To amplify international private financing, the Government has delineated several strategic avenues:

- Follow up on existing public financial management commitments.
- Continue to explore other concessional funds such as AfDB, World Bank, and Bilateral DFIs.
- Develop criteria for issuing green bonds.
- Facilitation of carbon credit.
- Work with providers of political risk insurance.

Creating an Attractive Environment for Infrastructure Investments: The Government of Malawi (GoM) plans to reassess its monetary policies to promote a more adaptable exchange rate system, thereby making substantial infrastructure projects more appealing to investors. Explorations into the feasibility of solar and wind energy as alternative energy sources will be undertaken, alongside efforts to rehabilitate and improve critical physical infrastructure, such as roads, to facilitate the smoother movement of goods and services. Additionally, the ICT sector will be strengthened and leveraged, coupled with the promotion of high-quality public education.

Drawing in Foreign Investment: The Government intends to intensify its marketing strategies to refine sectoral approaches and secure a stable investment climate. It will also conduct targeted feasibility studies to pinpoint sectors and projects with high investment potential, aiming to attract foreign investors by showcasing Malawi's lucrative opportunities.

Harnessing Philanthropic Contributions: Regulatory barriers that currently hinder philanthropic funding will be reassessed, and efforts will be made to enhance coordination with donors and philanthropic organizations. The Government will develop and share gender-responsive development plans, informed by NGO mappings by the NGO Regulation Authority, to draw in funding that supports gender equality initiatives.

Capitalizing on Remittances: The GoM will engage the Malawian diaspora in dialogues aimed at enhancing Malawi's economic landscape, followed by the launch of a Diaspora Bond and the elimination of tax barriers that deter investment. Collaboration with fintech companies will be sought to establish specialized channels for digital cross-border transactions, facilitating the inflow and outflow of remittances. Additionally, the potential for exporting skilled labor as a means of generating repatriated funds will be explored, further enriching Malawi's economic development strategies.

Monitoring and Review of the INFS

The Government of Malawi (GoM) must strategically prioritize INFS activities, ensuring that its finite resources are allocated to the most critical opportunities and needs. By evaluating the current political landscape and establishing priorities, the government will focus its efforts and resources on initiatives expected to deliver the most significant impact. This approach to policy prioritization will enhance the distribution of resources, ensuring investments are channeled towards cost-saving initiatives and maximizing the benefits derived from limited resources. Within the Monitoring and Review (M&R) plan, initiatives are classified according to their urgency into short-term, medium-term, and long-term objectives.

- Clarify land tenures and guidelines.
- Conduct feasibility studies on the use of solar and wind power as alternative sources of funding.
- Review regulatory hurdles for philanthropic funding.
- Based on the NGO regulatory authority's NGO mapping, the government will develop and share gender-based development goals with philanthropic donors.
- Review tax policies to ensure disincentives are removed in order to leverage remittances.

The M&R Plan for Malawi is dedicated to evaluating the breadth and influence of INFS projects across various financing sources, monitoring their progress, and assessing their effectiveness. The construction of the M&R plan is based on several key components: identified initiatives, types of reforms, ease of implementation, potential for revenue generation, effects on risk perception, sustainability, prioritization timeframe, expected outcomes, and Key Performance Indicators (KPIs).

Governance and Coordination Framework

A robust Governance and Coordination framework is integral to the INFS, pinpointing the primary entities responsible for overseeing project execution and monitoring progress and results. This framework introduces several new structures essential for the implementation of the INFS in Malawi:

- **High-Level Forum**: Chaired by the Ministry of Finance and Economic Affairs (MoFEA) and the Cabinet, this forum acts as a general oversight committee comprising members from the Cabinet Committee on the Economy. It mandates MoFEA to provide regular updates to the Presidency, ensuring transparency and accountability.
- **Implementation Group**: Tasked with maintaining the momentum of INFS initiatives beyond electoral cycles and administrative changes, this group is crucial for the continuity and long-term sustainability of the INFF. It supports the establishment of empowered technical implementation organizations, known as Pillar and Enabler Groups (PEGs), which are integral to executing national development strategies under Malawi 2063.
- **Technical Secretariat**: Essential for the effective implementation of the INFF, this entity will require sufficient capacity and support, particularly in the initial stages. The Technical Secretariat, operating within the Debt and Aid Division (DAD) and closely supported by the National Planning Commission (NPC), will coordinate INFF reform efforts across various PEGs and economic sectors.

- **Implementing Sectors/PEGs**: These collaborative groupings bring together all relevant stakeholders from both the state and non-state sectors within specific pillars or enablers. They are responsible for establishing multi-year priorities and advising the government on the resources necessary to achieve the envisioned goals.

1. Introduction

1.1. INTRODUCTION

In September 2015, the United Nations set forth the 2030 Agenda for Sustainable Development, offering a unified vision for peace and prosperity for all people and the planet, now and into the future. This Agenda has invigorated national development planning worldwide, encouraging nations to weave their development strategies with the global pursuit of sustainable development. It champions a worldwide alliance across both developed and developing nations, encapsulated in 17 Sustainable Development Goals (SDGs). These SDGs emerge from five transformative shifts:[4] ensuring no one is left behind; embedding sustainable development at the heart of global efforts; reshaping economies to foster jobs and inclusive growth; cultivating peace and establishing effective, transparent, and accountable institutions; and igniting a renewed global partnership. This framework, defined by ambitious yet achievable goals and targets, is supported by a comprehensive system to monitor and track progress, guiding the global community towards a sustainable future.

Figure 1: The Sustainable Development Goals

Source: United Nations

Numerous nations, Malawi among them, have embraced the Sustainable Development Goals (SDGs), integrating them into their national agendas. Yet, a common challenge persists: the allocation of sufficient financial resources to these strategic plans often falls short, resulting in underfunded SDGs. This situation has been further aggravated by the COVID-19 pandemic and the continued conflict in Ukraine, plunging many developing countries into difficult fiscal situations and escalating public debt. Consequently, an increasing number of individuals are slipping into extreme poverty, with the GDP per capita for one in five developing economies not expected to rebound to pre-pandemic levels before the end of 2023.

The 2022 Financing for Sustainable Development Report highlights a significant "finance divide" that sees less affluent nations struggling to secure the necessary funds and obtain affordable loans for sustainable development initiatives. In contrast to developed nations, which allocate merely 3.5% of their revenue towards debt interest payments, the least developed countries (LDCs) dedicate around 14% of their revenue to such expenses.[5] This discrepancy puts considerable pressure on their limited budgets, hampering their ability to deliver essential social services. There are, however, both private and public financing options available that could enhance the development funding pool for LDCs. Beyond just increasing the volume of funds, it's crucial that international financial inflows are strategically aligned with the specific SDG goals of each country, ensuring a more targeted and effective approach to sustainable development.

In response to the widening gap in financing for the Sustainable Development Goals (SDGs)—a gap that poses a significant barrier to both national and global progress—countries worldwide, including

[4] https://sdgs.un.org/2030agenda
[5] https://developmentfinance.un.org/fsdr2022

Malawi, are implementing Integrated National Financing Frameworks (INFFs). These frameworks are designed to delineate specific country-level initiatives required to mobilize extra resources essential for development.

1.2. THE INTEGRATED NATIONAL FINANCING FRAMEWORK

Achieving the SDGs by 2030 presents a broad and intricate challenge that extends beyond the capabilities of government alone, necessitating the mobilization of both public and private capital to fulfill these objectives promptly. The Integrated National Financing Framework (INFF) offers essential components for crafting a national financing strategy tailored to the SDGs.

The INFF outlines the approach for financing and executing a country's national development agenda, leveraging a mix of public and private financial resources. Emphasizing national ownership at the highest governmental tiers, the INFF adopts an inclusive strategy by forming an Oversight Committee and facilitating finance dialogues, pivotal to its foundation. This framework aims to bolster the dedication of policymakers, development experts, and private sector investors towards realizing the SDGs.

1.3. THE INTEGRATED NATIONAL FINANCING STRATEGY

Embedded within the foundational elements of the Integrated National Financing Framework (INFF), the Integrated National Financing Strategy (INFS) for Malawi is grounded on the insights from the Development Finance Assessment/Local Level Finance Assessment (DFA/LLFA) conducted in 2019. This assessment provided a detailed inventory of financial flows and their volumes within Malawi, the key findings of which are encapsulated in Annex B. Utilizing this data, the INFS formulates strategic recommendations to effectively mobilize these financial streams.

The INFS sets out to broaden the financial base for achieving the SDGs and to amplify the impact of financing on sustainable development. It aims to synchronize public and private financial policies, regulatory frameworks, financial instruments, and business practices with the principles of sustainable development. In doing so, the INFS enhances the alignment between Malawi's diverse financing sources and the goals outlined in the country’s National Development Plan, ensuring a unified approach to funding, policy formulation, and implementation practices. Moreover, the INFS incorporates a gender perspective, ensuring that proposed initiatives take into account gender implications and foster more equitable opportunities for women.

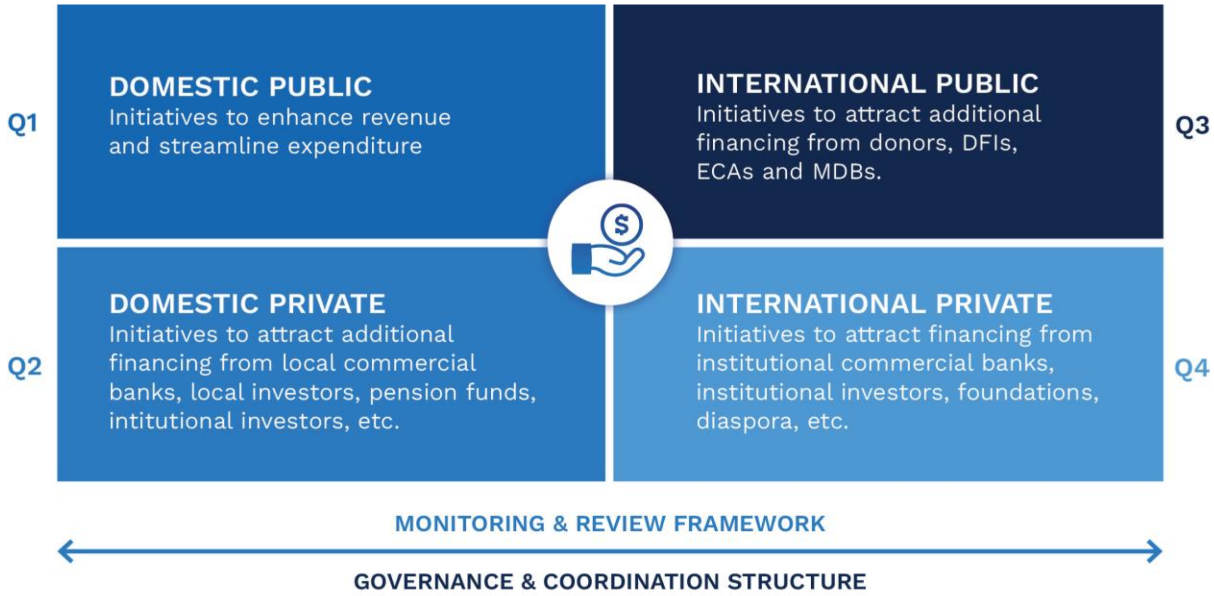
Launched in November 2021, Malawi’s long-term development blueprint, Malawi 2063 (MW2063), sets forth an ambitious goal of wealth creation and self-reliance, aiming to elevate Malawi to middle-income status. The First 10-Year Implementation Plan (MIP-1) is designed as a roadmap to actualize MW2063, aligning closely with the SDGs to promote a strategic, integrated approach to national development. MIP-1 envisages a scenario where, by 2030, Malawi achieves a per-capita annual income of US$1,000, primarily through the transformation and modernization of the agricultural sector into a more commercialized and industrialization engine of growth.

The INFS aims to synchronize Malawi’s developmental goals and focal points, as outlined in the MIP-1, with an integrated financing strategy that supports the achievement of the SDGs by 2030. It highlights crucial initiatives required to access new streams of financing from both domestic and international spheres, encompassing public and private sources. This strategy endeavors to enhance the consistency and effectiveness of financial policies and mechanisms while reinforcing the collaboration among public entities and between the governmental and private sectors.[6]

[6] https://inff.org/about/about-inffs

The INFS model recognises four main sources of financing for the SDGs as depicted in the figure below.

Figure 2: The Four Dimensions of the Integrated National Financing Strategy (INFS)



1.4. DEVELOPMENT OF THE INFS

The INFS has been developed under the technical guidance and leadership of the Steering Committee, which comprises of the Ministry of Finance and Economic Affairs (MoFEA), National Planning Commission (NPC), which have provided essential country-level leadership, supported by the United Nations Development Programme (UNDP) (and other UN agencies) with involvement from other government agencies within the public sector, private sector institutions and the international public and private community. Annex A provides a list of stakeholders consulted.

The key steps in the development of the INFS included the following:

Step 1: From the DFA/LLFA, existing sources of financing were identified. The SDG dashboard for Malawi showed the areas in which the country has been falling short of its SDG ambitions. This indicated where financing gap exists across the SDGs and helped to establish scope and objectives of the financing strategy. The aim, therefore, of the financing strategy is to close the financing gaps, maximise opportunities, and address binding constraints to increase financial resources for development.

Step 2: This step entailed a detailed analysis of why the financing gaps exist and what measures could be taken to unlock more financial resources for development. Building on existing research (outlined in Annex C) and based on analysis of the existing financing flows from the DFA/LLFA report, initiatives were identified for each quadrant – domestic, international, public private – which could, if implemented, generate additional opportunities. For example:

DOMESTIC PUBLIC	Domestically available resources to finance SDGs in Malawi can be improved through better public debt management, favorable macroeconomic and monetary policies, and tightening revenue capture by the government, amongst others. The Malawi budget cycle and Public Financial Management system, including Medium-Term Expenditure Framework, public investment systems all play a central role in management of expenditures, and will be optimally utilised to allocate public funds more efficiently.
DOMESTIC PRIVATE	Incentive structures can be designed to increase domestic private financing from local pension funds, insurance companies, mutual funds, and other institutional investors. State-owned entities, like Malawi Agricultural and Industrial Investment Corporation (MAIIC), engaged in development financing and the National Bank of Malawi's (NBM) development bank facilities can and should play a central role as government-owned financing partners to catalyse private capital and act as a robust resource channel for SDG-aligned investments.
INTERNATIONAL PUBLIC	These are donor country level, development finance flows through bilateral DFIs and aid agencies providing ODA and other instruments. Financing from MDBs is also a prominent source of SDG financing in Malawi and can be better aligned to national priorities. Export Credit Agencies are increasingly applying an SDG approach, including Africa Trade Insurance, of which Malawi is a shareholder.
INTERNATIONAL PRIVATE	International private sources are available, and they include remittances, corporate philanthropy, family offices, impact investors, and other sources and mechanisms. In Malawi, Foreign Direct Investment is a key source of finance that remains untapped, mostly because the business environment is not favourable. Therefore, an important part of this strategy is a mapping of steps the government will take to attract FDI to the country.

The initiatives to support the achievement of a great development finance envelope for Malawi to finance the SDGs were developed under two broad categories: the first being those initiatives that, once implemented, will bring direct financial resources to meet Malawi's financing needs. This would include improving financial management at the level of the MoFEA, or rationalising state-owned enterprises. The second set of initiatives are those that will create enabling conditions which will lead to increased financial flows. Some of these initiatives are already underway.

The initiatives in the INFS are earmarked to be implemented through four different reform types depicted in the figure below:

Figure 3: INFS Reform Types

Financial Instruments: These are tailored financial solutions aimed at increasing or mobilizing additional funding. Such instruments encompass equity investments, debt financing from banks and capital markets, along with risk management tools like insurance and guarantees. Both the refinement of current products and the introduction of novel financial solutions are considered under this category.

Business Processes: This term describes modifications to the operational methods employed by the Malawian government, state-owned enterprises, other public sector entities, and the private sector that aim to expand the financial base. An example includes the digitization of tax collection and reporting, which streamlines revenue gathering. Additionally, simplifying business registration processes plays a crucial role in attracting new investment and enhancing the functionality of existing enterprises, thereby fostering long-term revenue growth.

Regulatory Reforms: These involve the creation of new regulations or the amendment of existing ones to better address and guide specific areas or issues. The goal is to improve the efficiency, cost-effectiveness, and legal integrity of regulations and government procedures.

Policy Reforms: This entails the formulation, assessment, and selection of strategies by governmental entities to solve identified issues or achieve specific objectives. Once a policy direction is chosen, it is implemented through legislative changes, adjustments to regulations, processes, and the structuring of government bodies charged with the policy's execution.

Step 3: Prioritisation of the INFS initiatives helps to ensure that limited resources are used to address the most pressing needs and opportunities. By evaluating the current political environment and setting priorities, attention and resources are focused on the initiatives that will have the most significant impact. Policy prioritisation allows for better allocation of resources, ensures funds are directed to the most cost-effective initiatives and helps to maximise the benefits of limited funds.

Prioritisation also ensures that the government takes a holistic approach to development, balancing the needs of different sectors and areas. By prioritising policies that have an impact on both economic growth and social welfare, efforts are not focused solely on economic growth at the expense of poverty reduction or vice versa. Prioritisation is key to increasing efficiency and effectiveness in government operations; by focusing on specific areas, such as health, education or agriculture, the government can reduce overlap between departments and create a more streamlined approach to program implementation. This helps to ensure that the government's actions are well-coordinated, efficient, and effective in achieving their desired outcomes.

The prioritisation of the INFS initiatives broadly follows three main goals:

- Ensure that the Government takes advantage of opportunities in the short-term and aligns financing policy with other reform areas over the medium- and long-term.
- Ensure that different policies, instruments, business processes and regulatory frameworks are coherent, sustainable, and risk informed.
- Identify areas for peer-to-peer exchanges between public and private sector institutions, and opportunities to access technical assistance as well as capacity building support from development partners.

Policy prioritisation can take place in two phases as depicted in the figure below:

Figure 4: Phases in Prioritising the INFS Initiatives

Each proposed initiative underwent rigorous coherence checks to ensure alignment with Malawi's overarching macro-economic objectives, national strategies and policies, and growth targets, confirming their full integration with all facets of sustainable development.

Risk assessments were also conducted for each initiative, evaluating the availability of necessary preconditions and resources to facilitate the sequencing of interventions. Institutional prerequisites were specifically accounted for in recommendations for initiatives led by corresponding institutions.

The prioritization process assessed initiatives based on several criteria:

- **Potential Revenue Generation**: This involves assessing both direct revenue opportunities, such as cost reduction and more efficient resource allocation, and indirect revenue potential through capacity building in public and private sectors, leading to long-term financial benefits from more sophisticated products. Higher potential for revenue generation leads to higher prioritization.
- **Implementation Feasibility**: An initiative is considered easily implementable if it enhances an existing policy, enjoys broad political support, or aligns with the immediate goals of MIP-1, leveraging existing governance and monitoring structures. Such initiatives are given priority.
- **Enhancement of Malawi's Risk Profile**: Initiatives aimed at boosting Malawi's accountability, transparency, and overall risk profile to attract investments are prioritized, recognizing the importance of improving the nation's standing as an investment destination.
- **Sustainability**: The sustainability of an initiative, encompassing its long-term benefits across political, economic, and environmental dimensions, is critically evaluated. Those that promise greater sustainability received higher priority.

Finalization of the INFS involved delineating the timeframe for initiatives in the category of short-term, medium-term, or long-term, establishing their sequence, and outlining roles and responsibilities for governance and coordination:

- **Short-term Interventions (S)**: These include actions that meet at least three prioritization criteria or serve as prerequisites for crucial medium- or long-term initiatives.
- **Medium-term Interventions (M)**: These are initiatives meeting two criteria, earmarked for near-future implementation to advance SDG achievements.
- **Long-term Interventions (L)**: Actions fulfilling one criterion with significant potential for Malawi's long-term development. This category also encompasses initiatives delayed by policy or infrastructural limitations.

1.5. STRUCTURE OF THE REPORT

Chapter 1 introduces the concept of Integrated National Financing Frameworks (INFFs), underscoring their critical role in enabling developing countries, including Malawi, to attract and direct financial resources towards achieving the Sustainable Development Goals (SDGs). It offers an overview of the INFF, its primary goals, and details the methodology used to formulate the Integrated National Financing Strategy (INFS) for Malawi.

Chapter 2 delivers an analytical snapshot of Malawi's economic landscape, covering aspects such as SDG progression, debt, balance of payments, the financial system, and infrastructure deficiencies, setting a factual backdrop for the report. It builds on the Development Finance Assessment (DFA) from 2019, summarizing Malawi's current financial flows and listing existing plans and initiatives aimed at enhancing these flows, which is vital for the informed policy recommendations in the INFS.

Chapter 3 discusses the existing domestic revenue mobilization strategy of the government, exploring ways to refine prioritization within this strategy and enhance coordination of financial incentives. It also reviews public debt management and expenditure decision-making strategies, including resource reallocation and civil service compensation adjustments. Furthermore, the chapter suggests improvements to the Public Financial Management (PFM) system, drawing from World Bank research and other studies.

Chapter 4 examines avenues for increasing financing from the domestic private sector, attributing current investment shortfalls to capital scarcity and a limited pool of bankable projects. This challenge stems from factors like macroeconomic instability, government policy barriers, regulatory hurdles, and infrastructural deficits. The chapter outlines policies tailored to attract domestic and foreign private investments, including special incentives for pension funds and differential treatments for domestic versus foreign entities.

Chapter 5 discusses how bilateral and multilateral donors and lenders can more effectively align with Malawi's industrialization goals. While some international public financing sources are already in sync with government priorities, others might focus more on their agendas. This chapter also looks at opportunities for climate finance, including carbon credit sales, and explores de-risking strategies to enhance private capital inflows. It identifies avenues for securing additional concessional or near-concessional international financing, with specific steps to access these funds.

Chapter 6 proposes strategies for leveraging international private capital, including investments from the diaspora, to bolster Malawi's economic development. It also considers how philanthropic organizations can be mobilized to address some of the SDGs gaps, aligning their efforts with government priorities to foster a conducive environment for their activities. The chapter aims to increase investments in Malawi's productive assets from private international sources.

Chapter 7 summarizes the actionable initiatives identified throughout the INFS, prioritizing them based on specific criteria. It categorizes initiatives by required changes in policy, regulation, business processes, or the introduction of new financial instruments, serving as a concise guide for governmental actors implementing the INFS. Additionally, it introduces a Monitoring and Review (M&R) framework to oversee the execution of these initiatives, complete with measurable indicators and expected outcomes.

Chapter 8 delineates the responsibilities of governing actors in the INFS implementation, linking these roles directly to the proposed initiatives. Successful implementation hinges on clear ownership, as well as effective coordination and alignment between financing policies.

The **Annexes** feature a comprehensive list of stakeholders consulted (Annex A), a summary of key findings from the DFA/LLFA study (Annex B), and a review of documents (Annex C). Annex D provides a detailed action plan, including a filterable Excel spreadsheet, outlining initiatives by quadrant, priority levels, KPIs for tracking progress, and implementation responsibilities across various actors.

2. Background

2.1. MALAWI'S PROGRESS IN MEETING THE SDGS

The Government of Malawi is committed to development and reform, actively seeking to align its policies and initiatives with the Sustainable Development Goals (SDGs).

Despite a strong commitment to achieving the SDGs, the government faces significant challenges due to limited revenue streams, inefficient administrative systems, and the absence of a robust strategy for managing national debt. These obstacles impede the government's capacity to fund SDG-related projects effectively. According to the Voluntary National Review 2022, Malawi has made notable advancements in several SDGs, including Zero Hunger (Goal 2), Good Health and Well-being (Goal 3), Quality Education (Goal 4), Clean Water and Sanitation (Goal 6), and Life Below Water (Goal 14). Moderate progress has been observed in Gender Equality (Goal 5), Affordable and Clean Energy (Goal 7), Decent Work and Economic Growth (Goal 8), Industry, Innovation, and Infrastructure (Goal 9), Climate Action (Goal 13), and Partnerships for the Goals (Goal 17). However, challenges remain in effectively addressing No Poverty (Goal 1), Reduced Inequalities (Goal 10), and Life on Land (Goal 15), with these areas showing minimal progress. Furthermore, the evaluation of Sustainable Cities and Communities (Goal 11), Responsible Consumption and Production (Goal 12), and Peace, Justice, and Strong Institutions (Goal 16) has been constrained by a lack of sufficient data. The accompanying figure provides an overview of Malawi's progress across the SDGs.

Figure 5: Malawi's progress in meeting the SDGs

Source: SDG Dashboard

The report delves into comprehensive analyses and outlines initiatives concerning goals 4, 5, 14, 15, and 17.

For Goal 4 (Quality Education), Malawi is on track to meet the SDG target by 2030, thanks to substantial efforts to increase school infrastructure, including the renovation and expansion of primary schools, construction of teacher training colleges, and the recruitment of additional teachers. Nevertheless, the educational sector faced setbacks, particularly for female students, due to school closures amid the COVID-19 pandemic.

In relation to Goal 5 (Gender Equality), despite strides toward equality, challenges remain in fully eradicating gender disparity. Women and girls continue to encounter systemic marginalization across various societal dimensions, including social, cultural, economic, and political arenas. To combat these issues, Malawi has implemented legislation aimed at fostering gender equality and combating violence against women and girls.

For SDG 14 (Life Below Water), Malawi is actively pursuing initiatives aimed at safeguarding and enhancing aquatic life within its freshwater ecosystems. Efforts to adopt contemporary aquaculture techniques have led to a notable increase in fish production and the overall value derived from aquaculture.

Concerning SDG 15 (Life on Land), the vast majority of the Malawian population relies on forests for essential resources like energy, food, timber, and non-timber products. Yet, the challenge of deforestation, driven by the demand for wood fuel, expansion of settlements, and agricultural activities, poses a significant threat to forest and woodland areas. In response, Malawi has intensified efforts under the Land Restoration Strategy to conserve and restore 4.5 million hectares of land, combating environmental degradation.

Goal 17 (Partnerships for the Goals) underscores the importance of collaborative efforts to achieve the SDGs. Malawi has initiated the formation of Pillar and Enable Coordination Groups (PECGs) to foster improved collaboration among various stakeholders working towards the goals. Additionally, the government is prioritizing the reduction of public debt and securing sustainable financing mechanisms to support long-term development objectives.

Over recent decades, Malawi has witnessed remarkable advancements in its healthcare sector. From 1990 to 2013, the country achieved a 53 percent reduction in maternal mortality rates. Additionally, there has been a substantial decrease in the impact of HIV/AIDS, with a 73 percent reduction in related deaths and a 41 percent decrease in new HIV infections from 1990 to 2022[7]. Yet, the Malawian population continues to face significant health challenges. In 2015, chronic malnutrition impacted 37 percent of children across Malawi,[8] and continues to persist. In 2022, admissions of children suffering from severe wasting into the UNICEF Nutrition Program saw a 30 percent surge. This increase has been largely attributed to extreme weather events, including floods, droughts, pest invasions, and disease outbreaks or pandemics, which have devastated crops and diminished farming capacities, subsequently limiting food accessibility. The financial toll of the floods in 2015 reached approximately USD 700 million, whereas the cyclone-induced floods in 2019 resulted in damages estimated at USD 220 million[9]. This exacerbated the food crisis in a country where 82.3 percent of the population live in rural areas and are dependent on the yearly harvest, both for their own consumption and for their incomes. The harvest of 2021-2022 continued to show that Malawi's economy is at the mercy of good weather conditions. The lack of qualified personnel in hospitals further strained the healthcare sector as a whole[10].

In addition to healthcare and hunger problems, Malawi continues to face high levels of poverty, the brunt of which is borne by women. Malawi ranks as the fourth poorest nation in the world by rate of percentage of the population living on less than USD 1.90 a day[11]. The slow progress on ending poverty in all its forms is of major concern where the proportion of Malawians living below the national poverty

[7] USAID: "Malawi Health Fact Sheet", 2022: https://www.usaid.gov/sites/default/files/documents/Cleared_HPN_Factsheet_-_June_2022.pdf, accessed 18-09-2022

[8] UNICEF: "The Afikepo Nutrition Programme and Nutrition-sensitive Agriculture component in Malawi", 2020

[9] UNICEF: "UNICEF supplies arrive in flood-affected areas of Malawi, bringing relief to displaced families", 19-03-2019, https://web.archive.org/web/20190320194719, accessed on 24-10-2022

[10] FAO, IFAD, UNICEF, WFP and WHO: "The State of Food Security and Nutrition in the World 2022. Repurposing food and agricultural policies to make healthy diets more affordable". Rome, FAO, 2022 https://doi.org/10.4060/cc0639en

[11] German Federal Ministry for Economic Cooperation and Development: "World Data Lab", 2022 https://worldpoverty.io/map; accessed 21-10-2022

line has marginally improved from 51.5 percent in 2016 to 50.7 percent in the 2022 reporting period[12]. Price inflation, particularly for food and fertiliser, has negatively impacted household budgets and crop yields. Food price inflation reached 33.7 percent by November 2022[13], gradually pushing the country into a food security crisis with ramifications on malnutrition and public health. This works against all previous efforts to stabilise the Malawian economy to meet SDG 1 (No Poverty) and SDG 2 (Zero Hunger).

Finally, the energy crisis poses one of the main threats to long-term development. World Bank data suggests that electricity access stands at only 15 percent in 2022[14], and at only 1 percent in rural areas, resulting in a strong urban-rural divide, exacerbating poverty levels in the country. Data further suggests that only 20.2 percent of all Malawians use the internet occasionally while 79.8 percent do not use or know how to use the internet as of 2022[15].

2.2. MACROECONOMIC CONTEXT OF MALAWI

Recent Economic Performance

The Government has been running fiscal deficits over the last two decades, largely financed by tax increases and borrowing. Fiscal pressure from the pandemic and government expansionary policies, including the Affordable Input Program (AIP), and weak revenue performance contributed to the fiscal deficit widening to 9.1 percent of GDP in FY21/22. Expenditure is expected to reach its high (25 percent of GDP) due to high spending on wages, interest payments, and fertiliser subsidies. Development spending has also been strong, driven by COVID-19 response programs, and irrigation and water projects. It is generally reported that such policies have had the impact of crowding out the private sector in terms of demand and investment.

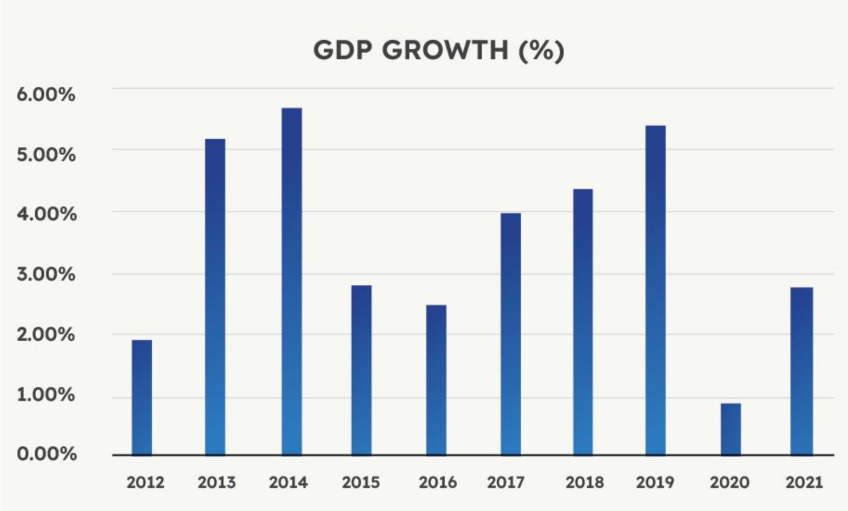
Malawi's annual GDP growth was significantly impacted by the COVID-19 pandemic, resulting in GDP growth dropping to 0.8 percent in 2020 which marked the lowest rate since 2001[16]. Although agricultural output briefly increased in 2021 due to favourable weather conditions, heavy tropical storms destroyed farmland and parts of the already poorly developed key infrastructure later in the year. Heavy reliance on the agricultural sector both for exports and food security, a lack of economic diversification both within the agricultural sector, and subsequently high levels of volatility due to climate and weather crises, have led to economic underperformance, and unsustainable debt.

This demonstrates volatility to factors like weather shocks facing Malawi and the need to broaden the revenue and export streams to include a more diverse range of produce and products. It also underlines the need for policy focus in terms of climate change adaptation and economic development, as well as in promoting accessible and affordable insurance and disaster risk management. Malawi's GDP is projected to be subdued in 2022 after its brief pick-up in 2021[17].

Figure 6: Malawi's GDP Growth - 2012 to 2021

[12] Voluntary National Review 2022
[13] World Bank, "Country Overview", *World Development Indicators*, The World Bank Group, https://www.worldbank.org/en/country/malawi/overview, accessed 16-10-2022
[14] World Bank: "Country Database", : https://data.worldbank.org/country/malawi, accessed 25-10-2022
[15] Ibid.
[16] World Bank, "Country Overview", *World Development Indicators*, The World Bank Group, https://www.worldbank.org/en/country/malawi/overview, accessed 16-10-2022
[17] IMF: "Country Report No.2021/269", 20-12-2021, https://www.imf.org/en/Publications/CR/Issues/2021/12/17/Malawi-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-511105, accessed 10-09-2022

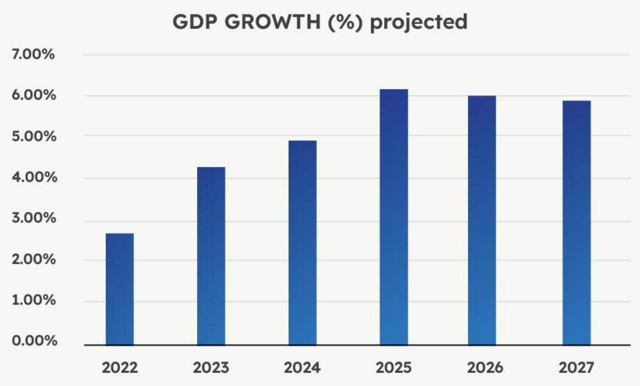
Source: World Bank Databas



Growth Prospects

The projections for the years 2023 to 2027 see Malawi's economy recovering and the annual GDP growth on an upwards trend, however pre-pandemic levels of approximately 5 percent growth will not likely be reached until 2024 due to the sovereign debt crisis.

Figure 7: Malawi's projected GDP Growth



Source: World Bank Database

Debt Sustainability

Malawi does not have enough financial cushion to buffer the current economic crisis. Instead, the country is heavily dependent on ODA and foreign assistance as well as commercial borrowing.

	2019	2020	2021	2022	2023 (proj.)
General Government gross debt (% of GDP	45.3	54.8	63.9	73.3	75.5
Current account deficit (% of GDP)	12.6	13.6	15	14.3	12.6

Table 1: Debt to GDP ratio of Malawi

Source: IMF World Economic Outlook Database 2022

Malawi's struggle with inadequate revenue generation, leading to persistent fiscal deficits, has precipitated a balance of payments crisis. The absence of an effective debt management strategy and a comprehensive framework for debt repayment—emphasizing accountability, transparency, and the efficient utilization of borrowed funds—has led to levels of debt that are unsustainable. As of 2022, Malawi's external debt reached USD 3.64 billion, constituting 73.3 percent of its Gross Domestic Product (GDP). A significant portion of this external debt (51.2 percent of the total) is owed to official creditors, who constitute 72 percent of the total public external debt. Among these, the largest shares of debt are owed to official multilateral creditors, with the World Bank's International Development Association holding USD 1.57 billion, the Export-Import Bank of China USD 254 million, and the Eastern and Southern Trade and Development Bank (TDB) USD 145 million. Official bilateral debt comprises 11.7 percent of the total public external debt. Additionally, 28 percent of the total external debt is sourced at market rates, with Afreximbank being the largest creditor, accounting for 16.1 percent. Non-official commercial bank debts include 5.8 percent from foreign exchange swaps with non-residents, amounting to approximately USD 221.7 million.

Commercial banks have mostly been providing the loans to finance the fiscal deficits. Domestic debt in Malawi consists of government securities held by residents, as well as foreign exchange swaps that the Reserve Bank of Malawi (RBM) has entered with local banks. Specifically, residents hold K2.5 trillion in T-Notes, with commercial banks and the non-banking sector holding a majority of 56 percent. Additionally, foreign exchange swaps with resident banks that were arranged by the RBM are worth

USD 202.2 million[18]. Since mid-2018, regional banks began to enter the domestic bond market, increasing Malawi's non-concessional external borrowing. The RBM and the Government together had non-concessional external commercial debt outstanding of 9.2 percent of GDP in 2021.

To restore debt levels to more sustainable levels, both the International Monetary Fund (IMF) and the Ministry of Finance and Economic Affairs (MoFEA) have announced a concerted effort to explore options to address Malawi's immediate financing needs and support for its reform programmes. Apart from restoring the debt levels, the IMF listed resolving misreporting by the RBM as a precondition to taking up negotiations about new development financing[19].

The ongoing debt crisis has reduced the availability of new credit for productive use. It has also constrained the capacity to fund national development plans like MW2063 – MIP-1 and the SDGs. Furthermore, inflation rates surged to over 25.4 percent by the end of 2022 because of a foreign exchange shortage, the COVID-19 pandemic, geopolitical event in Eastern Europe, and the threat of a food security crisis[20]. The shortage of foreign currency also forced the RBM to devalue the kwacha by 25 percent in May 2022, and subsequently by 44 percent in early November 2023.

Amid these challenges, the Government of Malawi was in negotiation with the IMF for a new Extended Credit Facility (ECF), which it successfully negotiated and was awarded on November 15, 2023. The successful negotiation of the IMF's Extended Credit Facility (IMF ECF) and the subsequent provision of limited direct budgetary support to the government presented a crucial lifeline for Malawi. This development not only provides immediate financial relief but also exerts considerable pressure on the government to persist in its reform efforts and to sustain economic growth. The IMF ECF serves as both a vote of confidence in Malawi's economic policies and a reminder of the ongoing commitment required to stabilize and grow the economy, ensuring that the support leads to lasting benefits for the country's development trajectory.

2.3. STRUCTURE OF THE ECONOMY AND STRUCTURAL CHALLENGES

Economic Diversification

Since independence in 1964, Malawi's economic base has remained narrow and vulnerable to external shocks. The country is dependent on rain-fed and primary agriculture for employment and economic growth.[21] As a result, more than 50 years down the line, the country has barely diversified from its three main products for exports – tobacco, tea, and sugar. The three agriculture products have generally accounted for more than 70 percent of the country's export earnings and agriculture itself contributed to a third of the country's GDP. About 85 percent of the country's population depends on agriculture and related industries for employment[22].

Persistent adverse weather conditions over recent years, coupled with climate change and a growing population that has increased land pressures, mean that primary agriculture may be reaching its limits as a driver of sustainable economic growth. The focus on primary agriculture has had its own achievements as for many years the country has been food self-sufficient at the national level, even though in some years the situation has still been of food insecurity at the local and individual level. However, two of its most outstanding economic challenges have been the failure to generate a trade

[18] IMF eLibrary: "Malawi: Request for Disbursement Under the Rapid Credit Facility", https://www.elibrary.imf.org/view/journals/002/2022/352/article-A002-en.xml, accessed 11-01-2023
[19] Reserve Bank of Malawi: "Monthly Economic Review August 2022", 2022
[20] Ibid.
[21] Kraus Droppelmann, John Makuwira, and Ian Kumwenda. All Eggs in One Basket: A Reflection on Malawi's Dependency on Agriculture Growth Strategy, IFPRI Discussion Paper 01177, August 2012
[22] World Bank: "Country Database", https://data.worldbank.org/country/malawi, accessed 25-10-2022

surplus and generate enough revenue to fund government expenditure. The limitations of the narrow economic base, which results in few exportable products, can be easily observed on external trade. In 2021, exports were valued at the equivalent of USD 915 million. Tobacco alone accounted for 40 percent of the exports. Adding sugar and tea, the three crops accounted for 60 percent. The trade deficit was USD 1.6 billion.[23]

The government has recognised the urgent need to restructure the economy to respond to the challenges of low productivity in the agriculture sector and promote opportunities in non-farm activities and from trade liberalisation under the evolving multilateral trading systems. However, there have been policy shortcomings – structural adjustment programs and export development strategies that have expired without making any meaningful impact on economic diversification. There is a broad consensus that policy implementation is a challenge for the country, and this may have affected early attempts at economic diversification. Issues involve mobilisation of resources for policy implementation, and institutional and human capacity.

Infrastructure Gaps

The infrastructure gaps Malawi is facing are twofold. First, Malawi is challenged on economic infrastructure. Malawi ranked third from bottom at 138 of 140 countries in the Global Competitiveness Index 2022, scoring 2 out of 5. It is mainly economic infrastructure that enables trade, powers businesses, connects workers to their jobs, creates opportunities for struggling communities and protects the nation from an increasingly unpredictable natural environment. A World Bank study[24] showed that infrastructure contributed 1.2 percentage points to annual per capita GDP growth in Malawi over the past decade and this must rise to 3.5 percent to meet the minimum standards of a middle-income country. The same study proposed sustained infrastructure expenditures of about USD 600 million per year, implying a shortfall of USD 400 million at the rate of current country spending.

The lack of adequate energy generation infrastructure is the most pressing issue impeding economic growth. The country's insufficient, unreliable, and low-quality power supply poses a burden to existing businesses, compounding other disadvantages of doing business, and has also reduced the attractiveness of the country to external and new sources of investment. No significant energy generation investments have been made over the last two decades, and one large hydropower plant suffered from damaging flash flooding remains under extensive rehabilitation. The Government is addressing this issue by building the Mpatamanga hydro plant as well as planning the Chimgonda hydro plant, which has been announced for 2024 in the Dwambazi river/basin in the Central Region.

The First 10-Year Implementation Plan (MIP-1) identifies infrastructure as one of seven pivotal enablers and a critical sector for the growth of other sectors, essential for fostering inclusive wealth creation and vital for boosting economic competitiveness. In the context of a sovereign debt crisis, securing development finance emerges as a significant challenge for Malawi. The plan outlines a strategic approach to promote infrastructure development by leveraging innovative financing methods, such as bonds, pension funds, and Public-Private Partnership (PPP) arrangements, aimed at drawing in private investment. MIP-1 proposes the creation of a Development Catalysing Corporation to spearhead infrastructure projects and emphasizes the adoption and maintenance of inventive long-term financing models, including blended finance and PPPs. Enhanced energy access and the capacity to adopt modern technology are deemed essential for navigating out of the economic downturn.

[23] From 2010 to 2020, the trade deficit grew more than eight times and about 162 times compared to two decades ago, in the years around 2000. The country has taken up economic liberalisation without resolving its deep-seated supply-side constraints to the development of exports.

[24] Foster, Vivien; Shkaratan, Maria: "Malawi's Infrastructure: A Continental Perspective. Policy Research working paper no. WPS 5598", World Bank. © World Bank, 2011 https://openknowledge.worldbank.org/handle/10986/3363

Furthermore, there is a noticeable deficiency in transport infrastructure, including roads and comprehensive transport systems, particularly in the Southern regions, which are less developed compared to other parts of the country. This disparity hinders their competitive edge in productivity. Addressing the urban-rural divide necessitates climate-resilient investments in crucial infrastructure to ensure sustainable development across all regions.

Competitive Advantage: Malawi's People and Land

Malawi's competitive edge is rooted in its youthful workforce and expansive landscapes, offering potential for carbon finance opportunities or the transformation into sustainable agricultural areas. The country has also enhanced its focus on protecting consumer rights by strengthening its competition laws and policies. Given that the bulk of Malawi's exports are primary products, leveraging technology to add value and complexity represents a strategic approach to capitalizing on this competitive advantage.

The untapped human potential in Malawi is considerable, underscoring the necessity for economic growth to be paralleled by the creation of quality jobs in both number and substance. Investment in human capital is crucial for Malawi to harness its greatest asset—its people—particularly in the agricultural sector where there's significant scope for increased industrialization and productivity enhancement.

Malawi's designation as a pathfinder country in the International Labour Organization (ILO)'s Global Accelerator on "decent work" presents opportunities within the INFS to promote:

- Job-rich growth through public finance;
- Investment in social protection;
- The financial sector's role in fostering decent work;
- Pathways to formality;
- Climate action for jobs and a just transition;
- Adherence to labor standards[25].

Industrialization and Export Potential

Malawi faces the challenge of a declining industry sector, which has seen its GDP contribution drop from 20 percent in the 1990s to 12 percent over the last five years, despite new policy efforts. This calls for an analysis of the barriers to realizing its industrial potential.

Earlier manufacturing efforts focused on import substitution, which, under the pressure of trade liberalization and an influx of cheap imports, has struggled against stiff competition. There's a recognized need for a strategic pivot towards export markets, aiming for a structural transformation of Malawi's industrial base.

The momentum towards industrialization is evident in the National Export Strategy (NES II) 2021-26. It continues the priorities of its predecessor, focusing on agriculture, manufacturing, value-added services, and mining, with the goal of expanding existing production and exploring new high-value products and services for both domestic and export markets. Creating a conducive business environment for key value chains is central to NES II's objectives.

The journey towards industrialization depends on overcoming known business environment constraints, including:

- Access to and the high cost of finance;

[25] https://inff.org/resource/guidance-for-mainstreaming-decent-work-in

- Power shortages and inadequate transport infrastructure;
- Regulatory and institutional hurdles;
- Gaps in technical skills and market access;
- Leveraging technology and digitalization.

The Digital Economy Strategy aligns with Malawi's industrialization goals, aiming to bolster secondary and tertiary sectors to increase domestic value addition and uncover new economic opportunities. Despite the promise of digitalization in fostering industrialization, challenges such as limited energy and internet access impede Malawi's integration into the global digital economy. Investments in ICT, expanding internet coverage, are pivotal for developing a diversified, efficient economy. Digitalization not only facilitates product innovation and wider market access but can also bridge educational disparities, potentially boosting economic output by 7 percent[26].

2.4. DEVELOPING MALAWI

To navigate its entrenched development challenges, Malawi must diminish its dependency on agriculture and broaden its economic and export portfolio. Addressing the deficiencies or substandard conditions of crucial infrastructure, including electricity, roads, and broadband and internet access, is imperative. Additionally, strengthening institutions and institutional processes, enhancing public financial management, and developing a viable debt management strategy are essential. Implementing policies aimed at diversifying Malawi's revenue sources and export offerings is critical to averting a looming food security crisis in the future.

Absent these interventions, economic expansion may stagnate at current minimal levels. Likewise, without a dedication to refining fiscal management, economic pressures and the peril of debt default may persist, exacerbated by vulnerability to external shocks. Malawi must establish fiscal reserves during periods of commodity abundance and allocate spending towards disaster risk mitigation, economic diversification, and job creation to bolster resilience against economic downturns. Mitigating such volatility is crucial for removing investment impediments.

Six strategic priorities poised for significant impact include:

1. Public financial management reform, inclusive of the PFM Act;
2. Transitioning towards a flexible exchange rate;
3. Mobilizing funds, for example, from multilateral entities like the African Development Fund and Green Climate Fund, to enhance food productivity and building resilience to climate shocks;
4. Revamping social payments, such as converting costly fertilizer subsidies into cash payments;
5. Overhauling the national export strategy to shift from import substitution to boosting export competitiveness; and
6. Placing a premium on creating decent jobs (formal and protected by social insurance) as a catalyst for revenue growth, productivity improvement, and elevated consumption.

In this context, the financing options outlined in the subsequent four chapters (corresponding to the INFS's four quadrants) are designed to mitigate risk and concentrate on principal areas of development policy and reform. The selection and prioritization of these financing options are intricately linked to the aforementioned challenges, such as unemployment, the need for economic diversification, prevalent informality, and youth joblessness.

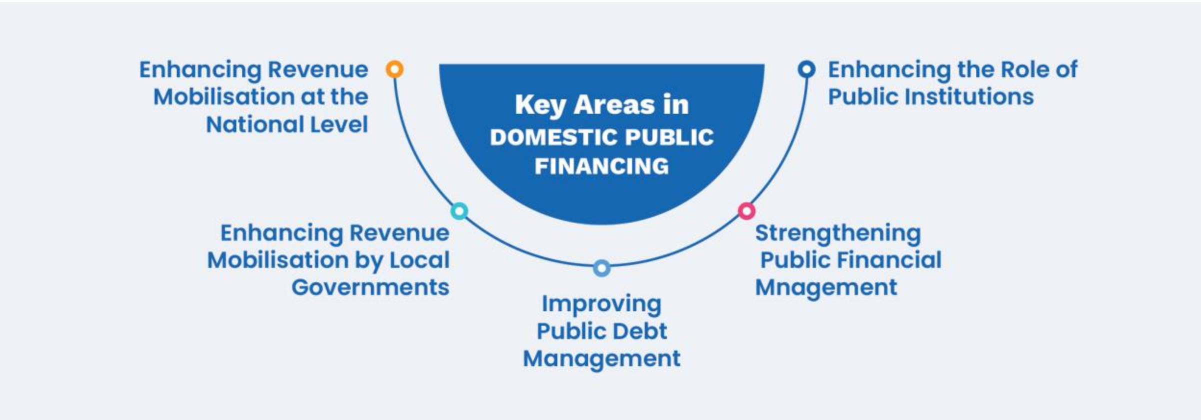
[26] https://www.worldbank.org/en/news/press-release/2017/06/05/digitizing-malawi-for-a-brighter-digital-future

3. Initiatives to Strengthen Domestic Public Sources of Finance

3.1. OVERVIEW

This chapter outlines the various domestic public financing sources Malawi can leverage to augment the funding pool for the Sustainable Development Goals (SDGs). It details a series of actions aimed at expanding the domestic public revenue base and optimizing government expenditure. The focus is on strategies and actions the Malawian Government will implement to boost domestic public sector revenue generation for the SDGs. These strategies encompass rejuvenating the tax system, enhancing transparency and efficiency in public spending, controlling sovereign debt, enabling State-Owned Enterprises (SOEs) to undertake profitable ventures, and fortifying public institutions to better support the private sector. Figure 8 illustrates these five critical focus areas.

Figure 8: Key Areas in Domestic Public Financing



3.2. ENHANCING REVENUE MOBILISATIONS AT THE NATIONAL LEVEL

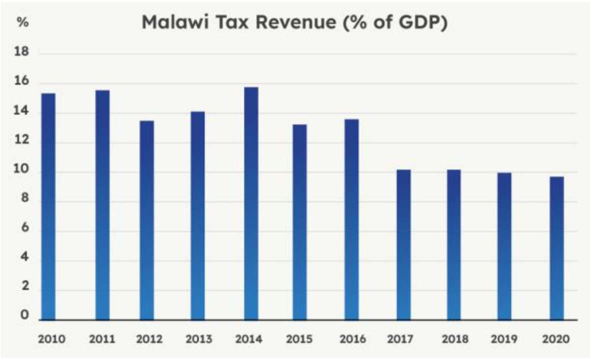
Context and Challenges

In 2019/20, revenue collected by all central government bodies accounted for just below 15 percent of Malawi's GDP, a figure that has remained relatively stable over the past decade. Consequently, while revenue collection has broadly kept pace with real GDP growth during this period, the incremental increase in revenue as a percentage of GDP falls short of generating the substantial resources required to achieve the Sustainable Development Goals (SDGs).

The bulk of this revenue is collected by the Malawi Revenue Authority (MRA), although other government ministries and entities also contribute to revenue collection. These include the Departments of Immigration, Civil Aviation, Mines, the Transport-Railways Section, and the Registrar General. The foundation of domestic revenue mobilization is formed by personal income taxes, which constituted 31 percent of domestic revenue in 2019/20, followed by corporate income taxes at 16 percent, and a mix of taxes on goods and services. This latter category encompasses value-added tax (VAT) at 28 percent, excise taxes at 16 percent, and taxes on international trade and transactions at 8 percent[27].

[27] Annual Economic Report 2021

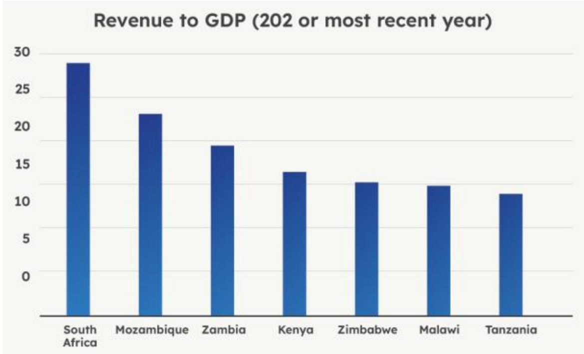
Figure 9: Annual Tax Revenue as a percentage of GDP



Source: World Bank

Figure 10: Revenue to GDP of other African countries

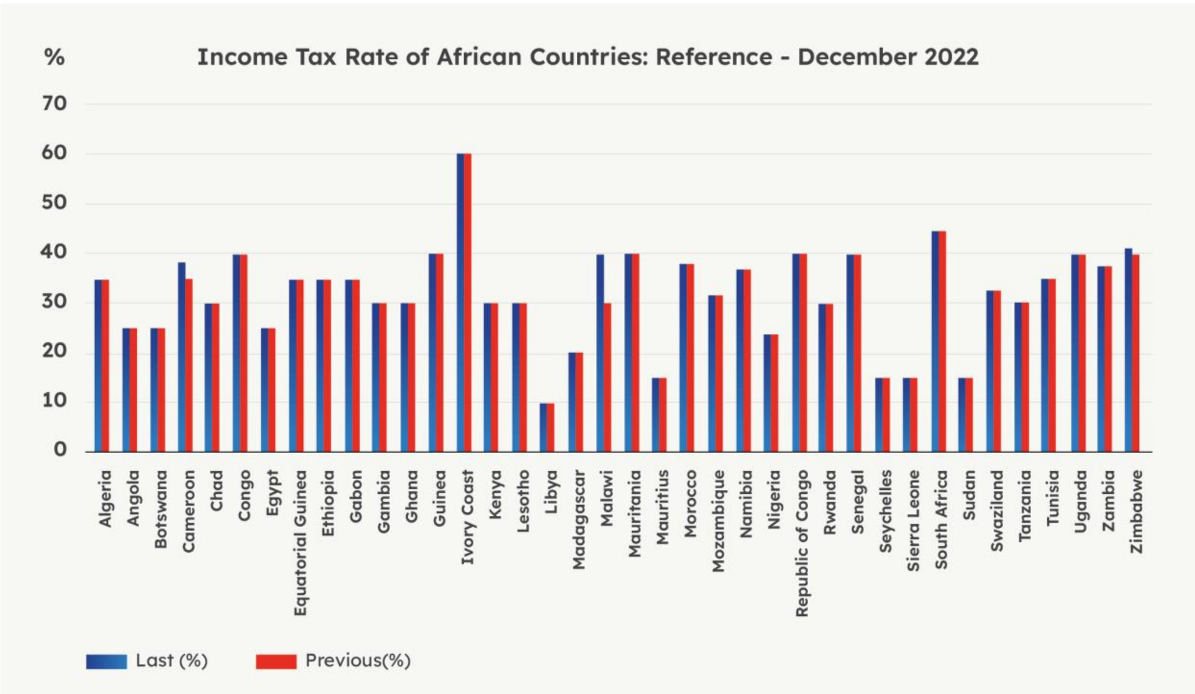
Source: Malawi Ministry of Finance,



Budget Documents

The tax burden on individuals in Malawi is significant compared to many other countries in Africa, though the tax base is narrow. For instance, income tax rates range from 25 to 40 percent, starting at the income level of MKW 1.2 million per annum, and the highest income tax rate of 40 percent applies to income more than MKW 72 million per annum. Furthermore, there are high withholding tax rates (e.g., 20 percent on rents; 20 percent on casual labour exceeding MKW 35,000 per month) and a VAT of 16.5 percent is applied on a broad range of goods and services.

Figure 11: African Countries Income Tax Rate Comparison



Source: Trading Economics

The Malawian economy is significantly marked by its informal sector, with **over 85% of the labor force** engaged in informal activities. In this sector, individuals contribute to the tax base mainly through sales taxes and certain withholding taxes. However, the **high-income tax rates** and other formal sector taxes predominantly burden the formal sector's relatively smaller workforce.

In Malawi, **corporate income tax rates** stand high in comparison to global standards, yet corporations benefit from **generous incentives** such as **10 to 30 percent export allowances**, **tax holidays**, **indefinite tax rate reductions**, and **VAT rebates** for mineral exploration endeavors, irrespective of their taxable income status. The discretion for granting various tax exceptions and deductions rests with ministers, offering flexibility but also complexity in the tax landscape.

Despite the development of robust tax policies, Malawi grapples with challenges in **tax administration and policy implementation**. Often, efforts are skewed towards addressing short-term fiscal needs for quick revenue generation rather than establishing a sustainable, long-term revenue strategy aligned with national priorities. This highlights a significant opportunity for enhancing domestic revenue through strategic tax reforms.

A critical step towards expanding the tax base involves **improving business registration processes** to encourage more enterprises into the formal economy. This move not only broadens the tax base but also opens up formal economy opportunities for those typically relegated to the informal sector out of necessity. Supporting **priority sectors**, alongside implementing **education and skills development policies**, recognizing prior learning, and enhancing the delivery of **employment services** in the informal sector are essential components of this strategy.

However, the role of **tax incentives** presents a nuanced challenge. While designed to stimulate economic activity, they can sometimes lead to distortions, making it crucial to review these incentives to ensure they genuinely contribute to increased employment and higher-quality jobs. Some countries have adopted a composite indicator incorporating various factors—like **export promotion** and **local R&D expenditure**—to evaluate the impact of incentives, including those aimed at formalization. Furthermore, integrating SMEs into **regional/global value chains** of multinational enterprises offers a compelling incentive for formalization, with potential strategies to foster SME and MNE linkages warranting further exploration.

Ongoing Reforms

The **Domestic Revenue Mobilisation Strategy 2021-2026 (DRMS)**, developed by the Ministry of Finance and Economic Affairs (MoFEA), aims to utilize domestic financial flows to support Malawi in achieving the objectives outlined in the **MW2063**. This strategy is designed to enhance the government's management of its fiscal space and budget, ensuring efficient resource allocation through 2026 to align with the financing of the **Sustainable Development Goals (SDGs)** and **MIP-1**. The DRMS prioritizes spending in **infrastructure development and social policy**, suggesting that improvements in revenue performance, particularly in **VAT and non-tax revenues** (such as dividends from state-owned enterprises, road levies, and taxes), can significantly contribute to these goals.

The Government of Malawi (GoM) is proactively addressing key obstacles in domestic revenue mobilization, including a **narrow tax base, low taxpayer compliance**, and **inconsistencies in tax policy**. Traditionally, tax payments and assessments have been predominantly manual processes. In response, the **Malawi Revenue Authority (MRA)** introduced **Msonkho Online**, an Integrated Tax Administration System, in 2022, with full functionality expected by March 2023. This system enables taxpayers to pay taxes online or via mobile money, allowing MRA auditors to review tax declarations remotely, thus reducing opportunities for corruption.

The challenge of a narrow tax base is compounded by an unreliable taxpayer register, which often includes incomplete or outdated information. Ensuring that all taxpayers, whether commercial entities or individuals, are registered—alongside the registration of property—is crucial. MRA's local officers are dedicated to registering businesses and individuals and clarifying tax responsibilities, though motivation for registration remains low. The issue of porous borders facilitating tax evasion and smuggling is being addressed by the MRA's consideration of implementing electronic tax stamps for better regulation of these activities.

Tax rates and incentives are also under review. The current tax burden on formal sector workers is deemed excessive, potentially encouraging a shift to the informal sector. The complexity of statutory rates, exemptions, and the discretionary nature of exemptions and deductions necessitates a comprehensive evaluation to ensure a fairer and more effective tax system.

Action Plan for Enhancing Central Government Revenue Base

The digitization of tax assessment and collection is set to bring about a significant and immediate enhancement in domestic revenue mobilization, with initiatives already in progress. Furthermore, the **Domestic Revenue Mobilisation Strategy 2021-2026** outlines **127 activities** aimed at bolstering the payment and collection of domestic revenues. To maximize the impact in the shortest timeframe, the government will prioritize these activities, focusing on expanding the overall tax base. Key measures include:

- **Improving business registration processes**: In collaboration with the Ministry of Trade, City Assemblies, and the Registrar General, the **Malawi Revenue Authority (MRA)** aims to register more than **80 percent of all businesses by 2028**, formalizing the economy through:
    - Setting annual registration quotas for local MRA officers and City Assemblies.
    - Accelerating digitalization at the National Registration Bureau to issue tax numbers alongside national IDs for Malawian citizens.
    - Introducing a minimum mandatory VAT registration threshold, with penalties for non-compliance, in partnership with the Ministry of Finance.
    - Increasing the MRA's budget, linking compensation to the achievement of organizational goals, such as business registration rates, to enhance the presence of revenue collection centers and improve audit quality.
- **Review of tax rates and incentives**: The Ministry of Finance and Economic Affairs, alongside other ministries, will review tax rates and incentives to:
    - Ensure tax regimes are competitive and that exemptions, deductions, and other fiscal preferences are justly applied and contribute to economic activity.
    - Evaluate withholding taxes and tax treaties for fairness and efficiency.
    - Reassess VAT rates and the categorization of tax-exempt and zero-rated items, aiming for quicker VAT declaration processing.
    - Reform mining and petroleum taxation, moving away from profit-based taxes to simpler collection methods like royalties.
    - Work with City Assemblies to ensure comprehensive registration and taxation of property.
    - Examine corporate taxes and incentives to prevent revenue leakages and ensure equitable application.
    - Make tax incentives conditional on job creation quality and the integration into regional/global value chains.
- **International cooperation and compliance**: Engaging with international resources under the **Addis Tax Initiative** to exchange tax information and combat tax avoidance. Revisions to the Presidential Salaries and Benefits Act will ensure government officials fulfill their tax obligations. The government commits to updating all state-owned enterprise tax payments by the end of 2023.
- **Gender-sensitive taxation and investment**: Developing tools for gender impact analysis in tax policy and a tax-gap analysis for gender-sensitive taxation. Formulating a national investment policy that aligns with the **Malawi 2063 vision** and **SDG investor map** will guide investment decisions and boost investor confidence.
- **Digitalization and legal reforms**: Implementing digital payment systems for road levies to reduce revenue leakage. Drafting a comprehensive law for state-owned enterprises to define

their roles, responsibilities, and performance indicators. Reviewing mining royalty rates for competitiveness and sustainability and utilizing specialized investment negotiation tools for the mining sector like the one developed for Malawi by the Adam Smith International to expertly negotiate with investors in the sector.

These strategic actions are designed to strengthen Malawi's fiscal framework, enhance domestic revenue, and support sustainable development goals.

3.3. ENHANCING REVENUE MOBILISATION BY LOCAL GOVERNMENTS

Context and Challenges

Local Government in Malawi plays a pivotal role in delivering essential services including primary education, healthcare, water supply, sanitation, and agricultural extension. These services are funded through a combination of intergovernmental transfers and revenues generated locally. Unlike local governments, cities and municipalities primarily rely on self-financing mechanisms. Despite a more than sixfold increase in intergovernmental transfers since 2010, in nominal terms, the real per capita value of these transfers has diminished over the past decade, attributed to inflation and population growth. In contrast, per capita real revenues have remained relatively stable, highlighting unexploited potential for revenue enhancement.

As stipulated by the Local Government Act (1998), local governments are empowered to raise revenue through various means, including property taxes, ground rents, fees, licenses, commercial ventures, and service charges. Property tax collection, in particular, presents an area ripe for improvement without adversely affecting economic activity. A noteworthy spike in property tax revenue was observed in 2017, but it has since declined annually in real per capita terms. Cities like Zomba, Blantyre, Mangochi Town, and Luchenza Municipality have seen modest success in property tax collection. Conversely, Lilongwe City Council derives a significant portion of its revenue from service charges, fees, and licenses.

Local governments' capacity to secure loans from financial institutions is constrained by the absence of central government guarantees. The World Bank initiated a Development Fund for Local Authorities to aid local governments with investment financing. However, due to poor repayment rates from local authorities, the World Bank ceased funding, leading the national government to inject MWK 800 million into the fund in 2020 for revitalization.

Resource scarcity at the local level has negatively impacted service delivery. This is evident in the high pupil-teacher and pupil-classroom ratios and the scarcity of farm extension workers, underscoring the critical need for improved resource allocation and revenue mobilization strategies to bolster local government capacities in Malawi[28]. Local government budgets in Malawi predominantly cater to operational and recurrent costs, leaving scant resources for long-term development projects or infrastructure investments.

Several factors contribute to the inefficiency in collecting property taxes. Firstly, enforcement by local authorities is lackluster. Even when property taxes are levied, the inability to enforce payment, coupled with a sluggish and inconsistent judiciary system, allows for the accumulation of unpaid taxes. Secondly, the unreliability of the postal system necessitates the hand delivery of tax assessments. Thirdly, the expense associated with property valuations is steep, compounded by the absence of unified national standards for property valuation. For example, the property registry in Lilongwe has not been

[28] https://www.unicef.org/esa/media/11161/file/UNICEF-Malawi-NLGFC-IGF-%20Fiscal-Decentralisation-Situational-Analysis-2022.pdf

updated for five years, although the city is now utilizing Geographic Information Systems (GIS) for property mapping. Fourthly, political interference often hampers efforts to enhance property tax systems, with influential individuals or entities obstructing reform measures.

Revenue generation from fees and licenses falls short of its potential, largely because many businesses operate without formal registration. For most local jurisdictions, issuing municipal bonds is not feasible as current revenue levels do not support the assurance of repayment. Furthermore, considering the fiscal vulnerability of the public sector and the prevalent culture of non-repayment among local governments, municipal bonds are advised against as a financing mechanism.

Ongoing Reforms

Local government revenues in Malawi stem from four primary sources: locally generated revenues, ceded revenues, central government transfers, and assistance from non-governmental organizations (NGOs). The Malawi National Human Development Report (2021) highlights significant disparities in fiscal decentralization and the generation of local revenues between urban councils, particularly the city councils of the two largest cities, and district councils nationwide. The distribution of fiscal resources among district councils follows a formula that takes into account factors such as population and poverty levels, as determined by the National Local Government Finance Committee.

Efforts to enhance decentralization, including reforms to the intergovernmental fiscal transfers formula, have been supported by development partners like the United Nations Development Programme (UNDP) and the World Bank. These reforms aim to encourage better service and goods delivery to citizens and to fortify domestic capabilities. A key policy initiative in this context is the Constituency Development Fund (CDF), which allocates funds to Members of Parliament for local development projects to foster regional capacity building and generate linkages and agglomeration effects. However, the World Bank's country report for Malawi cautions that pervasive corruption at all government levels presents a significant challenge to development. Thus, while fund allocation is crucial, it must be coupled with efforts to enhance fiscal capacity and implement policies that enhance transparency to effectively address fiscal shortfalls.

Action Plan for Enhancing Local Government Revenue Base

Given the challenge of Malawi's low national output combined with a high tax burden, it's unlikely that local revenues alone will significantly boost development financing. However, marginal improvements are possible, aiming not only to enhance revenue collection but also to ensure fairness and progressiveness in local tax assessments. To this end, the government plans to:

- **Implement a Digital Local Tax Payment System:** Building on the success of MRA's Msonkho Online, this initiative will enable property owners to electronically review tax assessments and make payments via bank or mobile apps. Businesses will also benefit from electronic fee and license payments and electronic notifications. This system will be rolled out across all councils, contingent upon improved electricity and internet access as part of the Digital Strategy implementation.
- **Enhance Property Tax Enforcement:** By revising the costs and standards for land valuation, the government aims to increase valuation activities and establish equitable standards for fairness. A key goal is to execute mass property valuations for over 80% of properties in urban areas by 2030, in partnership with councils and the MCC.
- **Strengthen Local Public Financial Management (PFM):** Integrating local PFM systems with the national-level IFMIS and enhancing laws against tax evasion are critical steps. Mass public campaigns will reiterate the penalties for dodging property taxes, alongside capacity-building efforts for local authorities to improve law enforcement and revenue collection.
- **Community Outreach and Education:** Using local languages and accessible materials, the government will educate communities on the benefits of tax compliance and taxpayer rights.

Additionally, a local-level SDG-focused project management and grant application system will be developed to express community needs effectively, leading to improved service delivery, human development, and enhanced trust in government leadership.

These measures aim to refine local revenue systems, ensuring they contribute more effectively to Malawi's development while promoting equity and transparency.

3.4. IMPROVING PUBLIC DEBT MANAGEMENT

Context and Challenges

The International Monetary Fund (IMF) has identified Malawi's debt situation as unsustainable. During the fiscal year 2020/21, interest payments on public debt accounted for 21 percent of the total fiscal expenditure. A significant portion of this debt is attributed to creditors such as Afreximbank, the Trade and Development Bank (TDB), and other bilateral lenders, including India and China[3].

A high level of public debt not only leads to substantial debt servicing costs but also hinders private investment, crucial for economic growth. The attractiveness of high treasury rates and regulatory frameworks that classify domestic treasuries as low-risk assets for fulfilling prudential requirements encourage the domestic financial sector to invest in government debt instead of in infrastructure or business projects with potential for productivity. Moreover, the ongoing debt dilemma and balance of payments crisis are exerting additional pressures on the economy. Restrictions on foreign currency withdrawals are deterring foreign private investors from repatriating their profits, putting a pause on future investments. Furthermore, the crisis is causing significant currency depreciation, adversely affecting businesses reliant on foreign inputs.

Malawi's historical pattern of fluctuating economic fortunes and recurrent debt crises complicates efforts to assure creditors of the country's commitment to a sustainable fiscal trajectory moving forward. A major part of this challenge stems from the absence of a reliable debt management framework and a mechanism for smoothing expenditure, which would help reduce debt during prosperous periods and facilitate borrowing during times of crisis.

Ongoing Reforms

The government of Malawi is undertaking significant measures to address its pressing external financing needs and achieve macroeconomic stabilization. In pursuit of this goal, efforts are being made to restructure its debt with creditors and to secure temporary relief from the International Monetary Fund (IMF) through a new Extended Credit Facility (ECF). During negotiations for an ECF program with the IMF and debt restructuring talks with its non-concessional creditors, Malawi succeeded in securing a staff-level agreement for a Rapid Credit Facility. Through this agreement, the IMF allocated USD 83.3 million to Malawi via the IMF’s new Food Shock Window and Program Monitoring with Board Involvement (PMB). This funding provided crucial immediate foreign currency support to address the burgeoning food crisis and bolstered Malawi’s structural and economic reforms. On November 15, 2023, the IMF Executive Board approved a new Extended Credit Facility for Malawi, amounting to USD 175 million over four years. This approval marks a critical step in ensuring Malawi's continued strategic collaboration and limited budgetary support from major development partners, including the World Bank, European Union, African Development Bank, and others.

Additionally, in line with China's initiative to deepen economic relations with Africa, it has pledged to cancel MK 5.5 billion of Malawi’s MK 244.36 billion loan. Although this cancellation represents just a fraction of Malawi's debt to China and constitutes only 6.96 percent of Malawi’s total public debt as of December 2021, it significantly aids the country in diverting its focus towards addressing more pressing economic challenges.

Action Plan for Public Debt Management

To enhance fiscal sustainability and bolster the government's creditworthiness without impeding private sector investment, the government is committed to implementing several key measures:

- Conducting an **annual expenditure review** to pinpoint projects or programs that fail to deliver sufficient developmental value for money, followed by judicious budget reductions based on this evaluation. A critical area of focus will be the reform of the **Affordable Inputs Program (AIP)**, aimed at cutting logistical expenses, minimizing the impact on foreign exchange reserves, and improving targeting of aid to vulnerable households. Furthermore, the government is considering the adoption of an **expenditure rule**, inspired by models from Peru and Grenada, which would cap the annual growth of recurrent expenses.
- **Halting the acquisition of market-rate loans** until the ongoing debt restructuring process is finalized and economic stability is restored. The strategy includes prudent fiscal management with an emphasis on optimizing current expenditures and broadening the tax base through enhanced registration processes and fostering economic growth.

3.5. STRENGTHENING PUBLIC FINANCIAL MANAGEMENT

Context and Challenges

Facing fiscal constraints, the Government of Malawi has adopted a medium-term expenditure framework and enhanced oversight of government expenditures. Nevertheless, ongoing financial obligations have restricted the budget available for capital projects. In the fiscal year 2020/21, the composition of fiscal expenditures included 31 percent for wages and salaries, 21 percent for interest payments on public debt, 14 percent for social benefits, 10 percent for transfers to local governments, and 2 percent for other statutory payments. Consequently, less than 20 percent of the fiscal expenditure, which totalled MK 1.7 trillion (approximately USD 2 billion), was dedicated to new public infrastructure development.[29]

Public financial management in Malawi has attracted considerable attention from the public. Although the existing laws and institutional frameworks provide a solid basis for sound budget planning and execution, there is an identified need for enhanced transparency concerning the allocation of funds. The issue at hand is not related to capacity but rather to the incentives in place. The latest Public Expenditure and Financial Accountability (PEFA) assessment conducted in 2018 highlighted several critical challenges in public financial management. Key issues include inadequate control and transparency concerning off-budget entities, particularly state-owned enterprises; limited economic analysis, project selection, costing, procurement, and monitoring of public investment projects; the almost complete absence of records for government assets and liabilities; and a lack of sufficient independent external audits.[30]

The state-owned enterprise (SOE) sector in Malawi generally achieves slight profitability during stable, non-crisis periods. SOEs such as Airports Development Limited, the Lilongwe Water Board, and EGENCO (focusing on electricity generation) are those consistently reporting profits.[31] However, other SOEs like ESCOM (responsible for electricity transmission and distribution), the National Economic Empowerment Fund (offering microfinance services), and the Blantyre Water Board face persistent and substantial losses, burdening the state's finances. The electricity sector, in particular, has been identified as a critical focus for government reforms.

The performance of public services is adversely affected by a compensation structure that disproportionately rewards travel over initiative or adherence to laws and regulations. The relatively low salaries contribute to an environment conducive to corruption, which hampers efforts to enhance service delivery and develop public infrastructure. Moreover, the provision of benefits, such as travel per diems and vehicles for managers, fosters a culture of spending time outside the office, with minimal risk of repercussions for misusing these perks.

Ongoing Reforms

The World Bank and various bilateral donors are collaborating with the Malawian government to implement specific Public Financial Management (PFM) reforms. These efforts are aimed at mitigating fiscal risks associated with State-Owned Enterprises (SOEs), enhancing procurement systems, and boosting the transparency and external oversight of government finances. A crucial advancement in bolstering the nation's public financial management is the adoption of strategic actions outlined in the Malawi Public Finance Management Strategy 2023-2028. This ambitious strategy is centered around

[29] Malawi Ministry of Finance and Economic Affairs 2022 budget documents.

[30] https://www.pefa.org/sites/pefa/files/assessments/reports/MW-Nov18-PFMPR-Public-with-PEFA-Check.pdf

[31] http://www.finance.gov.mw/index.php/our-documents/annual-economic-reports?download=180:2019-20-soe-consolidated-report

seven strategic goals that encompass three main themes: enhancing revenue and accountability (strengthen), optimizing resource allocation (reform), and establishing governance frameworks to foster a conducive environment for improved PFM outcomes (govern). The Government of Malawi's objectives include:

- **Strengthening the PFM environment** by aiming to increase the revenue-to-GDP ratio by 5 percentage points by the 2025/26 financial year. This goal will be achieved by enhancing institutional capacity, expanding the tax base, modernizing tax legislation and regulations, and reinforcing revenue enforcement mechanisms.
- **Reforming resource allocation** to improve tax compliance and institutional performance. The government plans to introduce policies that enhance staff skills and professionalism, promote ethical staff behavior, and build capacities in revenue analysis.
- **Establishing governance mechanisms** to supervise the implementation of non-tax revenue policies, update non-tax legislation, execute dividend and surplus policies, and enhance the pricing, quality, and delivery of public services.

Action Plan for Improving Public Financial Management

To enhance public financial management, the Government of Malawi is committed to fast-tracking the execution of the Malawi Public Finance Management Strategy 2023-2028. In line with this Strategy, the Government plans to:

- **Revise public service compensation**: Undertake a thorough examination of the remuneration system for public service managers and staff, focusing on incentives that promote public service efficiency and reduce wasteful practices. This revision will encompass salary structures, allowances (such as per diems for travel and transportation), and other benefits like pensions. By implementing these reforms and streamlining the public service workforce, it is anticipated that the wage bill will decrease while the quality of service delivery improves. The review will also enhance sanctions for the mismanagement and misuse of public funds by government officials, including measures such as imprisonment, inquiries, suspension, or termination of employment.
- **Adjust the budget calendar**: Amend the budgetary timeline to ensure the Fiscal Strategy statement, which outlines the nation's priorities, is prepared and distributed earlier. This adjustment aims to influence the budgetary process by establishing clear public investment priorities and setting expenditure limits at the outset. Each budget cycle will begin by setting and approving realistic total expenditure limits that align with national priorities and the PFM Strategy, including for all recurrent and public investment expenditures. This process will also involve collaboration with the Ministry of Finance to create a detailed gender-responsive budgeting and reporting framework, ensuring allocations support gender equality and progress is evaluated in an annual report.
- **Enhance project selection and prioritization**: Improve criteria for selecting government investment projects to be included in the budget, giving preference to projects that create jobs and support climate adaptation or mitigation efforts, as well as equitable transitions. This approach aims to develop a project pipeline that ranks projects according to specific timelines and establish a robust project management and monitoring system to ensure accountability.
- **Digitize public financial management**: Transition to a digital platform where all budgetary information, execution data, procurement details, and monitoring outcomes are accessible in real-time on government websites through a transparency e-portal.

3.6. ENHANCING THE ROLES OF PUBLIC INSTITUTIONS

Context and Challenges

The engagement and proactive measures from Malawian entrepreneurs and their creditors have led to notable success stories. However, the roles of de-risking and public sector facilitation in attracting private sector investment have been pivotal. For instance, National Bank of Malawi (NBM) ventured into the tobacco sector, drawn by the established markets, farm infrastructure, and secure purchase agreements with reliable buyers. Similarly, Old Mutual's foray into student housing necessitated risk-sharing arrangements with the government.

To catalyze private investment, the government has initiated two public entities aimed at demonstrating sectoral success, aiding in the development of startup infrastructure, or mitigating risks for private investors. The Malawi Agricultural and Investment Corporation (MAIIC) is set up to channel financing into commercially viable ventures that resonate with national development objectives. Offering concessional loans, partial credit guarantees, and the option to acquire up to 30 percent equity in local businesses, MAIIC has earmarked USD 130 million for potential investments in diverse sectors, including quarrying and tourism. Yet, as of September 2022, it has disbursed only USD 3.6 million in loans, primarily in soya and fertilizer production, constrained by its Tier 1 capital of just USD 16 million, largely sourced from the government and a minor contribution from CDH Investment Bank. MAIIC's limited impact in spurring investment is partly due to its insufficient capitalization, unlike Development Finance Institutions (DFIs) in other countries that benefit from international DFI capital or are wholly government funded.

Furthermore, several state-owned enterprises (SOEs), not traditionally financial institutions, play a significant role in encouraging private investment, notably within the agricultural sector. ADMARC, established in 1971 to boost agricultural output, develop export markets for Malawi's agricultural goods, and support farmers with extension services and price stabilization for inputs and outputs, demonstrated efficiency in its early years. However, due to corruption, increasing input costs, and declining tobacco prices, it faced insolvency. Post the mass privatisations in the 1990s, ADMARC shifted to being a purchaser of last resort and managing the strategic maize reserve. While mismanagement has plagued SOEs like ADMARC, establishing a robust SOE framework, inclusive of effective legislation and oversight, could rejuvenate agricultural productivity and food security, reigniting growth in the agribusiness sector.

Ongoing Reforms

The Reserve Bank of Malawi’s Export Development Fund was designed to invest over the long-term and increase the volume and quality of bankable projects. All projects it funds must be export-oriented or in the secondary or tertiary sectors and attract private investors. While the central bank capitalises the Fund (initial capitalisation MKW 1 billion), it retains lines of credit with Afreximbank, TDB, and DBSA. Initially it only provided guarantees, though, after a decade of operations, it is only now starting to make loans and invest in “commodity market making” instruments whereby the client secures a contract, EDF makes a loan and is repaid out of project profits. Recent investments include a USD 5 million in one of Malawi’s four Special Economic Zones (SEZs) with co-financing by Afreximbank. The loan book also includes projects in the tourism, agricultural and mining sectors.

Action Plan for Enhancing the Role of Public Institutions

The below comprehensive steps are designed to reinforce the government's commitment to economic, social, and ecological sustainability, thereby contributing to the growth of Malawi's private sector and advancing towards achieving the SDGs and the ambitious targets of MIP-1. They are presented to enhance the capacity of public institutions in mobilizing revenue from diverse sources, aimed at fortifying existing institutions and, where necessary, establish new ones through these strategic initiatives:

- **Revitalizing Agricultural Marketing Boards**: In response to the challenges faced by farmers due to the absence of agricultural marketing boards since the 1990s, including lack of access to extension services, financing, and vulnerability to price volatility, the government intends to reestablish ADMARC and similar entities. This initiative aims to shield farmers from price fluctuations, improve agricultural yields, offer a form of farm insurance, and foster market development. It also seeks to enhance the market standing of Malawian producers, encourage infrastructure development in the agriculture sector, and reduce travel distances for farmers, who make up roughly 80 percent of the population. To circumvent past issues and avoid creating an unsustainable cost structure, these efforts will be complemented by innovative management and technological advancements.
- **Capitalizing MAIIC and EDF**: Addressing the capital constraints faced by MAIIC and EDF is crucial. Despite past administrative hurdles that may have deterred financing from international Development Finance Institutions (DFIs), the government is committed to revitalizing discussions with these DFIs to secure funding for these critical entities, aiming to catalyze significant investments in domestic companies and stimulate regional or industrial growth.
- **Empowering the National Planning Commission (NPC)**: The government will bolster the NPC's ability to assist ministries in formulating master plans and guiding state-led industrial projects towards generating export income or reducing import reliance. The NPC will also explore the benefits of industry clustering and influence budget and human resource allocations based on ministries' effectiveness in achieving their strategic objectives.
- **Reforming ESCOM**: An independent assessment of ESCOM will be conducted to enhance electricity provision and continue the gradual increase in national electricity tariffs, addressing the utility's operational efficiencies.
- **Enhancing MITC's Project Appraisal Process**: MITC will develop and implement a standardized project appraisal methodology to be applied consistently across all government agencies, improving investment decision-making. Additionally, the government will establish a monitoring system to ensure public institutions' mandates align with the SDGs and foster regular inter-organizational strategy sessions for better coordination and project communication.
- **Promoting Gender Inclusion and Diversity**: The government will form gender focus groups within government institutions and ministries to conduct training and workshops on gender inclusion. Efforts will include promoting female managers within the civil service and raising awareness of gender equity. Collaboration with MAIIC to introduce gender Results Based Incentives will encourage gender-positive outcomes in projects and businesses.

3.7. NOTABLE RISKS AND IMPACTS

While the initiatives proposed carry certain risks, it's imperative for the government to implement mitigation strategies to ensure these initiatives are effective and do not yield unintended negative consequences.

Expanding the tax base is essential for enhancing the nation's revenue yet considering Malawi's already high tax-to-GDP ratio, further increases in personal income tax could exacerbate the financial strain on citizens. To navigate this, the government's approach to broadening the tax base will concentrate on phasing out non-competitive tax incentives, introducing additional sin taxes, and bolstering tax compliance, rather than increasing personal income tax rates.

The launch of Msonkho Online, an Integrated Tax Administration System designed to boost tax compliance, faces potential challenges related to poor internet connectivity and limited access to ICT services, particularly in rural areas. This situation poses a risk to the success of efforts aimed at enhancing tax compliance. In response, the government plans to develop a comprehensive digital strategy for Malawi, which will include measures to improve ICT infrastructure and services across the country, thereby supporting the successful implementation of Msonkho Online and other digital initiatives.

3.8. SUMMARY OF DOMESTIC PUBLIC SOURCES OF FINANCE

Malawi benefits from a robust tax-to-GDP ratio and is in the process of digitizing revenue collection. Yet, challenges such as a sluggish economy, a limited tax base, unsustainable public debt, inequitable tax imposition (excessively high for some sectors while excessively lenient for others through exemptions), and resource misallocation hinder the government's capacity to fund public services efficiently. The Government of Malawi is dedicated to enhancing public revenue mobilization, with strategies derived from their action plans summarized in the table below.

Table 2: Overview of key initiatives for strengthening Domestic Public Financing

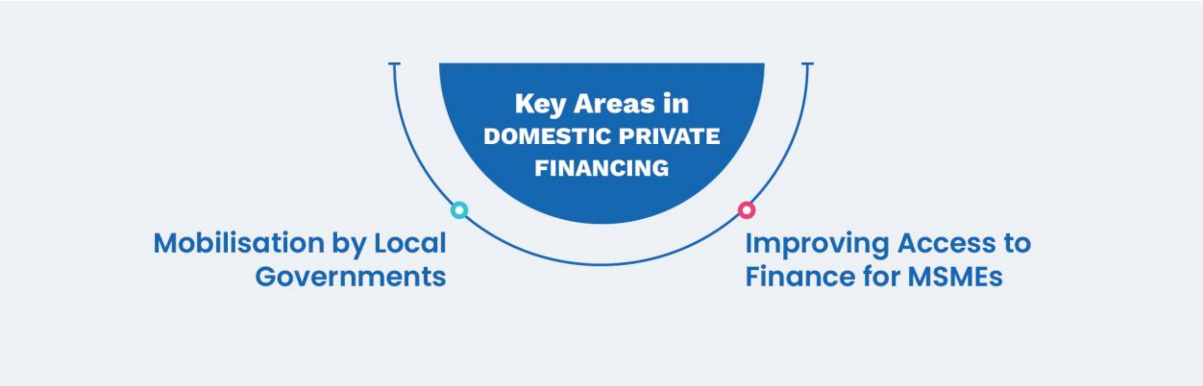
QUADRANT: **DOMESTIC PUBLIC FINANCE**			
THEMES	**KEY INITIATIVES/ACTION ITEM**	**REFORM TYPE**	**PRIORITISATION TIME FRAME**
Enhancing Central Government Revenue Base	Improve Business registration processes	Regulatory Reform	**Short -Term**
	Review of tax rates and incentives	Policy Reform	**Medium-Term**
	Draw on international resources to exchange tax information	Business Process	**Short-Term**
	Revise the Presidential Salaries and Benefits Act to ensure that the President and all government officials pay their tax	Regulatory Reform	**Long-Term**
	Develop tools to monitor the gender impact of tax policy and conducting a tax-gap analysis to ensure a more gender-sensitive taxation	Instruments	**Medium-Term**
	Develop a national investment policy and strategy that brings together the Malawi 2063 and 10-year implementation plan into a more concrete strategy	Policy Reform	**Medium-Term**
	Digitise payment and payment tracking structures for collection of levies from road users	Business Process	**Medium-Term**
	Draft a stand-alone state-owned enterprise law	Policy Reform	**Medium-Term**
	Review the current mining royalty rates against the rate in other countries	Business Process	**Medium-Term**
	Leverage the country's mining investment tools, like the 'fiscal framework for mining' tool	Business Process	**Medium-Term**
Enhancing Local Government Revenue Base	Continue to develop and implement a digital local tax payment platform building on lessons learned from the MRA's Msonkho Online	Business Process	**Short-Term**
	Strengthen enforcement of property tax	Regulatory Reform	**Medium-Term**
	Develop a local level PFM system and integrate with the national level PFM (IFMIS)	Business Process	**Medium-Term**
	Conduct Community Outreaches	Business Process	**Short-Term**
Public Debt Management	Undertake an annual expenditure review	Regulatory Reform	**Medium-Term**
	Refrain from taking additional market rate loans until the debt restructuring is complete and the economy is stabilised	Regulatory Reform	**Short-Term**
Public Financial Management	Conduct a comprehensive review of its public service manager and staff remunerations with an emphasis on creating incentives to serve the public and reduce inefficient activities	Regulatory Reform	**Short-Term**
	Revise the budget calendar such that Fiscal Strategy statement, stating the national priorities, is prepared, and circulated earlier	Business Process	**Short-Term**
	Develop better selection and prioritisation criteria for selecting projects in which the government should invest and are captured in the budget	Business Process	**Short-Term**
	Digitalise public financial management	Business Process	**Medium-Term**
Enhancing the Role of Public Institutions	Rebuild ADMARC and other agricultural marketing boards	Business Process	**Medium-Term**
	Finance MAIIC and EDF Restructure ESCOM based on an independent assessment of the company to improve provision of electricity	Regulatory Reform	**Medium-Term**
	Strengthen the National Planning Commission	Business Process	**Medium-Term**
	Restructure ESCOM based on an independent assessment of the company to improve provision of electricity	Regulatory Reform	**Short-Term**
	Strengthen MITC's project appraisal process by developing a country-wide standard methodology for project appraisal	Business Process	**Short-Term**
	Create gender focus groups in Government institutions and Ministries to provide training and workshops on the importance of gender inclusion and diversity	Business Process	**Short-Term**

4. Initiatives to Strengthen Domestic Private Sources of Finance

4.1. OVERVIEW

Chapter 4 outlines a strategy aimed at stimulating investment from the domestic private sector, which, in turn, will boost public revenues by expanding and diversifying the tax base over time. It's crucial to create an optimal business environment for domestic investors, offering them the potential for profitability and long-term stability. This strategy includes targeted measures to mobilize private domestic finance to support the Sustainable Development Goals (SDGs) and enhance financing accessibility for Micro, Small, and Medium Enterprises (MSMEs).

Figure 12: Key Areas in Domestic Private Financing



4.2. MOBILISING DOMESTIC PRIVATE SOURCES OF FINANCE

Context and Challenges

In Malawi, mobilizing private investment faces significant hurdles, largely due to the business environment and the need to foster trust between the private sector and the government. Issues such as inadequate contract enforcement, heavy tax burdens, infrastructural deficits, trade restrictions, complicated licensing procedures, macroeconomic volatility, and a shortage of skilled labor pose challenges for domestic private investors. Consequently, the availability of bankable projects that attract domestic or foreign private investment is limited.

While Malawi's financial institutions possess sufficient capital, finding feasible projects remains a challenge. The private finance sector identifies the main issue as a lack of capacity rather than funding. Stakeholders across the sector, including banks, insurance companies, and pension funds, emphasize the economy's need for sector-specific expertise over additional capital.

Pension funds and the liquid assets of banks and insurance companies are significantly underutilized sources of domestic finance. With mandatory contributions to pension savings in the formal sector, pension funds account for about 45 percent of Malawi's capital market, a figure that is on the rise.

According to Basel III standards and the Reserve Bank of Malawi's regulations, government treasuries are considered zero-risk, not requiring reserve backing. This, coupled with high interest rates on government securities and strict restrictions on foreign investments by domestic financial entities, encourages institutions like Nico Holdings and Old Mutual to invest in government securities and domestic equities over alternative investments. However, this focus increases systemic risk, as substantial capital that could be invested in local businesses and infrastructure is overly concentrated in government securities and a limited number of equities, heightening the potential for a market bubble.

Nonetheless, Malawi's financial institutions have successfully invested in domestic ventures. Examples include Old Mutual's collaboration with the government on university student housing and its partnership with Standard Bank to finance a major highway in Lilongwe, alongside a USD 30 million investment in Jacoma, a UK-based macadamia company with a robust market presence and a reliable payment history.

However, challenges such as reserve requirements for banks and insurers, the lack of funding for feasibility studies, and cumbersome business setup processes hinder private investments. High interest rates, driven by perceived and actual credit risks, default rates, exchange rate uncertainties, and fluctuating inflation rates, further complicate the investment landscape. Moreover, the government's occasional failure to fulfill its financial commitments exacerbates these challenges, as illustrated by a local bank's financed water pipeline project, which faced payment delays due to the sovereign debt crisis.

Opportunities exist for the private financial sector to more effectively engage with the real economy. For instance, the insurance sector could explore de-risking strategies like micro crop insurance or credit insurance for corporate accounts receivables. Commercial banks might shift focus towards infrastructure and corporate financing and investing key sectors of the economy with huge investment opportunity returns, thus moving away from government treasuries. Microfinance institutions also have the potential to broaden their reach to underserved populations and sectors, contributing to economic growth and development in Malawi.

Ongoing Reforms

NBM's Development Bank has achieved notable success in financing projects across various sectors, including private clinics, an organic fertilizer company, and tourist lodges on Lake Malawi and in the vicinity of Blantyre. Its parent company, NBM, has significantly invested in the tourism and tobacco industries. Similarly, Nico Holdings has made successful investments in commercial real estate, such as shopping malls, and the trading sector. These financial institutions are keen to expand their investments into areas like tourism, ICT, retail, healthcare, renewable energy, manufacturing, and agribusiness, although real estate continues to be a favoured asset class.

The Malawi SDG Investor Map, developed by the government of Malawi with support from the United Nations Development Programme, presents a significant opportunity for leveraging private sector financing, innovation, and technology in critical sectors. These sectors include agriculture (specifically food and beverages), infrastructure, renewable resources and alternative energy, and services (notably tourism and ICT), offering a pathway for sustained economic growth and development.

Action Plan for Mobilising Domestic Private Sources of Finance

To bolster domestic private finance mobilization and enhance the business environment, the Government of Malawi is committed to implementing several strategic measures:

- **Addressing reserve requirements and investment ceilings**: The Reserve Bank of Malawi (RBM) plans to adjust reserve requirements to incentivize investment in small and medium-sized enterprises (SMEs) and reduce investment in government securities and real estate. This includes possibly mandating financial institutions to allocate a portion of profits to a special SME fund and altering reserve requirements to favour alternative investments.
- **Promoting investment diversification**: The government aims to encourage financial institutions to diversify their investment portfolios away from government treasuries and domestic equities towards SDG-aligned infrastructure projects. This includes establishing a facility with donor and international financial institution support to de-risk investments through guarantees and equity participation for strategically important and commercially viable projects.

- **Streamlining business establishment regulations**: Plans are underway to simplify business registration by eliminating unnecessary licensing and permitting requirements, thereby reducing corruption and expediting business development. Digitization efforts, including tax payments and national ID systems, will support these reforms.
- **Building financial service provider capacity**: The government will support financial institutions in developing and delivering innovative financial products tailored to specific client groups, including smallholder producers, underserved rural populations, and women. This involves developing financial products that promote decent jobs and providing tools for assessing projects in key sectors.
- **Prioritizing feasibility studies**: Collaboration with the World Bank and other donors will focus on financing feasibility studies in sectors such as agriculture, tourism, and renewable energy. The government will also support initiatives to improve business plans and prioritize climate-related projects.
- **Conducting legal reviews and international collaborations**: Reviews of the Trust Act and other corporate laws will be undertaken to align with best practices, with international partnerships established to share insights on corporate legal interpretation.
- **Investing in education and skills development**: Recognizing the need for expertise in sectors like agribusiness and renewable energy, the government will invest in training programs to cultivate a skilled workforce, drawing inspiration from India's success in ICT as a competitive advantage.
- **Fulfilling obligations to the private sector**: To restore trust in public-private partnerships, the government is committed to honouring its financial obligations to the private sector and fostering open dialogue.
- **Developing PPP strategies**: The establishment of regulations, guidelines, and a PPP center within the Ministry of Finance aims to incentivize SDG-oriented PPPs, facilitating private sector investment in public projects.
- **Attracting impact investors**: Through improved communication and matchmaking events, the government seeks to engage impact investors, utilizing the SDG Investor Map as a guide for investment in Malawi.
- **Exploring social impact bonds (SIBs)**: Considering the success of SIBs in other developing economies, the government is interested in attracting impact investors for initiatives such as skills training and employment support.
- **Enhancing insurance coverage and climate adaptation**: Efforts to improve disaster risk management and promote accessible insurance will be bolstered by initiatives like the payout received from the African Risk Capacity for climate-related losses, providing economic support through shocks.

These comprehensive measures aim to create a more conducive environment for private sector growth, aligning with national development goals and the Sustainable Development Goals (SDGs).

4.3. IMPROVING ACCESS TO FINANCE FOR MSMES

Context and Challenges

Recent data indicates that approximately 50% of adult Malawians lack access to financial services, leaving them without secure means to save or borrow money. Women are especially affected, with only 38% having formal banking services. Despite this being one of the highest rates of financial exclusion in Africa, notable progress has been made from 2011, when just 17% of adults had access to formal banking services. This positive trend is largely attributed to the growing adoption of digital financial services. Among those with access to financial services, a small portion utilize formal banks, with the majority opting for non-bank financial institutions like microcredit organizations or informal lending options.[32] The limited access to credit in Malawi significantly impedes the country's efforts to alleviate poverty and channel personal savings into loans that could stimulate productive economic activities.

Over 20 microcredit institutions have emerged to address the financial service gap by offering savings and loan options. However, many of these loans are directed towards formally employed individuals, traders, and suppliers, mainly supporting household consumption, real estate, and import activities. Microfinance institutions (MFIs) often shy away from lending to farmers and Micro, Small, and Medium Enterprises (MSMEs) due to the high-interest rates imposed by their bank creditors, the perceived risk associated with these loans (leading to high collateral requirements), and insufficient loan evaluation capabilities within MFIs. International MFIs tend to have a competitive edge over local ones, benefiting from access to more affordable capital.

Ongoing Reforms

State-Owned Entities Focused on Development Financing

The Malawi Agricultural and Industrial Investment Corporation (MAIIC) was established in 2018, inspired by a feasibility study that highlighted the necessity for a Development Finance Institution (DFI) in Malawi. MAIIC aims to serve as a conduit between the government and the private sector, fostering private sector development within the country. The Export Development Fund (EDF), launched in 2012 through the collaboration of domestic banks, the Malawian government, and various business organizations, pursues a similar mission. Both entities are dedicated to enhancing productivity by offering capital, credit guarantees, and equity participation to address critical financing gaps, ultimately unlocking the Malawian economy's full productive potential.

Private Sector Initiatives

The private sector in Malawi has launched several initiatives aimed at boosting the international competitiveness and export capabilities of the economy. Among these, the Development Bank of National Bank Malawi (NBM) focuses on bridging funding gaps by providing debt and equity capital to Micro, Small, and Medium Enterprises (MSMEs) across vital sectors including agribusiness, healthcare, ICT, energy, education, and tourism. A distinctive aspect of this program is the requirement for applicants to demonstrate their firm's developmental impact in terms of social, economic, and ecological sustainability. This includes initiatives like financing clean energy projects or developing products that aid vulnerable groups. Notably, tobacco products are excluded from funding under this initiative, marking a departure from other public sector efforts that promote tobacco as an export commodity, despite its market volatility and ethical concerns.

Action Plan for Enhancing the Role of Public Institutions

To enhance agricultural financing and reduce its associated risks, the Government of Malawi plans to collaborate with international donors such as the International Fund for Agricultural Development (IFAD) to offer loan guarantees to Microfinance Institutions (MFIs) that provide loans to MSMEs and farmer groups. These loans will necessitate basic market assessments from the borrowers. Strategies for de-risking private sector investments in agriculture include:

- Establishing an Agritech hub in Lilongwe or another urban area to foster connections between rural and urban communities, placing agriculture and technological innovation at the forefront to build capacity and showcase Malawi’s competitive edge. Successful examples like the Thrive Agric hub in Nigeria and the Agriprotein hub in South Africa have shown how innovation can transform agricultural production and market linkages, enhancing sector revenue.

[32] https://www.mamn.mw/resources.html?download=20%3Afinscope-consumer-survey-malawi-2014

- Launching formalized Agritech innovation training at universities, rewarding agricultural innovation through prizes, and allocating research and development grants to this field.
- Creating new financing facilities, either through private debt or equity, specifically for the agriculture sector.

To bolster MFIs with social objectives, the government will seek additional capital from international financial institutions and donors, especially those MFIs with a proven record of development-focused lending in Malawi. This effort will concentrate on funding MSMEs that generate employment opportunities.

Financial incentives for investments in key sectors will be offered to stimulate domestic investments. This could be through financial guarantees or blended finance schemes, encouraging investors to align with national priorities. Proposed incentives include:

- Free capacity building and business training for MSMEs to boost business initiation and profitability.
- Special programs and incentives for women owned MSMEs.
- Financial rewards for adopting gender-inclusive hiring practices, including a quota for women on boards of directors for larger companies, to enhance women's participation in the workforce.

Additionally, the government will focus on increasing women's economic empowerment through various measures such as:

- Enhancing access to equity capital for women-led or owned businesses through microfinance.
- Initiating capacity-building programs for women entrepreneurs starting from school-level initiatives.
- Funding university research on female empowerment and the economic impact of gender-sensitive policies.
- Implementing policies to address child marriages, domestic violence, and improve access to menstrual health facilities, thereby ensuring equal educational opportunities for girls and women.

To improve MSMEs' access to finance and enhance the financing ecosystem, the government will:

- Set up specific financing instruments for MSMEs, including development funds and emergency business funds.
- Develop rural banking solutions like the Malawi Union of Savings and Credit Cooperatives (MUSCCO) to support the microfinance sector and strengthen the private sector framework.

The government also plans to establish monitoring systems to assess the impact of SME support initiatives, demonstrating Malawi’s commitment to international business standards, gender equality, and the support of small businesses, thus attracting further funding for SMEs.

4.4. NOTABLE RISKS AND IMPACT

Maintaining the private sector's involvement is essential for the successful implementation of the initiatives outlined in this section. Historically, the government's failure to fulfill its promises to the private sector has eroded trust. To guarantee the effectiveness of these initiatives, the government is dedicated to meeting its commitments.

4.5. SUMMARY OF DOMESTIC PRIVATE SOURCES OF FINANCE

The private sector is instrumental in driving Malawi's economic development and enhancing the nation's capacity for sustainable financing. However, the challenging business climate, a scarcity of investable projects, and an absence of mechanisms to mitigate investment risks hamper the domestic private sector's ability to yield substantial investment returns. The government's planned measures to bolster domestic private financing are summarized in the table below.

Table 3: Overview of key initiatives to strengthen Domestic Private Financing

QUADRANT: **DOMESTIC PRIVATE FINANCE**			
THEMES	**KEY INITIATIVES/ACTION ITEM**	**REFORM TYPE**	**PRIORITISATION TIME FRAME**
Mobilising Domestic Sources of Financing	Address reserve requirements for private investments and put ceilings on investments in various domestic assets	Regulatory Reform	**Medium-Term**
	Incentivise investment portfolio diversification	Business Process	**Short-Term**
	Improve regulations for establishing businesses	Regulatory Reform	**Short-Term**
	Provide capacity building to financial services providers	Instrument	**Short-Term**
	Invest in feasibility studies	Business Process	**Medium-Term**
	Institute legal reviews to ensure best practices are continually followed	Regulatory Reform	**Medium-Term**
	Invest in higher education and skills development	Business Process	**Medium-Term**
	Honour government obligations to the private sector	Business Process	**Short-Term**
	Design a PPP development strategy and a PPP center	Policy Reform	**Long-Term**
	Attract Impact Investors	Business Process	**Medium-Term**
	Explore the development of a social impact bond (SIB)	Instrument	**Medium-Term**
	Deepen Insurance Coverage and Climate Adaptation Plans	Business Process	**Medium-Term**
Improve Access to Finance for MSMEs	Develop a Finance Strategy to de-risk agriculture financing	Instrument	**Short-Term**
	Source and implement Grant Schemes to help capitalise MFIs with social goals	Instrument	**Short-Term**
	Provide financial incentives for domestic investments in priority sectors	Business Process	**Medium-Term**
	Design incentives focused on women and investments that increase women's economic empowerment	Instrument	**Medium-Term**
	Develop instruments to improve MSMEs access to finance and improve the financing ecosystem	Instrument	**Medium-Term**
	Develop and implement monitoring systems to evaluate impact of SME support initiatives.	Business Process	**Medium-Term**

5. Initiatives To Strengthen International Public Sources of Finance

5.1. OVERVIEW

Development assistance from bilateral and multilateral lenders ought to be in harmony with the national development objectives of Malawi. Achieving the Sustainable Development Goals (SDGs) by 2030 is beyond Malawi's solitary financial capability; it requires collective action and robust support from the global community to amplify financing for Malawi's sustainable development endeavors. This chapter delves into strategies for aligning international public financing sources with Malawi's development priorities and the SDGs. It highlights initiatives aimed at enhancing collaboration between the international community and Malawi, focusing on climate mitigation and adaptation, and de-risking investments to facilitate sustainable growth.

Figure 13: Key Areas in International Public Financing

5.2. INTERNATIONAL ALIGNMENT WITH DOMESTIC PRIORITIES

Context and Challenges

Malawi has commenced the execution of MIP-1, the inaugural ten-year segment of its extensive development strategy, MW2063, with the aim of evolving into a middle-income economy by 2030 through sustainable transformation. The strategic focal points of MIP-1 revolve around three fundamental pillars: enhancing agricultural productivity and commercialization, promoting industrialization, and advancing urbanization. Remarkably, MIP-1's objectives are 82 percent in alignment with the Sustainable Development Goals (SDGs), underscoring its comprehensive approach to national development in concert with global sustainability targets.[33]

The Government showcases its long-term development framework and commitment to the implementation of its development objectives and realization of the SDGs through the MW2063. Given fiscal limitations, Malawi is in need of international financial support to advance these development projects. Establishing mutual trust between donors and the government, rooted in a shared commitment to human development, is essential for enhancing this partnership. This mutual understanding will serve as a beacon to investors, signaling that Malawi is a secure and burgeoning destination for investment.

[33] Voluntary National Review Malawi 2022

In the past two decades, Malawi's principal multilateral and bilateral donors have included the United States, IMF, World Bank, Global Fund, United Kingdom, and various European governments and multilateral organizations like the United Nations system. The table below illustrates the disbursements made by these major donors over the last three years, for which data is available. Since 2013, in the aftermath of diplomatic disputes and the "Cashgate" scandal, these donors largely suspended direct budgetary support to Malawi. Nonetheless, through predominantly non-budgetary support channels, they continue to finance projects and programs across sectors critical to the Sustainable Development Goals (SDGs) and have delivered significant humanitarian assistance to Malawi following the 2019 floods. Here is a summary of the activities carried out by Malawi's key donors in recent times.

Table 4: Net ODA disbursements, million USD

DONORS				
BILATERAL DONORS	2018	2019	2020	2021
United States	442.1	262.7	319.7	285.4
Germany	57.0	66.1	97.2	93.3
United Kingdom	11.7	103.5	84.3	58.2
Norway	59.5	56.1	63.3	60.7
Japan	21.0	50.8	26.2	19.7
Total bilateral (excluding China and other non-DAC countries)	755.6	601.5	642.2	572.5
MULTILATERAL DONORS				
IMF	2.7	-1.5	188.7	18.4
World Bank Group (including IDA)	122.7	147.5	186.0	167.3
Global Fund (HIV, TB and malaria)	135.8	159.8	172.2	175.2
European Commission and other European institutions	84.7	128.1	105.1	119.4
Regional development banks (e.g., African Development Bank)	48.4	34.8	59.9	29.5
UN agencies	42.7	56.0	59.6	56.6
Total multilateral	481.0	558.7	801.7	571.1

Source: OECD[34]

Table 5: Financing Priority Areas of the Biggest ODA Donors

ORGANISATION	FINANCING PRIORITY AREAS	ALIGNMENT WITH MIP-1
World Bank Group	• Growth promotion • Employment • Capacity-building	YES
IMF	• Normalising the foreign exchange rate • Auditing the Reserve Bank of Malawi • Debt restructuring	YES
European Union/ Commission	• Building physical infrastructure • Trade promotion • Economic diversification and agriculture commercialisation	YES
USAID	• Improving service delivery • Increasing investments in sustainable growth • Millennium Challenge Corporation (MCC) aims to reduce transport cost and increase regional connectivity	YES

Source: Developed for this Report

[34] OECD: "Geographical Distribution of Financial Flows to Developing Countries", 2022, https://www.oecd.org/dac/geographical-distribution-of-financial-flows-to-developing-countries-20743149.htm, accessed 06-11-2022

World Bank Group

The World Bank Group's Malawi Country Partnership Framework (CPF) for FY21-25 emphasizes three primary objectives: fostering growth with an emphasis on accountability, stimulating private sector-led job creation for higher formal employment rates, and enhancing capacity building and human capital development. Digital development and women's empowerment are identified as pivotal cross-cutting themes within the CPF.[35]

This framework is in harmony with the government's priorities outlined in MIP-1. As of January 2023, the International Development Association (IDA) has initiated 24 lending operations in Malawi, totalling commitments of USD 2.6 billion. These investments target the core pillars of the government's development strategy, including agricultural advancement, industrialization, and urbanization. Moreover, the World Bank Group is dedicated to improving governance, enhancing basic service delivery in health, education, and sanitation, and fostering advancements in areas such as digital development and competitiveness.

IMF

The IMF's primary focus has been on counteracting the economic repercussions of the COVID-19 pandemic, the negative impact of the conflict in Ukraine, and the aftermath of climate-related events in 2019 and 2023 on Malawi's economy. Given Malawi's unsustainable debt levels, the IMF is constrained in its ability to provide additional funding for long-term development projects. Consequently, the IMF's initiatives are closely aligned with the government's priorities, recognizing that such alignment is essential for securing new public financing in the future.[36]

The risk of an imminent economic downturn due to the debt crisis adds a layer of complexity that deters private sector investment, a topic that will be further explored in Section 7.2. Implementing fiscal policy reforms to foster a macroeconomic environment with greater fiscal flexibility and enhanced state capacity is critical for sustainable development and achieving the Sustainable Development Goals (SDGs).

Recent efforts by the IMF to support Malawi include:

- Normalizing the foreign exchange market to improve the availability of foreign exchange.
- Conducting an audit of the Reserve Bank of Malawi (RBM) to enhance accountability and transparency, particularly in response to past issues with misreporting of RBM's foreign exchange reserves.
- In October 2022, reaching an agreement with the Malawian government on a debt restructuring plan to re-establish debt sustainability and to initiate an Extended Credit Facility (ECF) Arrangement.
- Approving Malawi for inclusion in the Rapid Credit Facility in October 2022 – Food Shock Window to meet the country's immediate financing needs.
- The approval of the new Extended Credit Facility on November 15, 2023.

[35] World Bank: "Malawi Country Report", 2022, https://www.worldbank.org/en/country/malawi/overview#2, accessed 26-10-2022

[36] IMF: "IMF Staff Completes Visit to the Republic of Malawi on the Request for a Disbursement under the Food Shock Window and for a Staff Monitored Program with Executive Board Involvement", IMF 11-10-2022, https://www.imf.org/en/News/Articles/2022/10/11/pr22346-malawi-imf-staff-completes-visit-to-the-republic-of-malawi, accessed 26-10-22

European Commission/EU

The collaboration between the European Union and Malawi is grounded in the ACP-EU Cotonou Partnership Agreement, a framework for international cooperation between African, Caribbean, and Pacific (ACP) countries and the European Union. This partnership aims to advance universal human rights and signals the EU's commitment to fostering sustainable development with a primary focus on eradicating poverty in these regions. Since 1976, Malawi has received EUR 2 billion in development aid from the EU. Between 2014 and 2020, EUR 700 million was designated for Malawi, and for the period of 2021 to 2024, Malawi is set to receive EUR 352 million. The development aid for 2025 to 2027 will be determined during a review in 2024. The EU's financial support has been concentrated in key areas:

- EUR 100 million from the 2014-2020 budget was dedicated to infrastructure projects to enhance regional connectivity.
- The National Indicative Programme 2014-2020, with an allocation of EUR 560 million, focused on stimulating economic growth through trade promotion and private sector development, especially significant as the EU was Malawi's largest trading partner at the programme's inception.[37]
- The Multiannual Indicative Programme 2021–2027, succeeding the National Indicative Programme, aligns with the Sustainable Development Goals (SDGs). It aims to encourage economic diversification, increase productivity, and promote the commercialization of agriculture, resonating with Malawi's MIP-1. Strengthening institutions and fostering greater trust through enhanced transparency, accountability, and clear communication will position Malawi more favourably for the 2024 funding renegotiation, potentially granting it greater leverage. While alignment with EU objectives is crucial, demonstrating reliability as a partner remains imperative.[38]

USAID

The United States stands as Malawi's most significant bilateral donors. Through its aid development agency, USAID, it has launched its five-year strategic plan for Malawi, the Malawi Country Development Cooperation Strategy (CDCS) for 2020–2025. This strategy aims to enhance the quality of public services for all Malawians, address governance challenges that hinder development, and foster contributions to sustainable economic growth.[39] The CDCS closely aligns with the broad development objectives outlined in Malawi's MW2063. With a strong commitment to supporting Malawi's progress, USAID's Official Development Assistance (ODA) budget for the country is expected to see an increase in the near term.

Beyond USAID's contributions, Malawi benefits from the support of the Millennium Challenge Corporation (MCC). The MCC focuses on lowering transportation costs, facilitating market connectivity, and improving governance in Malawi through three key initiatives, representing a total investment exceeding USD 350 million. Additionally, through its Malawi Threshold Program, the MCC

[37] Republic of Malawi; European Union: "National Indicative Programme 2014 – 2020", 2014, https://international-partnerships.ec.europa.eu/system/files/2019-09/nip-malawi-edf11-2015_en.pdf, accessed 25-10-2022

[38] Republic of Malawi; European Union: "Multiannual Indicative Programme 2021 – 2027", 2020, https://international-partnerships.ec.europa.eu/system/files/2022-01/mip-2021-c2021-9116-malawi-annex_en.pdf, accessed 21-10-2022

[39] USAID: "Country Development Cooperation Strategy", 2020, https://www.usaid.gov/malawi/cdcs, accessed 26-10-2022

seeks to minimize corruption opportunities and bolster the government's capacity for fiscal management and oversight.

Ongoing Reforms

Concessional & non-concessional official financing flows and other international public finance

Malawi's economy relies heavily on international aid from multilateral organizations, with Total Official Development Assistance (ODA) constituting approximately 25 percent of its GDP in 2020.[40] Among its key sources of development finance, the IMF and World Bank, Afreximbank, Trade and Development Bank (TDB), and the Exim Bank of China stand out. The Exim Bank of China has predominantly funded physical infrastructure projects in Malawi, including roads, stadiums, parliamentary buildings, hotels, and other facilities. Notably, in August 2022, China forgave a K5.5 billion loan that was used for the construction of the Karonga-Chitipa road.

Following the "Cashgate" scandal, many donors shifted from direct budget support to tightly controlled project support. This reduction in international financing forced the government to turn to domestic borrowing to cover its budget shortfall. In recent years, there has been an increase in aid directed through civil society organizations, either via state institutions or bypassing them entirely, making program and project aid more prevalent in the country's aid strategy.

Since 2018, Malawi's reliance on domestic borrowing and non-concessional loans from regional development banks has significantly raised its public debt. Public debt was 54.8 percent of GDP in 2020, with non-concessional external debt accounting for 10 percent of GDP. By 2022, this figure had escalated to 73.3 percent of GDP. The increasing debt burden represents the most substantial risk to Malawi's future development assistance and financial stability.[41]

Action Plan for International Cooperation

Rebuilding trust and long-term diplomatic relationships between donors and the Malawian government is essential for reactivating budget support and enhancing donor aid. The current government has committed to combating corruption and enhancing transparency and accountability. Nevertheless, it continues to navigate the aftermath of the "Cashgate" scandal, a history of diplomatic frictions, and challenges in executing ODA-funded projects efficiently. The Reserve Bank of Malawi's past misreporting has also contributed to a crisis of trust, while the ongoing sovereign debt crisis and the absence of a firm commitment to fiscal responsibility hinder further financing opportunities.

Acknowledging these obstacles, the government views the establishment of robust governance structures and the enhancement of public sector performance, including modern and efficient financial management, as key strategies. What's required now is a proven record of sound fiscal management and a stable macroeconomic environment. Donor support is crucial, both presently and in the future, to overcome these challenges.

To foster a trustworthy relationship and ensure mutual accountability, the Malawian government is committed to the following measures:

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[40] Bertelsmann-Stiftung: "Malawi Country Report 2022", 2022, https://bti-project.org/en/reports/country-report/MWI#pos21, accessed 19-10-2022

[41] IMF: "Country Report No.2021/269", 20-12-2021, https://www.imf.org/en/Publications/CR/Issues/2021/12/17/Malawi-2021-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-511105, accessed 10-09-2022

- **Transparent Reporting**: The Ministry of Finance and Economic Affairs will publish a detailed donor report within six months after the fiscal year concludes, specifying the outcomes of donor-funded projects. Additionally, a dashboard linked to the Monitoring & Evaluation framework will be developed to monitor SDG financing through NGOs, addressing concerns over mismanagement and delayed responses, thereby emphasizing national ownership and leadership in addressing critical issues and establishing a trustworthy business environment.
- **Upholding Financial Management Commitments**: This includes adhering to debt restructuring agreements (e.g., with AfreximBank and TDB) to keep short-term private credit lines accessible to eligible private borrowers and demonstrating progress in public financial management reforms previously agreed upon with the World Bank and other donors.
- **Implementing Incentive-Based Systems**: Given the sovereign debt crisis, it's vital for Malawi to manage its resources efficiently and transparently. An incentive-based system at both the institutional and civil servant levels will bolster reliability, accountability, and transparency, reassuring donors, and investors of the government's commitment to addressing major challenges.
- **Seeking Diverse Concessional Funds**: The government will continue to seek funds from sources like the AfDB, World Bank, and bilateral DFIs, diversifying potential funding sources and creating policy flexibility to finance projects amidst the looming debt crisis.

As government strives to implement these reform measures, it equally expects donor partners and their activities to align with its priorities, such as financing MIP-1 projects and directing donor agendas towards industrialization, poverty alleviation, and economic growth.

5.3. TAPPING CLIMATE MITIGATION AND ADAPTATION FUNDS

Context and Challenges

Climate change poses a significant threat to Malawi and its agriculture-dependent economy. In the past twenty years, the nation has faced harsh droughts, dry spells, and extreme rainfall, with Cyclone Idai in 2019 marking one of the most devastating events. The cyclone claimed 60 lives, displaced approximately 130,000 people, and impacted nearly 922,000 individuals across Malawi, destroying about 12 percent of that year's maize crop.

Economic analyses have projected that the direct costs of climate change impacts equate to a loss of at least 5 percent of Malawi's GDP annually.[42] The repercussions of severe weather phenomena include increased occurrences of floods, droughts, disease outbreaks, and economic and social disturbances. These events underscore the urgency for economic diversification to enhance resilience against climate-induced challenges. The government of Malawi and its international partners have embarked on efforts to pinpoint vulnerabilities and adaptation priorities, aiming to weave this understanding into development and sectoral planning.

Despite efforts to integrate adaptation measures into ministerial agendas and enhance data collection on climate changes, Malawi grapples with challenges intensified by climate change such as rapid population growth, reliance on agriculture, and a fragile public health infrastructure. The threat to food security is imminent as climate change jeopardizes crop yields, particularly maize, a staple food in Malawi. The likelihood of disease proliferation increases with droughts and floods, which also contribute to siltation and debris accumulation behind dams, accelerated deforestation, and the depletion of groundwater and other freshwater sources.

[42] UNFCCC: "Malawi Updated NDC", 2021, https://unfccc.int/sites/default/files/NDC/2022-06/Malawi%20Updated%20NDC%20July%202021%20submitted.pdf, accessed 07-11-2022

Ongoing Reforms

Malawi's National Adaptation Plan Framework (2020) outlines a strategic shift towards sustainable practices, including moving away from fossil fuels, reducing methane emissions from livestock, adopting cleaner industrial processes, and implementing the Greenbelt Initiative. However, domestic policies alone cannot address the broader need for comprehensive adaptation efforts. As part of its Paris Agreement commitments, Malawi's Nationally Determined Contribution (NDC) for 2020-2040 proposes various adaptation strategies. These include the development of climate-resilient crops, public education on water management, climate-resistant infrastructure, and a financial analysis of the NDC's implementation costs. Additionally, USAID and the National Academy of Public Administration recommend strengthening agricultural extension services, improving community seed and food storage, promoting affordable nutritional supplements, and better managing water resources to cope with unpredictable rainfall patterns. However, Malawi relies heavily on international funding to achieve its NDC goals.

Several international mechanisms are available to assist Malawi in financing its NDC initiatives. The Green Climate Fund has already pledged over USD 50 million to support Malawi's projects on renewable energy, waste management, the Greenbelt Initiative, irrigation, and more. Nonetheless, Malawi must finalize its project plans to access these funds, with the Green Climate Fund offering up to USD 1 million in readiness support.

The Global Environment Facility has earmarked USD 11.8 million for Malawi, pending the submission of a detailed proposal from the government.[43] Additionally, Malawi can access funds from various other sources, including the Least Developed Countries Fund, the Adaptation Fund, the Montreal Protocol Fund, and bilateral climate financing from countries like Japan and Switzerland, to support its climate adaptation and mitigation efforts.

Action Plan for Climate Mitigation and Adaptation

The government of Malawi is dedicated to addressing climate change through its Nationally Determined Contribution (NDC), with plans to integrate climate change adaptation into national development strategies. Key initiatives include:

- **Creating a comprehensive, costed national adaptation plan**: This step is crucial for securing funding from initiatives like the Climate Bonds Initiative and the Global Environment Facility, among other climate financing sources.[44]
- **Launching training programs in rural communities**: These programs aim to enhance climate change planning and environmental management skills, bridging the gap between rural and urban areas. Rural communities, more vulnerable to climate change and lacking the resources available in urban centers, will benefit from increased local expertise, leading to knowledge spillovers and the sustainable building of resilience.
- **Establishing a climate policy with GHG emissions reduction targets**: Implementing these targets is vital for contributing to global efforts to reduce GHG emissions to net zero and mitigate climate impacts. Setting clear reduction goals will also attract further development financing by demonstrating the government's commitment to resilience.
- **Setting criteria for issuing green bonds**: By providing a fixed income instrument that funds climate mitigation or adaptation projects, such as renewable energy initiatives or green infrastructure, Malawi can attract investors interested in green opportunities.
- **Expanding opportunities for carbon credits**: Through an agreement with the Swiss government on Internationally Transferable Mitigation Outcomes (ITMOs), Malawi aims to

[43] https://www.thegef.org

[44] https://www.climatebonds.net

facilitate carbon credit transactions. This initiative will continue to explore carbon trading mechanisms, supporting Malawi's climate change objectives as outlined in MW 2063 and attracting sustainable development financing.

5.4. DE-RISKING PRIVATE SECTOR INVESTMENTS

Context and Challenges

Leveraging multilateral and bilateral funding to attract private capital is essential for achieving the Sustainable Development Goals (SDGs). To this end, development agencies have initiated various de-risking measures to foster private sector engagement in development projects. For example, the International Finance Corporation (IFC) acquired a 15% stake in the Mpatamanga hydroelectric project as a strategy to mitigate investment risks. Additionally, the European Union and World Bank are set to enhance their blending support, incorporating "first loss" grants, debt, and equity to stimulate private investments.

The advantage of blending mechanisms lies in their ability to use public resources to draw in private finance, which typically introduces expertise, technology transfer, and high-quality project execution. An EU study highlights that the banking and infrastructure sectors are the primary beneficiaries of blended finance, with most funds allocated to middle-income countries. Consequently, low-income nations like Malawi, which rely more heavily on external support, experience widened financing disparities in comparison to more developed economies.[45] However, it's important to note that without effective coordination between donors and the government, the strategic allocation of de-risking funds towards private sector investment could inadvertently divert essential resources from other critical government objectives.

Ongoing Reforms

International financial institutions, export credit agencies, and donors play a crucial role in mitigating risks for private sector investments by offering guarantees to investors. For example, the World Bank's Multilateral Investment Guarantee Agency (MIGA) has provided substantial support by issuing guarantees of USD 24 million and USD 59 million for the construction of the Golomoti and Salima solar power plants, respectively. In a similar vein, the US Development Finance Corporation has extended guarantees to First Capital Bank amounting to USD 2.7 million to facilitate loans to businesses owned by women or youth and those operating in the agricultural sector. Additionally, a USD 5 million guarantee has been provided to New Building Society (NBS) Bank, enabling it to extend credit to Micro, Small, and Medium Enterprises (MSMEs).

Action Plan for De-risking Private Sector Investments

To strategically utilize international public funds for reducing the risk associated with private sector investments—particularly those in line with Malawi's sustainable development goals—the Government plans to:

- **Highlight specific project opportunities** that adhere to the SDG investor map to leading blended finance and guarantee providers. Entities such as the PPP Commission, MAIIC, EDF, and MITC will work closely with the National Planning Commission (NPC) to identify and catalogue bankable projects ready for financing. These projects will be showcased to international financial institutions and donors, including but not limited to the Africa Finance Corporation, US Development Finance Corporation, China Exim Bank, International Finance

[45] EU: "The use of development funds for de-risking private investment", DEVE committee, May 2020, EP/EXPO/DEVE/FWC/2019-01/Lot3/R/01, accessed 20-10-22

Corporation (IFC), and the African Development Bank through roadshows and virtual presentations.

- **Engage with political risk insurance providers**. Following the practice of OECD countries that offer investment insurance to investors in developing nations, the Government will collaborate with select OECD governments to offer political risk insurance to investors engaged in SDG-aligned projects in Malawi.
- **Enhance SME competitiveness** through targeted incentive programs, such as the Malawi Matching Grant, funded by the African Development Bank (AfDB). These initiatives are designed to boost the competitiveness of Malawian companies through awards, financial incentives, tax breaks, and more. Such measures are intended to foster a robust portfolio of projects suitable for blended finance in the future, thereby facilitating sustainable development and economic growth.

5.5. NOTABLE RISKS AND IMPACTS

A significant obstacle to the effectiveness of initiatives aimed at enhancing public international finance is the credibility of the government. To fully unlock these sources of financing, the Government of Malawi is committed to restoring its credibility and bolstering fiduciary trust. This effort is aimed at ensuring that funds from international sources are channelled directly through the government's balance sheet, rather than being routed through Civil Society Organizations (CSOs) as frequently occurs now.

5.6. SUMMARY OF PUBLIC INTERNATIONAL FINANCING

Although certain international development partners have aligned their priorities with Malawi's immediate needs, past corruption scandals, debt crises, and poor fund management have led to their hesitance in offering direct budgetary support. To enhance access to financing from international public sources, the Government of Malawi is committed to carrying out essential reform measures, some of which are outlined in the table below:

Table 5: Overview of key initiatives for improving International Public Financing

QUADRANT: **INTERNATIONAL PUBLIC FINANCE**			
THEMES	**KEY INITIATIVES/ACTION ITEM**	**REFORM TYPE**	**PRIORITISATION TIME FRAME**
International Alignment with Domestic Priorities	Report on disbursement and use of donor funds in a transparent and timely manner	Regulatory Reform	**Medium-Term**
	Follow-up on existing public financial management commitments.	Instrument	**Medium-Term**
	Introduce an incentive-based system at the institutional level (for government-wide policy and program monitoring systems) and civil servant level	Instrument	**Short-Term**
	Continue to explore other concessional funds such as AfDB, World Bank and Bilateral DFIs	Instrument	**Short-Term**
Climate Mitigation & Adaptation	Developing a comprehensive costed national adaptation plan	Policy Reform	**Medium-Term**
	Implementing training programs in rural communities to improve climate change planning and environmental management and reduce the rural-urban divide.	Business Process	**Medium-Term**
	Develop a climate policy on GHG emissions reduction targets	Policy Reform	**Short-Term**
	Developing criteria for issuing green bonds	Business Process	**Short-Term**
	Facilitating opportunities for carbon credits	Business Process	**Medium-Term**
De-risking Private Sector Investments	Present specific project opportunities to the major blended finance and guarantee providers in line with the SDG investor map	Business Process	**Medium-Term**
	Work with providers of political risk insurance	Instrument	**Short-Term**
	Build SME competitiveness	Instrument	**Medium-Term**

6. Initiatives to Strengthen International Sources of Private Finance

6.1. OVERVIEW

Chapter 7 provides a strategy for encouraging international private sector investment. The most important element for Malawi is creating an enabling environment for private investors to be able to make profit, remit that profit and feel secure in the long-term viability of their investments. The strategy also provides specific measures to attract foreign investors and mobilise foreign sources of financing, including philanthropic funding and remittances to fund development priorities.

Figure 14: Key Areas in International Private Financing

6.2. ENABLING ENVIRONMENT FOR LARGE INFRASTRUCTURE INVESTMENT

Context and Challenges

Malawi faces a high-cost business environment and significant challenges to private sector investment, largely due to its inadequate infrastructure. As of 2020, only 15% of Malawians had access to electricity, and internet penetration was at 18% by 2022.[46] Despite 88% of the population having access to a 3G or 4G network, the adoption of smartphones is low, hindered by high device and data costs by regional standard and call use.[47]

Transport infrastructure is another critical barrier, with transportation costs for goods being 40% above the regional average. A mere 26% of roads are paved, contributing to significant delays in exports and imports.[48] The average time for export border compliance is 3.25 days, with similar delays for imports. The underdeveloped aviation sector and delays in neighboring countries limit Malawi's ability to export perishables globally. Road improvements and integration with Mozambique’s railway system are essential, yet progress is slowed by financial constraints and bureaucratic delays.[49]

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[46] Internet is defined as a globally connected network system facilitating worldwide communication and access to data resources through a vast collection of private, public, business, academic and government networks – Techopedia.

[47] Datareportal: “Digital 2022: Global Overview Report”, January 2022, https://datareportal.com/reports/digital-2022-global-overview-report?utm_source=DataReportal&utm_medium=Country_Article_Hyperlink&utm_campaign=Digital_2022&utm_term=Malawi&utm_content=Global_Promo_Block, accessed 06-11-2022

[48] JICA: “Sector Position Paper: Transport”, 2022,

[49] World Bank: “Malawi Economic Monitor”, 2021, https://documents1.worldbank.org/curated/en/131501624458623473/pdf/Malawi-Economic-Monitor-Investing-in-Digital-Transformation.pdf, accessed 06-11-2022

Low literacy rates and educational achievements are significant obstacles to attracting foreign investment in Malawi. According to the latest data from the World Bank, the literacy rate is around 62%, falling below both global and regional norms. Furthermore, as of 2017, 20% of 11–12-year-olds lacked basic numeracy skills. Despite a gradual improvement in math and reading scores over the past two decades, educational outcomes vary widely across regions, with the highest achievements in the North and Shire Highlands and the lowest in the South and Central West, alongside notable gender disparities.[50]

The country's macroeconomic situation further complicates foreign investment prospects. Particularly, Balance of Payments (BoP) issues deter investors due to uncertainties regarding profit repatriation, affecting sectors that earn revenue in the local currency, such as telecommunications, power generation, and hospitality. This limitation has predominantly positioned Malawi as an exporter of raw materials like tobacco and sugar, with international interest focused on its mineral and agricultural industries.

Recurrent Balance of Payments (BoP) crises in Malawi stem from multiple sources, notably structural barriers hindering export sector growth such as inadequate infrastructure and education, a dependency on imported goods like fertilizers, medicines, and clothing, and a rigid, often overvalued exchange rate that favors imports over local production. The Reserve Bank of Malawi grapples with the dual challenges of controlling inflation and stabilizing the exchange rate amidst public pressure for import subsidies. These balancing efforts have been marred by continuous crises and a macroeconomic setting that is not conducive to investment. Fiscal policy contributes to these challenges, as high interest rates on government securities, coupled with regulations treating these securities as risk-free, push investors towards government debt and away from other potentially productive investments. This environment of continual deficits and strict financial regulations discourages private investment in sectors that could drive economic growth.

Additionally, issues related to land tenure and the judiciary system pose significant risks to investor confidence. Despite formal protections, the variability in judicial outcomes and the prevalence of harassment by local authorities over informal payments create an uncertain investment climate. Moreover, the heavily regulated marketing of agricultural products, subject to ministerial discretion, adds to the uncertainty, particularly for agricultural investors looking to export at market prices.[51]

The National Planning Commission (NPC) is tasked with formulating strategies to address these issues, aiming to transition Malawi towards a "developmental state" model. This involves filling market gaps, such as the absence of feasibility studies, and focusing on strategic interventions. While the NPC guides development planning and consolidates ministry and agency plans, it does not engage in project financing. Its current focus includes attracting investments in sectors like agriculture, energy, textiles, and building secondary cities, but lacks a comprehensive strategy for mining or fisheries.

Promoting investments in infrastructure using labour-intensive technologies and leveraging local resources is advocated to mitigate the BoP impacts, enhance job creation, and boost overall demand within the economy.

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[50] SACMEQ: "Assessing the Learning Achievement of Standard 6 Pupils", 2017 http://www.sacmeq.org/sites/default/files/sacmeq/reports/sacmeq-iv/national-reports/sacmeq_iv_report_mal.pdf, accessed 06-11-2022

[51] Duchoslav, J. et al.: "Regulations of Agricultural Markets in Malawi", IFPRI, June 2022, https://ebrary.ifpri.org/utils/getfile/collection/p15738coll2/id/135939/filename/136148.pdf, accessed 07-11-2022

Ongoing Reforms

The government is actively working to bridge the infrastructure deficit, notably through the development of the USD 1.1 billion, 350MW Mpatamanga hydroelectric project, a collaborative effort with EDF (France) and Skytech (Norway), supplemented by minority equity financing from the World Bank Group's International Finance Corporation (IFC). The project was set for tendering in 2023 and construction commencement in 2024, and it marks a significant step towards enhancing Malawi's power generation capacity. Additionally, JCM Power (Canada) has contributed to the energy sector with the installation of the 60MW Salima and 25-41.5MW Golomoti solar plants, representing the first significant electricity investments in the country since 1995.

The MIP-1 envisions the addition of at least 730MW of new capacity through various projects including the Songwe River hydro, Kholombidzo hydro, Fufu hydro, and Kamwamba coal projects. Among these, only the 250MW Fufu project has completed a feasibility study, conducted by the African Development Bank (AfDB). However, integrating this new capacity into the national grid will require further investments and expansion of connections to neighboring countries like Zambia and Mozambique, initiatives that are already underway.

While the government aims to broaden electricity access by expanding the grid, detailed plans are still in the conceptual stages. Renewable energy sources such as solar and wind power have received limited attention, aside from plans to establish a solar equipment manufacturing plant and scout for future project sites.

The Mpatamanga project is envisioned as a benchmark for demonstrating the viability of large-scale investments in Malawi. Nonetheless, the project's success hinges on necessary reforms within the electricity sector, including tariff adjustments for profitable electricity sales, curbing illegal electricity use, and implementing structural changes at ESCOM to enhance service quality. Moreover, foreign investors face challenges in profit repatriation due to ongoing balance of payments issues and foreign currency withdrawal restrictions.

Box 1: Example of International Private Investments

JCM is expanding its solar projects and introducing a wind project in Malawi. It is also adding more battery storages in Malawi to strengthen solar power availability in the country. Malawi has an apparent need for alternative power to electricity so these projects, in addition to the existing ones will add value, and the government has been supportive of JCM's endeavours.

Source: Consultations with JCM

To create a more conducive environment for private businesses and rapidly unlock international private capital, the government has identified several priority policy actions:

- **Monetary Policy Review**: The government plans to assess the implications of adopting a more flexible exchange rate by reviewing the Reserve Bank of Malawi Act. This aims to prevent the recurrent overvaluation of the kwacha and subsequent balance of payments crises, ensuring foreign investors can anticipate stable returns on their investments in Malawi.

- **Land Tenure Clarification**: By conducting a comprehensive legal and regulatory review, the government intends to bolster investor confidence in asset ownership and utilization within the country, ensuring secure and efficient business operations.
- **Physical Infrastructure Rehabilitation**: Feasibility studies for the Limbe-Marka and Nkaya-Mchinji railway lines are to be completed with subsequent rehabilitation efforts. Moreover, the

government is considering delegating tendering, contracting, construction, and completion responsibilities to the PPP Commission. Enhancing road networks is also a focus to facilitate smoother transportation of goods and services, with the Ministry of Transport and Public Works exploring public-private partnership opportunities in this sector.

- **ICT Sector Enhancement**: A review of sector-specific taxes is underway to reduce internet costs, alongside plans to provide free internet services to educational institutions. The government will also evaluate existing legislation and potentially invite new mobile network operators, as well as reduce or eliminate import duties on smartphones.
- **Education Quality Improvement**: The Ministry of Education is expanding professional development for teachers with an updated curriculum emphasizing critical thinking. Efforts to hire more female teachers and boost girls' achievement are planned, along with soliciting increased donor support for education. Higher education institutions may be clustered in select cities or towns for efficiency.
- **Renewable Energy Feasibility Studies**: Investigations into the viability of solar and wind energy will not only demonstrate bankability to international investors but also guide governmental investment decisions in these alternative energy sources for the benefit of Malawians. The Ministry of Energy is tasked with drafting a comprehensive electricity master plan that includes hydro, solar, and wind power, alongside off-grid and mini-grid systems and grid connections to neighboring countries. This will pave the way for approving and implementing new Independent Power Producer (IPP) projects.

6.3. MOBILISING FOREIGN DIRECT INVESTMENT

Context and Challenges

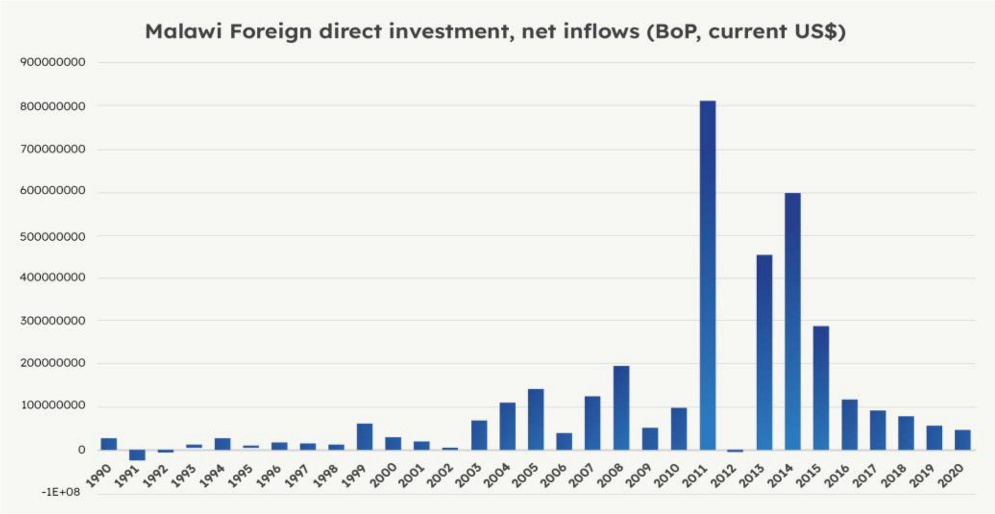
Malawi is considered a frontier nation for most foreign investors. Country risk remains prohibitively high.[52] The two key government entities tasked with attracting foreign investors and working with them to deliver on significant initiatives are the Public Private Partnership (PPP) Commission and the Malawi Investment and Trade Centre (MITC). The PPP Commission identifies projects appropriate for a PPP, conducts feasibility studies, supervises competitive bidding, negotiates with the supplier on the contract, and creates a monitoring framework for PPPs, which are implemented by line ministries. The PPP Commission is also responsible for soliciting financial support from international partners, especially development banks and donors, recognising that the public sector cannot finance most large infrastructure projects alone.

The Commission is already a competent agency and building capacity. It is currently working on developing the Mpatamanga hydro project, supporting feasibility studies of two other hydro projects, identifying an operator for an irrigation infrastructure project, in the pre-feasibility stage for five airports, and supporting a feasibility study for a Salima-Tanzania rail link. The Commission was also involved in a project to build university housing. The other railway and road projects are not being conducted as PPPs.

MITC is an investment and export promotion agency. The Centre is meant to identify viable projects for investors, carry out project appraisals, identify project sites, promote Malawi’s goods and services abroad, and serve as a one-stop-shop for investors in securing permits and licenses, finding joint venture partners and advice to businesses. In practice, the identifies potential projects, which the MITC markets. MITC has conducted only a few feasibility studies but does not have the capacity or financing to make projects bankable; the information available to potential investors on MITC’s website and elsewhere is insufficient to attract interest, while the projects themselves are unlikely to inspire investors.

[52] FC: “Creating Markets in Malawi: Country Private Sector Diagnostic”, 2022, https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/cpsd-malawi, accessed 06-11-2022

Figure 15: Malawi FDI flows



Source: World Bank

Ongoing Reforms

The NPC is keen to expand into steel production, textiles and further into fertiliser. However, these sectors risk draining foreign currency due to their dependency on external inputs, geographic location, as well as high input and transport cost. The PPP Commission and private investors have identified forestry and agriculture sectors as having high potential—for instance macadamia nuts, tea, coffee, soy and sugar—though farming legislation is generating a disincentive for investors and foreign land ownership is a politically sensitive issue. Value added in the agricultural sector—such as alcohol, tea packaging or refined sugar—is a natural candidate given domestic agricultural output and transport costs. Tourism has potential, though Malawi must compete against more established destinations in neighbouring countries. The high cost and low frequency of flights also remain a challenge to the tourism sector. The mining sector also has potential, though tax and regulatory legislation for the sector must be reviewed and even if there was a commercial discovery made, large scale revenues would be at least a decade away. There have already been some foreign investors in the energy sector, though tariff rates are restrictive.

Traditionally, financing has derived largely from international development banks such as Afreximbank, TDB and the IFC. However, in recent years Malawi has attracted several private investors such as JCM Power (Canada), EDF (France), African Parks (South Africa), Sogecoa (China), Global Tea and Commodities (UK), China-Africa Cotton, Associated British Foods (parent of Illovo Sugar) (UK) and Globe Metals and Mining (Australia), with backing or guarantees from Export Credit Agencies (ECAs) or development finance institutions (e.g., MIGA, FinDev Canada, China Eximbank). Most foreign investment is in the agriculture, energy, tourism, or retail sectors, though there is some in mining, transport, and financial services. There is little foreign investment in manufacturing since barriers to profitability remain high.

Action Plan for Attracting Foreign Investors

To enhance its appeal to foreign investors, the government of Malawi is focusing on three strategic policy areas: refining sector plans, amplifying marketing efforts, and investing in targeted feasibility studies—all with an emphasis on creating employment opportunities.

- **Refining Sector Plans for a Stable Investment Climate**: Ministries are tasked with updating their master plans and identifying strategies to streamline the investment process for foreign investors, including simplifying approval processes and eliminating administrative barriers. While progress has been made in departments like the Ministry of Agriculture, there is a need for updates in the Ministry of Energy and completion of plans by the Ministry of Mining, among others, to stabilize the investment environment.

- **Enhancing Marketing Efforts to Showcase Success**: To attract investment in a high-cost and economically unstable environment, it's vital to highlight Malawi's investment success stories. Projects like the JCM power plant, Mpatamanga, Illovo Sugar, and African Parks should serve as beacons of what is possible. The Malawi Investment and Trade Centre (MITC) will play a key role in collecting and disseminating these success stories through trade magazines, online platforms, and other targeted channels to attract responsible and capable investors to Malawi.
- **Investing in Targeted Feasibility Studies**: The government plans to significantly increase the budgets of ministries to conduct feasibility studies for key projects across various sectors, including agriculture, agro-processing, tourism, education, healthcare, and infrastructure, over the coming years. Additionally, collaboration with the World Bank is underway to prioritize the creation of a financing facility dedicated to supporting these crucial feasibility studies, laying the groundwork for sustainable development and investment attraction.

6.4. MOBILISING PHILANTHROPIC FUNDING

Context and Challenges

The NGO Act of 2001 mandates that all non-profit organizations must register with the government, secure approval for their activities from the relevant ministry, and maintain transparency by annually submitting audited financial statements, sources of funding, and activity reports. The NGO Regulatory Authority, appointed by the government, is responsible for the registration, deregistration, and monitoring of NGOs to ensure compliance with the Act and to advise the government on NGO policies.

However, a trust gap exists between NGOs and the government, fuelled by NGOs' concerns about deregistration for political reasons and the government's worries regarding some NGOs' misalignment with national priorities, lack of transparency, and accountability. Further complicating matters is the challenge of coordination among NGOs, faith-based organizations, donors, and government entities. For example, healthcare services provided by NGOs may not always reach the areas of greatest need but rather where the NGO has existing connections. Efforts at coordination are more successful in regions with comprehensive social service plans, but overall, there is a disconnect between NGO initiatives and the national development agenda, partly due to the autonomous agendas set by donors.[53]

Despite these challenges, the government acknowledges the crucial role some NGOs play in the country's welfare. In 2020, out of 620 active NGOs, 62 were registered, with 228 of them reporting a collective expenditure of approximately MWK 248 billion (around USD 350 million). These funds supported a variety of projects, including healthcare, education, sanitation, and legal rights, spearheaded by organizations such as World Vision International, the Elizabeth Glaser Paediatric Foundation, and Plan International.

Comparatively, if Malawi could emulate South Africa's charitable giving trends, where 80% of the population donates an average of USD 300 annually, with half of that going to religious organizations, the financial impact of religious groups on social services could surpass that of NGOs. Nevertheless, Malawi faces challenges in attracting philanthropic funds, not only due to regulatory issues but also because infrastructural deficiencies increase service delivery costs. This situation suggests that each dollar spent in Malawi has a smaller impact compared to countries with similar needs but lower operational costs, influencing donors to allocate their increasingly limited ODA budgets to more cost-effective locations, particularly for health and education projects.

[53] Charities Aid Foundation: "Growing Giving in South Africa", 2022, https://www.cafonline.org/about-us/international/growing-giving-in-south-africa#tab2, accessed 06-11-2022

Ongoing Reforms

Philanthropic and faith-based organisations are significant service providers in Malawi and, as such, financial contributors to meeting the SDGs. The Public Finance Management Act (2022) requires that all donations and grants to a registered entity must be approved by the Minister as well as grant authorisation for related projects to start.[54] A 2022 amendment to the NGO Act imposes severe fines and imprisonment for contravention of the Act, as well as eliminating the independence of the NGO coordinating body, CONGOMA. Some faith-based organisations, development assistance service providers and specially exempted entities are not covered by the Act, though they may be some of the largest philanthropic financiers of development in Malawi.

Action Plan for Attracting Philanthropic Funding

The government will encourage philanthropic and faith-based organisations to expand their service delivery in Malawi, though in a manner that is better aligned with geographic and social needs as well as government priorities. To this end, the government will:

- **Review regulatory hurdles.** Specifically, the government will remove the potential for NGO deregistration without recourse and PFMA (2022) Section 54 that creates unnecessary delays in non-profit financing.

- **Improve coordination with donors and philanthropic service providers and ensure compliance with the NGO Act.** Building on the NGO Regulatory Authority's recent district NGO mapping, the government will circulate government plans and needs for service delivery on a district-by-district basis to donors and philanthropic service providers, including religious organisations, to encourage them to redirect activities to where they are most needed. This will require comprehensive needs assessments, especially in healthcare and education, at the local level and better government coordination with district assemblies. The NGO Regulatory Authority will make efforts to engage with religious leaders to submit plans and financial information as well as coordinate with government entities on service provision to ensure their compliance with NGO Act in advancing human development in the country.

- **Based on the NGO Regulatory Authority's NGO mapping, the government will develop and share gender-based development plans with philanthropic donors** to align their funding activities with the country's women empowerment needs. The Government will also support religious groups in encouraging communities to fight against practices that harm women and girls, and in promoting gender equity and maternal and child health instead. This is not only important to meet gender-related SDGs, but it also creates positive spillover effects in attracting funding from international donors. The Government will also incentivise religious groups to advance women's empowerment through providing support for girls' education, maternal health, and work with communities to challenge cultural practices that lead to underage marriage with a special regulatory dispensation.

6.5. LEVERAGING REMITTANCES

Context and Challenges

Digital remittances to Malawi are projected to reach only USD 297 million in 2022 with the average transaction per user amounting to USD 121.[55] Personal remittances represent approximately 2 percent

[54] Section 54

[55] World Bank, "Country Overview", *World Development Indicators*, The World Bank Group, https://www.worldbank.org/en/country/malawi/overview, accessed 16-10-2022

of GDP, compared to 0.5 percent in Tanzania, 2.5 percent in Mozambique and 3 percent in Kenya.[56] Migrant workers in South Africa and neighbouring countries and longer-term residents of the United States and United Kingdom are some of the principal contributors. Remittances are largely used to support family consumption or invest in real estate.

Table 6: Annual Personal Remittance Inflows to Malawi

USD MILLIONS (CURRENT USD)	2020	2021	2022 (proj.)
Remittances inflow	259.70	297.90	297.10

Source: World Bank Database

While remittances per resident are not as large as some other countries, expanding diaspora involvement in Malawian development offers great potential for helping to finance the SDGs and develop the economy through import of skills and experiences. The diaspora community must see value in repatriation of funds for investments to country, be able to easily access their return on investments and have confidence that their investments will be managed adequately. Therefore, to properly leverage remittances for investments in the SDGs, there must be an enabling business environment as highlighted in the private financing section of this report, transparent and accountable financing systems as well as targeted initiatives to attract the diaspora community.

Ongoing Reforms

In 2017, the Government introduced the Malawi Diaspora Engagement Policy with the goal to empower Malawians abroad to make significant contributions to the development of the country. The policy focused on how to harness and maximise the potential of Malawians living abroad to contribute to just socio-economic transformation.

One of the core ideas of the Malawi Diaspora Engagement Policy was to create a comprehensive database of professional, skilled, and semi-skilled Malawian Diaspora, and an official online or offline forum where individuals, Diaspora associations and businesses can communicate, form partnerships, exchange ideas, share expertise and support one another. The Network, once established, would play a significant role in contributing to the economic growth of the country, build and foster Malawi's international reputation. The diaspora remains an important player in social transformation in Malawi and can help create knowledge spillovers and fill financing gaps. Therefore, diaspora engagement remains critical.

Action Plan for attracting remittances

In order to engage the Malawian diaspora, the government will:

- **Engage with the diaspora in Africa, North America, and Europe to suggest business opportunities in Malawi.** The Ministry of Foreign Affairs and International Relations will organise in-person and remote meetings with diaspora groups (via the Embassies and High Commissions) to better understand what it would take for the diaspora to invest in productive enterprises and present business opportunities as guided by MITC to support local economic development. This will require network building in targeted countries, such as the United States, United Kingdom, and South Africa. The government will also consider special residency permits or citizenship rights for members of the diaspora who invest in the country. These citizenship rights help deepen the patriotic links to the country and could also be linked to a

[56] World Bank, "Personal remittances, received (% of GDP)", *World Development Indicators*, The World Bank Group, https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS, accessed 06-11-2022.

program of "giving back" in terms of opportunities for the retired diaspora to return to Malawi to provide skills training and mentoring of local experts and businesses, contributing to local economic development.

- **Launch a Diaspora Bond**. As a concrete financing mechanism to raise funds from the diaspora community, the Government will launch a Diaspora Bond. Diaspora Bonds offer a patriotic discount to members of the diaspora to finance government spending or specific infrastructure projects to help the country. Diaspora Bonds require trust in the government's ability to repay and uptake is greater if the bond is registered with the US Securities and Exchange Commission.[57] The experiences of Kenya, Ethiopia, Nigeria and India offer excellent examples for Malawi to pursue.

- **Leverage fintech companies to provide tailor-made channels for digital transfers across borders to encourage the movement of funds in and out of the country**. This requires a concerted effort between private sector firms and financial institutions to provide the technological infrastructure to allow cross-border movements of funds as well as financial incentives that reduce transfer costs and burden on the diaspora community transferring funds into Malawi.

- **Develop a Government-Diaspora Partnership Pact.** This diaspora strategy will serve as a one-stop shop for diaspora investment and provide the environment and framework to enable diaspora access to financial and investment advice and any information on preferential tax regime. It will go hand-in-hand with the development of tools for diaspora investment in SDGs (special investment funds, diaspora revolving fund for microloans, crowdfunding, credit and savings instruments, tailor made investment packages).

- **Review tax policies to ensure disincentives are removed.** With diaspora investments, there is a risk that the tax implications could be discouraging to the diaspora community seeking to invest back home in Malawi. Therefore, the government will review the tax policies to ensure these policies do not deter investments and will set in place incentives to encourage diaspora investments.

6.6. SUMMARY OF INTERNATIONAL PRIVATE FINANCING

The ability of Malawi to attract international private financing heavily depends on the country's ability to provide a stable and enabling business environment for international investors, as well as its ability to leverage FDI and other private sources. The Government is commitment to the key steps in the table below.

[57] Schneidman, Witney: "Diaspora Bonds an Innovative Source of Financing?", *Brookings,2022* "https://www.brookings.edu/blog/africa-in-focus/2022/05/27/diaspora-bonds-an-innovative-source-of-financing/#:~:text=According%20to%20the%20Migration%20Policy,another%20connection%20to%20the%20nation., accessed 07-11-2022

Table 7: Overview of key initiatives for strengthening International Public Financing

QUADRANT: : INTERNATIONAL PUBLIC FINANCE			
THEMES	**KEY INITIATIVES/ACTION ITEM**	**REFORM TYPE**	**PRIORITISATION TIME FRAME**
Enabling Environment for Large Infrastructure Investments	Review of the monetary policy to assess the trade-offs and impact of a more flexible exchange rate	Policy Reform	Long-Term
	Clarify land tenures and guidelines	Policy Reform	Short-Term
	Rehabilitate and improve physical infrastructure	Regulatory Reforms	Long-Term
	Improve and leverage the ICT sector	Business Process	Long-Term
	Foster quality education among the populace	Policy Reform	Medium-Term
	Conduct feasibility studies on the use of solar and wind power as alternative sources of energy	Business Process	Short-Term
Attracting Foreign Investors	Improve sector plans to stabilise the investment environment	Policy Reform	Medium-Term
	Increase marketing activities	Business Process	Medium-Term
	Conduct targeted feasibility studies	Business Process	Medium-Term
Attracting Philanthropic Funding	Review regulatory hurdles	Regulatory Reform	Short-Term
	Improve coordination with donors and philanthropic service providers and ensure compliance with the NGO Act	Regulatory Reform	Medium-Term
	Based on the NGO Regulatory Authority's NGO mapping, the government will develop and share gender-based development plans with philanthropic donors	Policy Reform	Short-Term
Leveraging Remittances	Engage with the diaspora in Africa, North America, and Europe to suggest business opportunities in Malawi	Business Process	Medium-Term
	Launch a Diaspora Bond	Instrument	Long-Term
	Leverage fintech companies to provide tailor-made channels for digital transfers	Instrument	Medium-Term
	Develop a Government-Diaspora Partnership Pact	Policy Reform	Long-Term
	Review tax policies to ensure disincentives are removed	Policy Reform	Short-Term

7. Prioritisation, Monitoring & Review of the INFS

7.1. INTRODUCTION

The preceding sections of the Integrated National Financing Strategy (INFS) have thoroughly examined Malawi's macroeconomic landscape, highlighting its strengths, weaknesses, and potential pathways for economic advancement. Key challenges such as significant public debt, deficiencies in public financial management, and a challenging business climate have impeded Malawi's progress toward achieving its Sustainable Development Goals (SDGs). The INFS outlines targeted and practical measures that the government intends to adopt to boost SDG financing from a mix of domestic and international, public and private sources. To ensure the effectiveness of these measures, a systematic and coordinated approach to implementation is crucial, emphasizing a strategic sequence to meet objectives progressively.

This chapter delves into the framework for organizing these initiatives, detailing the criteria for their prioritization and the outcomes of this prioritization process. This approach aims to guide relevant government stakeholders in efficiently executing the outlined strategies.

7.2. MONITORING AND REVIEW FRAMEWORK

Malawi's Monitoring and Review (M&R) Framework, integral to the Integrated National Financing Strategy (INFS), is designed to track the progress of various initiatives aimed at advancing the country's development agenda. This M&R plan, developed with a focus on effectively meeting Malawi's development needs, is further supported by a detailed implementation guide and checklist. This guide offers a step-by-step approach to actualizing the M&R plan, ensuring that the initiatives are implemented successfully, and their impacts thoroughly evaluated.

The INFS underscores the pivotal role of various financing sources in achieving the Sustainable Development Goals (SDGs) in Malawi. It identifies domestic private sources, domestic public sources, international private sources, and international public sources as the key channels through which SDG financing can be mobilized. To enhance the flow of funds from these sources, the INFS outlines a range of policy reforms, financial instruments, regulatory adjustments, and improvements to the business environment. These strategic initiatives were shaped through rigorous consultations with stakeholders from both the private and public sectors, alongside a comprehensive analysis of critical national documents such as the Development Finance Assessment (DFA)/Local Level Finance Assessment (LLFA), Malawi 2063, and the SDG Investor Map, among others. Together, these initiatives lay the groundwork for the M&R plan, charting a course for sustainable development financing in Malawi.

7.3. OBJECTIVES AND STRUCTURE OF THE MONITORING & REVIEW PLAN

The main goals of the Monitoring and Review (M&R) framework are to:

- Track the enhancement in revenue generated through the execution of the initiatives outlined in the INFS.
- Oversee the advancement of the initiatives proposed within the INFS.
- Establish a mechanism for pinpointing any deficiencies in the initiatives aimed at fulfilling the INFS's objectives.
- Assess the effectiveness of the strategies deployed towards realizing the INFS's goals.
- Deliver prompt updates on the results of the actions taken to meet the objectives set forth in the INFS.

The Monitoring and Review (M&R) Plan for Malawi is structured to assess the scope and impact of the Integrated National Financing Strategy (INFS) initiatives, focusing on their alignment with various financing sources, the progress in their implementation, and their effectiveness. The development of the Plan is guided by the following criteria:

- **Key Initiatives**: Specific actions outlined by the Government of Malawi to enhance revenue from the identified sources in the INFS.
- **Reform Types**: Channels through which the initiatives will be executed, including policy, regulatory, business environment, and financial instrument reforms, detailed in Chapter 8.
- **Ease of Implementation**: The anticipated difficulty level in executing the identified initiatives.
- **Potential Revenue Capture**: The expected revenue generation from the implementation of the initiatives.
- **Impact on Risk Perception**: The potential of the initiatives to positively alter Malawi's risk profile in the international arena.
- **Sustainability**: The enduring nature of the initiative's implementation.
- **Timeframe (Prioritisation)**: A schedule for the initiative rollout, derived from comparing ease of implementation, potential revenue, impact on risk perception, and sustainability.
- **Outcomes**: The anticipated results from the execution of the initiatives.
- **Indicators/KPIs**: Metrics to evaluate whether the intended outcomes of the initiatives have been achieved, encompassing Output, Outcome, Process, and Impact Indicators to measure the comprehensive effects of the programs.
- **Leadership**: The entity or entities tasked with leading the implementation, ensuring that activities are in harmony with MIP-1 and other initiatives for maximizing developmental impacts.

It's important to acknowledge that the indicators/KPIs are designed to be both process and outcome-focused, including specific metrics for gauging potential financial flow increases. Cross-cutting thematic indicators also monitor initiatives centered on gender and climate action. The plan includes a Governance and Coordination framework, detailing the stakeholders responsible for implementing and monitoring specific initiatives.

Effective result tracking is crucial for the success of the INFS in Malawi, which hinges on the reliability of data. In the face of data limitations, the government and its partners will aim for 'good enough' data collection, progressively enhancing data quality. The M&R plan commits to establishing Baselines, Targets, and Means of Verification for the initiatives, essential for ongoing result tracking.

The plan's success is intrinsically linked to a coherent Governance Framework, ensuring accountability and outcome responsibility among parties involved in each initiative.

Implementation of the Monitoring & Review Plan

The implementation of the M&R plan will follow two broad steps as depicted in the figure below.

Figure 16: Steps for M&R Implementation

Establish a baseline

The purpose of a baseline is to determine the current state, which will serve as a reference point to inform a realistic target. Establishing the baseline, is the first step in implementing the M&R plan and requires that the government identify all current relevant systems used by Malawi's public and private sector to monitor financing flows and the implementation of existing policies. This includes a baseline of systems in place to check government budget execution, monitor incoming revenue from all government sources, manage public borrowing, monitor government expenditure and investments, as well as check the progress of already implemented financing policies.

Strengthen Existing Systems and Close Gaps

With a baseline in place, the government will take steps to fill in the gaps as identified in the INFS M&R Plan. The M&R plan reinforces improvements to systems and policies required to expand the financing flows. It also strengthens the monitoring of financing flows from all sources and provides the government with system to measure increased revenue from the initiatives. Overtime, government will progressively raise its ambition and shift their view of monitoring from a ''compliance exercise'' to a means of ''accountability and learning''. In this stage, data quality and capturing improves as government's take steps to build their capacity to adequately capture data and report on progress of the reforms being instituted. Data and metrics are fine-tuned to capture more details on the degree to which initiatives impact different segments of the population, such as women, youth and rural communities.

The M&R plan for the initiatives identified in Malawi INFS can be found in Annex D. It mirrors the accompanying Excel spreadsheet, a live document which will be updated at the implementation level in line with baseline findings and targeted results. As discussed in the next chapter, in this Excel document, the implementation group will track the implementation of the INFS.

8. Governance & Coordination Mechanisms

8.1. INTRODUCTION

INFFs have several important components, which together help to form a comprehensive framework. For it to be successful, INFFs are expected to be demand-driven and to have strong political backing and broad-based country ownership. Governance and coordination mechanisms situated at a high level of government are essential to ensuring that an INFF is fully effective, along with unwavering political support and engagement of all stakeholders.

Governance and coordination mechanisms are expected to oversee and guide the entire process of the INFF. This process includes evidence-based assessment and diagnostics, thorough policy formulation, deep implementation, and frequent monitoring and review.

8.2. GOVERNANCE STRUCTURE MALAWI

Ultimate responsibility for the INFF is held by the President, while accountability can be divided and delegated to the appropriate government body. The INFF governance and coordination arrangements shown in Figure 22 are envisaged for the implementation of the INFS Malawi.

Figure 16: INFF Governance and Coordination Arrangements INFF Malawi

PRESIDENT

Participants: President of Malawi

Function: Hold ultimate responsability for the INFF

HIGH LEVEL FORUM

Participants: MoFEA, Cabinet Committe on the Economy, Reserve Bank Governor, Co-Chair Public Private Dialogue (Private Sector Representation), A Representative of the Largest NGO

Function: Steers the INFF and reports on progress to the President. Oversees resource allocation to annual work plans, monitors the success of INFF implementation by ensuring effective governance structures are in place, and makes key decisions including changes of scope or timeline if needed.

IMPLEMENTATION GROUP

Participants: Secretary of the Treasury, PS Key INFF Reform Sectors, RBM Directors, NPC DG/ Director, PPPC CEO, Representative of the Heads of Donor Missions, Representative Heads of Cooperation Donor Missions, Representatives of INFF Reform PEGS, Representatives of Private Sector, Representatives of NGO

Function: Set the agenda of INFF implementation in alignment with MIP-1. Facilitate continuity and long-term stability of the INFF and ensure that the work continues following elections and changes to Government, President and Cabinet.

TECHNICAL SECRETARIAT

Participants: Director D&AD, Assistant Director/Chief Officer, NPC Manager/ Assistant Director, Technical Support

Function: To ensure Malawians are in the same direction in defining development priorities and bringing together all stakeholders (both state and non-state)

IMPLEMENTING SECTORS/PECGs

WORKING GROUP 1 | WORKING GROUP 2 | WORKING GROUP 3 | WORKING GROUP 4

Participants: Sectors Coordinators, Reform Implementers, PEG Representatives

Function: To ensure Malawians are in the same direction in defining development priorities and bringing together all stakeholders (both state and non-state)

Source: Developed for the INFF

High-Level Forum

The governance and coordination of the INFF Malawi will be led by the MoFEA and Cabinet, through an overall oversight body/steering committee, made up of representatives from the Cabinet Committee on the Economy. It will be the duty of the MoFEA to report to the Presidency as an extended dimension of its usual functional reporting. The High-Level Forum will meet at least twice per year. If need be, an adjusted version of the Cabinet Committee on the Economy can be established to steer the INFF initiative. The Steering Committee will include representation from key development partner organizations, private sector players and NGOs but will not come from regular network representatives of the latter two groups. For the private sector, the role of Co-chair of the Public-Private Dialogue Group – usually a Managing Director or Chief Executive Officer of a leading private company – is envisaged. Similarly, the head of one of the largest NGOs will be taken on board to represent the needs of non-profit and non-governmental organisations in the Committee. It is to be noted that such appointments or representation will be rotating over time and that the Oversight Body, like all other groups, aims to ensure gender equality. Since gender equality is dependent on the holders of the offices at a particular time, balance may be achieved by the incorporation of the private sector and NGOs.

Implementation Group

The Implementation Group will facilitate continuity and long-term stability of the INFF and ensure that the work continues following elections and changes to Government, including the President and Cabinet. On this front, the INFF demands empowered technical implementation structures that are linked to the implementation of national development strategies under Malawi 2063 – the pillar and enabler groups (PEGs). Strong coordination and streamlining between initiatives will minimise parallel structures and ensure more efficient project delivery and better developmental outcomes through stronger resource allocation.

Therefore, the Implementation Group will be at the head of Ministry level – the Permanent Secretary – and led by the Secretary of the Treasury. Representation will be limited to a few key sector Ministries and representatives of PEGs where INFF reforms are under implementation. The Implementation Group will meet quarterly. The Implementation Group will also have representation from the private sector, key development partners including donors, academia, and civil society to ensure a holistic approach to SDG-aligned development. To a large extent, the implementation body will not be changing with a change of government which sustains the stability of the INFF initiative. It is the implementation body who will take most of the executive decisions on the INFF initiative.

Technical Secretariat

Facilitation will be key to the implementation of the INFF. Therefore, in the early stages, adequate capacity and supporting resources for administrative arrangements will be required. Lead facilitation through the Technical Secretariat will reside in the Debt and Aid Division (DAD) and will be closely supported by NPC to ensure the implementation of INFF reforms across different PEGs/economic sectors. It is likely that many reforms proposed under the INFF including their alignment with the IMF Extended Credit Facility benchmarks and those of other key donor partners are new and so responsible institutions will be introduced to them through group or individual consultations. The capacities of both DAD and NPC will have to be thoroughly assessed and gaps must be filled to address this additional role, potentially through short-term technical assistance where possible.

Implementation Sectors/Pillar and Enabler Coordination Groups

In its long-term development framework, MW2063, the Government has committed to the creation of Pillar and Enabler Coordination Groups (PEGs). Their purpose is to ensure that Malawians are moving in the same direction in defining development priorities. Since this INFF follows the aim to meet the SDGs and is aligned with Malawi's MIP-1, the first phase of MW2063, INFF implementation will be supported by the PEGs created for MW2063. These groups bring together all stakeholders (state and non-state) in each respective pillar or enabler. The groups have sub-technical working groups and are responsible for defining multi-year pillar and enabler priorities as well as advising Government on the resources required for meeting the defined national priorities, as articulated in the Malawi 2063. The PEGs will report on their progress on INFF and SDG implementation at least twice per year.

8.3. INSTITUTIONAL ROLES AND RESPONSIBILITIES

As mentioned above, the key new structures to be established and linked in the context of INFF are:

- High-Level Forum
- Implementation group
- Technical Secretariat
- Implementing Sectors/PEGs

8.4. COORDINATION[58]

ORGAN	ROLE	COMPOSITION
High Level Forum	• Periodic progress reporting • Guidance on reform areas and strategies	• Cabinet Members on the economy (4 – 5) • Reserve Bank Governor • Co-chair Public-Private Dialogue (representing private sector) • A representative of NGOs (largest NGO)
Implementation Group	• Regular progress reporting • Approval of reform implementation plans • Guidance on specific reforms and resolving implementation bottlenecks	• PS Finance • PS Key INFF reform sectors (4) • RBM Directors (2) • NPC DG/Director • PPPC CEO • Representative – Heads of Donor Missions • Representative – Heads of Cooperation Donor Missions • Representatives of INFF Reform PEGs (4–5) • Representative of private sector (rotating basis) • Representative of NGOs (rotating basis)
Technical Secretariat	• Facilitating Oversight and Implementation Group meetings • Developing and presenting progress reports and implementation plans • Consulting and supporting individual reform implementing institutions • Identifying bottlenecks and solutions to progress implementation	• Director D&AD • Assistant Director/Chief Officer • NPC Manager/Assist Director • Technical Support
Implementing Sectors/PEGs	• Drawing up implementation plans for specific reforms • Identifying support needs and budgets • Monitoring and reporting progress on a regular basis	• Sector coordinators • Reform implementers • PEG representatives

Coordination of financing policies rests on the ability of different stakeholders to work together. In many contexts, policy areas are treated as distinct, with trade-offs left unaddressed and synergies unexploited. Different finance providers from all four assessed quadrants (Domestic/international; public/private) are often not aligned in their allocation and investment decision-making.

INFF aims to enhance coherence and integration in the resourcing of national sustainable development objectives and thus requires intra-governmental coordination as well as collaboration and alignment with, and among, non- state actors, especially development partners and the private sector, as well as civil society and academia. Better coordination can overcome policy silos, enhance joint planning, reduce duplication of efforts, increase efficiencies, lead to better management of risks, trade-offs and inconsistencies in the formulation and implementation of financing policies. The aim is to facilitate a

[58] It should be noted that during the INFF validation on 26 August 2024, it was recommended that the Development Cooperation Group (DCG) and the High-Level Forum (HLF) serve as the oversight committees, given their established roles in discussing financing for development and INFF implementation. Various implementing groups involved in INFF discussions will need to report to the DCG, currently co-chaired by the Heads of Cooperation Chair and the Secretary to the Treasury, and the HLF, where the proposed co-chairs are the Minister of Finance and Economic Affairs and the United Nations Resident Coordinator.

holistic approach to financing policy formulation and implementation by coordinating all relevant processes.

Common Challenges

Improving coordination faces several widespread challenges, including:

- The existence of entrenched ministerial/departmental and sectoral silos, coupled with conflicting interests and mandates, such as those between conservation and infrastructure development agencies.
- A general unwillingness to collaborate and reluctance to embrace change due to differences in organizational cultures, which can lead to fears of losing control, influence, or autonomy.
- A lack of synchronization between central and local government systems, exemplified by the use of different budget codes.
- Administrative complexities, time-intensive processes, and unclear lines of accountability resulting from an overabundance of coordination structures.
- The absence of participation from key development partners.
- Challenges in quantifying impact and effectiveness.

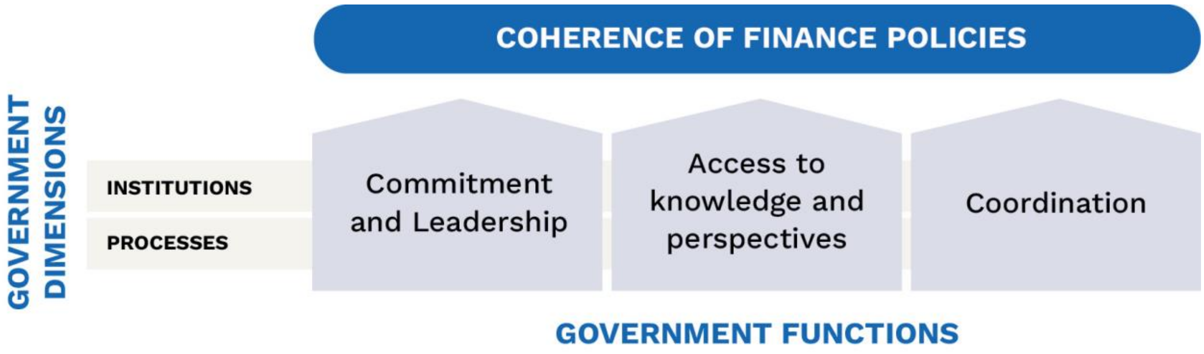
The Integrated National Financing Strategy (INFS) aims to confront these obstacles head-on. However, it is crucial for the Government to conduct self-assessments during the INFS's implementation phase to ensure these challenges are effectively addressed and to identify any emerging support needs. The Annex includes a self-assessment tool provided by UNDP for governments implementing the Integrated National Financing Framework (INFF).

Given the long-term nature of INFFs, which must endure beyond political cycles to secure the necessary financing for achieving the Sustainable Development Goals (SDGs), financing reforms are expected to unfold gradually. Technical expertise, alongside political commitment, plays a vital role in steering the INFF from its initial stages through to full implementation. Maintaining political interest and support poses the most significant challenge to executing the INFS effectively. To prevent inefficiency and redundancy in efforts, achieving coherence in financing policy is essential.

Scope of Financing Policy Coherence

The structure envisaged to support the implementation of INFF in Malawi is in line with its purpose to raise resources by increasing the coherence of financing policies. The Government of Malawi, like all other countries implementing the INFF, will aim to work coherently along three guiding principles.

Figure 17: Dimensions and Functions of INFF Governance



Source: INFF Guidelines Governance and Coordination

- **Commitment and leadership** from the top (both at the political and technical level) provides the overall vision and direction around which increased coherence can be pursued, and ensures ownership, broad-based buy-in and participation, sustained momentum over time (including across political cycles), and adequate resourcing of INFF-related efforts and activities.
- **Access to knowledge and perspectives** ensures that policy makers have the information they need to make decisions on the suitability of different financing policy options and their impact on sustainable development; that finance providers (public, private, domestic, international) can be held to account; and that the broad set of needs, priorities and interests that affect the success of INFFs are recognized and addressed.
- **Coordination among different stakeholders** (both within and beyond government) maximises synergies, reduces duplication, enables the management of trade-offs, and minimizes contradictions or inconsistencies in the formulation and implementation of financing policies in different areas. Coordination among stakeholders is also critical to facilitate a coherent approach to financing that reduces risk across economic, social, and environmental systems and ensures that financing priorities and policies in one area do not create risk to another.

Capacity and Resource Limitations

The international community can help address **capacity and resource limitations**. To guide the identification of additional support needs, preparedness assessments of key institutions can be useful. For example, the 2016 Inter-Parliamentary Union and UNDP self-assessment toolkit for Parliaments provides lessons on how Parliaments can prepare for the implementation of the SDGs which may also be useful in the context of INFFs.

Peer exchanges among Supreme Audits Institutions (SAIs) may also be pursued for capacity building purposes around specific areas relevant to INFFs. The National Audit Unit of Malawi has a history of successful cooperation with the Swedish National Audit Office through a long-term institutional cooperation programme that facilitates knowledge sharing on promoting transparency and civic participation. The application of best practices to support the implementation of the INFF will be the responsibility of all institutions involved, in particular the Implementation Group.

Coordination and Reporting Channels

Coordinating all the elements contained in the INFF and all the participant institutions and stakeholders is a core challenge for the GoM. Coordination will be accomplished using a series of channels, some used sequentially, and others used in parallel. These channels will be used formally each year to update,

CHANNELS	ACTORS
Alignment on INFF and SDGs among central agencies and Cabinet	MoFEA and NPC
Coordination of Malawi's Ministries, departments, and agencies	MoFEA and NPC
Engagement and coordination on SDGs between the central government and the domestic private sector	MoFEA, NPC, and PPPC
Policy and regulatory reform	MoFEA and Ministry of Justice
Coordination and mobilisation of external sources of financing	MoFEA and Reserve Bank of Malawi

approve, and implement the INFF and will be supported by frequent informal contact among the various institutions and stakeholders.

Leadership

To successfully implement the initiatives laid out in this financing strategy, the Government has identified 16 key entities leading its implementation. The main document used to track the implementation of the INFS is the accompanying Excel spreadsheet. As mentioned in the M&R Chapter, the Excel spreadsheet contains all initiatives for all key areas identified in their respective quadrant and allows the Government to sort and filter by different priorities (e.g., sustainability of the initiatives, ease of implementation, etc.), the overall prioritisation timeframe (short-term, medium-term, long-term), by indicators, outcomes, or by leadership using dropdown menus. The Excel will be used as a live document that can be updated at any time, thereby making the implementation of the INFS easier for all entities involved, ensuring a strategic approach to aligning MIP-1 and the SDGs. A snapshot of the Excel spreadsheet can be found below.

The following is an overview chart of all entities identified to lead the implementation of at least one initiative of the INFS in Malawi. It is to be noted that while most of the initiatives are led by MoFEA, other ministries, departments, and agencies will provide support to achieve a holistic approach to development.

ENTITY	AEXAMPLE OF INITIATIVE THE ENTITY WILL OVERSEE
Department of Energy	Based on an independent assessment of the company, restructure ESCOM.
Department of Environment/Climate Change	Implement training programs in rural communities to improve climate change planning and environmental management and reduce the rural-urban divide.
Department of Mines	Review the current mining royalty rates against the rate in other countries to determine if it is still competitive enough to attract investors to Malawi.
Malawi Investment and Trade Center	Strengthen MITC's project appraisal process by developing a country-wide standard methodology for project appraisal.
Malawi Revenue Authority	Draw on international resources to exchange tax information with relevant overseas authorities to crack down on tax avoidance.
Ministry of Agriculture	Rebuild ADMARC and other agricultural marketing boards.
Ministry of Education	Foster quality education among the populace.
Ministry of Finance and Economic Affairs	Revise the budget calendar such that Fiscal Strategy statement, stating the national priorities, is prepared, and circulated earlier.
Ministry of Gender, Community Development and Social Welfare	Create gender focus groups in Government institutions and Ministries to provide training and workshops on the importance of gender inclusion and diversity.
Ministry of Information and Services	Improve and leverage the ICT sector.
Ministry of Lands, Housing, and Urban Development	Clarify land tenures and guidelines.
Ministry of Trade and Industry	Develop and implement monitoring systems to evaluate impact of SME support initiatives.
National Planning Commission (NPC)	Strengthen the National Planning Commission.
Office of the President and the Cabinet (OPC)	Revise the Presidential Salaries and Benefits Act to ensure that the President and all government officials pay their tax.
Public Private Partnership Commission (PPPC)	Design a PPP development strategy and a PPP center.
Reserve Bank of Malawi (RBM)	Address reserve requirements for private investments and put ceilings on investments in various domestic assets.

ANNEXES

ANNEX A: CONSULTATIONS LIST

Private sector

- JCM Power
- Bankers Association of Malawi
- CDH Investment Bank
- Nico Asset Management and Nico Capital
- Malawi Confederation of Chambers of Commerce and Industry
- National Bank of Malawi and NBM Development Bank
- Old Mutual
- Imani Development
- Global Sovereign Advisory

Public sector

- Ministry of Finance and Economic Affairs
- National Planning Commission
- National Local Government Finance Committee
- Lilongwe City Assembly
- MAIIC
- EDF
- MITC
- Ministry of Agriculture
- Ministry of Gender, Children Disability and Social Welfare
- NGO Regulatory Authority
- Ministry of Environmental Affairs
- Malawi Revenue Authority
- Malawi Reserve Bank
- PPP Commission
- Ministry of Trade and Industry
- Sunbird (Tourism SOE)

Donors and international organisations

- African Development Bank
- UNDP
- USAID
- FCDO
- World Bank
- IFC
- European Commission
- IFPRI
- Afreximbank
- FCDO
- ILO
- IOM

Non-profits

- MFI Hub
- Plan International

ANNEX B: MAIN FINDINGS FROM THE DEVELOPMENT FINANCE ASSESSMENT

The socio-economic development trajectory of Malawi has been interrupted by the global COVID-19 pandemic, and the full extent of its impact is still unknown as the crisis continues. This has led to decreased government revenue to which calls for renewed effort by the Government of Malawi (GoM) to implement reform measures of fiscal prudence, results-based management, cost-saving measures reducing wastage and luxury consumption through public financial management reforms.
Tax revenue represents the single most important source of finance for Malawi, significant scope for improvement exists given the narrow tax base and tax net – principally due to the large proportion of the market operating in the informal sector.
Non-tax revenue in Malawi is mostly driven by receipts from parastatals, other departmental receipts, and various levies. Standardising the fiscal system and creating an integrated financing dashboard can be considered as a solution for improving the collection of non--tax revenue.
Malawi has experienced differences between ODA disbursements and original commitment over the years. Overall, the observed discrepancies call for better coordination and collaboration between Malawian authorities and development partners (DPs), to ensure reporting consistency and more effective aid planning.
Malawi has lagged in creating a favourable investment climate for private sector deepening and business led economic growth. Currently, Malawi is unable to significantly penetrate foreign markets due to limited quality infrastructure and the absence of an internationally recognised accreditation body.
Need for improved dialogue and better cooperation between GoM and the not-for-profit sector to ensure that NGO investment is well-coordinated and aligned to national development priorities.
Climate financing presents good prospects for innovative external finance that the Government of Malawi can tap into to finance some of its priority projects.
It is still difficult for Malawi to draw on financing from global capital markets, in the same way many other emerging and developing economies currently do. This is mostly due to poor credit ratings, occasioned by a weak domestic economic environment and exacerbated by prevalent PFM systemic weaknesses and corruption, which increase the country's sovereign risk.
Pension and life insurance funds through bond issuance represent a hitherto untapped development finance source.
The private sector is expected to take up opportunities outlined in national development strategies. Cost and availability of long-term finance, inadequate and erratic supply of electricity, uncertainty in economic and regulatory policies, quality, and cost of telecommunication services; and high levels of corruption is considered as the persistent obstacles to doing business.
Malawi can learn from and capitalise on its initial experiences with public-private partnerships (PPPs). PPPs can be considered an instrument that has the potential to mobilise new sources of financing for major investments, to spread risk between the public sector and private partners, and to stimulate greater private sector investment in Malawi.
A comprehensive Monitoring and Evaluation (M&E) framework is an essential element of a results focused development financing strategy. Leadership and ownership of the INFF process is essential to coordinate all relevant institutions constituting the development planning, monitoring, and financing ecosystem in Malawi. Other than the MoFEA and National Planning Commission (NPC), other government institutions within the ambit of Malawi's national planning, monitoring, and financing framework, including the Reserve Bank of Malawi (RBM), the National Statistical Organisation (NSO), Malawi Revenue Authority (MRA), Malawi Investment and Trade Centre (MITC), the PPPC, the NGO Board and key sectoral ministries central to the Malawi's development strategies.
The limited access to business development services by micro, small and medium enterprises (MSME's) contribute to the poor performance of their businesses, mainly due to a lack of professional business knowledge and skills.
Financing Malawi's energy sector's improvement plans demands mobilisation of resources from a broad range of sources.

GoM should have strategic focus and direction to promote the diversification of export clusters to increase macroeconomic stability, widen the tax base and increase investment. A paradigm shift from over dependence on rain-fed agriculture to dependence on irrigation farming is required to avoid risks associated with climate shocks that affect agriculture output, which is the backbone of the Malawi economy.
Malawi's tourism sector needs a clearer tourism destination positioning in a crowded marketplace.
GoM should access untapped innovative finance such as the extractives sector which is a potential and very progressive source for increased revenue mobilisation, but anticipated revenue is frequently not realised, and the benefits are most often not palpable for mining communities, and especially for women.
Digital financial platforms / mobile money has the potential to play an important role in meeting the key financing needs as articulated in the Malawi 2063 Implementation Plan.
There are some serious challenges in the country's data collection and statistical systems. Efforts should therefore be made by national authorities and international partners to improve and harmonise the statistics required for the INFF, particularly those on domestic and foreign direct investment.
At the local government level, development finance interventions, costing and budgeting are not reflecting development plans and priorities.
Some gender groups, especially women, children and the vulnerable have been severely affected by the COVID-19 pandemic resulting in loss of income and livelihood opportunities.
In general, the DFA finds that resources are available to support implementation of the country's medium-term national development strategies. However, aligning the resources and coordinating state and non-state actors presents the major bottleneck that needs to be addressed through strong leadership by the MoFEA and its related institutions, including the NPC.
Further, the DFA shows that the need to improve the mobilisation of financial resources for the implementation of the national development agenda and SDGs come at a time of transformation in the global development landscape that now presents a diversity of financing opportunities, beyond traditional finance sources of taxation, foreign aid, etc. Some examples of the new sources that may be available are climate financing, non-governmental and philanthropic flows, pension funds, remittances, and public-private partnerships.

Source: Malawi DFA/LLFA

ANNEX C: DOCUMENTS REVIEWED

• Malawi 2063
• First 10-Year Implementation Plan of Malawi 2063 (MIP-1 2021-30)
• DFA/LLFA of Malawi
• Malawi National Human Development Report (2021)
• The National Financing policy
• National planning and public budgeting process reports
• Existing Monitoring and Evaluation frameworks of SDGs or key indicators used to track SDG financing and/or impact
• Digital Finance Services as part of Malawi's Digital Economy Strategy (in Draft)
• COVID-19 Socio-economic Recovery Plan (2021-2023)
• SDG Investor Map (Draft)
• Malawi Economic Monitor #16: Planning Beyond the Next Harvest: Advancing Economic Stability and Agricultural Commercialization (2022)
• Malawi Economic Monitor #15: Strengthening Fiscal Resilience and Service Delivery (2022)
• Malawi Economic Monitor #14: Addressing Macro and Gender Imbalances (2021)
• Country Private Sector Diagnostic IFC: Creating Markets in Malawi (June 2021)
• Malawi Climate Resilience WASH Financing Strategy
• Malawi Combined Mid-Term Review of the Country Strategy Paper 2018 – 2022
• Country Portfolio Performance Review Report (CPPR)
• WFP Malawi Country Strategic Plan (2019 – 2023)
• Malawi Poverty Assessment report "Poverty Persistence in Malawi: Climate Shocks, Low Agricultural Productivity and Slow Structural Transformation"
• World Bank Gender Assessment of Malawi and Gender-based Violence Report
• Macro Poverty Outlook for Malawi: October 2022

ANNEX D: THE IMPLEMENTATION PLAN

THEMES	KEY INITIATIVES/ACTION ITEMS	REFORM TYPE	PRIORITISATION TIME-FRAME	OUTCOME	INDICATOR	LEADERSHIP	DEVELOPMENT PARTNERS SUPPORTING THE REFORM	SPECIFIC INTERVENTION	REMARKS	IMF EXTENDED CREDIT FACILITY BENCHMARKS/CONDITIONALITY
QUANDRANT: DOMESTIC PUBLIC FINANCE										
Enhancing Central Governance Revenue Base	Improve Business registration processes	Regulatory Reform	Short-Term	Increased domestic investments through FDI and domestic sources	% increase in revenue from new domestic investments	Ministry of Trade and Industry	European Union	Zantchito Project	Specifically, the technical assistance component to the Government of Malawi to Support the Implementation of Enabling Environment Reforms for Micro, Small and Medium Enterprises and Related Labour Laws project. This component is implemented by GOPA Worldwide Consultants.	None

	Review of tax rates and incentives	Policy Reform	Medium- Term	Increased tax revenue	% increase in tax revenue relative to the GDP	MoFEA/MRA	European Union, Partnership for Transparency Fund, HIVOS, OXFAM	Chuma Cha Dziko – Public Finance Management Programme in Malawi	The Programme has three areas of focus one of them being "Collecting more" by improving the national tax system through interventions in revenue policy and revenue administration, to increase the fiscal space for financing inclusive growth and development.	**1.Fiscal Reforms** 1.1 Ensure that every supply of motor vehicle is standard rated for VAT purposes 1.2.Comprehensively eliminate VAT exemptions and zero ratings for business inputs. Whereby "business" input means all goods imported by businesses specifically for their operations. The sectors under Customs Procedures Codes CPC 402 for (pharmaceuticals and fertilizer manufacturing), 405 (health, 406 (education) 445 (priority industry and Government to Government Agreements) will be subjected to subsequent structural benchmarks. 1.3 Repeal VAT relief for building materials such that all supplied of building materials, construction services and commercial property are standard rated. The following sectors will be subject to subsequent SBs: Education, Health, Priority sector and where there is an Agreement between Malawi Government and other Governments or bona fide institutions. 1.4 Full launch of the Integrated Tax Administration System (ITAS).
	Draw on international resources to exchange tax information	Business Process	Short-Term	Reduced tax evasion and avoidance incidents	Number of Tax transparency treaties signed. Number of tax	MRA				.

					evasion cases taken to trial.					
	Revise the Presidential Salaries and Benefits Act to ensure that the President and all government officials pay their tax	Regulatory Reform	Long-Term	Increased tax revenue and increased public trust	% increase in tax revenue from public officers	MRA				**Fiscal Reform**: Repeal the preferential treatment for motor vehicle and VAT relief for current and former politicians, senior public officials, judges and other similar privileged individuals and groups.
					Public copy of revised salaries and benefits act	OPC				
	Develop tools to monitor the gender impact of tax policy and conducting a tax-gap analysis to ensure a more gender -sensitive taxation	Instruments	Medium- Term	Improved and equitable gender-based taxation	A gender -responsive tax policy	MoFEA/MRA				•
	Develop a national investment policy and strategy that brings together the Malawi 2063 and the 10-year implementation plan into a more concrete strategy	Policy Reform	Medium- Term	Synthesised and actionable investment policy	A validated copy of a national investment policy reviewed by all stakeholders and approved by the relevant minister	NPC/MoFEA	European Union	Technical Assistance to Private Sector Development Support Agencies- Tikuze Malawi/ Economic governance programme (planned)		
	Digitise payment and payment tracking structures for collection of levies from road users	Business Process	Medium- Term	Improved revenue collection from non-tax source	% increase in revenue from non-tax sources, as a measure of GDP	MoFEA/MRA				•

	Draft a stand-alone state-owned enterprise law	Policy Reform	Medium- Term	Improved management and accountability of state-owned businesses	A validated copy of a state-owned enterprise operations manual	OPC/MoFEA	European Union	Technical Assistance under Chuma Cha Dziko/PFM programme (ongoing)		
					Number of enterprises that adopt the use of the Manual	OPC/MoFEA				
	Review the current mining royalty rates against the rate in other countries	Business Process	Medium- Term	Improves revenue from royalties of mining activities	% increase in licenses obtained from mining activities	Dept of Mines				
	Leverage the country's mining investment tools like the fiscal framework for mining tool	Business Process	Medium- Term	Improved efficiency in managing mining investments	proof of collaboration between Malawi's Ministry of Natural Resources, Energy and mining and a consultant on the mining investment tool for Malawi	Dept of Mines				
					% increase in revenue from mining activities					

Enhancing Local Government Revenue Base	Continue to develop and implement a digital local tax payment platform building on lessons learned from the MRA's Msonkho online	Business Process	Short-Term	Improve tax revenue from regional sources	% Increase in tax revenue from local government	MoFEA/MRA / NLGCF	European Union	Technical support under IMF/Revenue Mobilisation Thematic Fund (RMTF) programme (ongoing)		Full launch of the Integrated Tax Administration System (ITAS)
							Iceland	Mangochi Basic Services Programme and the Nkhotakota Basic Services Programme	District development plans are being developed to guide the formulation of the district revenue mobilisation strategies to guide domestic investments in the Mangochi and Nkhotakota districts.	
							UNDP	Public Sector Innovation Challenge	Integrating e-ticketing application with IFMIS for better revenue-Dowa	
	Strengthen enforcement of property tax	Regulatory Reform	Medium- Term	Improved revenue from property taxes	% Increase in tax revenue from property taxes	MoFEA/NLGCF				

	Develop a local level PFM system and integrate with the national level PFM (IFMIS)	Business Process	Medium- Term	Improve public finance management at regional level	% Increase in savings because of better public financial resources management (A comparison of previous expenditure and current expenditure to determine where savings came from (and determine reason for these savings)	MoFEA/NLGCF				
	Conduct Community Outreach	Business Process	Short-Term	Improved perception of public taxation	Number of people with improved perception on taxation as a source of finance of public projects (Baseline and Endline comparisons)	MRA				

Public Debt Management	Undertake and annual expenditure review	Regulatory Reform	Medium- Term	Reduced public expenditure	% reduction in public expenditure annually	MoFEA				**1. Fiscal reform** 1.1 Publish the monthly unaudited IFMIS-generated comprehensive fiscal reports on MOFEA website, within 5 days after end of each month. 1.2 Approval by the Cabinet of an arrears clearance and prevention strategy for national budget entities that has been in consultation with Fund staff. 1.3 Publish a performance report outlining the status of project execution and spending for all projects, with a total estimated cost of at least MWK 25 billion in the Public Sector Investment Program (PSIP) on the MOFEA website, within 6 months after the fiscal year.
	Refrain from taking additional market rate loans until the debt restructuring is complete and the economy is stabilised	Regulatory Reform	Short-Term	Reduced debt to GDP ratio	Public statement declining acceptance of any additional debt at market rate	MoFEA				
Public Finance Management	Conduct a comprehensive review of its public service manager and staff remunerations with an emphasis on creating incentives to serve the public and reduce inefficient activities	Regulatory Reform	Short-Term	Improved efficiency of civil servants and entire public sector	A revised public service Manual	OPC/DHRMD				

					Percentage increase in public services salaries and performance linked incentives	OPC/DHRMD				
	Revise the budget calendar such that the Fiscal Strategy Statement, stating the national priorities is prepared and circulated earlier	Business Process	Short-Term	Improved budget planning process	Copy of Fiscal strategy statement	MoFEA				
	Develop better selection and prioritisation criteria for selecting projects which the government invests in and are captured in the budget	Business Process	Short-Term	More efficient use of resources for investments	Copy of a well-develop prioritisation criteria	MoFEA/NPC	World Bank	Malawi First Growth and Resilience Development Policy Operation	1. Effective implementation of the PFM Act and 50 percent in arrears 2. Beneficial ownership details disclosed for effectively all procurement	Publish a performance report outlining the status of project execution and spending for all projects, with a total estimated cost of at least MWK 25 billion in the Public Sector Investment Program (PSIP) on the MOFEA website, within 6 months after the fiscal year.
					100% alignment of public investments with national priorities	MoFEA/NPC				
	Digitalise public financial management	Business Process	Medium- Term	Improved monitoring of public expenditure and procurement	% annual reduction in public expenditure	MoFEA	European Union	Technical Assistance under Chuma Cha Dziko/PFM programme (ongoing)		Publish the monthly unaudited IFMIS-generated comprehensive fiscal reports on the MOFEA website within 5 days after end of each month starting end October 2023

							Germany	Strengthening public financial and economic management project which is being implemented by (GIZ)	The project aims to promote key dimensions of good financial governance in Malawi: Efficiency, regularity, self-financing capacity, and accountability	
Enhancing the role of Public Institutions	Rebuild ADMARC and other agricultural marketing boards	Business Process	Medium- Term	Improved revenue from the agricultural sector	Budget allocation for rebuilding ADMARC	MOA				
					Strategy for revitalising, including hiring of new management team for ADMARC	MOA				
	Finance MAIIC and EDF	Regulatory Reform	Medium- Term	Improved domestic investments	% Increase in budget allocation to MAICC and EDF	MoFEA				**1.Governance Reforms** 1.1 MoFEA and RBM jointly design and implement a credible, comprehensive and cost effective resolution plan to address challenges identified in the audit of the EDF 1.2 Improve transparency and management of EDF via improved organisational arrangements and action on audit findings

	Strengthen the National Planning Commission	Business Process	Medium- Term	Improved coordination between the public sector and private businesses	Number of capacity building trainings provided	NPC	European Union	Training to NPC under "Enhancing Development Planning and Implementation capabilities through stakeholder engagement" (ongoing)		
					% increase in budget allocation to NPC	NPC	UNICEF, USAID, UNDP, EU, World Bank	Support toward the implementation of the Malawi 2063 and its first 10-year implementation Plan the MIP-1		
	Restructure ESCOM based on an independent assessment of the company to improve provision of electricity	Regulatory Reform	Short-Term	Improved business environment for all businesses	% reduction in power outages % increase in power supply	Dept of Energy	World Bank	Malawi First Growth and Resilience Development Policy Operation	The DPO aims at increasing the pace of ESCOM connections with fewer disruptions	
							European Union	Technical Assistance under Wala Malawi/ Energy programme. Twinning with MERA ON energy reform (ongoing)		

	Strengthen MITC's project appraisal process by developing a country-wide standard methodology for project appraisal	Business Process	Short-Term	Improve revenue from targeted investments in more lucrative areas	A developed framework for conducting project appraisals	MITC/Min of Trade and Industry	European Union	Technical Assistance to Private Sector Development Support Agencies- Tikuze Malawi/ Economic governance programme (planned)		
					Establishment of a project appraisal department within the agency for Public- Private partnerships	MITC/Min of Trade and Industry				
	Create gender focus groups in Government institutions and Ministries to provide training and workshops on the importance of gender inclusion and diversity	Business Process	Short-Term	Improves productivity in the work force	Number of gender inclusion trainings provided across all public institutions	Ministry of Gender	Iceland	Support through the Malawi Human Rights Commission and The Gender Justice Unit, specifically trainings on sexual harassment have been conducted in four district councils to officials from public institutions.		

QUANDRANT: DOMESTIC PRIVATE FINANCE										
Mobilising Domestic Sources of Financing	Address reserve requirements for private investments and put ceilings on investments in various domestic assets	Regulatory Reform	Medium- Term	Increased funding for investments in domestic non-assets	% increase in domestic non-assets investments	RBM				
	Incentivise investment portfolio diversification	Business Process	Short-Term	Increased revenue from diversified investments	Number of new domestic investment portfolios	MoFEA/ MoTal /MITC				
	Improve regulations for establishing businesses	Regulatory Reform	Short-Term	Increased ease of doing business	% increase in newly registered businesses	MoTal/MITC				
	Provide capacity building to financial services providers	Instrument	Short-Term	Increase in capacity	% of financial service providers trained	MoFEA				
	Invest in feasibility studies	Business Process	Medium- Term	Increased profitability and sustainability of investments	Number of feasibility studies conducted	MoTal/MITC	European Union	Feasibility Study/ESIA for MWI-ZAM interconnector (ongoing); for Songwe bridge (planned); for rail Bangula-Limbe (planned)		
					% increase in revenue from vetted investments	MoTal/MITC				

	Institute legal reviews to ensure best practices are continually followed	Regulatory Reform	Medium- Term	Increased efficiency in business processes and improved risk perception of Malawi	Number of legal reviews completed	MoFEA/Min of Justice			
	Invest in higher education and skills development	Business Process	Medium- Term	Improved productivity of the workforce	% increase in secondary and post-secondary education	MoE/MoL	European Union	Infrastructure, equipment and capacity development (ongoing) - "Improving Secondary Education in Malawi" programme (ISEM II) - "Zantchito-skills for Jobs" programme, TEVET component	
							USAID	Strengthening Higher Education Access in Malawi Activity (SHEAMA)	The program seeks improve access to higher education opportunities through open and distance e-learning, increasing Malawi's skilled and employable workforce.	

	Honour government obligations to the private sector	Business Process	Short-Term	Increased trust and collaboration between government and private sector	Number of obligations met	MoFEA				
	Design a PPP development strategy and a PPP center	Policy Reform	Long-Term	Improved coordination between the public sector and private businesses	Evidence of set up of a PPP center	PPPC	World Bank	Malawi First Growth and Resilience Development Policy Operation	Focusing on the issuance and gazetting of the PPP Act regulations. These regulations serve to operationalize the Act, providing clarity on the precise process and institutional responsibilities in key areas.	
	Attract Impact Investors	Business Process	Medium- Term	Increased revenue and investments aligned with national priorities	% increase in finance for impact driven investments	NPC/MoFEA				
	Explore the development of a social impact bond (SIB)	Business Process	Medium- Term	Draft of SIB		MoFEA				

	Deepen Insurance Coverage and Climate Adaptation Plans	Instrument	Medium- Term	Increase confidence to investors	Evidence of new insurance coverage and climate adaptation plans	RBM/MoFEA /Dept of Environment /Climate Change				
Improve Access to Finance for MSMEs	Develop a Finance Strategy to de-risk Agriculture MFI financing	Instrument	Short-Term	Increased investments in Agriculture	Evidence of a developed strategy for de-risking Agriculture MFI financing	MoA				
					Number of investment deals realised because of implementation of the strategy	MoA				
	Source and implement Grant Schemes to help capitalise MFIs with social goals	Instrument	Short-Term	Increase revenue for impact - driven investments	% increase in revenue from grant schemes	MoTal				
	Provide financial incentives for domestic investments in priority sectors	Business Process	Medium- Term	Increased investment in projects of national priority	% increase in domestic investments	MoTal				

	Design incentives focused on women and investments that increase women's economic empowerment	Instrument	Medium- Term	Increased incentives for women	% increase in economic empowerment initiatives	MoFEA/ MoG	Iceland	Through the Mangochi Basic Programme, 13 small scale women and youth business groups with capacity building skills training in production and business development as well as material support for capital investment to start and develop small scale businesses. They have also been assisted in proposal writing and access to markets and financial services.		
	Develop instruments to improve SMEs access to finance and improve the financing ecosystem	Instrument	Medium- Term	Increased access to SME financing	% increase in SME financing	MoTal				
	Develop and Implement monitoring system to evaluate impact of SME support initiatives	Instrument	Medium- Term	Increased monitoring of support initiatives	% in initiatives monitored	MoTal	European Union	EIB/EU blended finance for SME access to finance project (credit lines and guarantee) (ongoing)		

QUADRANT: INTERNATIONAL PUBLIC FINANCE										
	Report on disbursement and use of donor funds in transparent and timely manner	Regulatory Reform	Medium- Term	Improved efficiency in use of ODA funding	A developed real time dashboard for monitoring use of ODA	MoFEA	European Union	Technical Assistance under "Enhanced Management and Monitoring of Development Cooperation"- development of Donor Management information system		
	Follow up on existing public financial management commitments	Business Process	Short-Term	Increased revenue from fulfilment of commitments	Evidence of follow up and engagement meetings	MoFEA				
International Cooperation	Introduce an incentive- based system at the institutional level (for government-wide policy and program monitoring system) and civil servant level	Instrument	Medium- Term	Increased revenue from DFIs	A developed real time dashboard for monitoring implementation and effectiveness of policies	OPC/DHRMD	Iceland	Through the Mangochi District Basic Services Project, the District council is developing the Mangochi Management Information System which will be the dashboard for monitoring the district development plans and feeding into the national monitoring and		

								evaluation system. -A performance-based financing System is being developed for the Nkhotakota Basic Services Programme, where sectors at the District council will only be funded based on their effectiveness and efficiency.		
							European Union	"Establishment of the Harmonised National Management Information System (HN-MIS)" project-platform to monitor implementation of the MW2063 and the MIP-1 (ongoing)		
	Continue to explore other concessional funds such as AfDB, World Bank and Bilateral DFIs	Instrument	Short-Term	Increased revenue from DFIs	Evidence of follow up and engagement meetings	MoFEA/RBM	European Union	Blended finance: EU-EIB for M1 Road and Chileka Airport (ongoing) ; EU/AfDB for Nacala Road (ongoing) ; EU/EIB for water boards and		

								Eastern Backbone (planned near term) ; EU/EIB for Malawi-Zambia inter-connector (planned long term)		
	Developing a comprehensive costed national adaptation plan	Policy Reform	Medium- Term	Increased climate financing from external sources	% increase in climate financing	Dept of Environment /Climate Change				
Climate Mitigation & Adaptation	Implement training programs in rural communities to improve climate change planning and environmental management and reduce the rural-urban divide	Business Process	Medium- Term	Improved climate resilience	Number of training programs delivered	Dept of Environment /Climate Change	Iceland	Through the Nkhotakota Basic Services Programme, the District Council is supported to train staff on ESMPs/EIAs and are implementing the Nkhula river water catchment project		
	Develop a climate policy on GHG emissions reduction targets	Policy Reform	Medium- Term	Improved climate resilience and adaptability	Evidence of validated climate policy	Dept of Environment /Climate Change				
	Develop criteria for issuing green bonds	Business Process	Short-Term	Increased revenue from green investments	% Increase in revenue from green investments	MoFEA				

					Number of green bonds issued by the government	MoFEA				
	Facilitation of carbon credit	Business Process	Short-Term	Increased investments in climate smart projects	% increase in revenue from green investments	MoFEA/ Dept of Environment /Climate Change	UK, Government of Flanders	Biodiversity Financing		
					Number of carbon credit programs facilitated	Dept of Environment /Climate Change				
De-risking Private Sector Investments	Present specific project opportunities to the major blended finance and guarantee providers, in line with the SDG Investor Map	Business Process	Medium- Term	Increased revenue from non-traditional sources	% Increase in blended and innovative financing	MoFEA	European Union	European Fund for Sustainable Development (EFSD+) - guarantee projects for SME development, green transition, impact investments (planned)		
	Work with providers of political risk insurance	Instrument	Short-Term	Increased confidence to investors to invest in national priorities	Number of Additional political risk insurance contracts signed	MoFEA				
	Build SME competitiveness	Instrument	Medium- Term	Increased revenue from domestic investments	% Increase in GDP from SME investment and operating activities	MoTal/MITC	European Union	Technical Assistance under "Zantchito Skills for Jobs" programme- business incubation		

								support services (ongoing)		
QUADRANT: INTERNATIONAL PRIVATE FINANCE										
Enabling Environment for Large Infrastructure Investment	Review of the monetary policy to assess the trade-offs and impact of more flexible exchange rate	Policy Reform	Long-Term	Improved importing and exporting activities	Evidence of new monetary policy	RBM				Progressively remove the four multiple currency practices and three exchange restrictions measures identified by fund staff
	Clarify land tenures and guidelines	Policy Reform	Short-Term	Improved business environment	Copy of revised land tenure guide	Min of Lands				
	Rehabilitate and improve physical infrastructure	Regulatory Reform	Long-Term	Enhanced business operating environment	Number of additional infrastructure projects commissioned and completed	MoFEA/PPPC /NPC	European Union	Technical Assistance under Wala Malawi/ Energy programme- procurement of new IPPs (planned)		
							Iceland	Through the Mangochi and Nkhotakota Basic Services Programme, Iceland supports health, education/ECD and water and sanitation infrastructure in the two districts.		

							World Bank			
	Improve and leverage the ICT Sector	Business Process	Long-Term	Improved efficiency and business operations	% increase in digitisation of businesses	Min of Information /MACRA	World Bank	Digital Malawi Program and Malawi First Growth and Resilience Development Policy Operation		
	Foster quality education among the populace	Policy Reform	Medium- Term	Improved efficiency and productivity of the workforce	% increase in education levels	MoE	European Union	Policy development (ongoing): - "Improving secondary education in Malawi" programme (ISEM II) - "Zantchito -skills for jobs" programme, TEVET component		
							Iceland	Through the Mangochi Basic Services Programme, Iceland is supporting training of key staff from the health, education, water and sanitation sectors in the district and district council		

								staff through degree programmes (BA, MA and PhD levels)		
							World Bank and USAID			
	Conduct feasibility studies on the use of solar and wind power as alternative sources of energy	Business Process	Short-Term	Creation of alternate sources of energy for business to operate	Number of investment seminars with investors to attract funding for solar projects	Dept of Energy	Iceland	Through the Energy and Environment Partnership Trust Fund (EEP Africa) Information session in January 2023 ,local organisations had the opportunity to interact with clean energy investors.		
					Number of feasibility studies conducted					

Attracting Foreign Investors	Improve sector plans to stabilise the investment environment	Policy Reform	Medium- Term	Increased Investment in high priority sectors	Number of sector plans developed and implemented	MoFEA/Trade				
	Increase marketing activities	Business Process	Medium- Term	Increase visibility of high priority areas to investors	Number of Marketing campaigns and seminars conducted	MoTal/MITC	European Union	Technical Assistance to Private Sector Development Support Agencies- Tikuze Malawi/ Economic governance programme (planned)		
	Conduct targeted feasibility studies	Business Process	Medium- Term	Improved Investment in priority areas	Number of feasibility studies completed	MoTal/MITC				
Attracting Philanthropic Funding	Review regulatory hurdles	Regulatory Reform	Short-Term	Improved business environment	Improved ranking in the ease of doing business study	Min Gender/NGO Board/CONGOMA				
	Improve coordination with donors and philanthropic service providers and ensure compliance with the NGO Act	Regulatory Reform	Medium- Term	Increased transparency in use of donor funds	Number of additional engagements with philanthropic organisations and donors	Min Gender/NGO Board/CONGOMA				

	Based on the NGO Regulatory Authority's NGO mapping, the government will develop and share gender-based development plans with philanthropic donors	Policy Reform	Short-Term	Increased funding in gender - related causes	% increase in funding towards gender-aligned projects	Min of Gender/ NGO Board/CONGOMA				
Leverage Remittances	Engage with the diaspora in Africa , North America and Europe to suggest business opportunities in Malawi	Business Process	Medium- Term	Increased funding for investment in national priorities	% increase in diaspora investments	MoFEA/RBM	IOM/UNDP	Promoting Regional Integration Through Diaspora Capital: A Joint IOM-UNDP Initiative	The project aims to strengthen diaspora engagement towards national development initiatives.	
	Launch a Diaspora Bond	Instrument	Long-Term	Increased diaspora investments in the local market	copy of mandate for setting up a diaspora bond	MoFEA/RBM				
					Percentage increase in diaspora bonds purchase	MoFEA/RBM				
	Leverage fintech companies to provide tailor-made channels for digital transfer across boarders to encourage the movement of funds in and out of the country	Instrument	Medium- Term	Improved channels for diaspora investment activities	% increase in digital money transfers to Malawi	RBM				

	Develop a Government Diaspora Partnership Pact	Policy Reform	Long-Term	Increased funding from diaspora	Evidence of a developed Government-Diaspora Pact	MoFEA/RBM				
	Review tax policies to ensure disincentives are removed	Policy Reform	Long-Term	Increased motivation to invest in Malawi	Number of tax disincentives removed	MoFEA				