Report on Development Finance Assessment (DFA) and Local Level Financial Assessment (LLFA) for Government of Malawi

September 2021

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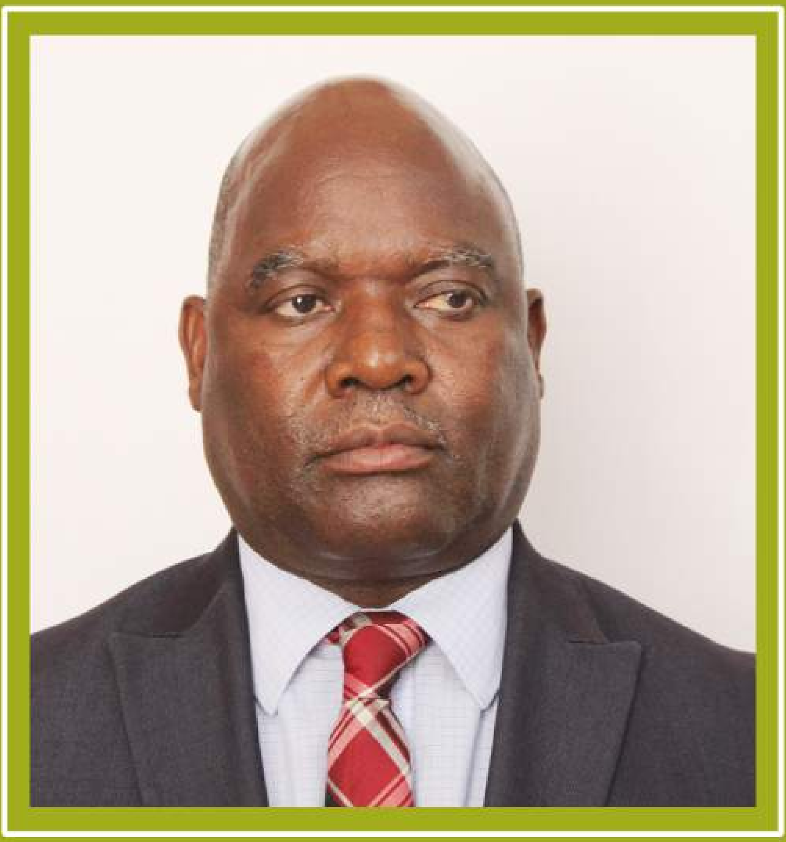
ACRONYMS

Terms	Details		
AAAA	Addis Ababa Action Agenda	GIZ	Germany Society for International Cooperation
ADF	African Development Fund	GNI	Gross National Income
AMP	Aid Management Platform	GPEDC	Global Partnership for Effective Development Cooperation
ASWAp	Agricultural Sector Wide Approach	GRB	Gender Responsive Budgeting
BF	Boreholes Fund	GRF	General Resources Fund
CDF	Constituency Development Fund	IATI	International Aid Transparency Initiative
CDP	City Development Plan	ICT	Information, Communication & Technology
COMESA	Common Market for Eastern and Southern Africa	IDA	International Development Association
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System	IF	Infrastructure Fund
CSOs	Civil Society Organisations	IFF	Integrated Financing Framework
DAC	Development Assistance Committee	IHS	Integrated Household Survey
DAD	Debt and Aid Management Division	IMF	International Monetary Fund
DCS	Development Cooperation Strategy	INFF	Integrated National Financing Framework
DCAFS	Donor Committee in Agriculture and Food Security	INGO	International Non-Governmental Organization
DDF	District Development Fund	IPP	Independent Power Producers
DDP	District Development Plan	IRP	Integrated Resource Plan
DFA	Development Finance Assessment	JICA	Japan International Cooperation Agency
DFID	Department for International Development	LDC	Least Developed Country
DIAT	Defense Institute of Advanced Technology	LDCF	Least Developed Countries Fund
DoDMA	The Department of Disaster Management Affairs	LEAD	Leadership for Environment and Development
DPs	Development Partners	LGAP	Local Governance Accountability Program
DSA	Debt Sustainability Analysis	LGS	Local Government System
ECD	Early Childhood Development	LLFA	Local Level Financial Assessment
EGENCO	Energy Generation Company	LTO	Large Taxpayer Office
EIU	Economist Intelligence Unit	MCC	Millennium Challenge Corporation
ESCOM	Electrical Supply Corporation of Malawi Limited	MCCCI	Malawi Confederation of Chambers of Commerce and Industry
EU	European Union	MDEP	Malawi Diaspora Engagement Policy
FAO	Food and Agricultural Organization	MDGs	Millennium development goals
FCDO	Foreign, Commonwealth and Development Office / erstwhile Department for International Development (DFID)	MDRI	Multilateral Debt Relief Initiative
FDI	Foreign Direct Investment	MEET	Malawi Environmental Endowment Trust
FISP	Farm Input Subsidy Program	MERA	Malawi Energy Regulatory Authority
FMIS	Finance Management Information System	MGDS	Malawi Growth and Development Strategy
FY	Financial Year	MITC	Malawi Investment and Trade Centre
GAVI	Global Alliance on Vaccines and Immunization	MK	Malawi Kwacha
GCF	Green Climate Fund	MNSSP	Malawi National Social Support Programme
GCI	Global Competitiveness Index	MOA	Ministry of Agriculture
GDP	Gross Domestic Product	MOF	Ministry of Finance
GESI	Gender Equality and Social Inclusion	MoFEPD	Ministry of Finance, Economic Planning and Development
GFCF	Gross Fixed Capital Formation	MoH	Ministry of Health

ACRONYMS

Terms	Details	Terms	Details
MP	Member of Parliament	SWOT	Strengths, Weakness, Opportunities and Threats
MRA	Malawi Revenue Authority	TADAT	Tax Administration Diagnostic Assessment Tool
MSE	Malawi Stock Exchange	TOR	Terms of Reference
MTEF	Medium Term Expenditure Framework	TPD	Total Public Debt
NAIP	National Agriculture Investment Plan	UN	United Nations
NAPA	National Adaptation Programmes of Action	UNDP	United Nations Development Program
NDC	Nationally determined Contribution	UNICEF	United Nations Children Education Fund
NDS	National Development Strategies	UNOPS	United Nations Office for Project Services
NGO	Non-Governmental Organization	USAID	United States Agency for International Development
NLGFC	National Local Government Finance Committee	VAT	Value Added Tax
NPC	National Planning Commission		
NPFI	Nagoya Protocol Implementation Fund		
NSO	National Statistical Office		
NTR	Non-Tax Revenue		
OBI	Open Budget Index		
ODA	Official Development Assistance		
OECD	Organization for Economic Cooperation and development		
ORT	Other recurrent transactions		
PBB	Programme Based Budgeting		
PC	Privatization Commission		
PCA	Post Clearance Audit		
PEFA	Public Expenditure and Financial Accountability Assessment		
PEPFAR	The US President's Emergency Plan for AIDS Relief		
PFM	Public Financial Management		
PIDA	Programme for Infrastructure Development in Africa		
PPP	Public-Private Partnerships		
PPPC	Public-Private Partnership Commission		
PRGT	Poverty Reduction Growth Trust		
PSIP	Public Sector Investment Plan		
PWC	PricewaterhouseCoopers		
RBM	Reserve Bank of Malawi		
RFA	Roads Fund Administration		
SADC	Southern Africa Development Community		
SAIIA	South African Institute of International Affairs		
SCCF	Special Climate Change Fund		
SDGs	Sustainable Development Goals		
SOE	State Owned Enterprises		
SSA	Sub-Saharan Africa		
SSC	South-South Cooperation		

FOREWORD



Mr. Chauncy Simwaka
Secretary to the Treasury

I am pleased to share the Development Finance Assessment (DFA) and Local Level Finance Assessment (LLFA) report. The report will be crucial in informing the establishment of an integrated national financing framework for Malawi to effectively support the development aspirations of the country, as espoused in its long-term development framework, Malawi 2063 (MW2063) and its successive 10-Year Implementation Plan. The DFA report is a culmination of months of analytical work on updating the 2018 DFA report and its process has utilized consultations with various stakeholders from public and private sector entities including sector ministries, departments and agencies, international development organizations such as donors and Non-Governmental Organizations (NGOs), Civil Society Organizations (CSOs), Private sector, and academia. The DFA and LLFA report was commissioned by the Ministry of Finance with technical and financial support from United Nations Development Programe (UNDP) in Malawi in recognition of the fact that achieving the ambitious development aspirations set out in the MW2063 and the supporting 10-year Implementation Plan and the aspirations captured in the Sustainable Development Goals (SDGs) will require innovative thinking and command absolute best use of the sources of sustainable development finance available in the country.

The MW2063 aims to create "an inclusively wealthy and self-reliant industrialized upper middle-income country by 2063." The Vision comes at the time when Malawi has already domesticated the SDGs to accelerate the pace of economic growth, create wealth and overall ensure sustainable human development for its citizens. This DFA stands as a vehicle to facilitate the realization of this strategic goal, having provided a comprehensive analysis of development finance from various sources that can be leveraged by the country through the establishment of an integrated national financing framework. It assessed the development finance challenges faced by Malawi and how it can address these challenges and utilise the opportunities available to mobilize the investments and development financing from various sources to achieve its development priorities at national and local levels. This is even critical, especially during this challenging period with a global pandemic (COVID-19) that has negatively impacted the financing options of Malawi and across the globe. It has also analyzed the financing policies, binding constraints, and partnerships that are in place and looked at the contributions that actors across the society are making towards the achievement of the national development priorities. The complement the DFA report, a local level finance assessment has also been undertaken to map developing financing challenges and options at the local level.

Equally important, the DFA has analyzed the extent to which the Government is ready to implement an Integrated National Financing Framework (INFF) to finance national priorities and operationalize the Addis Ababa Action Agenda at the national and local levels. In so doing, the DFA will help the Government to adapt its policies, institutions, and develop strategies aimed at addressing the financing challenges that the country faces in view of the debilitating effects of the COVID-19 pandemic to achieve its sustainable development priorities in its long-term development framework, MW2063, and its successive implementation plans. The practical recommendations in this report further provide a solid basis for constructive dialogue and action across public and private actors in the country, which will be very helpful in the articulation and institutionalization of an integrated national financing framework for Malawi.

Therefore, I would like to take this time to extend my deepest appreciation to the UNDP Malawi Resident Representative, Mr. Shigeki Komatsubara, and his Senior Management Team for supporting the finalization of the DFA and LLFA report. Thanks also to members of the core technical team that comprised representatives from the Debt and Aid division in the Ministry of Finance and other relevant government institution such as the Ministry of Economic Planning, Development and Public Sector Reform, National Planning Commission, and the Ministry of Local Government, the Private sector, NGOs, as well as to Office of the United Nations Resident Coordinator and UNICEF. As we look ahead to the challenges of mobilizing and managing a range of different types of development finance in pursuance of our country's development aspirations as well as the formulation of the INFF, this type of intra-governmental collaboration will be critical for us to sustain. I look forward to such cooperation and collaboration in the implementation of the key recommendations emerging from this report.

PREFACE

Mr. Shigeki Komatsubara
UNDP Resident Representative

The Development Finance Assessment (DFA) and Local Level Finance Assessment and the envisaged Integrated National Finance Framework (INFF) have come at an opportune time when Malawi has just launched its long-term development framework, Malawi Vision 2063. As Malawi embraces its new aspirations for an inclusively wealthy and self-reliant nation, the new vision must be domesticated for full ownership and implementation.

In 2020, the Government of Malawi in collaboration with the UN in Malawi commissioned the voluntary national review on the SDG implementation. The review showed that significant progress had been made on 29 out of 169 SDG targets with moderate progress on 59 targets and poor performance on 81 targets. This shows that more needs to be done to achieve all the goals and indicators. The DFA and LLFA report aims to determine the financial opportunities that could help address the financial gap challenges faced by the country to support the implementation and realization of its development priorities, and ultimately the SDGs.

The DFA and LLFA report finds that resources are available to support the implementation of the country's long-term development framework, Malawi Vision 2063, and its successive 10-Year Implementation Plans. The report points to the need for the alignment of development financing resources and more coordination between state and non-state actors. Further, it also presents a diversity of development financing opportunities, beyond traditional finance sources of taxation, foreign aid, etc. Some examples of the new sources of development financing that may be available are climate financing, non-governmental and philanthropic flows, pension funds, remittances, public-private partnerships and blended finance, developing and diversifying the export capacity of the country, leveraging the benefits of digital transformation, green growth, and South-South and Triangular Cooperation, and improving the business environment to attract foreign direct investment and private sector financing. The DFA and LLFA report provides important findings for anchoring development endeavors in a clear financing strategy that should ensure that all the development priority areas and flagship projects are successfully implemented in the coming years.

Malawi, through the DFA and LLFA report and the implementation of the Integrated National Financial Framework, can mobilize both domestic and external resources in a more coordinated manner and align resources and policies to required outcomes. It is important to note that the DFA and INFF should not be seen as parallel processes, but an integral part of the national planning and budgeting processes for a more sustainable pathway to development financing. The DFA and subsequently the full establishment of an INFF in Malawi will enhance and strengthen the national planning and budgeting systems for the effective delivery of intended development outcomes. This will be possible through a partnership that cuts across all stakeholders including the public, private, and non-state actors. We look forward to working with all our national counterparts, development partners, and other stakeholders to follow up on the findings and recommendations presented in this assessment report and subsequently fully establishing an SDG financing architecture in Malawi.

ACKNOWLEDGEMENTS

Mr. Nations Msowoya
Director

The Development Finance Assessment (DFA) and Local Level Finance Assessment (LLFA) Report has been produced with support from the United Nations Development Programme (UNDP) through the Ministry of Finance. The DFA is the culmination of months of analytical work on updating the 2018 DFA report and its process has utilized consultations with the various stakeholders from NGOs, private sector entities and the Public sector including sector ministries, departments and agencies, international development organizations such as donors and Non-Governmental Organizations (NGOs), Civil Society Organizations (CSOs), academia, and the local government Ministry to inform the report. Hence the DFA is an outcome of invaluable contributions, and support provided by numerous stakeholders in Malawi, all of whom we are highly indebted to.

I would like to take this opportunity to acknowledge the strategic leadership of the UNDP Resident Representative, Mr. Shigeki Komatsubara, and his Senior Management Team, as well as the valuable inputs provided by his technical team comprising Wilmot A. Reeves (Economic Advisor), Patrick Kamwendo (Economics Specialist), and Ms. Thokozire Gausi (Research Associate and Young Professional) during the finalization of the report. I am equally thankful to Ms. Orria Goni (SDG Finance and SSC Regional Advisor) and her team of the UNDP Africa Finance Sector Hub in South Africa for their valuable technical and advisory support provided during the assignment.

My thanks also go to Deloitte India and Malawi whose Research Team was led by Mr. Senthil Rajan and comprised of other members being Mr. Punit Sharma, Rahul Prasad, Dr. Basanth K, Dr. Hannock Kumwenda, Victor Chayamba, and Bridget Chibwana. We also want to the thank the copy editor, and graphic designer, who also played significant role in having this assignment finalized. We wish to extend our thanks and appreciation to them as well.

Finally, we are grateful to the core technical team, which provided much needed information to the consulting team under the leadership of Mr. Nations Msowoya who succeeded Twaib Ali (Former Director of Debt and Aid) and exceptional coordination services by Ms. Chimvano Thawani with support from Chinsinsi Phiri and Moses Chirwa in the Ministry of Finance. By extension, many thanks to the other members of the core technical team comprising Ministry of Economic Planning, Development and Public Sector Reforms, National Planning Commission, UNICEF, and the Ministry of Local Government and other relevant sector Ministries, Departments, and Agencies (MDAs), the Private sector, and the NGO representation. Without your valuable support, the DFA and LLFA report could not have been successfully completed.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Government of Malawi (GoM) has begun to implement the country's new long-term vision, Malawi Vision 2063, from this financial year, 2021/22. The new vision succeeds Vision 2020 and its last five-year medium-term strategy whose aim was to "build a productive, competitive and resilient Nation." The new long-term Malawi Vision 2063 aims to create "an inclusively wealthy and self-reliant Nation". Malawi had also domesticated the Sustainable Development Goals (SDG's) to accelerate the pace of economic growth, create wealth and overall development of its citizens. The movement from Vision 2020 and its medium-term development plans to Malawi Vision 2063 with its own medium-term development plans, and aspirations captured in the SDG's, requires holistic thinking to rationally utilize all the sources of development finance available. With the technical support from UNDP, this Development Finance Assessment (DFA) Report is the culmination of months of analytical work on updating the previous 2018 DFA and it utilized consultations with the public and private sector entities, national ministries/departments, international development organizations including donors and International Non- Governmental Organizations (INGOs), Civil Society Organizations (CSOs) and local governments ministries/departments.

This DFA presents the comprehensive analysis of trends in public and private finance compiled to date in Malawi. It has assessed the opportunities and challenges that Malawi faces to mobilize the investments needed to achieve its development strategies at the local and national levels, especially in this challenging period with a global pandemic (COVID 19) which has negatively impacted the financing options of Malawi and across the globe. It has analyzed the financing policies and partnerships that are in place and looked at the contributions that actors across society are making towards the development strategies. This DFA uniquely also includes elements of Local Level Finance Assessment (LLFA) developed through the discussions with Civil Society Organizations (CSOs) and local governments ministries/departments. The DFA has mapped finance flows available to Malawi and explored how they can be leveraged and aligned to anchor the implementation of its development strategies. These finance flows derive from public, private, domestic, external sources and include tax and non-tax revenue, official development assistance (ODA), South-South Cooperation (SSC), international climate finance, non-governmental and philanthropic flows, government borrowing, pension funds, remittances, private investment, and public-private partnerships (PPPs).

The DFA has further analyzed the extent to which GoM is ready to implement an Integrated National Financing Framework (INFF) to finance national priorities and operationalize the Addis Ababa Action Agenda at the national level. To this end, the DFA analyzed the readiness and efficiency of Malawi's planning, budgetary, and institutional systems by examining the INNF building blocks which explores the "Assessment and Diagnostics, Financing Strategy, Monitoring & Review and Governance & Coordination" capabilities of GoM. The analytical framework asks three overarching questions about each INFF building block: (i) what is already in place? (ii) what ongoing initiatives are underway? and (iii) what further opportunities exist? In each of these questions it considers policies, institutions, and capacity, as well as analysis of the current context and outlook, in relation to each building block. These questions are used to facilitate discussion through the financing dialogues that informs the agreement of an INFF Roadmap.

The DFA is expected to help the GoM to adapt its policies, institutions and strategies keeping in consideration the financial challenges that the country will face to achieve its development strategies in the proposed timeframe aggravated by the corona virus (COVID-19) pandemic. The major insights and recommendations of the DFA include:

1. 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. International and national supply chains, as well as exports, have all been disrupted. Spillovers from the global slowdown, border closures, and economic disruption in neighboring countries have reduced exports, raised trade transit costs, and weighed on remittances, tourism, and foreign direct investment; and

country-wide movement and gatherings restrictions have slowed down domestic economic activity significantly. The most affected industries are accommodation and food services, transportation and storage, and wholesale and retail trade. The slowed down economic activity has led to lower-than-expected revenue collection and significantly worsened the fiscal space. This calls for renewed effort by the GoM for implementing reform measures of fiscal prudence, results-based management, cost-saving measures reducing wastage and luxury consumption through public financial management reforms. The GoM thus must strictly adhere to macroeconomic reforms to gain stability, stimulate economic activity, and induce recovery.

2. 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 huge proportion of the market operating in the informal sector. It is, therefore, important to develop innovative ways of mobilizing resources and emphasis must be on incentivizing the informal sector to bring them into the formal sector through incentivizing business registration and formalization, increasing financial inclusion, increase connectivity; improve quality of human capital and better access to markets and price discovery. Encouraging agriculture commercialization, along the lines of the Green Belt Initiative, including expanded agro-processing, value adding and diversification, is in this vein a worthy intervention that presents good prospects for broadening the tax base. GoM could expand the tax net by incorporating taxes on passive income which refers to the income people earn without engaging in active business activities including rental income, bank interests and consultancy fees. GoM should utilize and enhance the usage of the electronic fiscal devices (EFD) for monitoring value-added tax (VAT) compliance. The VAT system can be made more progressive by exempting essential items and putting a higher rate on luxury items and real estate. There is also potential to increase tax revenues by reducing large tax exemptions and deductions afforded to corporations and individuals.

3. Non-tax revenue in Malawi is mostly driven by receipts from parastatals, other departmental receipts, and various levies. Standardizing the fiscal system and creating an integrated financing dashboard can be considered as a solution for improving the collection of non- tax revenue. Moving from COVID-19 response to recovery, it will be critical that a coherent approach to budget management is in place. This will enable the government to ensure efficiency and effectiveness whilst rebuilding/retaining trust at a time of great fiscal constraint, to build a robust framework for accessing international finance and a sustainable recovery. A long-term holistic integrated financing strategy that sets out the types and scale of investments needed for the country to follow the sustainable development path it desires, can provide a firm foundation for implementing policies designed to mobilize and stimulate this financing. Setting out a long-term approach to financing can provide a strong foundation to carry forward lengthy structural reforms, such as the expansion of ‘growth-friendly’ taxes. GoM should develop performance management plans for parastatals and State-Owned Enterprises (SOEs).

4. Malawi has been a major recipient of foreign grants and aid for decades. Official Development Assistance (ODA) has been an important contribution to state budgets and service delivery in Malawi. The web-based Aid Management Platform (AMP) managed by the Ministry of Finance (MoF), even though created with good intention, is not working well and is failing to provide comprehensive and up-to-date information on development financial flows. GoM should implement measures to improvise it, for proper monitoring, evaluation and utilization of foreign grants and aid. Predictability is another important element of aid effectiveness as it allows Government to effectively plan, align, and channel required external financing to meet funding gaps. 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.

5. Malawi has lagged in creating a favourable 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 recognized accreditation body. GoM must take the lead in promoting domestic investment by investing in areas that could trigger domestic private investment. The African Continental Free Trade Area (AfCFTA), which came into force recently, marks a significant step in the country's journey towards regional and continental integration. GoM should have a plan to utilize the benefits from this free trade and diversify its trade package.

6. International and national non-governmental organizations (NGOs), faith-based organizations, and private foundations currently play a big role in financing humanitarian and development segments of Malawi. Establishing the exact quantum of these flows is, however, fraught with challenges due to inadequate financial records and poor reporting by a large section of the NGO community. This necessitates 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. In this regard, there is growing need to promote transparency and accountability in line with the CSO Istanbul principles by enhancing the regulatory framework to promulgate self-policing and enhance the capacity of the NGO Board. Further, there is need for better coordination and cooperation between the NGO Board and the Council for Non-Governmental Organizations in Malawi (CONGOMA). Having good laws for NGOs is a necessary but not a sufficient condition for the existence of a strong, independent, accountable, and transparent NGO sector. GoM can review the NGO legal framework and finalize the NGO Policy in collaboration with stakeholders, to demand yearly financial reports from all NGOs. It is imperative to strengthen monitoring and evaluation in general and the NGO statistical ecosystem, at both national and local government levels, including re-invigorating AMP reporting. MoF should ensure that NGO Board collates and publish reports on the accomplishments of NGOs on an annual basis. Within this context, the role of the NGO Board and its institutional capacity, as well as that of CONGOMA, needs to be reviewed to make it a constructive and engaged entity.

7. Climate financing presents good prospects for innovative external finance that the Government of Malawi can tap into to finance some of its priority projects. While Malawi has all the reasons to have preferential access to these emerging vertical funds from a geographic and climatic point of view, there are several bottlenecks impinging upon access to climate finance. Chief amongst these is lack of accredited national institutions and established procedures for managing climate finance. Priority should therefore be given to building national capacities, strengthen national institutions and work towards having nationally accredited institutions to facilitate climate financing.

8. 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. Nonetheless, steps can be taken to address these shortfalls and position the country to be able to expand its finance sources by participating in the global capital market.

9. Pension and life insurance funds through bond issuance represent a hitherto untapped development finance source. With the right governance, regulation, and instruments to assess and manage the risks associated with long-term investment in infrastructure, these funds could take on a greater role in transforming the infrastructure landscape.

10. 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. The macro-fiscal challenges: high inflation, unstable foreign exchange rates, and high interest rates all also negatively impacted the business climate. Strong, systematic dialogue between government and the private sector is a key ingredient for stimulating private sector to contribute towards national development strategies. With the economic effects of COVID-19 being felt globally, FDI inflows is expected to shrink further as foreign investors will be focusing more on boosting growth in their own economies. Therefore, GoM must take the lead in promoting domestic investment by investing in areas that could trigger domestic private investment.

11. Malawi can learn from and capitalize on its initial experiences with public-private partnerships (PPPs). PPPs can be considered an instrument that has the potential to mobilize 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. The PPP Commission (PPPC) is well positioned to spearhead PPPs, given the robust regulatory framework in place. There is however need for closer cooperation amongst the PPPC, key ministries and regulators. Marketing of PPP opportunities should also be enhanced. Establishing a development bank presents good prospects for deepening financial intermediation and improving private investment. Further, requiring publication of completed contracts, clarifying ambiguous legislation on appeals and establishing clear methodologies for value-for-money and risk transfer calculation would increase transparency, thereby, hopefully fostering greater confidence in PPP arrangements among private investors.

12. A comprehensive Monitoring and Evaluation (M&E) framework is an essential element of a results focused development financing strategy. The M&E performance framework can be broadened to include monitoring trends in various types of public and private financing and can capture the available information on the outcomes that these flows generate. In this way the GoM and its development partners will develop a more comprehensive understanding of the investments being made and the contributions they can make toward the development strategies that can inform more responsive policy design and nuanced dialogue between public and private actors. Furthermore, GoM can take steps to develop an increasingly detailed picture of trends and financing at the subnational level, which can inform policy designed to target the most deprived areas and increase equity and national unity. Furthermore, Government of Malawi may consider developing a Comprehensive Dashboard for monitoring all developmental finances (both domestic and international) in terms of sourcing, spend and achievement of outcomes.

13. 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 MoF 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 Organization (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. All these need to be brought on board as part of the INFF steering team. This might involve a high-level strategic/political oversight group, as well as a technical team of economists, accountants, and statisticians dealing with more technical data analyses.

14. 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. Government departments and agencies should share and educate MSMEs about alternative funding models - e.g., stock exchange, private equity, venture capital, blended finance. There is a need for improved flexibility of MSME Policy to cater to business needs,

agnostic of sector. The country's finance and banking system is not amenable to support small and mid-sized companies with credit, and loans are only provided on particularly stringent terms and at high interest rates. This acts as a significant brake on MSME's growth and further development. Even where there are opportunities to create jobs and income, the upswing often falters due to lack of finance and difficult conditions of the country's economic development. To provide impetus for this, the Government of Malawi should support the MSMEs through existing or new schemes aimed at enhancing their access to finance and other infrastructure requirements.

15. Financing Malawi's energy sector's improvement plans demands mobilization of resources from a broad range of sources. Efforts should be made to create the right climate for the private sector; as well as capacitating the Power Single Buyer, through a cost reflective tariff, geared at improving the corporation's counter-party credit worthiness. The domestic capital market, through bond-issuance targeting pension funds can also be leveraged to finance energy projects. Public finding and subsidies should continue and GoM should assure climate finance funding from commercial sources.

16. Agriculture remains the mainstay of the country's economy. Restrictions related to COVID-19 have led to serious disruptions and agricultural structured markets (e.g., tobacco) have been delayed or are functioning below optimum levels, resulting in loss of income to farmers, as well as increased storage costs and losses. The dominance of tobacco renders the country vulnerable to production and market risks related to the commodity, hence, diversification of production and exports has become a priority. 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.

17. Malawi's tourism sector needs a clearer tourism destination positioning in a crowded marketplace. This requires a more innovative set of product lines, a concerted effort to arrest and reverse degradation of Malawi's natural assets, preserve cultural heritage and a more creative approach to the promote Malawi as a diverse and unique destination.

18. GoM should access untapped innovative finance such as the extractives sector which is a potential and very progressive source for increased revenue mobilization, but anticipated revenue is frequently not realized, and the benefits are most often not palpable for mining communities, and especially for women. In committing to attract investors in the minerals sector and to retain a substantial amount of revenue, GoM needs to ensure that companies pay what they owe, backed by legislation and monitored through routine audits. It needs to put in place mechanisms which ensure that when incentives are created to attract foreign investment in mining, revenues are raised from the profits made by these companies and redistributed to all, especially the mining communities.

19. Digital financial platforms / Mobile money have the potential to play an important role in meeting the key financing needs as articulated in the Malawi Vision 2063 Implementation Plan. They are convenient, available and accessible to everyone, especially those in remote areas enhancing their access to credit. The DFA recommends that steps be taken to develop a regulatory and policy framework that encourages positive development of mobile money services in the country.

20. 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 harmonize the statistics required for the INFF, particularly those on domestic and foreign direct investment. Development finance statistics currently collected by different national institutions should be consolidated, integrated, and regularly updated in a centralized database managed by the MoF. The quickest solution would be to expand the existing Aid Management Platform (AMP) to facilitate capturing of finance flows from other sources: NGOs, philanthropy, private investment, etc. The MoF and development partners should explore technical and financial implications of such AMP upgrade. GoM should Implement sound policies and processes to continuously assess and monitor the quality, that leads to improved data availability and transparency to ensure data consistency across national reporting entities. The Integrated Financial Management System (IFMIS) should be leveraged to implement a government-wide automated platform for reporting GoM finances. GoM can establish a task force comprising RBM, MITC, and NSO to review how best to capture actual foreign and domestic private investment statistics.

21. At the local government level, development finance interventions, costing and budgeting are not reflecting development plans and priorities. There seems to be widespread governance laxity in the management of resources available. Office holders should account for development results and should be closely monitored by both the higher authorities and the electorate. GoM should accelerate planned reforms on improving governance like re-constructing the composition of the district councils, introduce legally backed and more executive management-oriented structures with capacity to develop and implement district development plans and their financing mechanisms. GOM should also take initiatives to revise DDP investment budgets by using competent technical experts to assist with scenario building. There is also needed to revise the intergovernmental fiscal transfers formula for allocation of funds to a district and provide detailed and enforceable guidance on sectoral allocations and accounting, perhaps even hedging such funding.

22. There is poor tracking of financial resources of non-government actors at the local government level. This can be resolved by instituting a well-capacitated monitoring function, capable of setting up and maintaining integrated financing dashboards to track financing data flows to the district from all stakeholders. General investment into staff capacity and better systems of management would also go a long way in addressing this problem.

23. 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. There is need for a comprehensive social protection system that will work for all who may be affected by various shocks and disasters including pandemics.

24. 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 MoF and its related institutions, including the NPC. Further, a weak public financial management system, that has facilitated endemic misuse of resources, is a crosscutting impediment to actualizing most of these finance flows. This has caused the private sector, external development partners, and the public to lose faith in the capacity of government to efficiently manage the diversity of development financing in the country. Hence, there is a need to further study how those resources can be effectively mobilized and utilized for the development priorities. This is especially important for non-traditional resources, available to the private sector such as pension funds. Key

factors that would help to achieve this is a well-functioning public financial management (PFM) system to mobilize resources and make development financing more impactful.

25. Further, the DFA shows that the need to improve the mobilization 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.

CHAPTER 1

INTRODUCTION

INTRODUCTION

1.1 Background

The Development Finance Assessment (DFA) is a methodology developed by UNDP in response to the demand from the developing countries to assist them in managing the increasingly complex landscape of development finance. It supports governments to use the concept of an Integrated National Finance Frameworks (INFF) to help strengthen policies and actions for mobilizing different types of finance for sustainable development in each country context. An INFF is a system of institutional structures, policies, architectures and strategies used to mobilize and utilize finance offered to achieve national development goals.

The DFA is expected to help the Government of Malawi (GoM) to adapt its policies, institutions and strategies keeping in consideration the financial challenges, the country will face to achieve SDGs in the proposed timeframe aggravated by the COVID-19 pandemic. DFA would also help the GoM to institutionalize and strengthen the INFF.

In 2018, the GoM, with technical and financial support from UNDP and the EU, undertook DFA exercise for Malawi that mapped the country's financing landscape to take stock of the full typology of various finances; assess government's existing financing strategies, policies and institutional structures; establish a baseline for the building blocks of INFF for the country. The INFF entails the development of a coherent national framework, comprising policies, strategies, and institutional structures, for managing the broad set of financial flows available both public and private, domestic and international.

1.2 Rationale for updating the DFA-Malawi

Considering the passage of time since the completion of the 2018 DFA report, a review of the report was required due to the following:

The information and data in the 2018 DFA report including the financial flows and macroeconomic fundamentals were outdated to meaningfully inform the INFF for Malawi especially given the adverse impact due to COVID-19 pandemic.

Government of Malawi desired to update the previous DFA report and an implementation roadmap for establishing the INFF macroeconomic framework in the country.

As Malawi Growth Development Strategy (MGDS) III has been completed in the year 2021 and Government of Malawi has formulated long term strategy namely Malawi Vision 2063, it is vital to be brought in the updated DFA report.

The institutional readiness for the development of the INFF needed to be reviewed in view of emerging new information such as COVID-19 impact and the revised methodology for establishing INFFs and the new DFA Guidelines (as per the draft 3.0 Guidance Note 2020).

Thus, the new DFA needs to focus and integrate an assessment of the financing landscape and relevant policy and institutional landscape at local government levels in selected districts to inform an all-inclusive and comprehensive INFF for Malawi.

1.3 Report Structure

This report is structured in eight chapters as follows:

Chapter 1 introduces the Malawi DFA, covering its background, context, and objectives.

Chapter 2 covers the conceptual framework and methodology.

Chapter 3 discusses the political and socio-economic context within which the assessment has been conducted.

Chapter 4 presents and discusses findings of the mapping of the various finance flows, highlighting historical trends and the institutional and policy context underlying each flow.

Chapter 5 presents a situational analysis of Malawi's readiness for an Integrated National Financing Framework, highlighting the state of maturity for all INFF building blocks.

Chapter 6 spotlights three sectors: energy, agro-processing, and tourism, as case studies deriving from the prevailing development priority areas. The chapter explores specific financing strategies that can be put into place to meet development targets in these sectors, to exemplify the instrumentality of the INFF.

Chapter 7 presents the current scenario of Local Level Financial Assessment along with consolidated observations with the findings on each sample district given in the annexes.

Chapter 8 summarizes the DFA's findings by drawing conclusions, making recommendations and suggesting a road map to inform the implementation of the Vision 2063 financing strategy and with those findings and recommendation it presents guide for implementing Malawi's INFF in the long term.

THE DFA METHODOLOGY AND APPROACH

CHAPTER 2

THE DFA METHODOLOGY AND APPROACH

2.1 Conceptual Overview

This study brings together three interlinked tools or activities, each one having their own stand-alone usage and adequacy: DFA, LLFA and INFF. Each one of these tools has a different theoretical basis and for purpose of this study, both the DFA and LLFA have been brought together. Their difference may only be in terms of scope and physical coverage - DFA is at the national level and LLFA is at the local level (district level in the study).[1]

The theory of change for the DFA is that conducting a finance assessment of development interventions at the national level or local level will assist to identify opportunities for mobilizing additional sources of finance and use existing financial resources more efficiently to achieve sustainable development goals (SDGs) at that level. The DFA maps financial flows (public and private, domestic and foreign) and provides recommendations for a roadmap to achieve the SDGs and a country's development objectives. The assessment importantly supports government to identify actions and reform measures that can be pursued to: (1) enhance the effectiveness and efficiency in use of existing finance flows; and (2) mobilize additional financial resources. Development needs are many and largely unfunded even where they have been identified as priorities. A financial assessment is likely to uncover such needs that would require extra funding because it can unleash the development sector-wide funding needs and clearly exhibit interventions with inadequate funding. These tools for improving financial management imply that the information collected can be used to gain efficiencies by knowing what is available as a basket and being able to restructure allocations in accordance with the emerging issues.

The INFF is at a different level, even though it has its basis in the DFA for its establishment. Its theory of change is that establishing an INFF provides a structure and prompts for governments to assess their financing frameworks, and guide thinking about reforms to implement a strategic, holistic, results-driven approach to financing their development objectives. To effectively finance national development plans and the SDGs, financing actors (who provides finance to national development plans and SDGs) need to co-ordinate their comparative advantages and prioritize their diverse investments. They also need to co-ordinate and prioritize in a way that reinforces country ownership, links to policy and supports the country's development agenda. INFFs are a promising mechanism where there is clarity on the amounts and types of resources available and the best means for channelizing them to achieve development goals. INFFs have been practiced by many developing countries and they carry even stronger assumptions for their success: *the existence or establishment of requisite institutional capacity to manage them, in addition to much more collaboration amongst funding providers in terms of alignment on funding priorities and financing policies.*

This conceptual framework provides the basis for drawing up recommendations from assessments and drafting of the roadmap for establishment of INFF for Government of Malawi to follow. GoM have larger mandate to oversight the process with the aid of an INFF oversight committee and institutionalize financing dialogues with concerned stakeholders discuss and shape the findings and recommendations.

The DFA methodology is based on the INFF conceptual model. The model is designed to assist countries to assess the systems of institutional structures, policies and strategies that are in place to effectively mobilize finance to achieve the Sustainable Development Goals (SDGs)[2].

[1] This report is termed DFA as one that covers a financial assessment at the national and local levels, with more details about the local financial assessment provided in Annex 1 to this report.

[2] United Nations Development Programme (UNDP)/Asia Pacific Development Effectiveness Facility (AP-DEF). "Development Finance Assessment and Integrated Financing Solutions: Achieving the Sustainable Development Goals in the Era of the Addis Ababa Action Agenda."

THE DFA METHODOLOGY AND APPROACH

The DFA is structured around a process of financing dialogues that will discuss the overarching financing landscape and the policies, institutions, and capacity that are in place. The dialogues are designed to support consensus on the next steps and reforms needed to operationalise an INFF. These dialogues are informed by the DFA analytical framework, which draws together analysis and data across public and private financing in relation to the four building blocks of INFF (Figure 1).

The analytical framework asks three overarching questions about each INFF building block: (i) what is already in place? (ii) what ongoing initiatives are underway? and (iii) what further opportunities exist? In each of these questions it considers policies, institutions, and capacity, as well as analysis of the current context and outlook, in relation to each building block. These questions are used to facilitate discussion through the financing dialogues that informs the agreement of an INFF Roadmap.

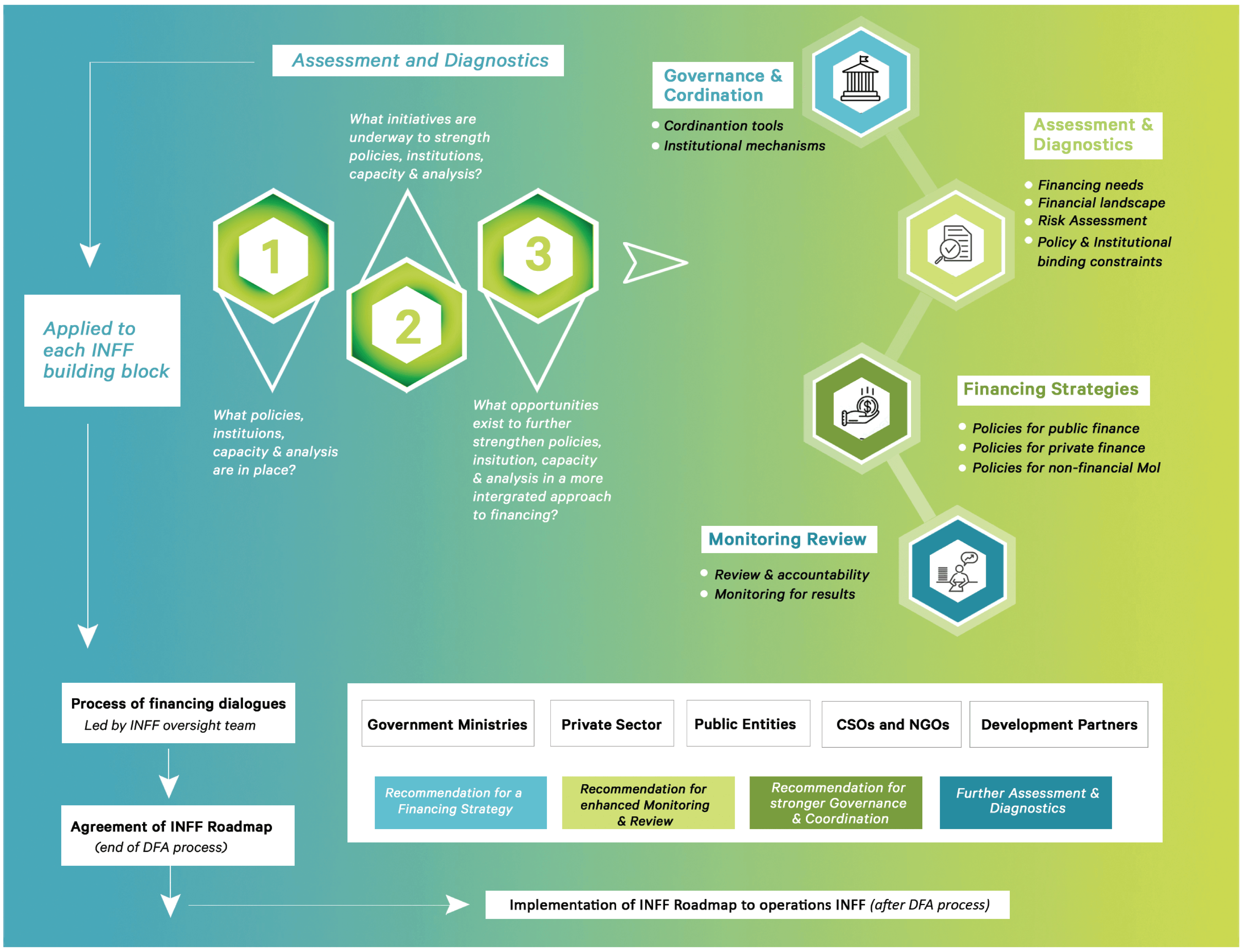
In applying these questions, the DFA will develop a comprehensive map of the policies and initiatives that are in place and that are ongoing, in relation to each of the INFF building blocks (Figure 1). It will capture the systems and initiatives across government, the private sector, civil society, and international partners in relation to financing for the national development or recovery plan. This comprehensive mapping forms a basis for discussion through the financing dialogues about how to bring together the existing elements of INFF, supplement and strengthen them wherever necessary, and address any gaps or opportunities that exist.[3]

The analysis generated through the analytical framework will be used to inform discussion through the financing dialogues and shape priorities for the INFF Roadmap.

Building Block 1: *Assessment and Diagnostics*: The growing complexity of the international financing landscape calls for a more holistic approach to assessing the needs and options for financing sustainable development in developing countries. The assessment and diagnostics building block aims to expand upon traditional needs assessment models to provide a complete picture of national financing needs and available financing sources, as well as the challenges and risks countries face when financing their sustainable development. This building block is the first step in matching appropriate financing flows to the long-term development objectives outlined in a country's national development plan. The main components of the assessments and diagnostics building block are expanded upon below. While all four components should be undertaken by countries developing INFF, the scope and form of these components will depend largely on individual country contexts.

[3] https://sdgfinance.undp.org/sites/default/files/UNDP-DFA%20Guidebook-D4-HighResolution%20%28002%29.pdf

Figure 1: Integrated National Financing Framework Conceptual Mode



Source: DFA Guidebook 3.0

Building Block 2: *Financing Strategy*: A financing strategy lays out a set of sequenced actions to finance national development strategies and goals and mobilize and align financing with national priorities. First, it matches needs assessments to specific resources, such as public revenues, aid and private financing where appropriate (e.g., project finance). Second, it addresses constraints to aligning a broader range of public and private financing resources with sustainable development. To this end, the financing strategy brings together financing policies, instruments and regulatory frameworks. For example, medium-term revenue strategies (MTRSs) and medium-term expenditure frameworks (MTEFs) help address public finance challenges; financial sector development and financial inclusion strategies and related efforts help countries build a bridge between financing policies and the longer-term objectives of the national development plan. The financing strategy also promotes coherence between and among these different strategies and public and private financing policies and instruments – e.g., by ensuring that tax and investment policies are not conflicting; or that macroeconomic, trade and technology policies jointly reinforce overarching development priorities.

Building Block 3: *Monitoring and Review*: By monitoring the delivery and use of financial and other resources, governments can track progress and draw lessons for policy design and implementation. Monitoring and review also lay the groundwork for greater accountability, and provides a basis for transparent dialogue among governments, partners and other relevant stakeholders. In the context of an integrated financing framework, monitoring and review consists of three layers: (i) monitoring progress in different financing flows and policy areas, (ii) strengthening coherence among already existing tracking and monitoring systems and closing gaps in the architecture, and (iii) assessing whether the financing strategy itself is succeeding in increasing overall coherence and alignment of financing and related policies.

Building Block 4: *Governance and Coordination*: Integrated national financing frameworks (INFFs) need to be demand driven and have strong political backing and broad-based country ownership. This calls for governance and coordination mechanism situated at a high level of government (e.g., the body that oversees the national sustainable development strategy) and engage all stakeholders in a consultative process. Governance and coordination mechanisms guide the entire process of the INFF – from assessments and diagnostics to policy formulation, implementation, and monitoring and review. They provide a range of tools, including safeguards, screening tools, coherence checks, mainstreaming and incentives for inter-ministerial coordination. These can help facilitate the coherence of financing policies and support effective delivery.

2.2 Data Collection and Analysis

The DFA for Malawi used both insights gathered from key informant interviews and secondary data. The data obtained from the below institutions were used for updating the DFA:

Ministry of Finance	Budgets; Debt and Aid Reports; Government Accounts
Ministry of Economic Planning and Development and Public sector reforms	Annual Economic Reports; Development Plans; Sector Frameworks
Reserve Bank of Malawi	Macro-economic indicators; FDI and other financial flows
Malawi Investment and Trade Centre	Private and foreign investment
National Statistical Office	Population and gender related data; Business and Financial Surveys; District level Statistics
National Local Government Finance Committee	District financial data and statistics

2.3 Limitations of the study

This DFA is primarily an update of the 2018 DFA and includes a financial assessment at the local level. The previous data / information has been retained as it is, wherever there is no availability of the updated data/information.

Meetings with the desired stakeholders were undertaken adhering to norms of COVID-19 and not all key stakeholders made themselves available for consultations.

Unavailability of data on the COVID-19 situation was more pronounced at the local level.

CHAPTER 3

COUNTRY CONTEXT

COUNTRY CONTEXT

3.1 Geo-Political Overview

Malawi is a landlocked country located in Southern Africa sandwiched between Mozambique, Zambia and Tanzania. The country has an estimated population of 18.6 million (2019)[4], which is expected to double by 2038. Malawi remains one of the least developed countries in the world despite making significant economic and structural reforms to sustain economic growth.

Figure 2: Map of Malawi and neighboring country

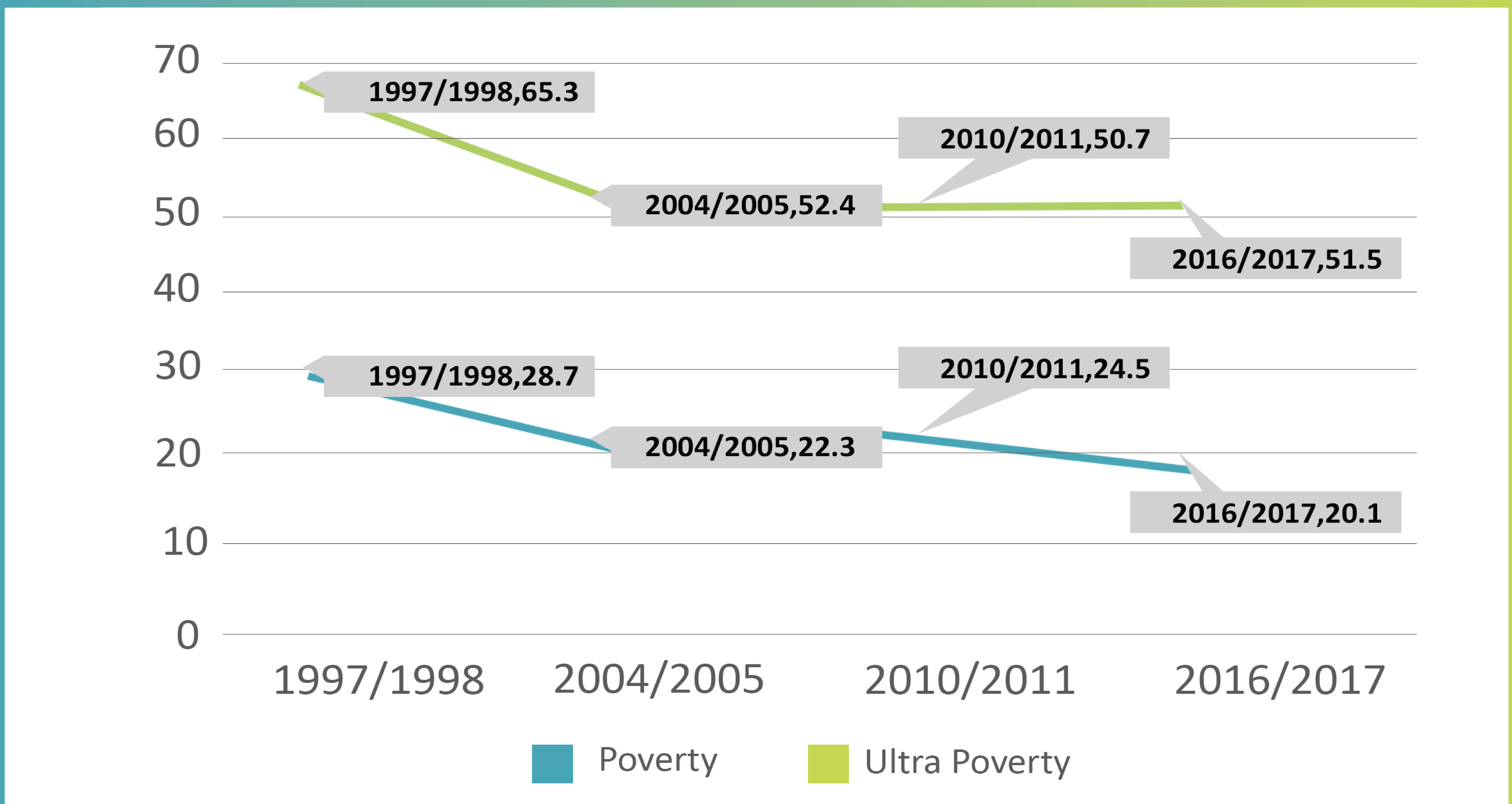
Source : https://www.un.org/Depts/Cartographic/map/profile/malawi.pdf

[4] https://www.worldbank.org/en/country/malawi/overview

3.2 Development Progress

Despite Malawi enjoying peace and political stability since its independence in 1964, human development remains low, poverty is widespread, and inequality is still high. This is particularly evident in rural areas where 83% of the population lives. In 2020, the country registered a human development score of 0.483 and ranked 174 out of 189 countries.[5] Malawi's GNI per capita, PPP (curren t international $) of 1,080 in 2019 is among the lowest in Africa and the world[6].

Figure 3: Malawi's Poverty Trends



Source: Malawi Poverty Report 2018

The latest national official data published on poverty based on Integrated Household Survey (IHS4), shows that while national ultra (extreme) poverty levels declined from 24.5% in 2010 to 20.1% in 2016, it is still higher in rural areas at 24%. The majority of those living in poverty work in low productivity subsistence farming, with a single rainy season of 4-5 months, and climate-induced shocks.

Over recent years in Malawi, there has been increasing attention towards gender equality and social inclusion (GESI). Malawi has ratified global, regional and national legal and policy instruments on gender equality and social inclusion that demonstrates the country's commitment towards ensuring gender equality, women empowerment and social inclusion. Accordingly, they are mainstreamed in all development frameworks and thus guiding the planning for gender equality and social inclusion at the national and local levels. For example, the recently completed five-year medium-term national development strategy (MGDS III) and the new Malawi Vision 2063 have targets on GESI, and other crosscutting areas such as digitalization included in frameworks. However, there is a need for more action to be taken so that the

[5] UNDP, Human Development Report 2020

[6] https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?locations=MW&most_recent_value_desc=false

commitments translate into proper implementation. There is also a need to include gender equality and social Inclusion budgeting systems in in the Public Finance Management Act, provide budget allocations consistent with gender responsive budgeting and other sectoral guidelines. Financing on GESI is predominantly on consumables and not investments designed to address both GESI and deliver financial returns.

On the SDG front, per the Voluntary National Review 2020 of United Nations, Malawi has been making significant progress on 29 of the 169 targets especially around SDG 3 and SDG4 (on health and education respectively while moderate and poor progress was made on 59 and 81 of the targets respectively; the 29 targets that are progressing well include significant decline on under-five mortality rates; Gender parity in primary schools already equal to parity; Net Enrolment in Primary Schools is close to target. It also highlighted that Malawi is experiencing insufficient long-term progress on SDG 1 relating to poverty eradication whose targets are showing negative trends due to recurring disasters and insufficient investment in empowerment activities. However, even though over half of the population lives below the poverty line, the rate of extreme poverty has significantly improved.

3.3 Economic Performance

Malawi with around 70 % of the population[7] living below the international poverty line of US$1.90 per day has its economy vulnerable to external shocks, particularly climatic shocks.[8] It has a small open market economy that is predominantly agrarian, contributing 28% of GDP, employing nearly 80% of the population[9], with tobacco constituting the major export item.

While Malawi's GDP reached an all-time high of 6.3% and 6.2% during 2013 and 2014 and it plummeted to 2.7% in 2016 as the country reeled from the effects of El Nino drought[10]. The economy rebounded in 2017 following improved fiscal management and better rains, with GDP growing by 5.1% and inflation easing to 11.5% during the period. Since 2017, Malawi has been enjoying a period of economic stability, with inflation tamed, and a stable exchange rate for the first time since 2011.[11]

Malawi's GDP growth rose to 5.1 % in 2019 from 4% in 2018, despite the impact of tropical cyclone Idai—driven by reconstruction and an agricultural rebound.[12] Real Gross Domestic Product (GDP) for the Malawi economy is estimated to have grown by 1.5 % in 2020 following the rebasing of the to 2017 prices. This represents a decline of 3.6 % points from 5.1 % registered in 2019. Unemployment rate was high at 18.5%, aggravated by a mismatch between the demand and supply for skills. The 2020 downturn reflected slowdowns in local and cross-border economic activities caused by the COVID-19 pandemic restrictions. The most affected industries were accommodation and food services, transportation and storage, and wholesale and retail trade.[13] GDP growth is expected to pick up to 2.5% in 2021, subject to the

7 https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_MWI.pdf

8 https://www.mccci.org/index.php?option=com_content&view=article&id=286:economic-update&catid=19:news&Itemid=138

9 https://www.worldbank.org/en/country/malawi/overview

10 https://www.recoveryplatform.org/assets/publication/PDNA/

11 https://openknowledge.worldbank.org/bitstream/handle/10986/31929/Malawi%20Economic%20Monitor%209.pdf?sequence=1&isAllowed=y

12 IMF country report May 2020

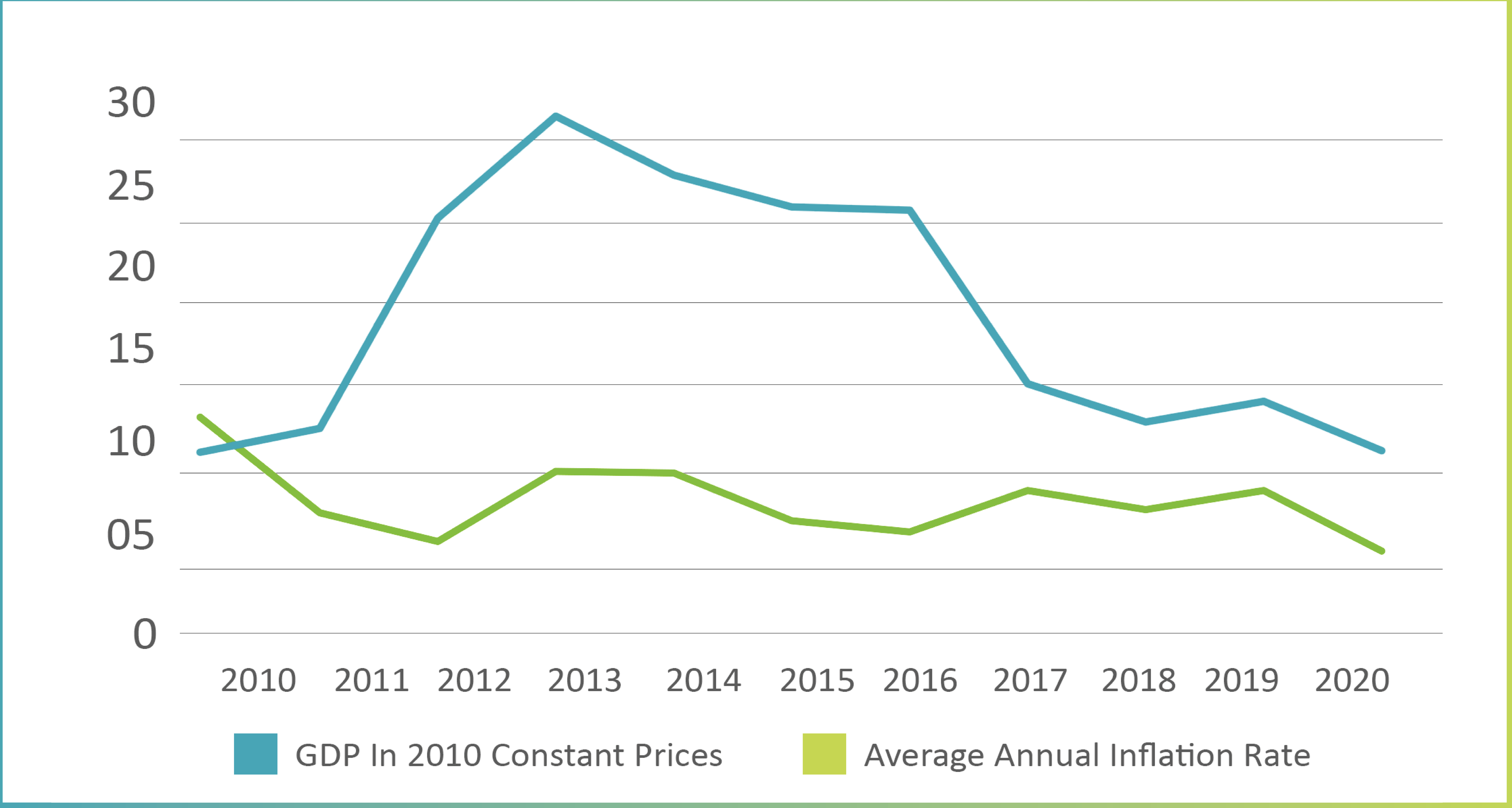
13 RBI, Malawi

post-pandemic global economic recovery.[14] During the fourth quarter of 2020, domestic exports estimates were at US$204.0 million, which was lower than US$296.2 million in the fourth quarter of 2019. Trade volumes continued to decline as the COVID-19 pandemic persisted. The country's trade balance, thus, worsened to a deficit of US$629.6 million during the fourth quarter of 2020.[15]

FDI inflows to Malawi also have been fluctuating in the recent past, which decreased from US$ 102 million in 2018 to US$ 98 million in 2019. FDI stock closed at US$ 1.5 billion in 2019. The agricultural sector attracts the most FDI - primarily from South Africa, Germany and the United States however, the exploration of rare earth elements near Lake Malawi could attract new investments in the mining sector. Apart from agriculture and minerals, Malawi also offers investment opportunities in agro-processing, manufacturing and tourism. The main investing countries are Australia, China, India, the Republic of Korea, South Africa, the UAE and the UK. The COVID-19 pandemic negatively impacted FDI flows, FDI flows to Sub-Saharan Africa alone marks a decrease of 11% to an estimated USD 28 billion in 2020.[16]

Headline inflation eased, albeit marginally, to an average of 7.5 % in the fourth quarter of 2020 from 7.6 % recorded in the preceding quarter and significantly lower than 10.5 % recorded in the corresponding quarter of 2019. The deceleration in inflation was supported by easing pressures from food inflation. However, uncertainties surrounding the evolution of the COVID-19 pandemic are the key upward risk to the inflation outlook.[17]

Figure 4: Inflation and GDP Trends (2010 to 2020)



Source: Deloitte analysis based on data from Reserve Bank of Malawi

14 IMF forecast, 2020

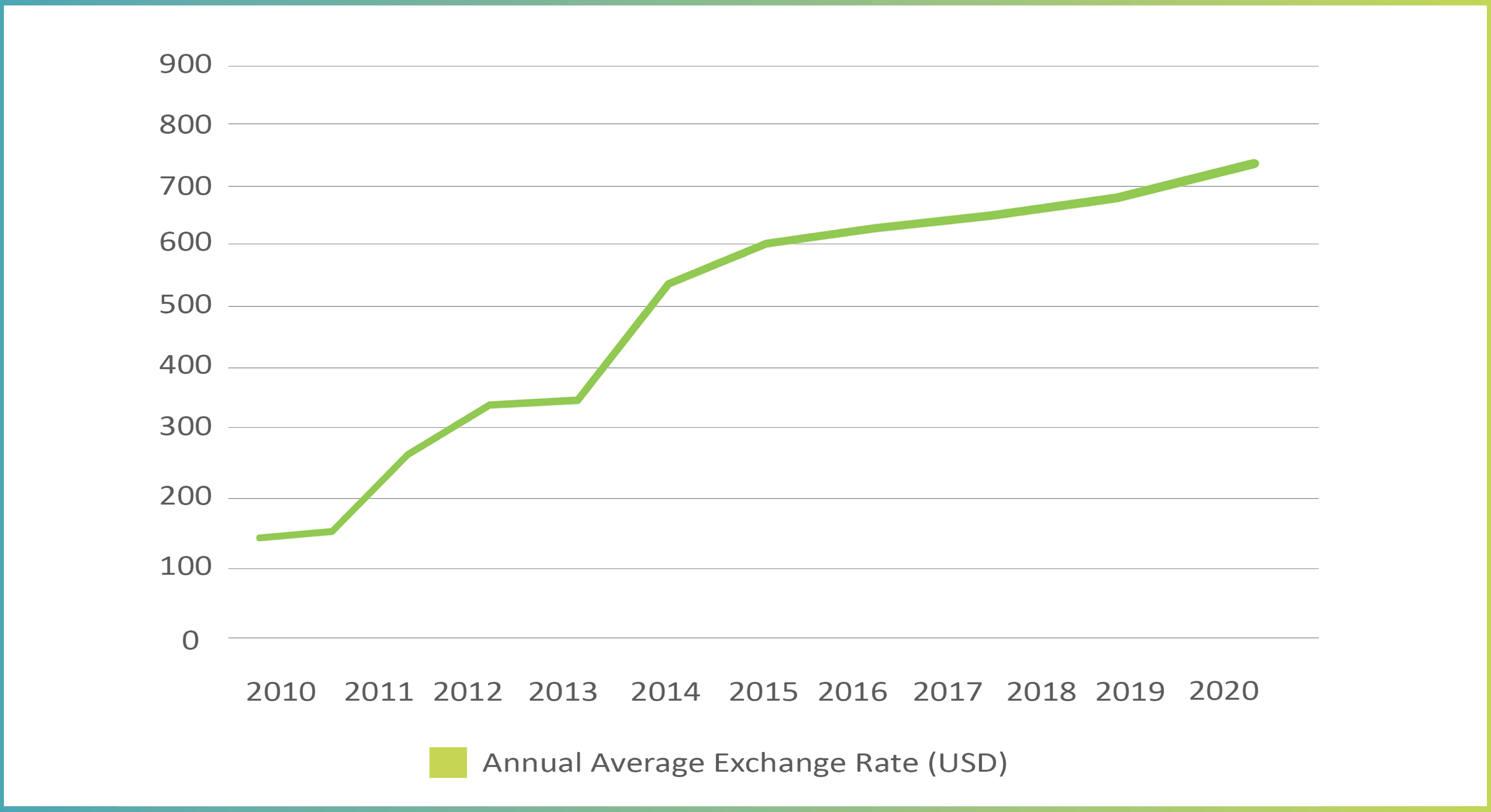
15 RBI Malawi

16 UNCTAD's 2020 World Investment Report

17 Reserve Bank of Malawi, Monthly review November 2020

The Malawi currency Kwacha has depreciated since 2012 (see Figure 5 below) when it was significantly devalued, and a floating exchange regime adopted. These fluctuations in foreign exchange and inflation rate present the country with significant challenges in terms of effectively managing its fiscal affairs. During the fourth quarter of 2020, the Malawi kwacha depreciated against all its major trading partners' currencies except the Zambian kwacha. The depreciation was a result of dwindling supply of foreign exchange on the market. Specifically, the Malawi kwacha lost ground by 2.1 % against the US dollar and traded at K773.11 per dollar at end 2020 from MK738,87 per dollar in 2019.[18]

Figure 5: Trend of MK/USD Exchange Rate (2010 to 2020)



Source: Deloitte analysis based on data from Reserve Bank of Malawi

Accelerating economic growth and advancing the implementation of national development plans are in general contingent upon improved fiscal discipline. This situation often leaves limited fiscal space to respond to sudden crises, such as the ones caused by recent COVID-19 pandemic, climatic and economic shocks. The government, facing subdued revenue of 19.9% of GDP and growing public debt, sought to reduce domestic debt from 30% of GDP in 2018 to 20% in 2019. The 2019 deficit was an estimated 5.9% of GDP, and the 2020 deficit is projected at 4.3%, to be financed from external and domestic resources[19].

The current account deficit was estimated at 16.9% of GDP in 2019, up from 16.2% of GDP in 2018, driven by a decline in tobacco prices. A current account deterioration is projected at 17.4% of GDP in 2020 and 17.8% of GDP in 2021, driven by post-cyclone Idai infrastructure imports for reconstruction. Since 2016, fiscal slippages have exacerbated the fiscal deficit, and the debt-to-GDP ratio rose from 30% to 62%

[18] Reserve Bank of Malawi, November 2020

[19] https://www.afdb.org/en/countries/southern-africa/malawi/malawi-economic-outlook

between 2013 and 2019[20]. With public debt rising above the sustainability threshold of 60% of GDP, fiscal space is tight. The plan to reduce the fiscal deficit to 2.5% appears ambitious[21].

Revenue and grants totaled 10.3% of GDP through December 2019, below the target of 12.2% of GDP. Total expenditure and net lending were below budgeted levels as the government spent 0.9% of GDP below the mid-year target of 14%, due to under-spending on development expenditure which was partially offset by recurrent expenditure overruns of 0.6% of GDP[22]. GDP growth prospects for the next few years are positive, due to the rebound in agriculture and improved electricity supply from the Zambia–Malawi interconnector. Growth is projected to rise modestly to 5.2 % in 2020 and 5.5 % in 2021, up from 5.0 5% in 2019, supported by prudent policies, improved external financing, favorable terms of trade, and increased investments in connectivity infrastructure along major trade corridors[23]. Growth will be reinforced by continuing macroeconomic stability. The cautious monetary easing in June 2019 signaled an attempt to stimulate demand. It is envisaged that maintaining that accommodative policy could propel capital flows, increase economic activity, and restore growth, since it supports credit to the private sector[24]. Climate shocks, fiscal policy slippages, and lower business confidence could, however, hurt the economy. Risk reduction measures to build resilience to shocks for the 87 % of Malawians engaged in agriculture will bolster growth.[25]

3.4 Impact of COVID-19 on Economy

The COVID-19 pandemic is having a severe impact on Malawi's economy. Spillovers from the global slowdown, border closures, and economic disruption in neighboring countries have reduced exports, raised trade transit costs, and weighed on remittances, tourism, and foreign direct investment; and a country-wide lockdown to curb growing cases and deaths from COVID-19 has slowed domestic activity.

The pandemic has exacerbated macroeconomic challenges and other economic vulnerabilities that existed even before the pandemic hit the country to the point of worsening them. One such challenge is the slowed economic activity that has significantly worsened the fiscal space with huge public revenue shortfalls and the growing budgetary deficits financed largely through increasing domestic borrowing and accumulation of domestic payment arrears.

Malawi's economy has been heavily affected, with growth projected at 1.0% in 2020, down from earlier projections of 4.8%.[26] With population growth around 3.0%, this represents a 2.0% contraction in per capita GDP. Political stability has returned following the June 2020 Presidential elections, which should support

[20] https://www.afdb.org/en/countries/southern-africa/malawi/malawi-economic-outlook

[21] https://www.afdb.org/en/countries/southern-africa/malawi/mala wi-economic-outlook#:~:text=The%202019%20fiscal%20spending%20was,from%20external%20and%20domestic%20resources

[22] https://www.worldbank.org/en/country/malawi/overview

[23] https://www.afdb.org/en/countries/southern-africa/malawi/malawi-economic-outlook

[24] Reserve Bank of Malawi, Monthly review November 2020

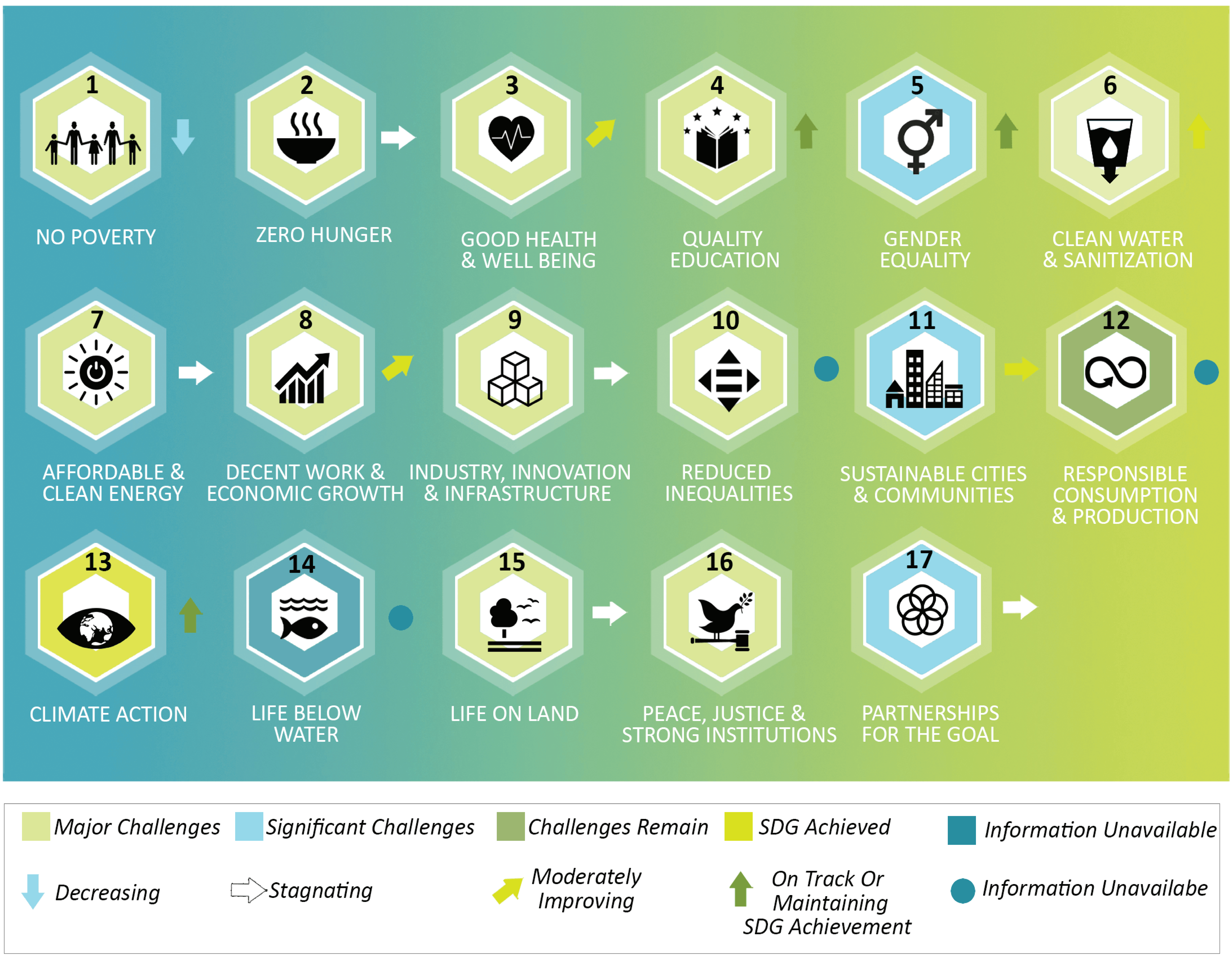
[25] https://malawi.un.org/sites/default/files/2021-02/2020%20REPORT%20FNL%202020%20small.pdf

[26] https://openknowledge.worldbank.org/bitstream/handle/10986/34931/Malawi-Economic-Monitor-Doing-More-with-Less-Improving-Service-Delivery-in-Energy.pdf?sequence=1&isAllowed=y

investment. However, global and domestic factors emanating from the pandemic are affecting Malawi's economy, including: 1) disruption in global value chains and trade and logistics; 2) decrease in tourism; and 3) decrease in remittances. This has combined with social distancing policies and behavior to also reduce domestic demand. Lower international oil prices, on the other hand, have helped reduce the import bill and alleviated fuel and transportation price pressures.

Services and industry sectors have been particularly hard hit, leading to a heavier impact in urban areas. The travel and accommodation, tourism, and transport sectors have been substantially affected. Whole-sale and retail trade, as well as manufacturing and construction activity declined due to disruptions in sourcing materials and subdued demand. However, favorable weather conditions supported a strong agri-cultural harvest, particularly for maize, which is supporting growth and food security. Yet, production of key export crops, particularly tobacco, have declined.

SDG DASHBOARDS AND TRENDS



This calls for renewed effort by the GoM for implementing reform measures of fiscal prudence, results-based management, cost-saving measures from wastage and luxury consumption through public financial management reforms, and expenditure control on potential areas such as travel allowances, purchase, use and maintenance of state vehicles, and the cost-efficiency of public subsidies and hand-outs and identify specific reforms measures and quantify cost-savings.

The Government strictly adheres to macroeconomic reforms on the expenditure side to gain macroeconomic stability, stimulating economic activity, and inducing recovery. Further, this calls for effecting moderation of travel-related expenditure in the civil service, minimize the purchase and maintenance of non-essential vehicles, to realize savings to create internal capacity in Government to finance priority programmes in the Socio-Economic Response Plan (SERP). This also provides an opportunity to urge the Government to implement fiscal measures as incentives to encourage increased investment by the both the private and public sectors in digital technology and green economy.

Going into 2021, the picture of the sectoral losses is pretty much the same as that of 2020 since Accommodation and Food services, Transportation and Storage services and Agriculture activities continue to be the most affected sectors except Wholesale and Retail trade sector showing fast recovery following the containment of the COVID19. Generally, the recovery of the economy in the short to medium-term will depend on policies that will be implemented now. For example, availability of foreign exchange as well as access to finance will enable many sectors recover quickly from the effects of the COVID-19 pandemic. [27]

On the social development front, the impacts of pandemic on women and girls, can be much higher due to their added social responsibilities as primary caregivers, coupled with childcare and nutrition and farm work. As UN's draft Discussion paper observed, COVID-19 has a potential of increasing gender-based violence (GBV) incidences due to travel restrictions and spending more time at home with the perpetrators of gender-based violence. In Malawi, causal studies on the impact of containment measures have not been conducted. What is available is GBV cases from Malawi Police Service which shows a 68% increase in reported cases of sexual and gender-based violence during the period between January to May between 2019 and 2020.[28]

The Government instituted some fiscal and monetary measures to cushion Malawians from effects of the slowdown. These included reduction of fuel prices, wavering of fees and charges on electronic payments and money transfers and tourism levy to support the tourism industry, and Malawi Revenue Authority (MRA) six-month voluntary tax compliance window to allow taxpayers with arrears to settle their tax obligations in instalments without penalty. Further, the Government increased loan funds to Malawi Rural Development Fund (MARDEF) by MK2 billion to support affected Micro, Small and Medium Scale Enterprises (MSMSEs). Similarly, the Reserve Bank of Malawi (RBM) resolved to cut the Liquidity Reserve Requirement (LRR) on domestic deposits to 3.75% from 5.0% to release primary liquidity of about MK12 billion to the banking system thereby increasing availability of loanable funds to cushion liquidity constraints in the economy. The RBM also put in place measures to ensure availability of enough foreign exchange to cushion businesses from foreign exchange rate volatility.[29] These measures were over and above what the the government together with development partners and civil society organization outlined in the National COVID-19 Preparedness and Response Plan (NC19PRP).[30] The total budget of the plan is US%213million and is for 267 activities in ten clusters. The bulk of this budget (58%) is for the protection and social support cluster. The bulk of this budget (58%) is for the protection and social support cluster. Distantly following are food security (10%) and health (10%) clusters. The plan, which was launched in April 2020, had a

27 https://malawi.un.org/sites/default/files/2020-09/Assessment%20of%20the%20Impat%20of%20COVID-19%20on%20the%20Labour%20Market%20in%20Malawi_ECAM%20Final%20Report.pdf

28 COVID-19 Pandemic in Malawi Final Report, UNDP, June 2020

29 COVID-19 Pandemic in Malawi Final Report, UNDP, June 2020

30 Government of Malawi – National COVID-19 Preparedness and Response Plan, March 2020

financing gap of 91%. However, according to the UN Malawi (2020), there were attempts to fill the gap by IMF (US$91 million), World Bank (US$37 million), US Government (US$4.5 million), DFID (US$2.2 million) and Ireland (US$1.1 million).

A recent research (2020)[31],"Study on the socio-economic impact of COVID-19 outbreak in Malawi", conducted by UNDP Malawi through Center for Social Research (CSR) reveals that there is a substantial impact on the economy due to loss of jobs and business, and inaccessibility of agricultural markets. The loss of income found across different groups of people points to the need for a comprehensive social protection system for Malawi that will work for all who may be affected by various shocks and disasters including pandemics.

31 https://www.mw.undp.org/content/malawi/en/home/library/ study-on-socio-economic-impact-of-COVID-19-pandemic-in-malawi-.html

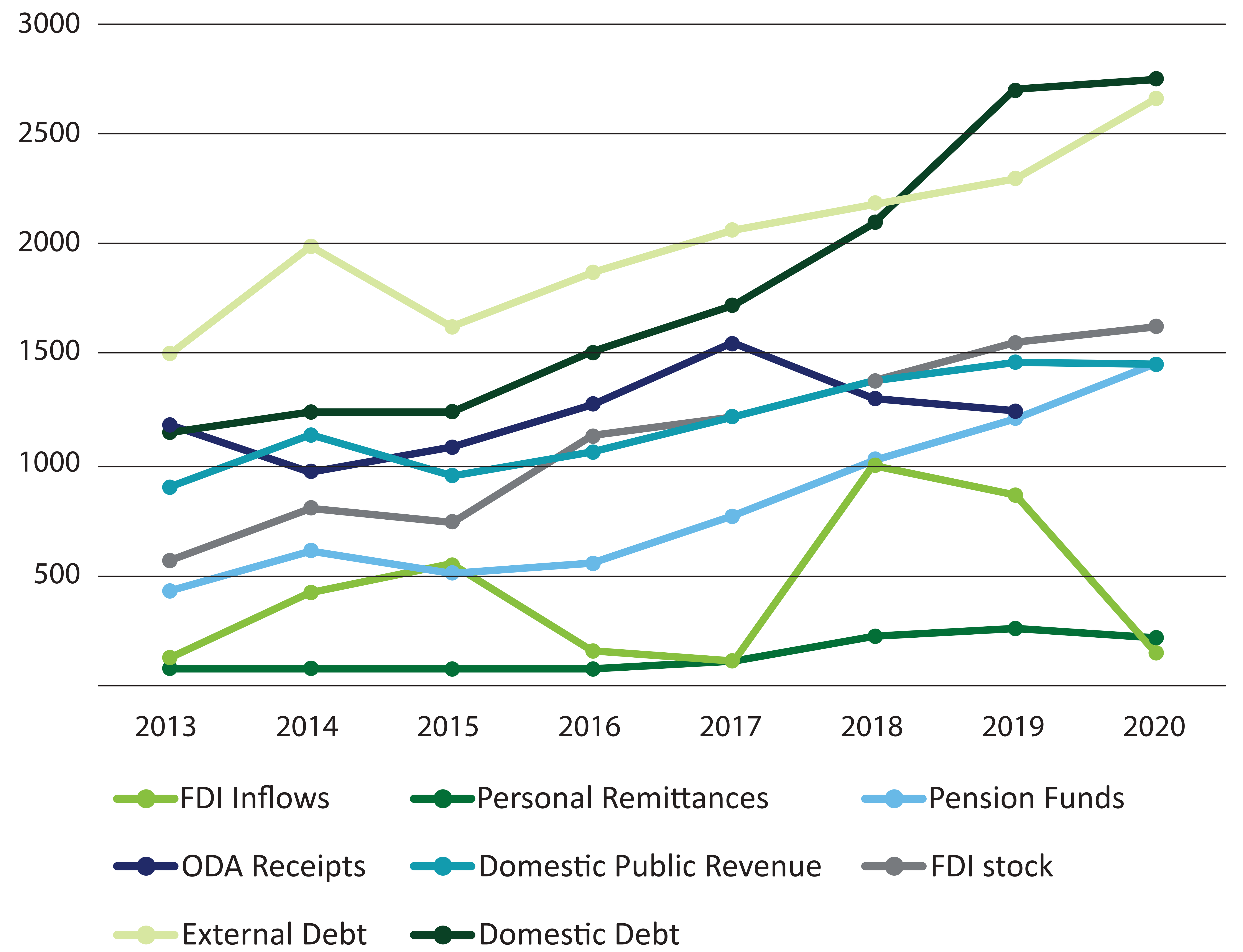
ASSESSMENT OF MALAWI'S FINANCING FRAMEWORK

CHAPTER 4

4.1 Overview of finance flow

Key sources that financed Malawi over the past few years and its transition is depicted in the Figure below. In 2019, the figure reveals that Malawi's financial flows were dominated by domestic debt, external debt, domestic public revenue (tax and nontax), official development assistance (ODA), personal remittances and pension funds.

Figure 6: Trend of Malawi's Financing mix (2013 to 2019)



Source: Deloitte analysis based on data from MRA, MoF, UNCTAD and World Bank

The development financing mix of Malawi as per 2019 data consists of 30% domestic debt, 24% external debt, 17% Foreign Direct Investment (FDI) stock, 16% domestic public revenue, 13% ODA receipts, 13% pension funds, 2% of remittances and 1% FDI inflow[32].

Each of these finance flows are analyzed below, highlighting their policy and institutional context and how they might be leveraged.

[32] https://public.tableau.com/views/TransitionFinanceDashboard /FINANCINGMIX?%3Adisplay_count=y&publish=yes&%3Atabs=no&%3Aorigin=viz_share_link&%3Atoolbar=no%3F&%3AshowVizHome=no#2

4.2 Domestic Public Finance

GoM continued implementing its policies aimed in sustaining and entrenching macroeconomic stability. This, buttressed with efforts on the monetary policy front, has resulted into a stable one-digit inflation rate, long-term stable exchange rate and reducing interest rates[33].

The bulk of domestic revenues for Malawi come from tax revenue, which are divided into direct and indirect taxes. Direct taxes are normally levied on individuals, companies or corporations and include employment income tax (PAYE in Malawi), business profit tax, capital income tax and some passive income tax. Indirect tax is a tax on expenditure or consumption such as customs and excise duties and Value Added Tax (VAT). These are normally levied on traders such as importers and exporters, wholesalers and retailers. Domestic Taxes are taxes collected from income generated within the geographical confines of a country. In Malawi, such taxes include Income Tax, Value Added Tax (VAT), Fringe Benefit Tax (FBT), Non-Resident Tax (NRT), Withholding Tax on Dividends and Domestic Excise. Below furnished are the latest available (2019) details of the amount of tax collected in Malawian kwacha millions:

Table 1: Details of Tax Collected

Taxes (MWK 'millions)	2018	2019
Total Taxes on income	322,542	344,799
Payable By Individuals (PAYE)	228,697	269,244.08
Payable by companies	93,844	75,554.97
Withholding Tax	72,839	83,109
VAT on Domestic Goods and Services	13,275	16,385
VAT on Imports	13,908	15,284
Total taxes on goods and services	**42,542**	**52,246**
Total taxes from international trade	**10,604**	**8,829**

Tax revenue

Tax revenue represents the single most important source of finance for Malawi. At an average tax to GDP ratio of 18.3% over the past ten years[34]. Malawi's tax to GDP ratio is higher than the Sub-Saharan (SSA) average (16%), the Low-Income Countries (LIC) average (11.4%), and that of the neighboring Zambia (14%) and Tanzania (12%). It is however lower than that of the neighboring Mozambique (19.5%). The IMF considers a tax to GDP ratio of 15% as the desired threshold for catalyzing investment. Notwithstanding Malawi's tax to GDP ratio registering above this threshold, scope for improvement exists given the narrow tax base and tax net – principally due to the huge proportion of the market operating in the tough-to-register

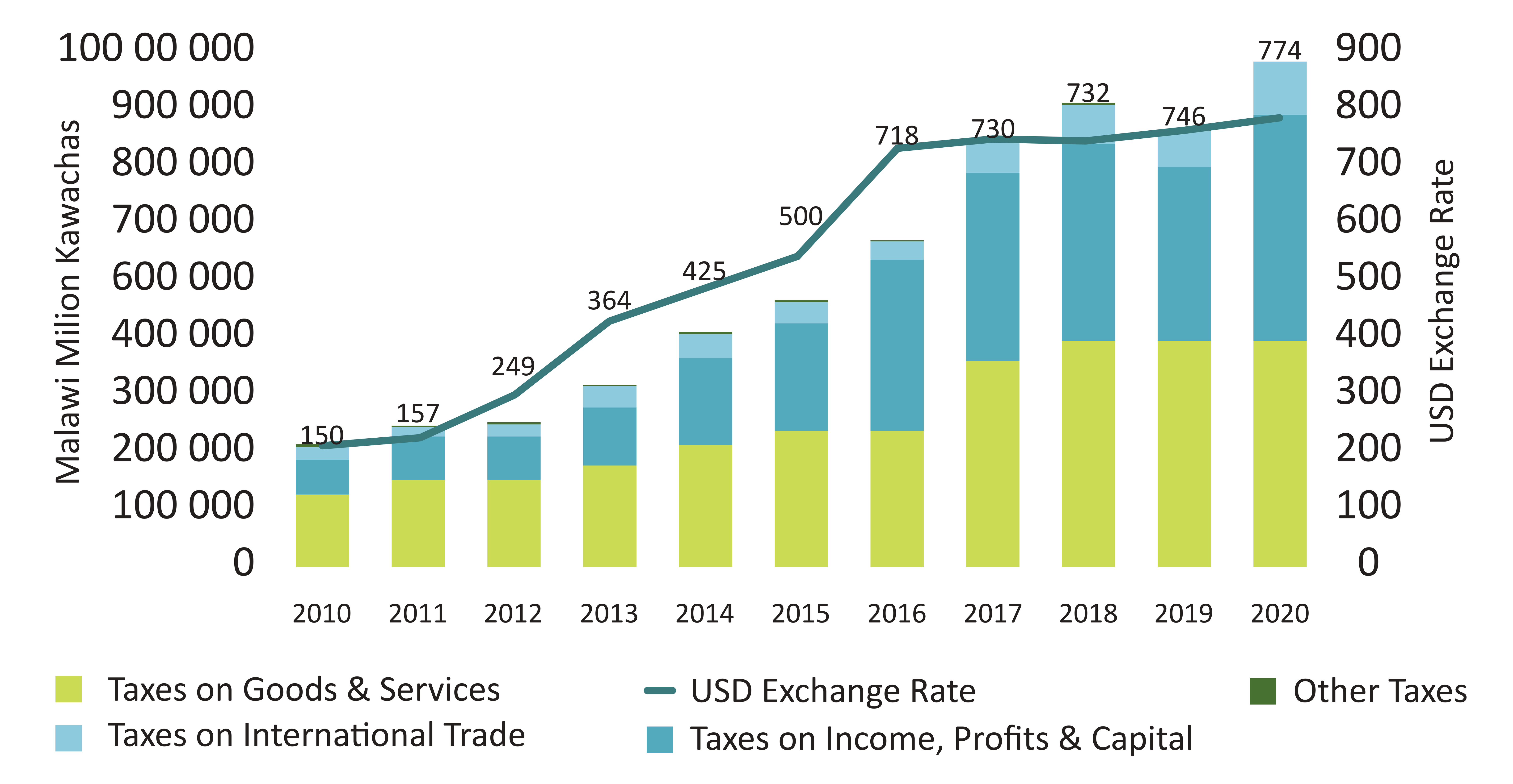
[33] hhttps://www.mccci.org/index.php?option=com_content&view=arti cle&id=287:mccci-brief-on-economic-recovery-fiscal-policy&catid=19:news&Itemid=138

[34] IMF May 2020

informal sector[35]. This is evidenced by the proportion that the top twenty taxpayers contribute: especially in domestic taxes, an average of over 24% over the last 5 years[36] . In the new Domestic Revenue Mobilization Strategy for Malawi, emphasis is on incentivizing the informal sector to bring them into the formal sector for tax purposes,[37] through incentivizing business registration and formalization, increasing financial inclusion (i.e. access to formal credit, banking facilities, promote digital cashless economy and impart financial knowledge), increase connectivity; improve quality of human capital (education and skill levels will provide ground for formalization of the economy) and better access to markets and price discovery.

Both the Malawi Revenue Authority (MRA) and the Ministry of Finance (MoF) readily acknowledge the imperative of broadening the tax base and widening the tax net on the back of tax reforms. As depicted in Figure 7 below, tax revenues have significantly grown in nominal Malawi Kwacha terms over the past ten years. Whilst the contribution of tax administration improvements cannot be discounted, the devaluation of the Malawi Kwacha over the period has been a major driver of growth. This can be clearly noted in the Figure 8 below – depicting the trend of tax revenues in absolute US Dollars over the last decade. It is noted that tax revenue has grown 6 times in Kwacha terms since FY2009.

Figure 7: Tax revenue over the years in Malawi (2009-2020)

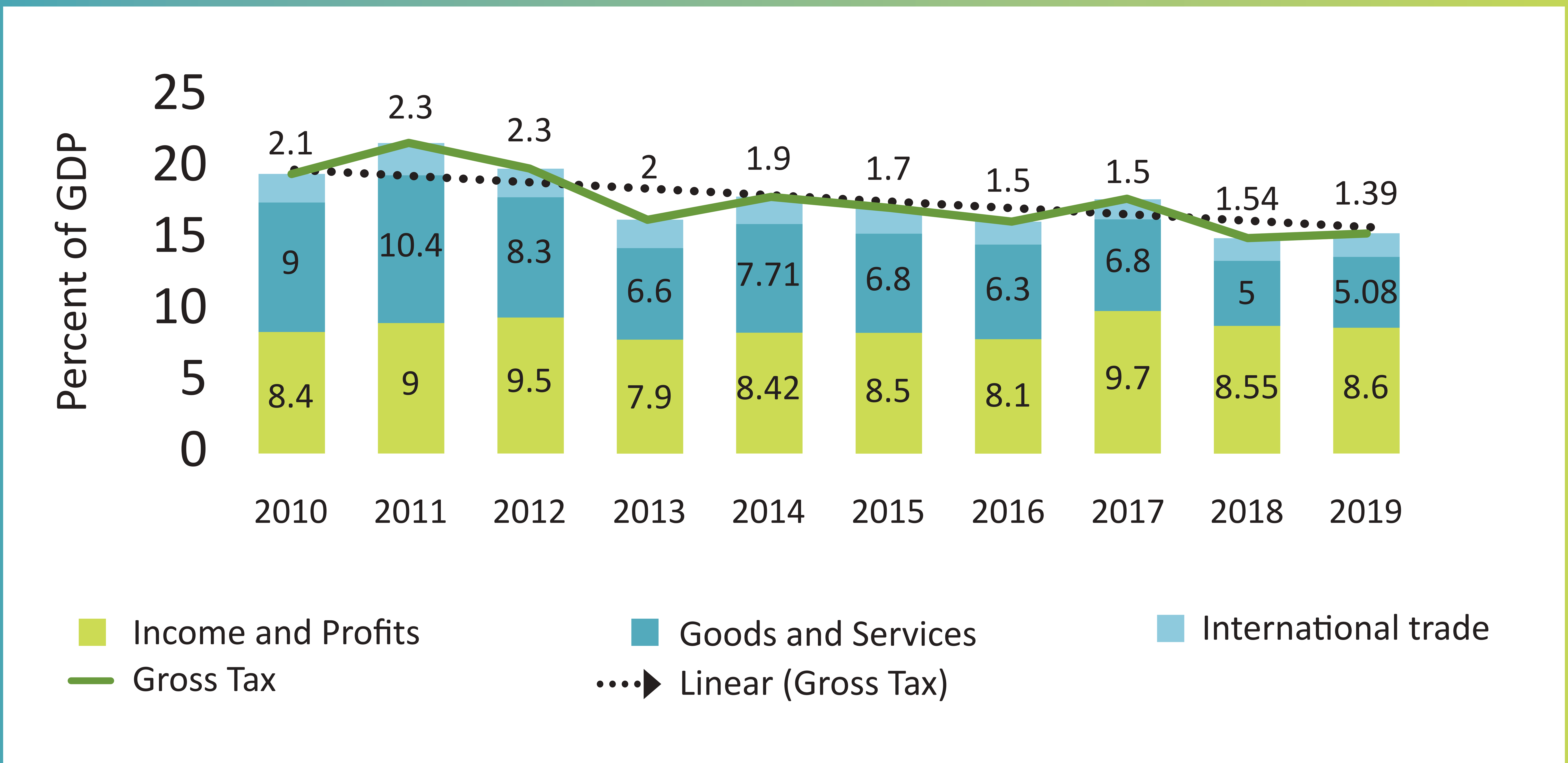


Source: Deloitte, analysis based on data from World Bank / OECD.org

[35] https://www.un.org/ldc5/sites/www.un.org.ldc5/files/malawi_intervention_session_4.pdf
[36] Deloitte analysis based on MRA data
[37] https://www.un.org/ldc5/sites/www.un.org.ldc5/files/malawi_intervention_session_4.pdf

Tax revenue in Malawi derives from both direct taxes, such as taxes on personal income and corporate profits, and indirect taxes, such as Value Added Tax (VAT) and customs duties. At a disaggregated level, domestic taxes, comprising taxes levied on profits and goods and services constitute the bulk of tax revenues (89%) with international trade taxes (10%) and other taxes (1%) making up the balance[38].

Figure 8: Tax Revenue Out-turn, FY2008 to FY2019

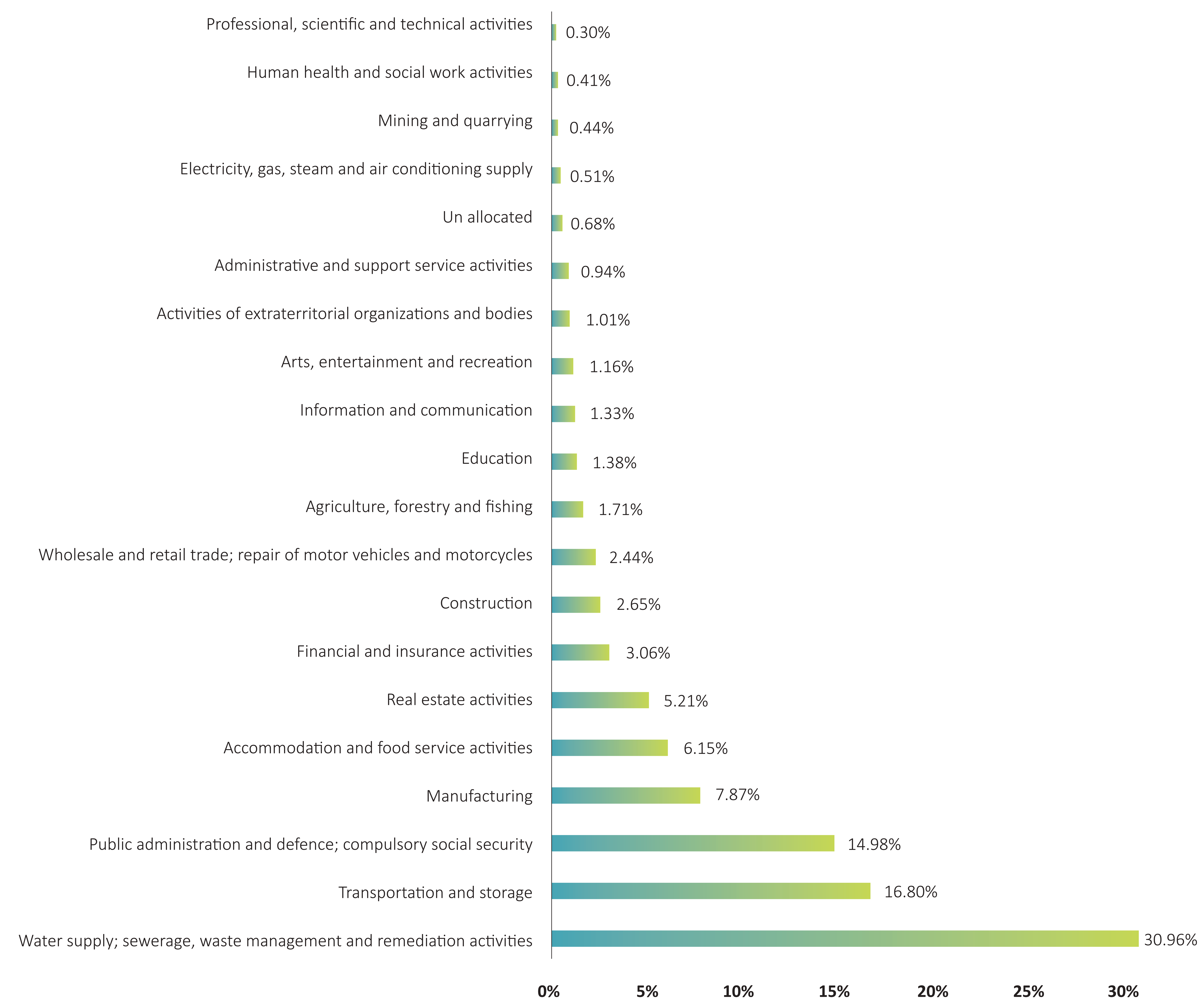


Source: Deloitte analysis based on data from MoF

Analysis of sectoral contribution to tax revenue shows that financial services account for as much as a quarter of all taxes (Figure 9). Within the context of Malawi's development strategies, this portends significant scope for improving the priority areas: Agriculture, Energy and Tourism, if they must assume significant revenue importance, so far as their contribution to taxation is concerned. This is particularly true for agriculture; that despite constituting up to 30% of the economy contributes less than 10% of tax revenue. This situation is largely explicable by the structure of the sector; that is dominated by subsistence rain-fed farming, currently excluded from the tax base and tax net. Encouraging agriculture commercialization: along the lines of the Green Belt Initiative, including expanded agro-processing, value adding and diversification, is in this vein a worthy intervention that presents good prospects for broadening the tax base. Similarly, as further explored in Chapter 6, the energy sector has potential to contribute more to tax revenue, as on-going reforms (including the accommodation of independent power producers) take effect.

[38] https://stats.oecd.org/Index.aspx?DataSetCode=REVMWI

Figure 9: Economic Sector Contribution to Taxation (FY2019-20)



Source: Deloitte analysis based on data from MRA

A well-designed tax system that redistributes wealth and enables spending on public services is one of the most effective ways for a government to reduce inequality and poverty, while sustaining growth. Domestic resource mobilization alone will not be sufficient to tackle poverty and inequality in Malawi. Malawi's tax system is already relatively progressive. According to Oxfam's 'Commitment to Reducing Inequality Index'[39], Malawi is ranked number one among low-income countries in terms of progressive structure and incidence of tax. Nevertheless, more can be done to increase equity and collect more revenue from taxation, through:

[39] https://policypractice.oxfam.org.uk/publications/the-commit mentto-reducing-inequality-index-a-new-global-rankin gof-governments-620316

Making the VAT system more progressive by exempting essential items and putting a higher rate on luxury items and real estate.

Adjusting direct taxes, with potential to better use personal income tax to redistribute income by raising the bottom income tax threshold towards the recommended rate of 1% of GDP per capita, and adding a new higher tax bracket for the highest 10% earners. More can be done to raise more tax revenue from Malawi's wealthiest residents, including introduction of capital gains tax.

Taxing corporations: There is also potential to increase tax revenues by reducing large tax exemptions and deductions afforded to corporations and individuals. More revenue could be raised from foreign companies operating in Malawi by introducing more balanced bilateral tax treaties, as current treaties limit Malawi's ability to tax foreign companies. Important corporate tax revenues are also highly likely being lost through profit shifting out of Malawi by foreign corporations.

Expanding the property tax is often cited as an attractive method of raising local revenues since it is highly visible much of the burden is borne by the people who live in the jurisdiction. Additionally, unlike income, property is highly visible and importantly immobile. . The Malawi City of Mzuzu implemented the Revenue Mobilization Program (REMOP) Property Tax system which saw revenues increase seven-fold within 8 years from a meagre MK50 million per year in 2010 to MK 350 million in 2018[41]. Revenue Mobilization Program (REMOP) becomes one of the most ideal considerations for countries on the verge of reforming their property tax system. REMOP is composed of multiple phases, namely: discovery, assessment, billing, sensitization, collection, and compliance. One of the key reforms that the REMOP advocates for is the point-based valuation system, which is touted to be very progressive.

During the COVID-19 pandemic period, monthly tax revenue collections have dropped by almost 11.0 %[42] when compared to revenue collections during the pre-COVID-19 period. For the 2020/2021 financial year, domestic revenues have been projected at K1.179 trillion representing 16.5 % of GDP. Of this amount, K1.116 trillion is tax revenue while K63.1 billion is other revenues. GoM also announced new tax policies on Income Tax, Value Added Tax (VAT), administrative measures, trade agreements and international taxation. With direction of GoM, MRA has opened a voluntary tax compliance window for six months, to allow taxpayers with arrears settle their tax obligations in instalments without penalty, interest, or charges. The main objective of the Voluntary Compliance Window (VCW) is to increase voluntary tax compliance among businesspeople. The relief is available for transgressions in the Pre COVID-19 period, as well as for the likely non-compliance at present due to the financial implications of COVID-19.

Until recently, Malawi Revenue Authority (MRA) was collecting taxes manually, a system that was porous and aiding tax evasion. Considering the realisation that globally, countries are digitising their taxation regimes for maximised revenue collection, MRA recently introduced digital e-payment system. Malawi faces

[40] https://adamsmithinternational.com/reports/property-tax-re form-for-local-government-revenue-mobilisa tion-in-sub-saharan-africa/

[41] Research on revenue potential from a set of progressive taxation reforms in Malawi, Mozam bique and Nigeria, Action Aid, 2019.

[42] https://africa.cgtn.com/2020/09/12/malawi-2020-2021-bud get-at-2-9-billion-usd/#:~:tex=The%202020%2F2021%20budget%20has,the%20financial%20year%2C%20said%20Mlusu.

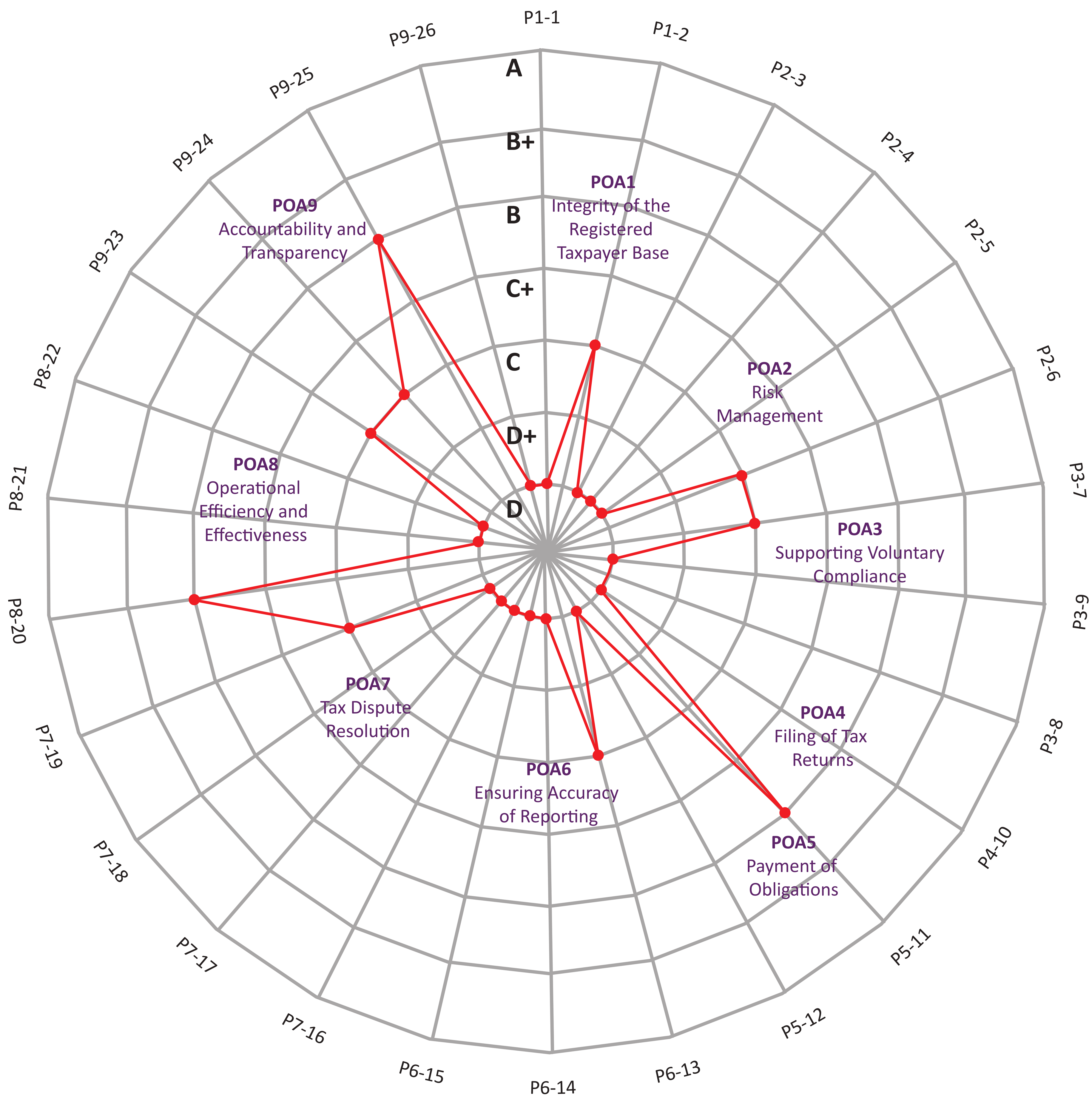
infrastructure challenges that need to be sorted out to scaleup digital payment platforms. Infrastructure and accessibility issues remain impediments to digitise the taxation system.

Tax Policy and Institutional Context

Tax policy and administration have come a long way since the turn of the millennium, when the erstwhile Departments of Customs and Income Tax were decoupled from the MoF to form a semi-autonomous revenue collecting agency, the MRA. The MRA, created by the 1998 Malawi Revenue Authority Act, administers various taxation and customs laws, including: the 2006 Taxation Act, the 2005 Value Added Tax Act and the 1969 Customs and Excise Act. In administering these Acts, the MRA is more specifically mandated to assess, collect, receipt, and account for specified revenue; as well as promote voluntary tax compliance, improve taxpayer service, counteract tax fraud and evasion, and advise the minister in respect of tax policy and administration. In line with this mandate, the MRA has since its inception undertaken various reforms aimed at improving efficiency and effectiveness of tax administration.

Notable reforms introduced earlier on include the integration of Income Tax and Value Added Tax (VAT) divisions into Domestic Tax Division which also administers Domestic Excise, the launch of the Large Taxpayer Office (LTO) and the introduction of Destination Inspection, Risk Management Division and Post Clearance Audit (PCA) in Customs and Excise divisions. In 2015, Malawi conducted its first ever comprehensive tax administration assessment using the Tax Administration Diagnostic Assessment Tool (TADAT). As summarized in Figure below, significant weaknesses were identified, as most performance outcome areas (POA) registered below recommended benchmarks.

Figure 10: Tax Administration Assessment Summary



Source: MRA

Following the TADAT assessment, the reform drive has been re-invigorated. More recently, the MRA has successfully introduced Electronic Fiscal Devices for monitoring VAT compliance, upgraded Asycuda ++ to the more robust Asycuda World, and launched an E-payment platform for tax payments. MRA's flagship modernization initiative is implementation of an Integrated Tax Administration System (ITAS). The ITAS is billed to revolutionalise tax administration in Malawi, as it will automate end-to-end domestic tax processes and replace the extant legacy systems, that are fragmented and limited to rudimentary taxpayer registration and accounting for assessments and payments.

Text Box 1: Benefits of Integrated Tax Administration System (ITAS), Implementation:

Benefits of ITAS to Taxpayers and the General Public:

- Reduced physical contacts with tax offices
- 24/7 availability of tax office services independent of location
- Speedy processing of requests
- Ready access to tax account statements
- Accurate data on tax position
- Up-to-date correspondence records
- Electronic communications (notifications and alerts)
- Fairness and equity
- Faster tax refunds

Benefits of ITAS to the Government:

- More efficient tax administration
- Improved revenue forecasting
- Reliable data for policy and decision making
- Improved revenue adequacy

Benefits of ITAS to the Malawi Revenue Authority:

- Accurate taxpayer register
- Single view of taxpayer compliance obligations
- Easier detection of non-compliance

- Timely and consistent remedies against non-compliance
- Improved compliance levels
- Improved transparency in operations
- Real-time dashboards
- Non-exclusive access to taxpayer records
- Automated monitoring of tasks
- Proactive alerts
- Efficient document management (electronic records)
- Improved effectiveness of staff
- Quicker and easier response to changes in the law, business environment and technology
- Improved risk-based compliance management via data analytics

Source: www.mra.mw

Malawi's commitment to tax as a key source of financing for development is further echoed when it joined the Tax Inspectors Without Borders (TIWB) Initiative in 2016. The TIWB enables sharing of tax audit knowledge and skills amongst tax administrations in developing countries. Malawi is also a member of the African Tax Administration Forum (ATAF), where it regularly conducts exchanges with its regional peers. Scope also exists for further South-South cooperation between Malawi and South Africa, a recognized Continental leader regarding tax revenue collection and public financial management. Commendable progress has evidently been made.

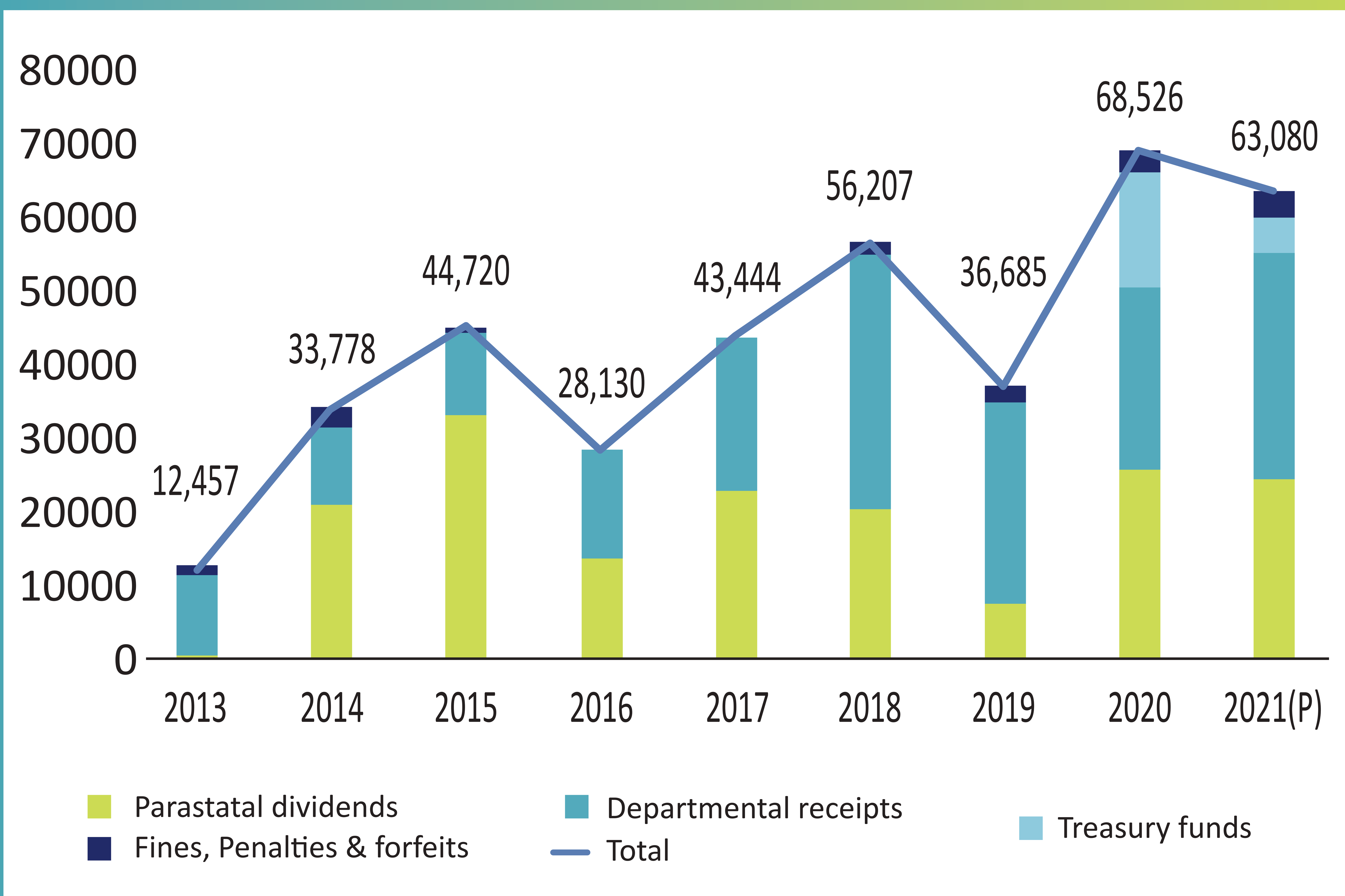
Notwithstanding, scope for further improvement exists from both policy and administration point of views. From a policy perspective, there is room for growing tax revenues by broadening the country's tax base and expanding the tax net, as discussed above and acknowledged tax revenues by broadening the country's tax base and expanding the tax net, as discussed above and acknowledged by Malawi Vision 2063.. The ITAS is one of the tools being deployed in this regard, targeting enhancement of voluntary compliance and reduction of the cost of tax collection (currently at 3.4%), while stimulating investment and economic productivity. The GoM is also intent on developing modalities for taxing the informal sector (a feat that has hitherto been elusive due to capacity constraints) and improving the tax incentive regime. The MRA receives a lot of technical support from the IMF Fiscal Affairs Division. Recently, the IMF has recommended that the MRA: (1) Strengthens governance and project management; (2) Builds effective core tax administration functions; (3) Improve management of the ITAS project; and (4) Re-design Customs processes. The DFA urges MRA to press on with implementation of these recommendations. In addition, from the observed secondary literature and the data reviewed, the DFA recommends following measures to improve Malawi's net tax and tax base.

GOM could expand the tax net by incorporating taxes on passive income which the income people earn without engaging in active business activities including rental income, bank interests and consultancy fees.[43]

VAT, which has been used in Malawi as a social security tool, this has created numerous exemptions and zero-ratings on goods and services have eroded the tax base and compromised revenue-generation capabilities.[44] Even though not recommendable considering the present scenario, over the years these exceptions may be reconsidered and should be prioritized to increase the tax base.

Encourage tax compliance in the private sector, and especially in the informal sector, it is proposed that all businesses entering contracts with government ministries, departments, and agents will be required to first furnish a tax clearance certificate from the MRA.

Figure 11: Non-Tax Revenues over the past 5 Years (MKW)



Source: Deloitte analysis based on data obtained from Stats.OECD.org & MoF Budget statement

[43] UNCATD
[44] MoFEPD
[45] MoFEPD, Malawi Annual report 2019

Figure 11 furnished above also shows the trend of non-tax revenues. It shows that non-tax revenues are a very small component of domestic revenues and overall government revenues. However, within non-tax revenues, the road levy and departmental receipts are the main sources. Parastatal dividends have traditionally been negligible and less than a billion, except for 2015 when the government received a sizeable dividend from the RBM. It is noted that there was a significant under-performance on Other Revenues during 2018-19 mainly due to Parastatal dividends and Departmental receipts which fell short of Mid-Year target by K21.3 billion thus bringing total NRT to K36.6 billion. However, the government has managed to increase the NTR in 2019-20 to K68.5 billion.

In general, non-tax revenues contribute lower in comparison to tax revenues and difficult to project. Government has projected those domestic revenues in the current fiscal year (2020-21) would be K1.179 trillion, representing 16.5 % of the GDP. Of this amount, K1.079 trillion is to be collected by MRA as tax revenue while K63.1 billion is non-tax revenue[46]. This indicates a decline of 7% over the previous year preliminary outturn as per the budget statement issued by GoM. The budget projections for non-tax revenues depend on the forecast demand as well as price levels of the government services. The projections of fuel levies depend on the projected import flows of fuel products, petrol, diesel and paraffin each year, all things being equal. The projections of parastatal dividends depend on the perceived economic growth each year as this affects the performance of parastatal companies, all things being equal.[47]

The Malawi Energy Regulatory Authority (MERA) collects various levies on energy commodities. The Energy Regulation Act and Liquid Fuels and Gas (Production and Supply) Act details what levies can be collected and how they will be managed and used. One such levy is the Energy Regulation Levy, which is used to finance the activities of MERA. The Road Levy is used for road infrastructure development and rehabilitation. Most road infrastructure projects in Malawi are financed by a combination of tax, non-tax revenue and donor funding. The Road Levy allows the Government of Malawi to provide counterpart financing in these situations. The Malawi Bureau of Standards Cess is a levy applied on energy sales to provide financing for power infrastructure and rural electrification. The Safety Net Levy, on fuel, is designed to finance development projects aimed at protecting poor households. An example of this is the Fertilizer Subsidy Program, which has helped curb inflation and ensure affordable food access. Finally, the Price Stabilization Fund (PSF) was established to stabilize at-the-pump fuel prices. To enhance non-tax revenues, the country's development strategy commits to developing performance management plans for these parastatals and State-Owned Enterprises (SOEs). There is also scope that enhanced financial controls around keeping the receipts and accounting of non-tax revenues can significantly improve performance. Presently, accounting for Non-Tax Revenue (NTR) is fragmented such that data collated by the Revenue Policy Directorate in the MoF is usually not up to date and incomplete. Standardizing the fiscal system and creating an integrated financing dashboard can be considered as a solution for improving the collection of non-tax revenue and tax revenue in general.

Budget management post COVID-19

Moving from COVID-19 response to recovery, it will be critical that a coherent approach to budget management is in place and that the SDGs are providing its guided framework for that. This will enable the government to ensure efficiency and effectiveness whilst rebuilding/retaining trust at a time of great fiscal constraint, a robust framework for accessing further international public finance including debt, and ultimately a sustainable recovery. There is a need to look at some specific aspects to budget implementation including[48]:

[46] https://www.mra.mw/news/mra-geared-to-meet-set-revenue-target
[47] https://pdf.usaid.gov/pdf_docs/PA00WHQG.pdf
[48] https://sustainabledevelopment.un.org/content/documents/26317MalawiVNRReport.pdf

Looking at fiscal measures including inefficiencies where saving can be made such as with tax incentives and expenditures as well as lost tax revenues.

Review of budgetary allocations and expenditures against the findings of socioeconomic impact assessments of COVID-19 and SDG targets, to provide recommendations on strengthening budgetary frameworks.

Support for costing of targeted priorities identified through socio-economic assessments and forward-looking risk-informed investments in the context of national budgets and budget support.

Support the establishment of government budget tracking of COVID-19 response and recovery aligned with the SDGs as a framework for accountability including with additional international public finance and any debt reliefs in the short term.

Technical coordination of development partners in respect to provisions of international public finance, including debt and alignment with the national budget.

To boost the growth of small businesses and to reinvigorate the economy suffering from the effects of COVID-19 pandemic, GoM has introduced several measures which includes, two new Pay as You Earn (PAYE) brackets of 25 % for incomes between K100,000 to K1.0 million per month and of 40 % for incomes of more than K6.0 million per month. Accordingly, the new monthly PAYE schedule will be K0 to K100,000 at 0 %; between K100,000 to K1.0 million at 25 %; between K1.0 million to K3.0 million at 30 %; between K3.0 million to K6.0 million at 35 %; and from K6.0 million and above at 40 %. The new measure will promote distribution of wealth in the country and increase disposable income for low-income earners.

Foreign Grants and Aid

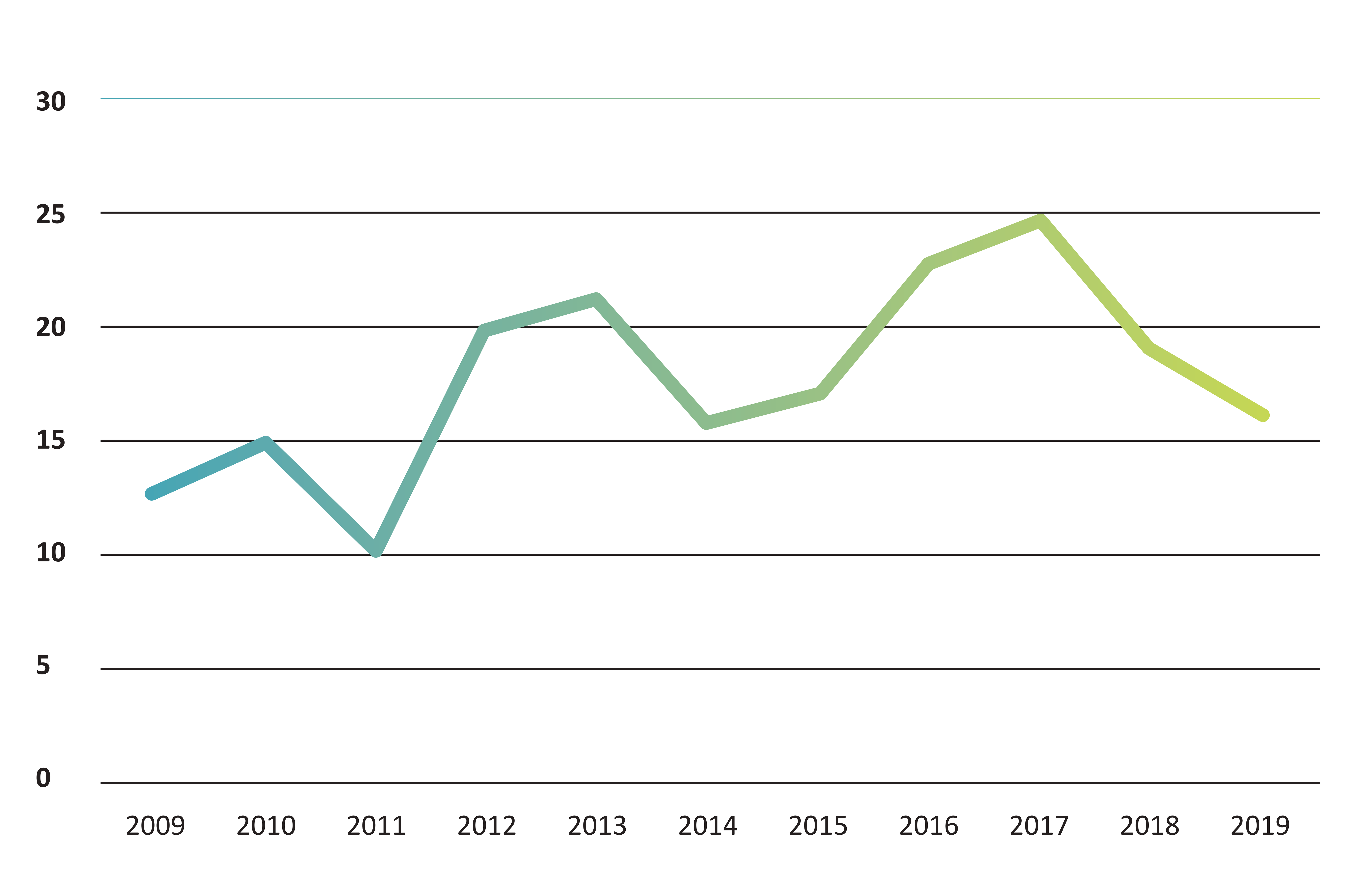
As a least developed country, Malawi has been a major recipient of aid for decades. Relations between GoM and Donors have fluctuated, largely due to donor reaction to government action or inaction on important policy issues. As Malawi is one of the world's most aid-dependent countries, several of the larger donor countries and multilateral organizations are present in the country. The main bilateral donors in terms of volume are the US, UK, Germany, Norway, Japan, China and India. The most important multilateral donors and international organizations are the International Development Association (IDA/World Bank), the Global Fund (focusing on health only), and the EU. The UNDP is an important aid coordinator[49]. The next section elaborates the aid received by GoM.

4.3 Official Development Assistance (ODA)

Official Development Assistance (ODA) has been an important contribution to state budgets and service delivery in Malawi. The transition to democracy in 1994 brought a significant rise in the number of donors and aid inflows, and the overall trend has been a fluctuating but overall significant increase. Net ODA received (% of GNI) provides a measure of Malawi's dependency on aid. Ratios of aid are generally much higher in Sub-Saharan Africa than in other regions, and they increased over the years.

[49] https://www.norad.no/globalassets/publikasjoner/publikasjoner-2017/evaluering/4.17-country-evaluation-brief_malawi.pdf

Figure 12: Net ODA received % of GNI USD



Source: WDI, World Bank 2019

Since 2009, Net ODA received % of GNI (USD) have fluctuated between 12.62% and 16.11%per year. Aid levels peaked in, 2010, 2012, 2013, 2018 with some significant downturns after the peaks. The overall donor contribution to the state budget hovered around 40%, and the donors have at times been financing close to 90% of the national spending in certain sectors, like health and gender.

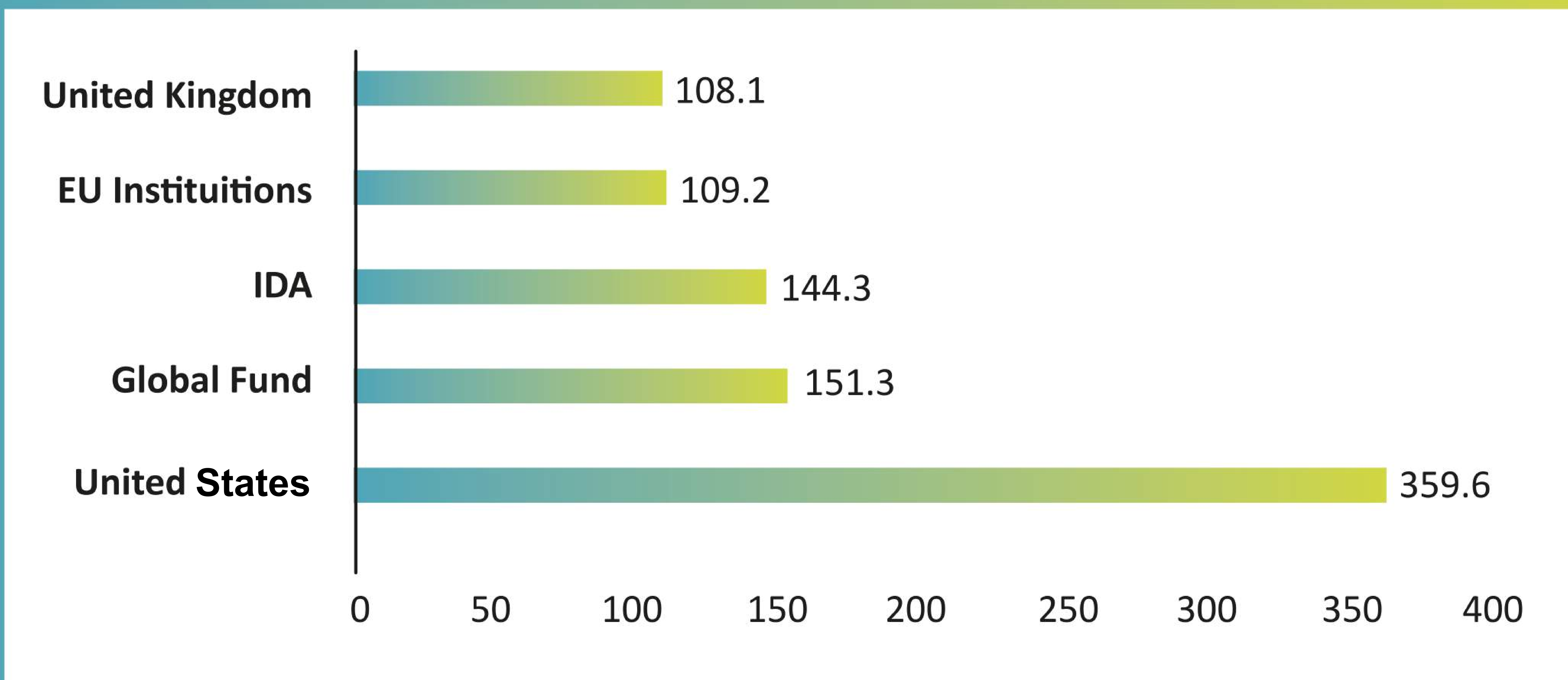
Donors again withheld USD 150 million in budgetary support and aid grants on account of cash gate issue in 2017[50]. Due persistent lack of effective anti-corruption measures, donor confidence in the government remains low and general budget support (GBS) is still frozen. Nevertheless, in 2015 aid increased almost to the 2012 level, and in 2016 – whilst budget support was still suspended – the overall level of aid seems to reach a new high and obvious decline considering the present situation. In 2019 Malawi received about US$1,206.2 million in foreign assistance from ODAs.[51]

[50] cmi.no/publications/file/6253-country-evaluation-brief-malawi.pdf

[51] https://public.tableau.com/views/OECDDACAidataglancebyrecipi ent_new/Recipients?:embed=y&:dis play_count=yes&:showTabs=y&:toolbar=no?&:showVizHome=no

Over the past years, the largest donors to Malawi have been the United States, the Global Fund, the International Development Association (IDA) of the World Bank, the European Union United Kingdom as depicted in Figure 13 indicates that the largest bilateral donors to Malawi remain the United States, United Kingdom, the Nordic countries, Japan, Germany and Ireland; all disbursing between USD 10 and 300 million a year in development projects.

Figure 13: Top Five Donors of Gross ODA for Malawi, 2018-2019 average, USD million



Source: OECD, DAC 2019

As can be seen, Malawi remains dependent on development cooperation to support its development activities. In fact, Malawi remains one of the largest recipients of ODA globally.

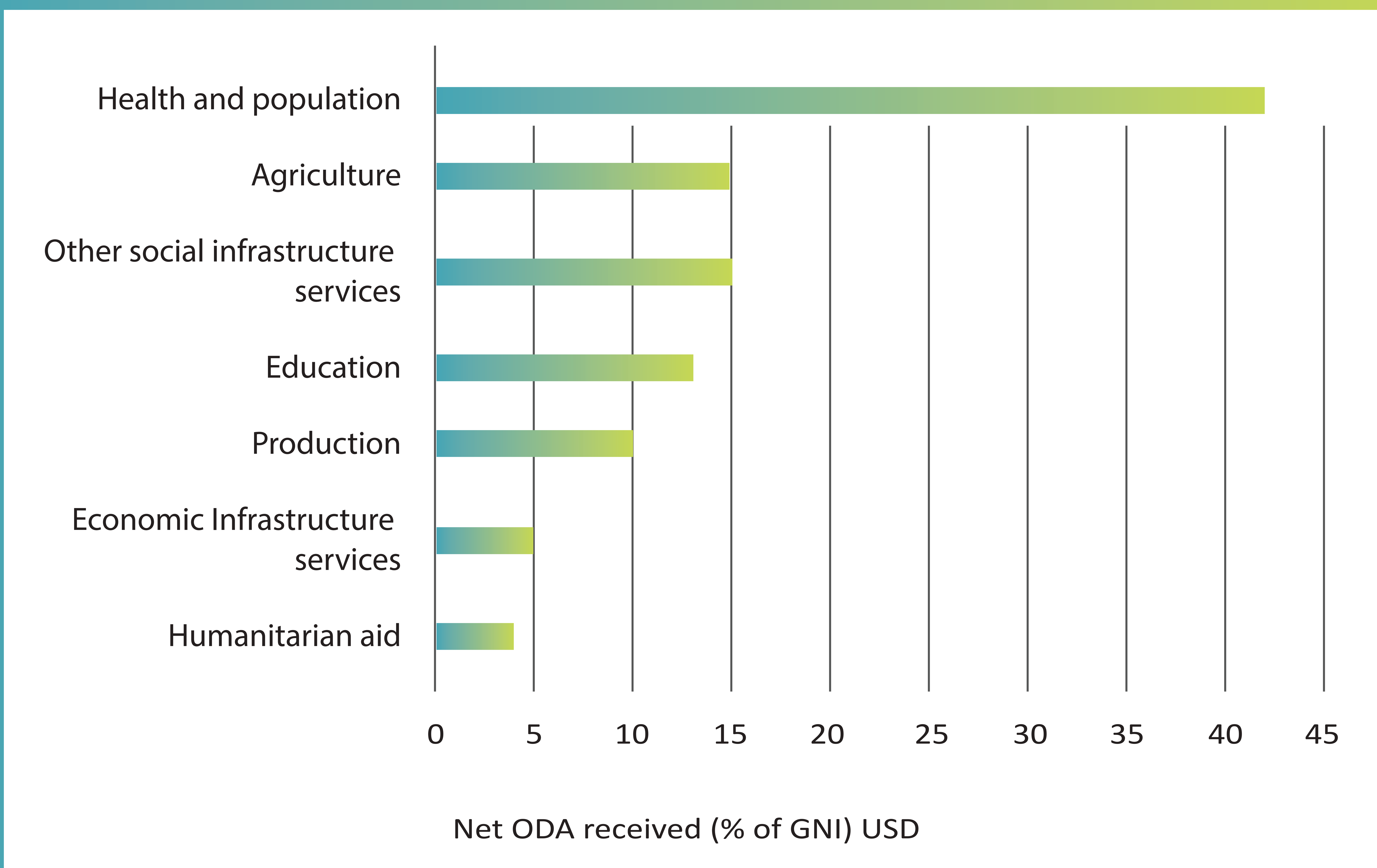
Table 2: Official Development Assistance Recipient Comparison

Country/Aggregate	ODA as proportion of GNI (2018)
Malawi	18.82
Least Developed Countries (LDC)	5.04
Low-Income Countries	10.81
Heavily indebted poor countries (HIPC)	5.47
Sub-Saharan Africa (SSA) Average	3.03
World Average	0.19

Source: The World Bank Data Bank: World Development Indicators

Health sector has dominated grant funding to Malawi over the past decade. This is fairly expected considering the health focus of the previous MDGs campaign and the proliferation of different health-related vertical funds, such as the Global Fund for HIV-AIDS, TB & Malaria, the Global Alliance on Vaccines and Immunization (GAVI), the US President's Emergency Plan for AIDS Relief (PEPFAR), etc. As already alluded to, humanitarian, disaster and vulnerability funding has been on the rise since 2014 due to food emergencies caused by recent climatic shocks. Funding towards the agriculture and water sector has remained consistently high over the years, while funding for energy and disaster preparedness has witnessed a slight increase since 2015, probably through the ushering in of 2030 Agenda for SDGs, and its strong focus on climate change. This has resulted in the GoM's heightened concern with resilience and disaster preparedness. Aid disbursements in Malawi is furnished below. Agriculture and primary sector has received ODA support consistently which was 5.8% of GDP[52] during 2018.

Figure 14: Bilateral ODA by Sector for Malawi, 2018-19 average (Net ODA received (% of GNI) USD)



Source: OECD, DAC 2019

[52] https://sdgpulse.unctad.org/official-support-development/
Source: UNCTAD calculations based on OECD (2020a) and UNCTAD (2020)

Table 3: Aid Disbursements in Million KW

Aid disbursements in Million KW	2018/19 Projections	2019/20 Actual	2019/20 Projections	2020/21 Projections
Total Grants and Loans	372,890	218,813	301,618	394,321
Total Grants	197,530	114,705	145,034	157,204
Dedicated Grants	63,351	18,166	NA	44,005
Education Grants	7,028	3,809	NA	7,549
General Budget Support	58,083	21,956	NA	NA
Agriculture	26,137	12,890	62,060	5,892
Malawi Floods Emergency Recovery Programme	7,260	112	6,765	5,378
Malawi Drought Recovery and Resilience Project	11,551	795	16,743	7,215
Project Grants	76,096	74,583	82,975	113,199
Project Loans	171,730	103,995	149,818	231,738
Direct Project Support	247,826	178,579	232,792	344,938
Total Loans	175,360	104,108	156,583	115,869
COVID-19 Response Financing				5,303

Source: Deloitte analysis based on data from Ministry of Finance AMP

However, ODA has decreased in Malawi over the years due to reduced on-budget support since the cash-gate scandal of 2013. This entails that less development assistance is being channeled into the country through the Public Financial Management (PFM) system, as most ODA is either directly managed by development partners, including NGOs and private foundations. The proportion of humanitarian aid has at the same time been on the rise due to food crises caused by recent climatic shocks. In the aftermath of COVID-19 pandemic, it is feared that the ODA support from the developed countries might further be reduced.

Development Cooperation Strategy

The GoM puts emphasis on its National Development Cooperation Strategy (DCS), managed by the Debt and Aid Management Division (DAD) within the MoF. The DCS acts as the GoM's blueprint for aid management in Malawi. It encourages donors to provide aid, primarily in form of grants and highly concessional loans, to be channeled as much as possible through general and sector budget support (GBS and SBS) and programme and sector wide approaches (PBA and SWAp). Malawi's DCS echoes the Paris, Accra and Busan principles by calling for national ownership, alignment to the country's planning and budget systems, focus on results, inclusive partnerships, transparency and accountability, harmonization, and simplification of donor procedures. Information on all donor projects in Malawi is uploaded and regularly updated through a web-based Aid Management Platform (AMP) managed by the MoF. Implementation of effective development cooperation is monitored through several sectoral and technical coordination groups comprising Development Partners, Government Ministries, Departments and Agencies (MDAs), private sector and civil society stakeholders; culminating in the Annual High-Level Forum chaired by the Minister of Finance. The current Development Cooperation Strategy spans the years 2014 to 2018. Findings of this DFA related to external public finance, as well as the upcoming GPEDC monitoring exercises, will assist in the review of the current strategy and feed into the development of the next one.

Aid Information Management Systems

Critical for effective management of development cooperation is the need to have accurate, reliable, and timely data that can inform planning, budgeting, monitoring and evaluation processes. For this reason, the AMP was set up to ensure that all development partners operating in Malawi report their projects to the Government and ensure alignment of their assistance to Malawian national development strategies. This is in accordance to the standard aid effectiveness principles of transparency and accountability, national ownership, and alignment to country monitoring systems. From the discussions with various stakeholders, it I understood that the AMP is not functional over these days. Hence, this DFA does not consider AMP as a source for the present analysis as needed information from the system was not extracted. And this calls out for the improvement of the AMP for proper monitoring, evaluation and utilization of foreign aid and other financial flows in Malawi.

Text Box 2: ODA Grants versus Loan Data

As loans from international development partners are managed differently from grants; primarily because of the re-payment process, concessional loans (typically classified as ODA) have been analyzed under the section – Government Borrowing. However, for purposes of the current discussion, it is worth noting that the MoF complements the AMP with the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS), that helps to track and manage concessional lending from bilateral and multilateral development finance institutions. The CS- DRMS and AMP are jointly used to account for and report ODA and are inter-linked to provide consistent information.

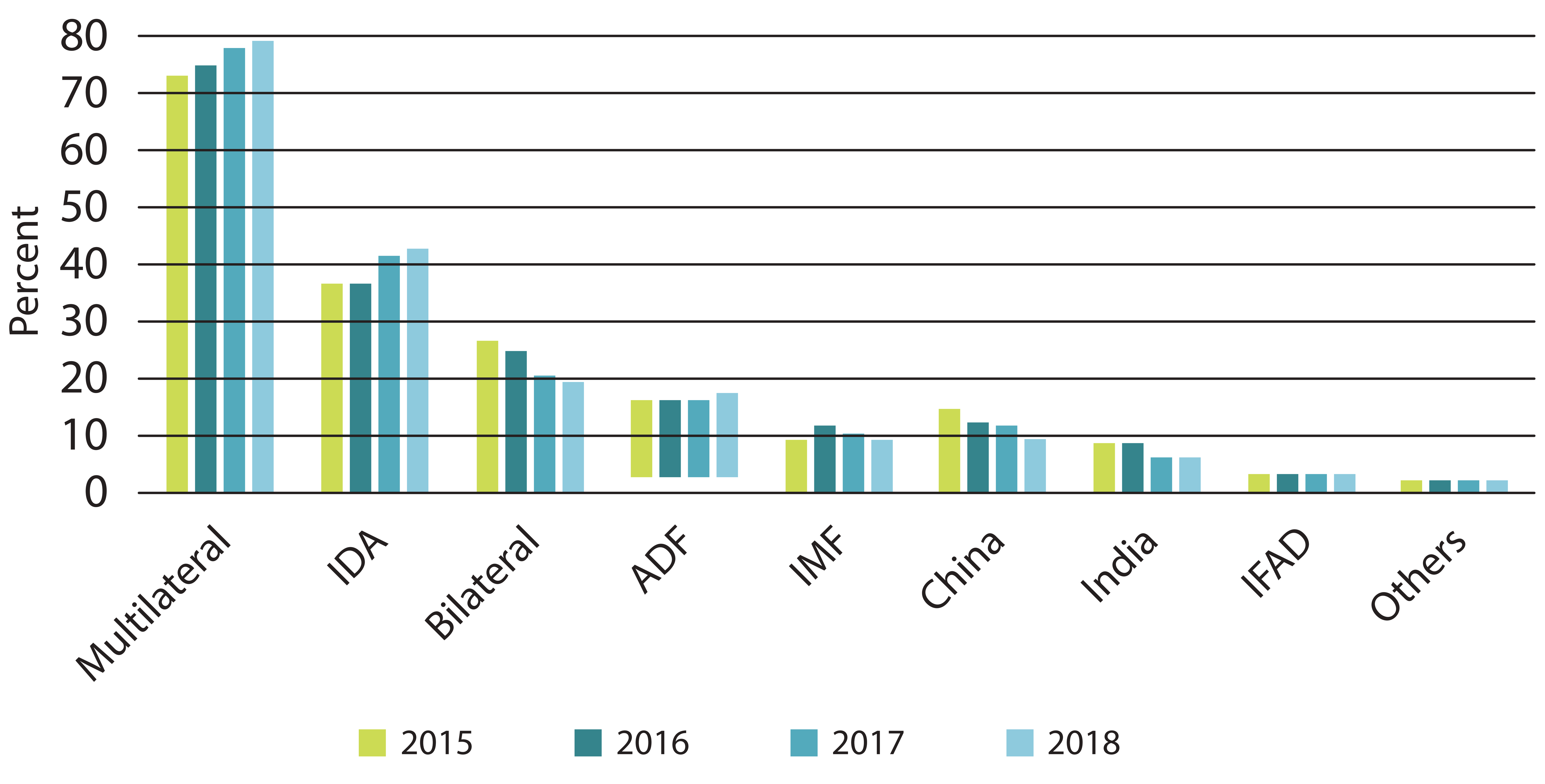
Since 2008, the GoM has issued aid data reporting guidelines, which call for all external development partners (bilateral, multilateral, non-governmental) to provide updated and accurate reports of their aid spending monthly, through the web-based access they have been given, to regularly report through the AMP. The MoF is then responsible for cross-checking and verifying the development partners' information with the local authorities and beneficiaries, ensuring alignment with national planning and budgeting processes, and compliance with reporting standards of the International Aid Transparency Initiative (IATI), which Malawi subscribes to.

Predictability is another important element of aid effectiveness highlighted in the Paris Declaration and the Accra Agenda for Action. Predictability of ODA allows Government to effectively plan, align, and channel required external financing to meet funding gaps. When actual disbursements are significantly different from planned commitments, domestic planning and budgeting processes are negatively affected. Malawi has experienced differences between ODA disbursements and original commitment over the years. It has also been noted from stakeholder's interaction that there are challenges in absorption of the funds disbursed under ODA especially on the budgeting front. 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. More importantly, development partners should ensure that disbursements are in line with commitments.

South-South Cooperation

Figure 15 below presents an overview of the evolution of aid flows into Malawi over the years. It shows the multilateral agencies, IDA and bilateral agencies as the largest donors to Malawi. In case of South-South Cooperation, both China and India are the largest donors.

Figure 15: Aid disbursements by agencies over the years to Malawi



Source: Joint World Bank-IMF Debt Sustainability Analysis, 2019

For the past ten years, the International Development Association (IDA) has remained the largest creditor to GoM. As of end June 2020, the IDA, which is part of the World Bank Group, accounted for 42 % of total external debt. The second-largest creditor is the African Development Fund (ADF) at 15 % followed by the International Monetary Fund at 14 %. The Export-Import Bank of China and Export-Import Bank of India accounted for 8% and 6 %, respectively[53]. Table below furnishes the total external debt by holder by the end of June 2020.

Table 4: Total External Debt by Holder as at End-June 2020

Creditor	Debt outstanding (USD millions)	% Total External Debt
International Development Association	1,014.85	42.5%
African Development Fund	364.37	15.3%
International Monetary Fund	323.36	13.5%
Export-Import Bank of China (Mainland)	197.07	8.3%
Export Import Bank of India	139.35	5.8%
International Fund for Agricultural Development	85.3	3.6%
OPEC Fund for International Development	70.48	3.0%
Arab Bank for Economic Development in Africa	60.38	2.5%
Kuwait Fund for Arab Economic Development	43.08	1.8%
European Investment Bank	43.05	1.8%
Saudi Fund for Development	21.84	0.9%
Nordic Development Fund	19.57	0.8%
Abu Dhabi Fund for Development	4.14	0.2%
Government of Belgium	1.34	0.1%
TOTAL	**2,388.18**	**100%**

Source: Ministry of Finance, Annual public debt report, 2019-20

One of the metrics used to measure the 'aid effort' is donor country's ODA contribution as a proportion of its Gross National Income (GNI). A previous target of MDG 8 has now been re-affirmed under SDG 17.2, which calls all developed countries to provide 0.7% of their GNI as ODA to developing countries, and more specifically 0.15-0.20% of their GNI to be channeled to Least Developed Countries (LDCs). This target was re-confirmed in the 2015 Addis Ababa Action Agenda (AAAA) when all donor countries committed to provide at least 0.2% of ODA/GNI to LDCs.

[53] Ministry of finance, Annul public debt report, 2019-20

As Malawi falls under the official UN list of 47 LDCs, the DFA analyzed how this international commitment has been fulfilled by each DAC (Development Assistance Committee) donor in respect of Malawi. If all LDCs have similar development challenges and therefore deserve the same level of attention by the international development partners, the total assumed aid commitment of 0.15 and 0.20% of ODA/GNI was divided by all the current LDCs worldwide and adjusted by the countries' population sizes. The results indicate that Malawi was expected to be receiving 0.003 to 0.004% of the international donor community's ODA/GNI. To assess the extent to which development partners have met this commitment, the result was subsequently adjusted to each DAC country's GNI, also factoring in the aid each donor channels through multilateral organizations. The analysis of aid effort reveals that Iceland, Norway, United Kingdom, and Ireland are the most committed development partners in Malawi, extensively surpassing the ODA/GNI target, while Belgium and Sweden managed to meet the target. All other DAC and EU donors operating in Malawi fell short of the threshold.

With some traditional DAC donors becoming inactive in Malawi, South-South Cooperation is assuming more prominence. The GoM has committed to strengthening SSC through implementation of modalities outlined in the 2014-2018 Development Cooperation Strategy. The current analysis corroborates this commitment as SSC partners have made significant in-roads on the Malawian development landscape, and some are now becoming more prominent than traditional Northern donors. It should be noted that, although South-South cooperation provided through grants is relatively small, the bulk of the support to Malawi provided by emerging economies has been through concessional development finance and blended public private investment, as discussed in more detail in later sections. Notwithstanding the different terms and approaches of engagement between Northern and Southern partners in Malawi, activities of emerging development partners are significantly under-reported. For instance, the MoF does not have clear financial records of in-kind donations from India each year on scholarships for hundreds of Malawian civil servants to participate in the Indian Technical and Economic Cooperation (ITEC) training programmes in Delhi.

In part, the challenge of transparency and accountability of SSC emerges from political and technical reasons where many Southern partners do not like to be measured, ranked, and compared to OECD-DAC donors. One of the arguments is that US$ 1 million worth of aid from a middle-income country like Brazil and Egypt translates in more goods, services and technical assistance than the same US$ 1 million provided by a high-income economy like Norway.

Hence, when comparing South-South cooperation to North-South cooperation, several development scholars have started to adjust development cooperation figures to Purchasing Power Parity (PPP). This results in a better comparison of different development partners' contributions based on economic capacity.

Civil Society and Philanthropic Sector

Civil society in Malawi encompasses Non-Governmental Organizations (NGOs), Faith-based organizations (FBOs), Community Based Organizations (CBOs), trade unions and other groups existed before Malawi attained independence in 1964. However, when Malawi adopted the multi-party democracy in 1993 the country witnessed the mushrooming of NGOs working in different sectors and by 1994, number of NGOs registered in the country was 87. This increase in the number of NGOs and the need to address the legal recourse for NGOs necessitated the drafting and passing of the NGO Bill into Law in 2001 to enhance NGOs' contribution to the economy and regulate their operations. Under this Act, the NGO Board of Malawi was formed to register and regulate the activities of the NGOs. Further, the NGO Act (2001) gave Council for NGOS in Malawi (CONGOMA), to coordinate NGOs in the country.

As per the data available with NGO Board established in 2015, Malawi is the hub of 766 NGOs (222 International NGOs and 544 Local NGOs) registered and thousands of Community based Organizations (CBOs) . Currently the registration procedure requires that for an NGO to register with the NGO Board, it should provide proof that the NGO is a member of CONGOMA. This is the major cause of registration discrepancies between CONGOMA and NGO Board for instance, in 2017, 643 NGOs had registered with the NGO Board while 3,000 were registered with CONGOMA.

A significant amount of foreign aid to Malawi is channeled through international and national non-governmental organizations, faith-based organizations, and private foundations. Establishing the exact quantum of these fund-flows is however dealt with challenges due to inadequate financial records and poor reporting by the NGO community. Since 2014, the Government of Malawi has tried to reach out to NGOs to list their activities in the AMP but with limited success. This can be attributed to the lack of transparency in the financing of these projects and the accountability measures as stipulated under INFF and OBI.

An alternative source of NGO financing data has been the NGO Board. As part of their registration and accreditation process, all national and international NGOs are required to provide to the NGO Board annual technical reports of their activities, along with audited financial statements. Nonetheless, only 20% of NGOs provide audited financial statements (165 NGOs in 2018 and 144 NGOs in 2019 as per NGO Board), which are, in most cases, unclear and difficult to harmonize due the use of different financial years and different exchange rates.

There are further challenges with data in relation to NGOs from the NGO Board. It is difficult to classify the NGOs by sector as they operate across a few sectors, especially the biggest ones. The most dominant sectors of operation for NGOs are health, education, food security, and many other cross-cutting areas like governance, gender and economic empowerment, human rights, and the related. The NGO Board itself has tried to give a sectoral map of NGOs based on registration, capturing only those NGOs that fully provide their services within one sector. The table below shows an overview of this classification:

Table 5: Sectoral distribution of NGOs and Spending

Sector	Proportion of NGOs Present (%)	Spending as a share of the Sector's budget (%)
Education	39	-
Health	30	57.1
Agriculture	17	3
Others	14	-

Source: NGO Board (2018, 2019), Ministry of Health (2020), and CISANET (2020)

Table 5 shows that most NGOs are in the education sector closely followed by the health sector. Given that most of their funding is raised on charitable and humanitarian basis, this may not be surprising. They have either little or no presence in the major economic sectors – transport, energy, water, and the like. The NGO Board does not have data on spending by NGOs per sector and the data given here has been taken from two surveys that were made available to this study by the Ministries of Health and Agriculture. These surveys capture more NGOs, including non-profit foundations, than are registered by the NGO Board. In the health sector, it shows that they have the largest share than all others inclusive 57.1%.

To appreciate the level of financing going into the NGOs in the country, Table 6 provides resource levels for the top ten NGOs based on their audited accounts in 2019.

Table 6: Top Twelve NGOs in terms of income

#	NAME OF AN ORGANIZATION	US$ million (2019)
1	World Vision International	47.4
2	Save the Children	20.8
3	Elizabeth Glazer Pediatric Aids Foundation (EGPAF)	18.8
4	Plan International Malawi	10.3
5	Baylor College of Medicine Children's Foundation	18.3
6	Catholic Relief Services	15.3
7	ActionAid Malawi	15.4
8	Management Sciences for Health	14.5
9	Population Services International	19.6
10	United Purpose	10.9
11	JHPIEGO	10.9
12	Banja La Mtsogolo	10.1

Source: NGO Board

Table 6 shows that World Vision is the largest NGO in the country of those that are registered with the NGO Board, and at US$47.4 million in 2019, it was more than twice the size of the second. However, the amount spent in 2019 is close to half the amount it had in 2015, i.e. US$ 83.6. The fall in the amount of income received over the period is not limited to the largest NGO: the records for the top 20 NGOs show a continual decline in the level of income in general. Between 2018 and 2019, the reduction was 12% on an average.

In addition, many NGOs including World Vision do not receive money from development partners resident in Malawi. Most of their funding comes from charitable foundations and mother institutions resident outside the country. The NGO Board suggests in its reports that 30% of the funding for NGOs comes from development partners in Malawi, but there is no reliable evidence for the assertion. The challenge is that the NGO Board does not have the mandate to register institutions of the faith community – who run massive health (e.g., hospitals, etc.) and education establishments in the country, in addition to development programmes. Except for the health sector, it is likely that development partners are still channeling more resources through government and directly as projects rather than through NGOs into the country.

The NGO community is not immune to lack of accountability and misuse of resources. Whilst recognizing the need for not constricting the CSO space and valuing self-regulation, it is important to encourage NGOs to report their humanitarian and development spending for the purposes of transparency and accountability and maintaining high standards of the national and international NGO code of conduct. This is in line with international best practice in general and the Istanbul Principles for CSO Development Effectiveness in particular, specifically principle number 5 that demands transparency and accountability. In this regard, there is scope for reflecting on the policy and regulatory framework for NGOs to balance the need for independence and self-regulation on one hand, with the imperatives of transparency and accountability on the other. As the World Bank asserts: *Having good laws for NGOs is a necessary but not a sufficient condition for the existence of a strong, independent, accountable, and transparent NGO sector. If such laws exist, it is a virtual certainty that numerous NGOs will spring up and flourish, as the experiences of many countries around the world attest. What is additionally necessary, however, is that the laws be adequately understood by the governmental officials who administer them, the lawyers who advise NGOs, and the judges who hear NGO cases. Understanding is not enough however, unless it is accompanied by vigorous and fair enforcement. Laws on the books are dead letters until they are brought to life by understanding and enforcement.*

The NGO reporting module in the AMP should be reactivated and efforts aimed at encouraging NGO reporting into the system should be increased. As corroborated by results of outreach initiatives by the NGO Board, evidence suggests strong willingness by NGOs (both international and local) to comply with reporting requirements. During the DFA stakeholder consultations with the CSO community, the following were cited as some of the reasons for non-compliance:

Lack of awareness regarding the obligation to report in the AMP. Recent interventions by the NGO Board (the Board reached out to 145 NGOs) have seen a 20% increase in reporting. Whilst the NGO Board's focus was not AMP reporting, this shows NGO willingness to comply with reporting requirements.

Conflict between the NGO Board and CONGOMA: NGOs perceive the Board's demands for financial reports with suspicion, as a ploy for fundraising.

Lack of robust and functional Government monitoring and evaluation system to track CSOs/NGOs developmental activities, fund flows and expenditures as in Public Expenditure Tracking System (PETS).

NGO Board's delay or incapacity to introduce the technical reporting formats that would provide more meaningful information for policy making about NGOs.

To sum up, it is evident that the NGO sector is significantly contributing to socio-economic development in general and national development plans, through the socio-economic sectors, but its overall income has been on the decline. The contribution can be improved through the creation of an enabling regulatory framework and operating space that fosters network governance (where equitable and sustainable partnerships rooted in mutual trust are valued) and encourages balance between self-regulation and the need for upholding transparency and accountability. This will promote alignment of NGO activities with national development strategies, without unduly controlling the sector. Further, it is imperative to strengthen monitoring and evaluation in general and the NGO statistical ecosystem, at both national and local government levels, including re-invigorating AMP reporting. Within this context, the role of the NGO Board and its institutional capacity needs to be reviewed to make it a constructive and engaged entity.

4.4 Climate Financing

Rising global environmental concerns have mediated international frameworks for combating climate change. These include the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Climate Accord signed in December 2015. Agenda 2030 for Sustainable Development has embodied the international community's quest to meaningfully deal with this challenge. Consequently, there has been a proliferation of new financing mechanisms and instruments aimed at facilitating these efforts.

Malawi stands to benefit from these global policy developments, given the country's vulnerability to climate-related shock such as droughts, floods, storms, which directly affect the predominantly agrarian economy. In responding to the global climate and sustainability agenda, the Government of Malawi has developed a series of national programmes and strategies to systematically coordinate the climate change adaptation and mitigation efforts in the country. Climate change management has been recognized an important developmental issue for Malawi and has been prioritized in the Malawi Vision 2063, under one of the seven enablers – environmental sustainability. Government has also created an enabling framework for climate change management through various strategies and Plans:

- The Environment Management Act support the operations of EAD including climate change management.
- National Adaptation Programme of Action developed in 2006.
- A National Climate Change Management Policy (2016) formulated to ensure coordinated and harmonized approach to climate change management.
- Climate Change Investment Plan, 2014-2019, calling for a US$ 1 billion of investments in adaptation, mitigation, capacity development, research and technology transfer.
- National Adaptation Programmes of Action (NAPA) which will address urgent and immediate adaptation needs of the country.
- National Climate Change Investment Plan details the countries investment priorities in climate change.
- Nationally determined Contribution (NDC) outlining climate action that will be taken by government to address climate change adaptation and mitigation in the period of 2015 to 2040.
- National Resilience Strategy which aims at breaking the cycle of food insecurity, especially in the wake of increasing floods and droughts due to climate change.

The Strategic Programme for Climate Resilience, produced in 2017, as part of the GoM's US$ 50 million application to Climate Investment Fund.

Domestically, public expenditure allocated to Environment and Climate Change Management is less currently averaging around USD 12.5 Million or 1% of the GDP[55]. Malawi mostly depends on international financing for climate change action. So far, have 2 GCF Approved projects:

Scaling Up of Modernized Climate Information and Early Warning Systems in Malawi – Total Cost of US$16.2m (US$12.3m GCF grant; Co-financing GOM US$2.2 and US$1.8m UNDP)

Climate Investor One – financing to develop renewable energy projects in regions with power deficits to reduce energy costs and CO2 emissions. Total project financingUS$821.5; GCF Grant US$100m)

Priorities for climate financing are in both adaptation and mitigation and have been defined in the National Climate Change Investment Plan and NDCs. Sectors prioritized for financing include agriculture (e.g., irrigation, development of drought tolerant seeds); energy (renewable energy and energy efficiency), forestry (resilient landscapes, afforestation and natural regeneration), water, waste, transport, construction, and fisheries.

Currently, the government in consultation with various stakeholders, is in the process of establishing a National Climate Change Fund. Once operational, the fund will be a single institutional framework that will act as basket for domestic and international resources and coordinating climate change funds. Integrated Finance Management Information System (IFMIS) is being developed by the Accountant General's Department to track Malawi's finical inflows will be an aid to track climate resources towards climate change related interventions by different stakeholders, including international NGOs; bilateral and multilateral institutions; development banks; United Nations programmes; academic institutions; the private sector and various non-state actors. Currently a prototype of the system is being tested by the climate change expert working groups[56].

Environment Carbon Tax

The carbon tax is making a remarkable entry in Malawi. Malawi is the second country on the continent, after South Africa, to have adopted the carbon tax. It is a tax component adopted by the GoM as part of its greenhouse gas reduction targets that the country has set herself by signing the Paris agreement in 2015. The tax acts as a carbon pricing mechanism to raise funds to drive climate change mitigation and adaptation actions at both the national and community level. According to the texts instituting the carbon tax in Malawi, the revenues collected must be transferred to the Environment Fund. A structure managed by the Ministry of Natural Resources, Energy and Mines in collaboration with the Malawian Environmental Protection Agency (MEPA). The agency will use the revenues from the carbon tax to finance projects to combat environmental degradation and fight for environmental protection. It was introduced in Malawi's 2019/2020 budget and levied annually, and it varies from 4,000 kwachas to 15,500 kwachas, depending on the size of the car's

[55] Ministry of Natural Resources, Energy, and Mining Environmental Affairs Department
[56] https://unfccc.int/sites/default/files/resource/Malawi-Climate%20Finance%20SADC%202019.pdf

engine. The Malawi Revenue Authority (MRA) announced on January 28, 2020, that it had collected 452 million kwachas, in carbon tax from motorists, in the space of two months.[57] These tax revenues will be allocated to finance climate change adaptation projects.

Text Box 3: Overview of key International Climate Funds Box

The Climate Investment Funds (CIF) is a Trust Fund set up in 2008 to empower transformation in the energy, climate resilience, transport and forestry sectors, aimed at 72 developing and middle-income countries to manage the challenges of climate change and reduce their greenhouse gas emissions. Through the facilitation of the World Bank and IFAD, Malawi has applied for $50 million to support its Strategic Programme for Climate Resilience.

The Green Climate Fund (GCF) is a mechanism set up as part of the UNFCCC to support the efforts of developing countries to respond to the challenge of climate change, reduce their greenhouse gas (GHG) emissions and adapt to climate change. GCF considers the needs of nations that are particularly vulnerable to climate change impacts. It also finances capacity-building of national institutions and readiness assessments. The Department of Disaster Management Affairs (DoDMA) and UNDP were awarded a $16 million grant for a 6-year project to promote women's participation in community-based early warning systems in 21 districts. Few INGOs operating in Malawi in the process of GCF accreditation.

The Adaptation Fund (TAF) finances climate change adaptation and resilience activities in developing countries that are vulnerable to the adverse effects of climate change and are Parties to the Kyoto Protocol. This includes a South-South cooperation mechanism to support readiness assessment and national capacity building. National Environmental Management Agency (NEMA) was awarded $ 50,000 to support its accreditation process and a South-South exchange with Kenya.

The Global Environment Facility (GEF) is one of the oldest green funds established at the 1992 Rio Earth Summit, to help tackle the planet's most pressing environmental problems. GEF funds are available to developing countries and countries with economies in transition to meet the objectives of the international environmental conventions and agreements. From its inception Malawi has been a recipient of 58 national and regional GEF sponsored projects in the fields of biodiversity, land degradation, and climate change; totaling $ 242 million in GEF funding + $ $ 2,2 billion of other co-funding.

Source: Besharati and Loga (2018)

[57] https://www.afrik21.africa/en/malawi-close-to-e600000-in-car bon-tax-collected-in-just-two-months/#:~:text=Malawi%20has%20 collected%20al most%206%2C000,the%20space%20of%20two%20months.&text=Introduced%20in%20Malawi's%202019%2F2020,size%20of%20the%20car's%20engine.

Apart from the above four major climate funds, Malawi also has access to other smaller green financing arrangements such as the Special Climate Change Fund (SCCF), Least Developed Countries Fund (LDCF), Capacity Building Initiative for Transparency (CBIT) and the Nagoya Protocol Implementation Fund (NPFI). Most (if not all) of these climate finance windows require intermediary organizations which can conduct preparatory work (feasibility studies), coordinate stakeholders, manage, implement and monitor the projects in-country once they are awarded funding.

In 2017, GoM established a National Climate Challenge Fund modelled after the successful experience of Rwanda's National Green Fund, FONERWA, that assisted the country to mobilize both domestic and external resources for climate change adaptation. UNDP facilitated a South-South exchange between Rwanda and Malawi authorities in a two-day workshop in July 2017, that included participants from the Ministries of Finance, Disaster Management, Forestry, Environmental Affairs, Justice, and several representatives from the districts and civil society organizations.

Climate finance is in essence not too different from traditional ODA in its modus operandi, as it similarly relies on the multilateral system, development finance institutions (DFIs), and vertical funds like the health funds of the MDG era. The main innovation of climate finance is often the blending of public and private sources, and the mix of instruments: grants, loans, equity and guarantees. Several development partners and DFIs are already financing some climate elated projects in Malawi. The Millennium Challenge Corporation (MCC) is for instance supporting energy projects. Text Box 3 above overviews the major global climate funds, some of which Malawi is already in the process of tapping into.

Other than the UNDP, UN-HABITAT, World Bank, ADB and other international DFIs, Malawi does not have national institutions that have received accreditation to act as intermediaries and recipients of these global funds, through the nationally led process of 'direct access' or 'enhanced accesses. This is mostly due to the capacity constraints and the prevalent PFM systemic weakness. Multilateral organizations thus remain the primary channel of international climate finance to Malawi. A few international NGOs operating in Malawi, such as LEAD (Leadership for Environment and Development) and MEET (Malawi Environmental Endowment Trust), are in the process of securing accreditation to act as intermediaries for the Green Climate Fund.

In summary, it is incumbent upon Malawi to strengthen national institutions and improve public financial management, to satisfy the access thresholds for these international climate finance facilities. This source of financing represents a veritable flow that can go a long way in meeting the energy, agriculture, water and environment management financing challenges of the national development agenda. From the INFF perspective, GoM can start leveraging Climate Financing as one of the newer strategies to scale up the nation level development priorities. In addition to Carbon Tax, there are other Green Taxation which can be considered by the GoM which includes taxes on energy, transport, pollution etc., Also, a broader SDG aligned policy taxation promoting the principle of Leaving-no one-Behind and linking it with pro-equal taxation systems may be considered.

4.5 Leveraging Private Investment for Development

A vibrant private sector is central to growth and the maturation of any developing country to middle-income status, which is the main aim of the Malawi Vision 2063. The private sector can play a major role in structurally transforming Malawi from an importing and aid-dependent economy to one that is productive and export-oriented. In this regard, the Malawi Vision 2063 importantly calls upon the private sector to be a close partner for government in advancing productive partnerships to deliver national development strategies.

The role of private sector is to create decent jobs for the youth, offering entrepreneurial spaces and forming strong public private partnerships where opportunities arise to invest in both economic and social sectors to generate growth and create wealth. In this context, the private sector is expected to take up opportunities outlined in the Malawi Vision 2063 and its medium term development plans during its implementation.

Business Environment

A favorable business environment is critical for attracting and nurturing investment (both foreign and local). Malawi has lagged in creating a conducive environment for business as reflected in various business environment rankings, which are very low in comparison to other countries in the region. This is central to growing a vibrant economy, with potential positive multiplier effects. World Bank's Ease of Doing Business score assesses the regulations that enhance business activity and those that constrain it. Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 190 economies.

Source: World Bank, Doing Business, 2020

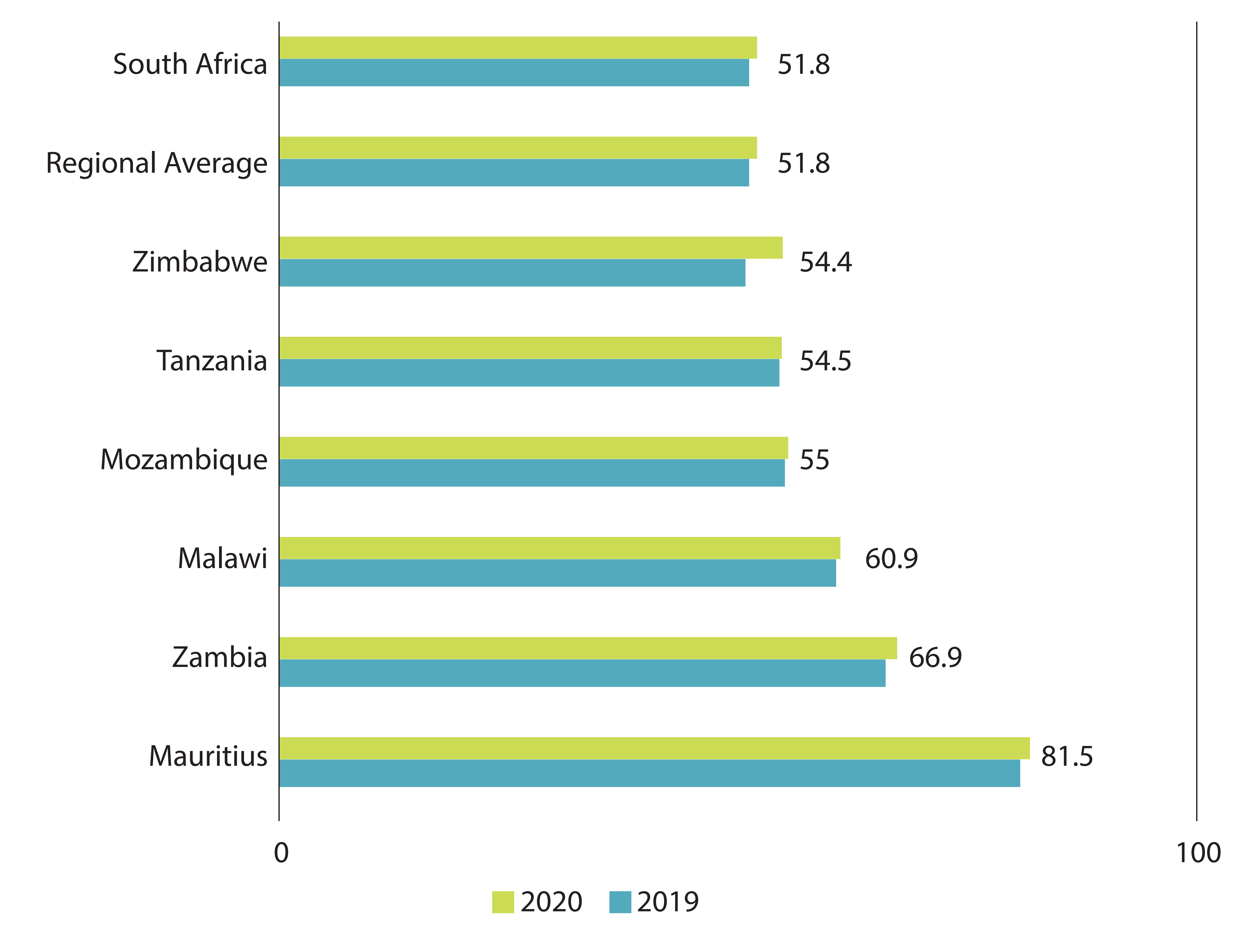
Ease of Doing Business in Malawi averaged 135.75 from 2008 until 2019, reaching an all-time low of 171 in 2013. Still in 2020 Malawi performed better and improved its score from 59.5 in 2019 to 60.9 in 2020. Given below is the comparison of Malawi's performance in par with its other southern African countries.

Figure 16: Southern African Development Community (SADC) countries.

Source: World Bank (2019)

Another important parameter is the "Distance to Frontier" score of Doing business illustrating the "Distance of Malawi to the Frontier", which represents the best performance observed on each Doing Business topic across all economies and years included since 2005. "Distance to Frontier" is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the Frontier. Malawi has improved its score slightly from 60.4 in 2019 to 60.9 in 2020.

Figure 17: Distance to Frontier – Malawi and Neighboring Countries



Source: World Bank – Doing Business 2019, 2020

Global Competitiveness Index published by the World Economic Forum yearly assesses and ranks the ability of countries to provide high levels of prosperity to their citizens. This in turn depends on how productively a country uses available resources. Therefore, the Global Competitiveness Index measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity. Malawi ranked 128 out of 141 countries according to the Global Competitiveness report 2019.The chart below portrays Malawi's business competitiveness ranking over the years.

Figure 18: Malawi's Business Competitiveness Ranking

Source: World Economic Forum

Challenges leading to these poor rankings are well documented in various surveys conducted by the World Economic Forum as well as the Malawi Confederation of Chambers of Commerce and Industry (MCCCI). Global Competitiveness Index covers 12 essential pillars which are Institutions, Infrastructure, ICT adoption, Macroeconomic stability, Product market, Labor market, Financial system, Market size, Health, Skills, Business dynamism and Innovation capability. For Malawi, the table below shows how each of the pillars have performed over the past 5 years.

Table 7: Performance of Malawi in GCI over the past 5 years

Competitiveness Pillars	2018-19 (Out of 141 Countries)	2018-19 (Out of 140 Countries)	2017-18 (Out of 137 Countries)	2016-17 (Out of 138 Countries)	2015-16 (Out of 140 Countries)	2014-15 (Out of 144 Countries)
Overall Ranking	128	129	132	134	135	132
Institutions	110	103	96	94	92	77
Infrastructure	132	129	131	135	133	135
ICT Adopted	130	128	125	122	121	108
Macroeconomic Environment	122	128	136	137	140	144
Health	128	131	115	120	121	123
Skills	131	127	128	131	133	132
Product market	118	116	121	119	117	108
Labor market	68	76	45	38	29	28
Financial system	118	123	102	115	100	79
Market size	130	127	122	125	127	123
Business dynamics	124	127	125	122	121	108
Innovation	127	112	124	120	121	115

Source: The 2014-15 to 2019-20 Global Competitiveness Reports

In the region, Mauritius is the top performing sub-Saharan country at number 52 followed by South Africa at number 67 followed by Seychelles at number 76. At the bottom, the least competitive country is Chad at number 141 followed by Angola at number 136 then Burundi at number 135. Although Malawi is in the bottom ten countries, it is important to note its significant 4 step move upwards from the 2017-18 report. For the Malawian economy to be more competitive, there is need to take notes from Mauritius and improve the product market by minimizing non-tariff barriers, reforming trade tariffs and removing distortive effects of taxes and subsidies. The financial system can also be improved as it is currently faced with high domestic credit interest rates to private sector, lack of venture capital availability and Small and Medium Enterprises (SME) financing and persistent occurrence of Non-performing loans.

MCCCI attributes this paltry economic growth record partly to the persistent obstacles to doing business which are yet to be resolved. The following challenges have consistently chocked business operations:[58]

a) Inadequate and erratic supply of electricity
b) Cost and availability of long-term finance
c) Uncertainty in economic and regulatory policies
d) Quality and Cost of telecommunication services; and
e) High levels of Corruption
f) Government borrowing

A weak regulatory framework around corporate tax, duties, and customs with less efficient bureaucracy encourages corruption, further increasing the cost of doing business. The macro-fiscal challenges: high inflation, unstable foreign exchange rates, and high interest rates all also negatively impact the business climate. Access and cost of financing is also a major challenge to doing business. Malawi MCCCI The Malawi Business Climate Report 2018 states the cost of finance came out tops as the most serious challenge to doing business in Malawi. A high level of government borrowing has driven up interest rates – as high as 30%. This has adverse consequences on the business community that is crowded out by government and cannot make productive investments.

Table 8: Obstacles to Doing Business in Malawi

	2012	2013	2014	2015	2016	2017	2018
1	Electricity	Electricity	Uncertainty in Economic & Regulator Policies	Cost of Finance	Cost of Finance	Electricity	Cost of Finance
2	Crime/Theft	Uncertainty in Economic & Regulator Policies	Crime/Theft	Electricity	Telecom	Telecom	Electricity
3	Exchange Rate Policy	Cost of Finance	Electricity	Telecom	Electricity	Uncertainty in Economic & Regulator Policies	Telecom
4	Uncertainty in Economic & Regulator Policies	Crime/Theft	Cost of Finance	Uncertainty in Economic & Regulator Policies	Uncertainty in Economic & Regulator Policies	Customs regulation, Procedure & bureaucracy	Crime/Theft
5	Cost of Finance	Customs regulation, Procedure & bureaucracy	Water	Crime/Theft	Crime/Theft	Domestic Tax and Non Tax Reforms	Effectiveness of National Assembly as law making body
6	Customs regulation, Procedure & bureaucracy	Transport infrastructure	Corruption	Customs regulation, Procedure & bureaucracy	Customs regulation, Procedure & bureaucracy	Domestic Tax Regulation, Procedure and Bureaucracy	Customs regulation, Procedure & bureaucracy

Source: MCCCI 2018

The summary representation above shows how the obstacles of business in Malawi in each year according to the priority has evolved. The cost of finance and other infrastructural challenges mainly electricity and Telecom were topmost obstacles to doing business over the past years.

[58] Response of The MCCCI to 2019/20 National Budget

Starting or maintaining a business requires financial investment but it is very difficult for businesspersons to access these funds from reputable financial institutions due to the high cost of borrowing. For businesses, this means that a great part of their profits in the first few years of operation are directed to repaying loans instead of reinvesting into the business and by the time they finish repaying the loan the business cannot survive on its own.

Electricity is the number two obstacle to doing business. Several developments have occurred since liberalization of energy generation with many private players intending to participate. The sector requires greater support in facilitation of such investments to generate more electricity to meet the growing demand in Malawi.

Telecommunications have remained in the top three obstacles to doing business in Malawi. Telecommunication services particularly electronic forms of internet and mobile network has been a hitch for the past few years. The mobile usage in the country is slowly growing, but with one of the highest tariffs in the region. Service providers offer substandard services at very high costs with the networks often experiencing interferences and random cuts during phone calls. Among the small mobile phone reach, an even smaller population has access to the internet which is also coupled with very high rates and poor network. To improve competitiveness, medium to big business enterprises rely on an efficient telecommunications system in undertaking innovative ways of doing business such as production systems, communication systems, accounting systems and human resource and management systems.

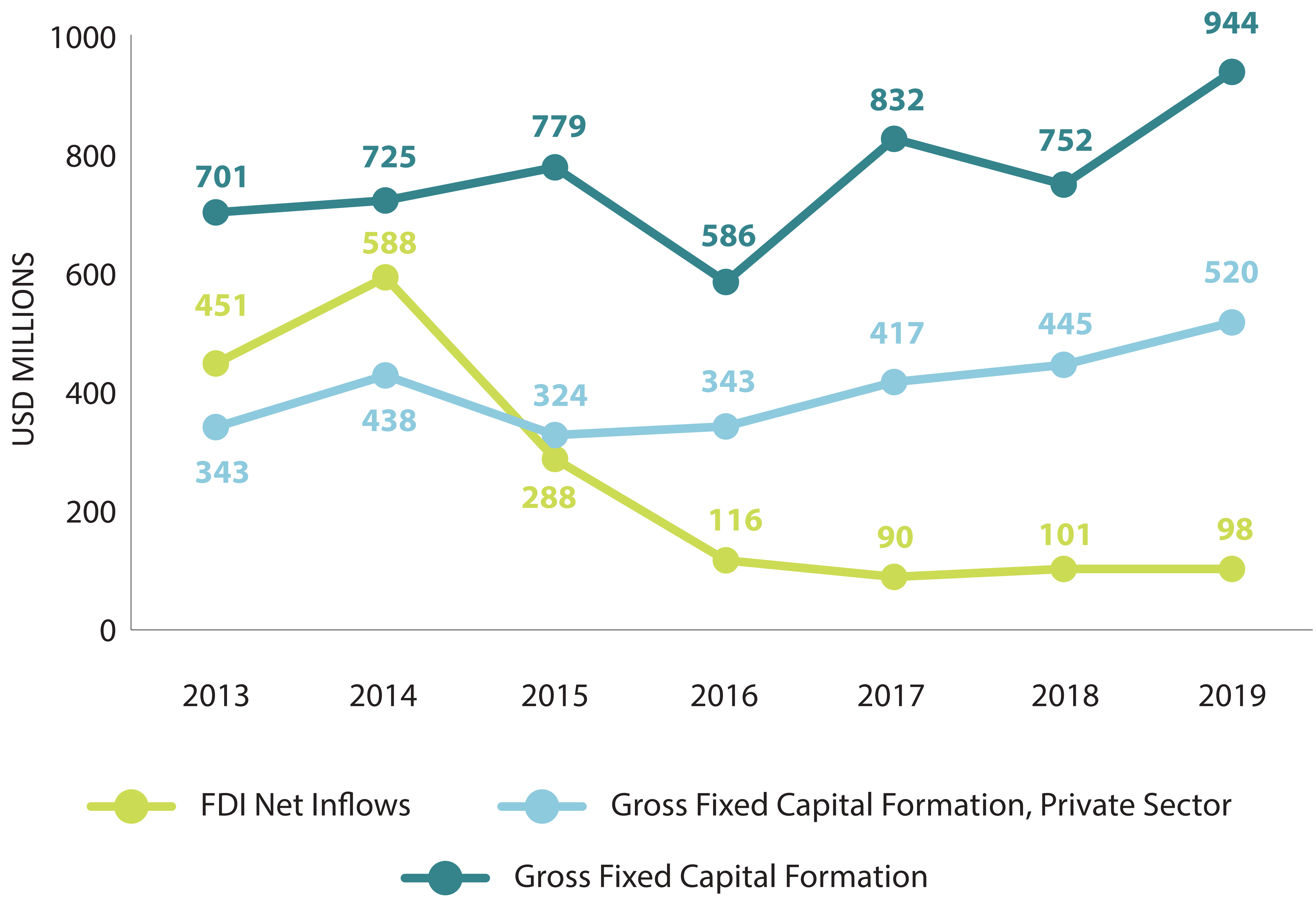
The regulatory institutions and policy holders need to put in place strict standards for mobile operators as well as making the market open to new entrants which will encourage more competitive rates. There is also need to review the tariff structure and levies charged in the sector.[59] To compensate for the deficiencies in the country's business environment, Malawi's government has reduced and maintained the its benchmark policy rate at a record low of 12%[60] and offers several incentives, including exemptions on taxes and customs duties for companies investing in priority areas in line with the national development strategy. The Government is often faced with the need to balance between creating an enabling environment for private investment by foregoing revenue in form of tax incentives and ensuring that it can collect enough revenue to support public and social spending[61].

MITC, which is the primary agency responsible for marketing the country's investment and business opportunities, has weak capacity and limited funding. Coupled with the previously discussed challenges, Malawi attracts less FDI compared with other countries in the region: Rwanda, Zambia, Mauritius, and South Africa.

Annual Gross Fixed Capital Formation (GFCF) of private sector in Malawi is estimated to have averaged $400 million over the past five years. Figure below presents a five-year overview of domestic, foreign, and total investment (measured in GFCF terms).

[59] The Malawi Business Climate Report,2018
[60] RBM 2021
[61] https://info.undp.org/docs/pdc/Documents/MWI/Final_report_%20Fiscal%20Incentives%2019-12-2016.pdf

Figure 19: Trend of Private Investment in Malawi (2013-2019)



Source: Deloitte analysis based on data from UNCTAD, and World Bank

The year 2014 registered a spike in FDI in Malawi, on account of commitments made by South African businesses to invest in Malawi's energy sector. According to UNCTAD's 2020 World Investment Report, inflows decreased from USD 102 million in 2018 to USD 98 million in 2019. During the period 2015-19 Malawi received an amount of USD 2,969.1 million for 38 projects[62].

As per MITC, the agriculture and agro-processing sector has been identified as one of the priority sectors for foreign investment by GoM and consequently, it attracts the most FDI mainly from South Africa, Germany and the United States. There are various investment opportunities in Agriculture, including livestock production (for dairy and beef), aquaculture, horticulture, agro-processing, sugar, piggery, honey production, integrated cotton development, cassava production, and mushroom growing.

[62] https://media.africaportal.org/documents/Occasional-Paper-306-markowitz-002.pdf

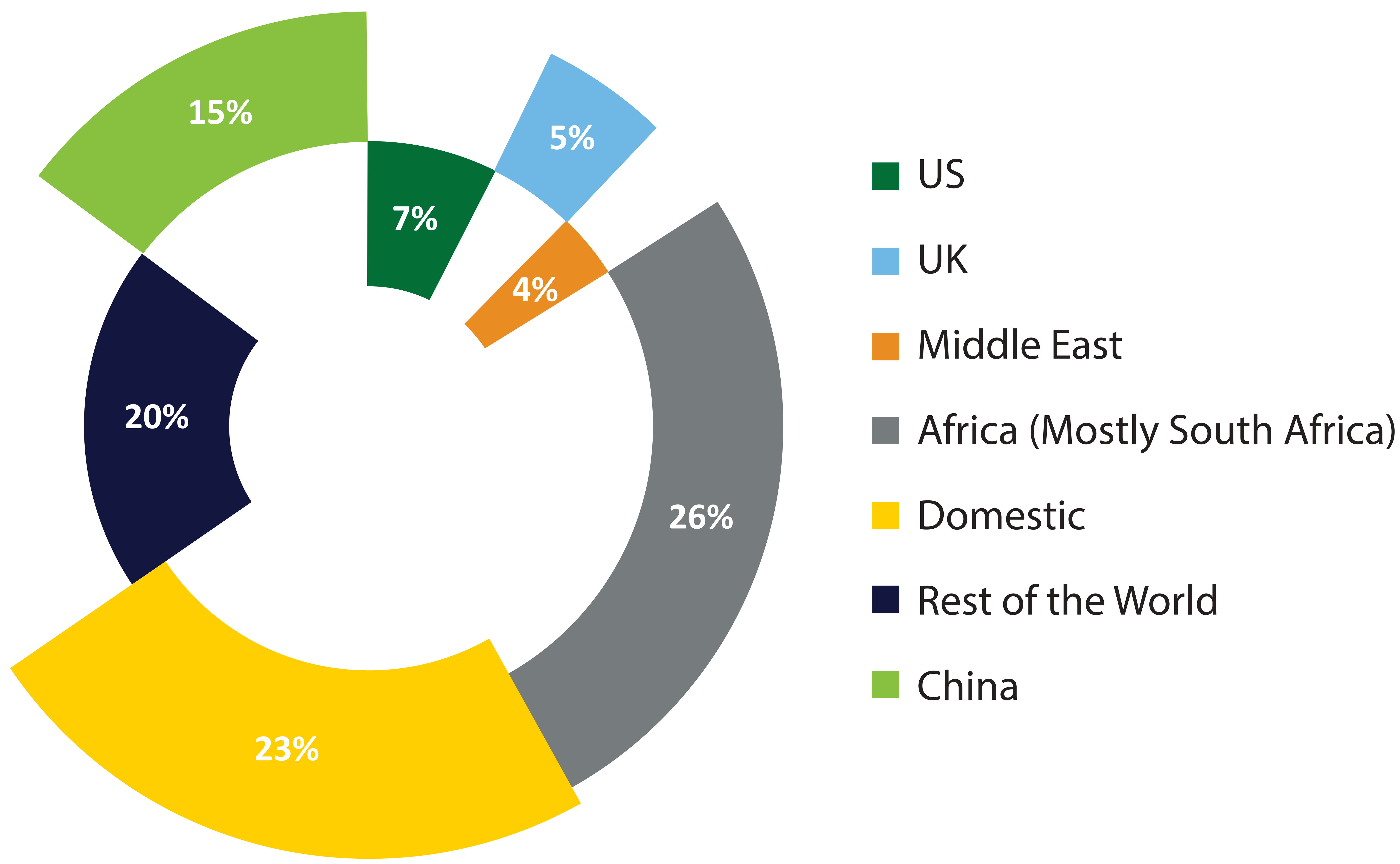
Another priority sector for investment in Malawi is mining sector as it has been blessed unexploited natural resources and it can contribute to as much as 10% of GDP[63]. The exploration of rare earth elements near Lake Malawi could attract new investments in the mining sector.[64] There is also hope that an oil field would be discovered in the region. Apart from agriculture and minerals, Malawi also offers investment opportunities in agro-processing, manufacturing and tourism. Over the past five years, the main investing countries have been Australia, China, India, the Republic of Korea, South Africa, the UAE and the UK. With the economic effects of COVID-19 being felt globally, FDI inflows is expected to shrink further as foreign investors will be focusing more on boosting growth in their own economies. Therefore, Government must take the lead in promoting domestic investment by investing in areas that could trigger domestic private investment.[65]

Malawi is eager to receive foreign investments and foreign investors are generally granted the same treatment as nationals, as the Malawian constitution protects investment irrespective of nationality. However, while it is not discriminatory to foreign investors, investments in the country involve multiple, and sometimes time-consuming, administrative procedures, which may include obtaining a business license, a tax registration number, and a land permit. In addition, Government policy on expatriates is set out in the "Policy Statement and New Guidelines for the Issuance and Renewal of Expatriate Employment Permits" issued in November 1998, investors can only employ expatriate personnel in areas where there is a shortage of "suitable and qualified" Malawians[66]. There is no government policy to screen foreign direct investment; however, FDIs need to be registered with the MITC. The government is also trying to attract investments through bilateral cooperation, as shown by the Malawi-China Investment Forum and the Malawi-Japan Investment Forum held in 2018. On the other hand, Malawi's landlocked geographical location and the inadequate condition of its infrastructure are barriers to foreign direct investment[67]. The business climate also suffers due to a lack of skilled workforce, high transportation costs, unreliable supply of water and electricity, inefficient public institutions and difficulties in accessing credit.[68]

Analysis of the origin of private investment in Malawi indicates that the bulk of FDI to Malawi comes from the global South and from the rest of the continent (Figure20). Investment from Asian, African and Middle Eastern countries have been on the rise, with the three largest foreign investors being India, China and South Africa – dominating Malawi's agriculture, mining, manufacturing, infrastructure (transport, ICT, energy), and tourism sectors. Figure 22 further shows that South Africa, India and China are not only the biggest investors but also major trading partners for Malawi, eclipsing Europe and North America.

[63] https://mitc.mw/invest/images/MITC-Malawi-in-Brief-2015.pdf
[64] https://mitc.mw/invest/index.php/investment-climate/fdi-malawi
[65] https://www.mccci.org/index.php?option=com_content&view=arti cle&id=287:mccci-brief-on-economic-recovery-fis cal-policy&catid=19:news&Itemid=138
[66] https://www.africalegalnetwork.com/wp-content/uploads/2015/12/2014-IG-Malawi.pdf
[67] https://entreprises.societegenerale.fr/international/import-export
[68] https://import-export.societegenerale.fr/en/country/malawi/investment-country-risk

Figure 20: Origins of Private Capital in Malawi

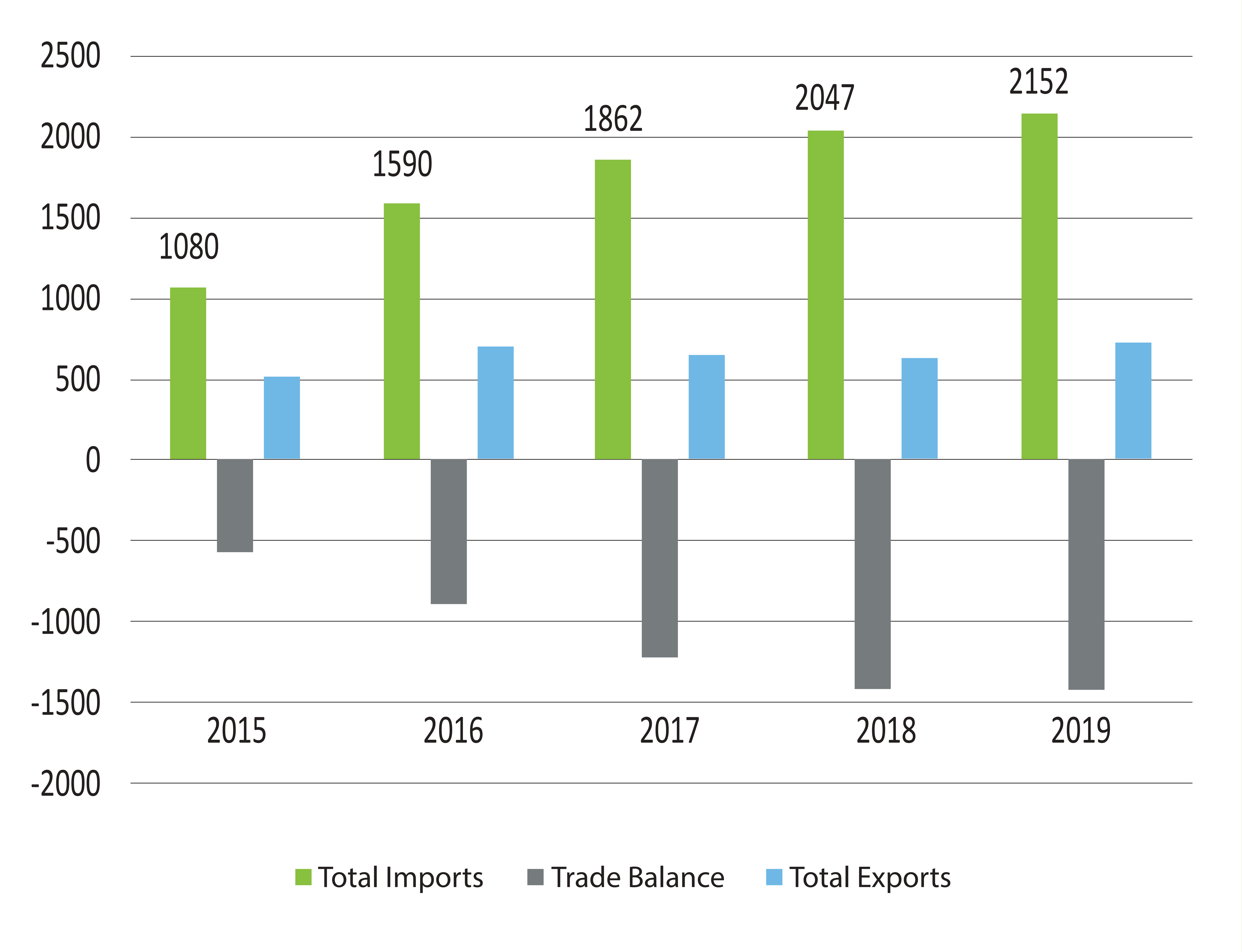


Source: Deloitte analysis based on data from MITC

International Trade and Income

GoM recognizes that trade is a powerful engine necessary for socioeconomic growth and poverty reduction. It is difficult, however, to maximize the potential of the sector due to lack of capacity in terms of policies, procedures, institutions, and infrastructure to integrate and compete in global markets effectively. Being an agro-based economy, agricultural products continue to dominate Malawi's export basket, accounting for close to 80%. Most sectors remain in infancy as tobacco, sugar, coffee and tea constitute the largest export sectors of the economy. The closing of the Kayelekera Mine in 2014 greatly affected the export of ores. The export basket, therefore, continues to be highly concentrated with a few products with tobacco alone accounting for more than 40% of the country's exports. Continued dominance of tobacco in the export basket makes Malawi vulnerable to external shocks. Latest statistics indicate that Malawi is still experiencing a negative trade balance. Between 2016 and 2017, the trade balance widened by 44 % from MK869 billion to MK 1.2 trillion. GoM should actively participate in regional and multilateral trade negotiations to unlock trade opportunities for services. GoM, as planned in the NES (2021-2026) should ensure the formation and proper functioning of a department that would play an oversight role in developing and promoting trade in services. Malawi's services exports are relatively small, there is huge potential to grow.

Figure 21: Malawi's Trade Deficit over the Years

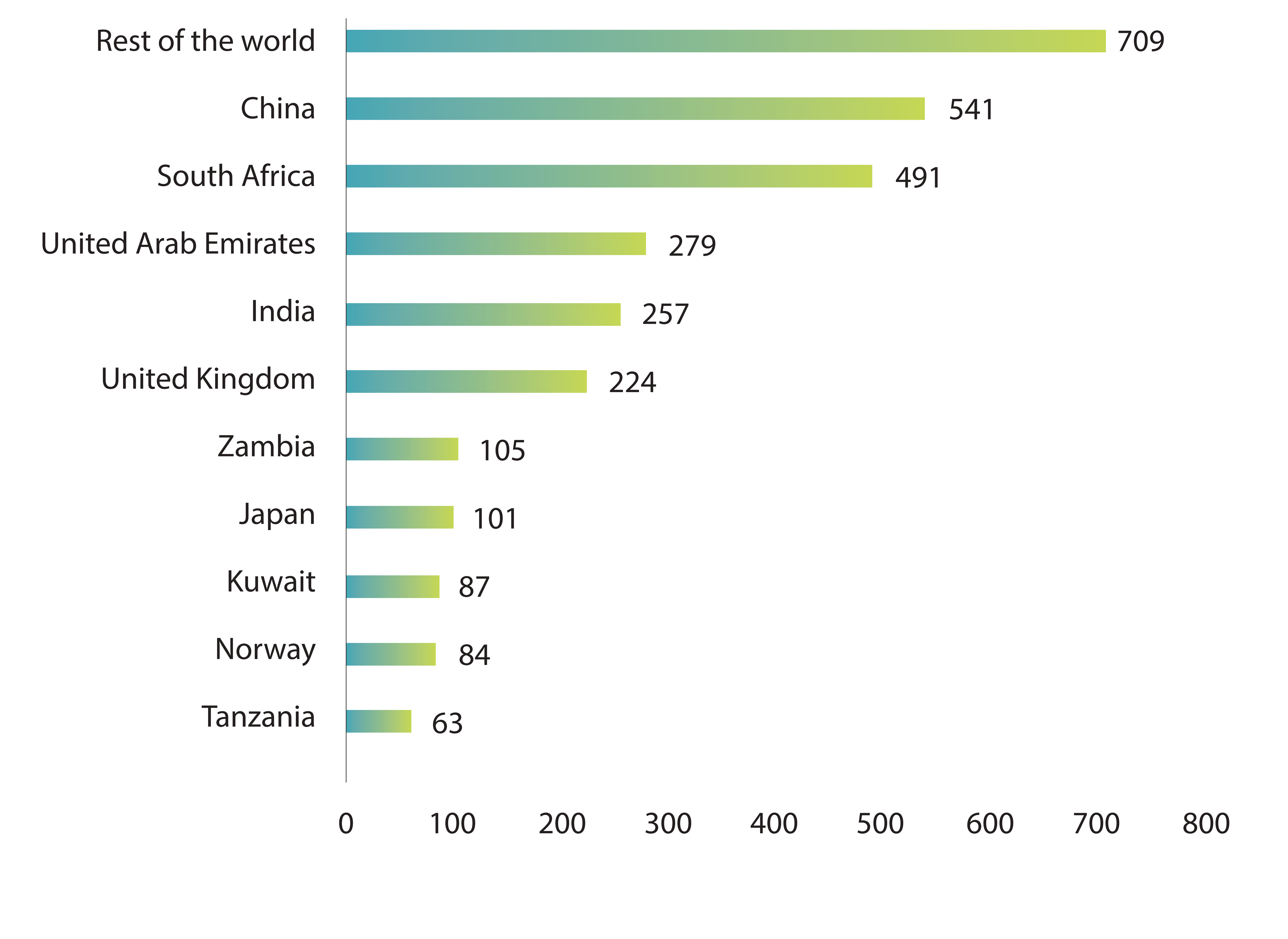


Source: National Statistical Office and Department of Economic Planning and Development

Since 2016, Southern Africa Development Community (SADC) has been a major source of Malawi's imports amounting to more than USD 545 million. Asia comes second with imports of over USD 525 million, the Common Market for Eastern and Southern Africa (COMESA) at USD 140 million and the European Union (EU) at USD 134 million. China, South Africa, United Arab Emirates, India, United Kingdom, are the five major sources of imports for Malawi[69].

[69] MoEF Economic Report, 2019

Figure 22: Volume of Imports into Malawi (US$ millions, 2019)



Source: www.trademap.org

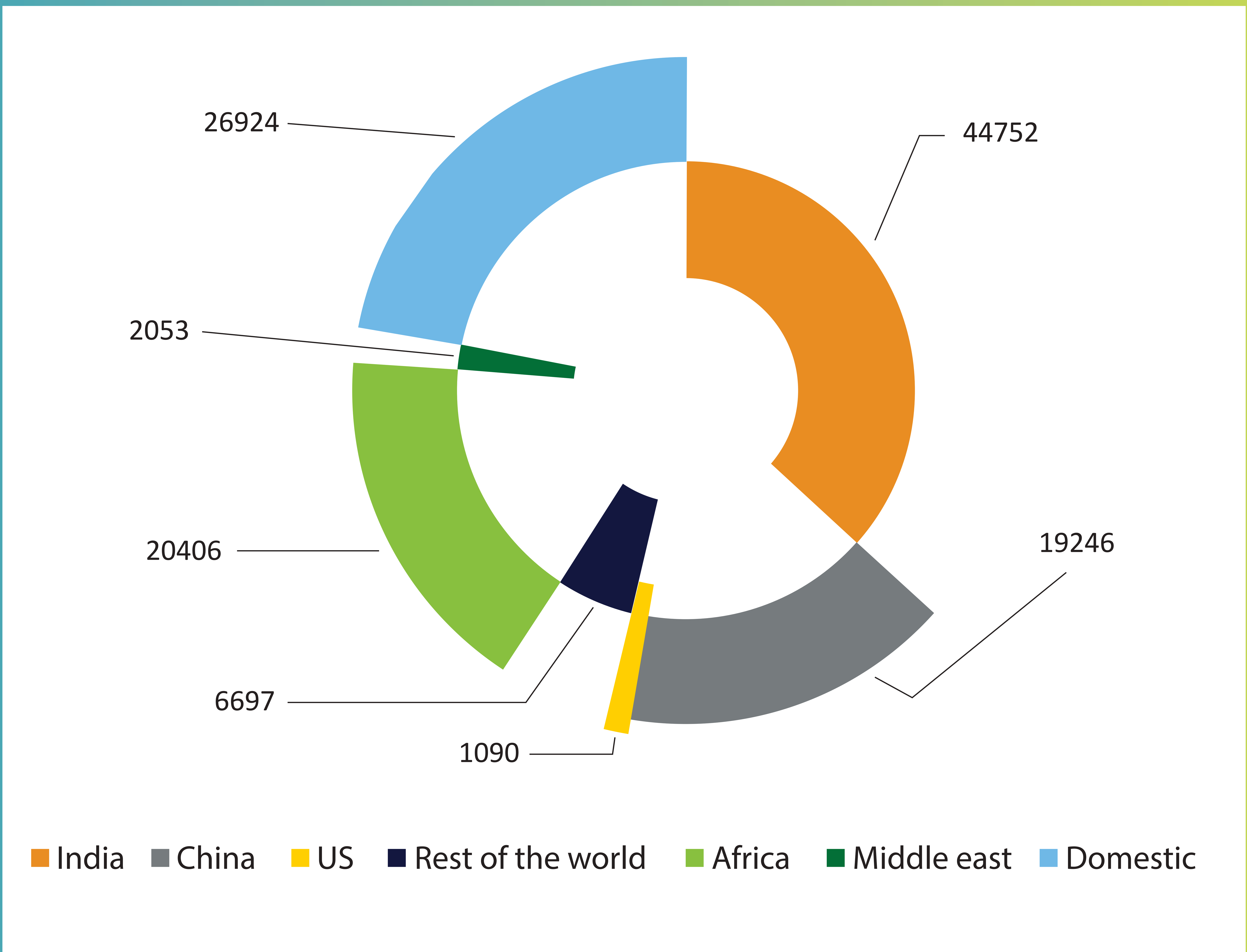
The African Continental Free Trade Area (AfCFTA), which came into force on 30 May 2019, marks a significant step in Africa's and Malawi's journey towards regional and continental integration. Economic integration is the process by which different countries agree to remove various barriers to trade between them with the aim of reducing trade costs and increasing welfare. The United Nations Conference on Trade and Development (UNCTAD) estimates that the implementation of the AfCFTA and its accompanying measures would result in a GDP increase of 1 - 3% in most African countries[70]. Currently, Malawi is unable to significantly penetrate foreign markets due to limited quality infrastructure and the absence of an internationally recognized accreditation body. Conformity assessment activities (testing, calibration, certification and inspection) require accreditation to ensure the country's growth in exports. The Malawi Bureau of Standards (MBS) sets and implements standards and conducts conformity tests on selected imports and exports. However, certificates from MBS are not widely recognized and exporters incur high costs to obtain certification overseas.

[70] United Nations Conference on Trade and Development (UNCTAD), 'The African Continental Free Trade Area: The Day After the Kigali Summit', UNCTAD, Policy Brief No. 67 (Geneva, UNCTAD, May 2018)

Job Market Profile of the Private Sector

The domestic private sector in Malawi represents an average 20% of job creation. Figure 23 shows that Indian and Chinese investments appear to generate the most employment for Malawians engaged in the private sector. Caution needs to be exercised though as these figures represent estimates based on committed investment at the time of registration. Actual jobs created are bound to be different. Further, the MITC has no mechanism for validating these Figures, much more in respect of whether actual investment has been received in the country.

Figure 23: Origin of Private Capital in respect of Jobs Created (2007 - 2017)

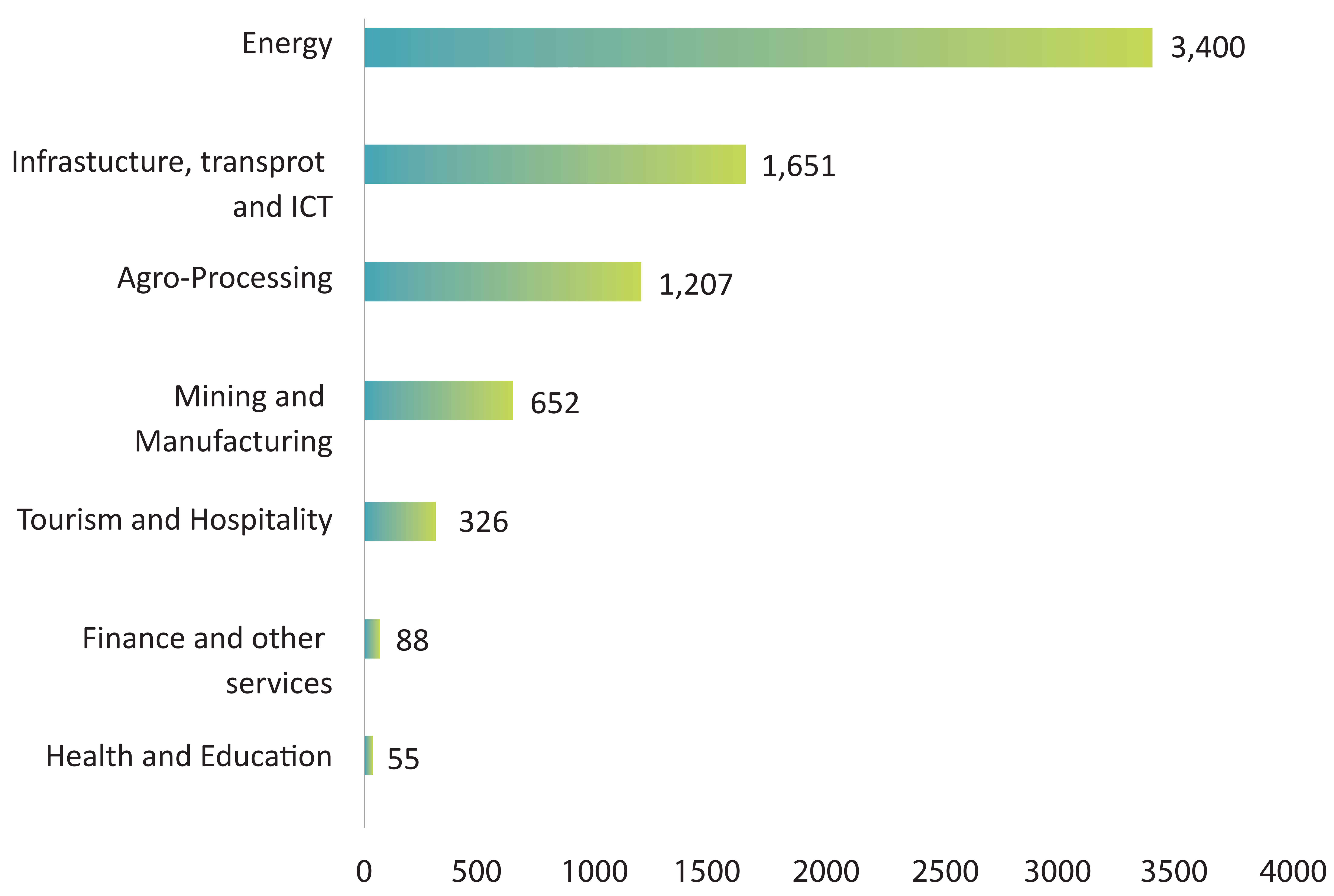


Source: MITC

Sectoral analysis indicates that private investors have made more commitments towards energy and infrastructure sectors (Figure 24). Actual investment flows (especially FDI) have however not always eventuated due to several factors, including the less favorable business climate earlier discussed. This entails that significant amounts of potential development finance were foregone. For instance, had all the USD3.4 billion committed towards the energy sector flowed into the country, the prevailing energy crisis might have been averted. The critical question to ask in this regard is therefore: What needs to be done to ensure FDI commitments translate into actual investment flows?

For one, addressing the impediments affecting the business climate requires heightened efforts, coupled with a sense of urgency. Further, the MITC requires strengthening as regards marketing of investment projects, as well as follow up of investment pledges. Capacity for development of investment proposals also needs to be strengthened to ensure quality and bankability of projects. Finally, potential investors have often decried corruption in public procurement, where projects are awarded, and agreements signed without following due procurement process.

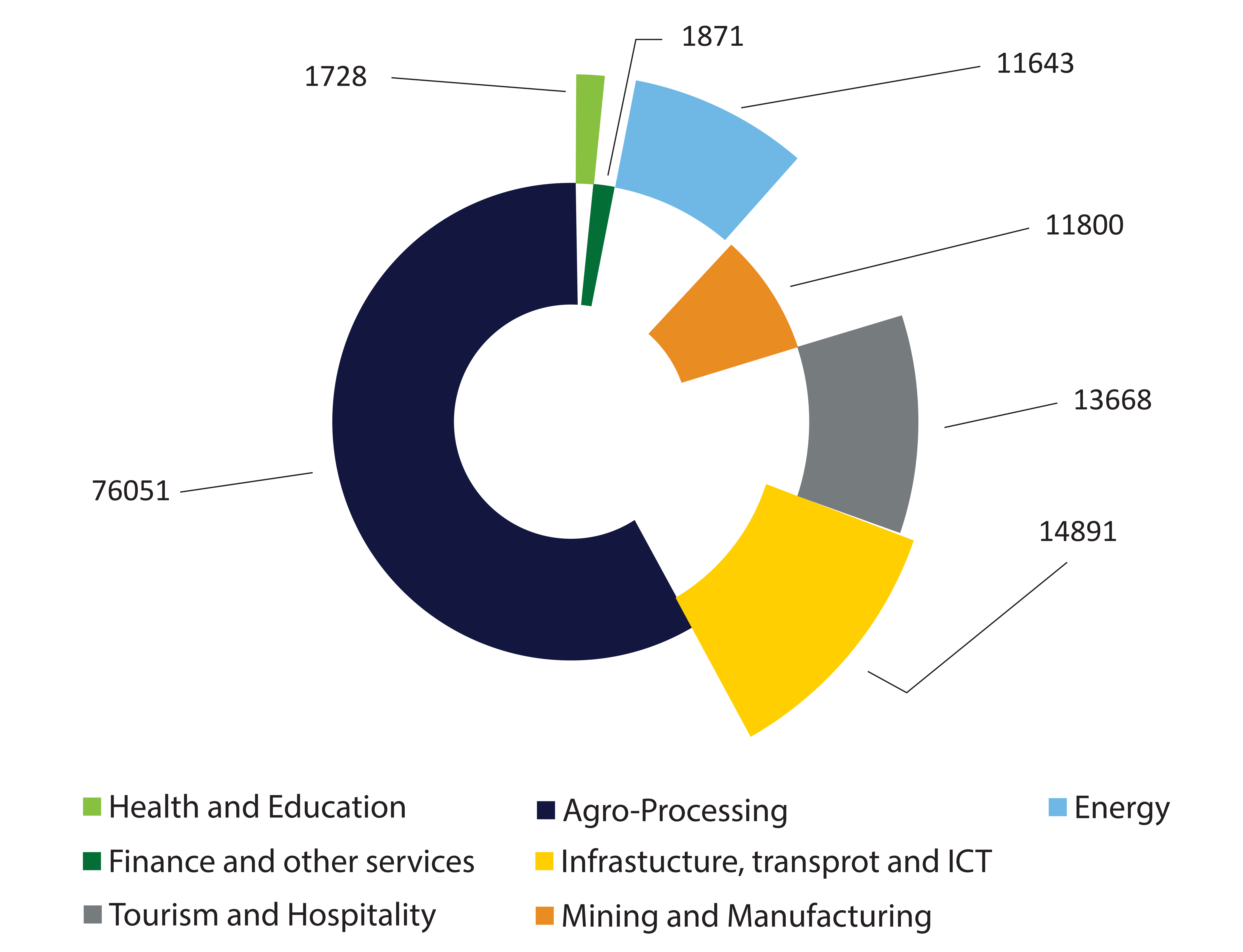
Figure 24: Private Investment Commitments by Sectors



Source: MITC

In terms of job creation, private investment in agriculture, followed by infrastructure, transport and ICT, tourism and hospitality appear to generate the most (Figure 25).

Figure 25: Indicative Jobs created by different Economic Sectors



Source: MITC

To sum up, agriculture remains the most economically important sector in the country, especially in respect of job creation. The decline in tobacco as the economy's mainstay however calls for diversification of agriculture, and further diversification of the economy, targeting more manufacturing, processing and value-addition. This, however, is contingent upon addressing the enduring business climate impediments, starting with utilities: electricity and water.

Public-Private Partnerships (PPPs)

Government intends to operationalize PPPs for several flagship projects to accelerate project delivery and leverage private finance. At least seven national development projects in the sectors of industry, water, electricity, ICT, and transport have been identified to be implemented through PPP arrangements. PPPs in Malawi are facilitated by the Public-Private Partnership Commission (PPPC). The PPPC is the successor to the erstwhile Privatization Commission (PC) formed in 1996 to advance the divestiture of government interest in several entities. The PC morphed into the PPPC in 2012 to operationalize the 2011 PPP Act.

The PPP concept is relatively recent in the country. In 2017, the Economist Intelligence Unit (EIU) scored Malawi's enabling environment for PPPs at 41 out of 100. This is below the average score of 56 for all 40 assessed countries across Latin America, Europe, Asia, Middle East and North Africa, and Sub-Saharan Africa.

Some of the active PPP projects in Malawi worth 116 (US$ million)[71] are listed below.

Table 9: Major active PPP Projects in Malawi

Project Name	Sector	Financial closure year	Investment ($US Million)
Nkhotakota solar plant	Electricity	2019	67.0
Malawi Telecommunications Ltd. (MTL)	ICT	2006	30.5
Malawi - Nacala Railway	Railways	1999	6.0
Airtel Malawi	ICT	1999	4.7
Telekom Networks Malawi	ICT	1995	8.0

Source: PPP Knowledge Lab,2019

Notwithstanding its nascent state, good progress has since been made, with several PPPs concluded and some in the pipeline. Those concluded PPP projects include:

The Central East Africa Railways Limited involving Vale Logistics of Brazil. Vale recapitalized the former Malawi Railways in 2013 and were granted a 45-year concession. The investment is worth USD1billion. As part of the Build–Own–Operate–Transfer (BOOT) agreement, Vale is investing US$ 1 billion in the rehabilitation of the Moatize – Nkaya railway, which includes refurbishing of Malawian rail lines in Nayuchi and Limbe, and the purchase of 6 passenger coaches to provide low-cost civilian transport services. The concession removed the old levy exceptions and subsidies and requires CEAR to pay to the GoM a yearly fee of 5% of gross revenue or $ 1 million, whichever is greater.

Africa Parks has been granted 25-year concessions to run some national parks around the country, including Liwonde National Park, Nkhotakota Game Reserve and Majete Game Reserve. The concession involves an investment of $10-20 million in park infrastructure, such as electrical fences, and an annual fee to government of 10% of gross revenue or $ 50,000, whichever is greater.

Mota Engil was granted a 35-year a BOOT concession to run the former Malawi Lake Services as the Malawi Shipping Company. Shareholding in Malawi Shipping Company is split amongst Mota Engil (60%), Sonauta (20%), and Malawian empowerment investors and company employees (20%). The investors have committed to a $ 30 million capital investment which includes the rehabilitation of the old vessel, purchase of 2 luxury yachts and a 4-star hotel. The concession involves a monthly fee of $5,000, an annual fee equal to 2.5% of gross revenue and an additional 1% going to support the marine college association of Malawi.

[71] https://pppknowledgelab.org/countries/malawi

Establishment of Malawian Airlines, as part of the transformation of the now defunct Air Malawi. 49% of the shareholding in Malawian Airlines is owned by Ethiopian Airways whilst the remaining and 51% is held by the GoM, which intends to reduce it to 20%.

PPPs in the pipeline include: Construction of student accommodation in secondary and tertiary schools across Malawi worth over USD400mn, construction of fibre optic backbone worth USD20mn and reconstruction of the Malawi Cargo Centre in Tanzania. This has been contracted to Bollore Logistics and is worth between USD4mn and USD6mn.

Despite the existence of a comprehensive legal and regulatory framework, infrastructure PPPs in Malawi face several bottlenecks. Projects are hindered by a weak overall investment climate for private investors, high inflation rates, credit costs and funding deficits, which have led to over-reliance on external finance and aid. Further, as PPP is still in its infancy, there remains an overall lack of experience and precedent in the PPP process.

Other challenges affecting the take-off of PPPs in Malawi include insufficient services (power, water, transportation infrastructure) that increase cost of business; access to finance; inadequate capacity within government to design and monitor complex projects; poor marketing of Malawi; weak regulation; financial constraints within the PPPC and government to undertake feasibility studies; and the fact that the PPPC is mostly on the receiving end for most of the projects.

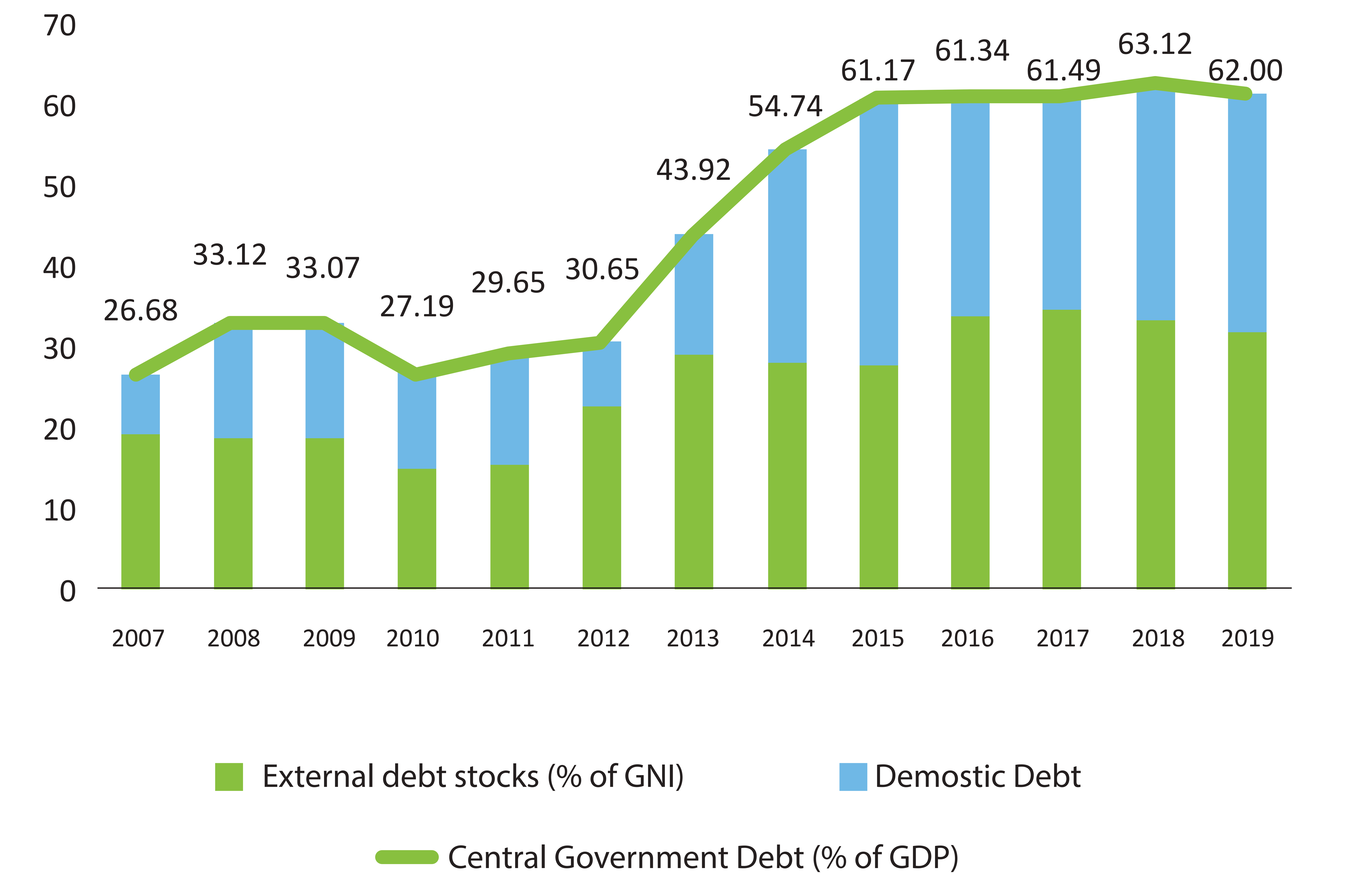
In summary, Malawi has a comprehensive legal and regulatory framework for PPPs, but projects are hindered by a weak overall investment climate. Establishing a development bank presents good prospects for deepening financial intermediation and improving private investment. Further, requiring publication of completed contracts, clarifying ambiguous legislation on appeals and establishing clear methodologies for value-for-money and risk transfer calculation would increase transparency, thereby, hopefully fostering greater confidence in PPP arrangements among private investors.

4.6 Government Borrowing

Overview of Public Debt

The Debt Sustainability Analysis (DSA) conducted by the World Bank and IMF) in 2020 indicates that Malawi is at moderate risk of external debt distress with limited space to absorb shocks and high risk of overall debt distress. Malawi's external debt portfolio remains sustainable over the medium term. However, the country faces a moderate risk of external debt distress with limited space to absorb shocks as it is highly vulnerable to export-related shocks. Considering domestic debt, however, the country is at high risk of debt distress. Major risks concerning the Malawian public debt status include the high stock of domestic debt, refinancing risk, and exposure to exchange rate risk. The DSA further observes that the country's rate of debt accumulation has been one of the fastest amongst countries that benefited from the HIPC and Multilateral Debt Relief Initiative (MDRI). This is to such an extent that Malawi's debt level is now higher than its African peers and significantly above the median debt levels for Poverty Reduction Growth Trust (PRGT) eligible countries. As depicted in Figure below, Malawi's public debt has increased from 26.7% of GDP in 2007 (immediately after the HIPC and MDRI debt relief in 2006) to 62% of GDP in 2019.

Figure 26: Malawi's Public Debts (% of GDP)



Source: Deloitte analysis based on data from IMF and World Bank

At the end of the 2019/20 Financial Year (FY), Total Public Debt (TPD) stood at MK 4.13 trillion or 62% of GDP. This is an increase of MK 458 billion over the same statistic a year earlier. Of the TPD stock, MK 2.37 trillion were Domestic Debt and USD 2.39 billion were External Debt[72]. The main drivers of the increase in debt to GDP ratio in the past four years are high primary budget deficit, exchange rate depreciation and high interest rates largely emanating from domestic borrowing[73].

Traditionally, Malawi has relied on external concessional financing to support its budget deficits. However, the withdrawal of budget support by traditional development partners and multi-lateral finance institutions has translated in domestic debt rising more rapidly than external debt.

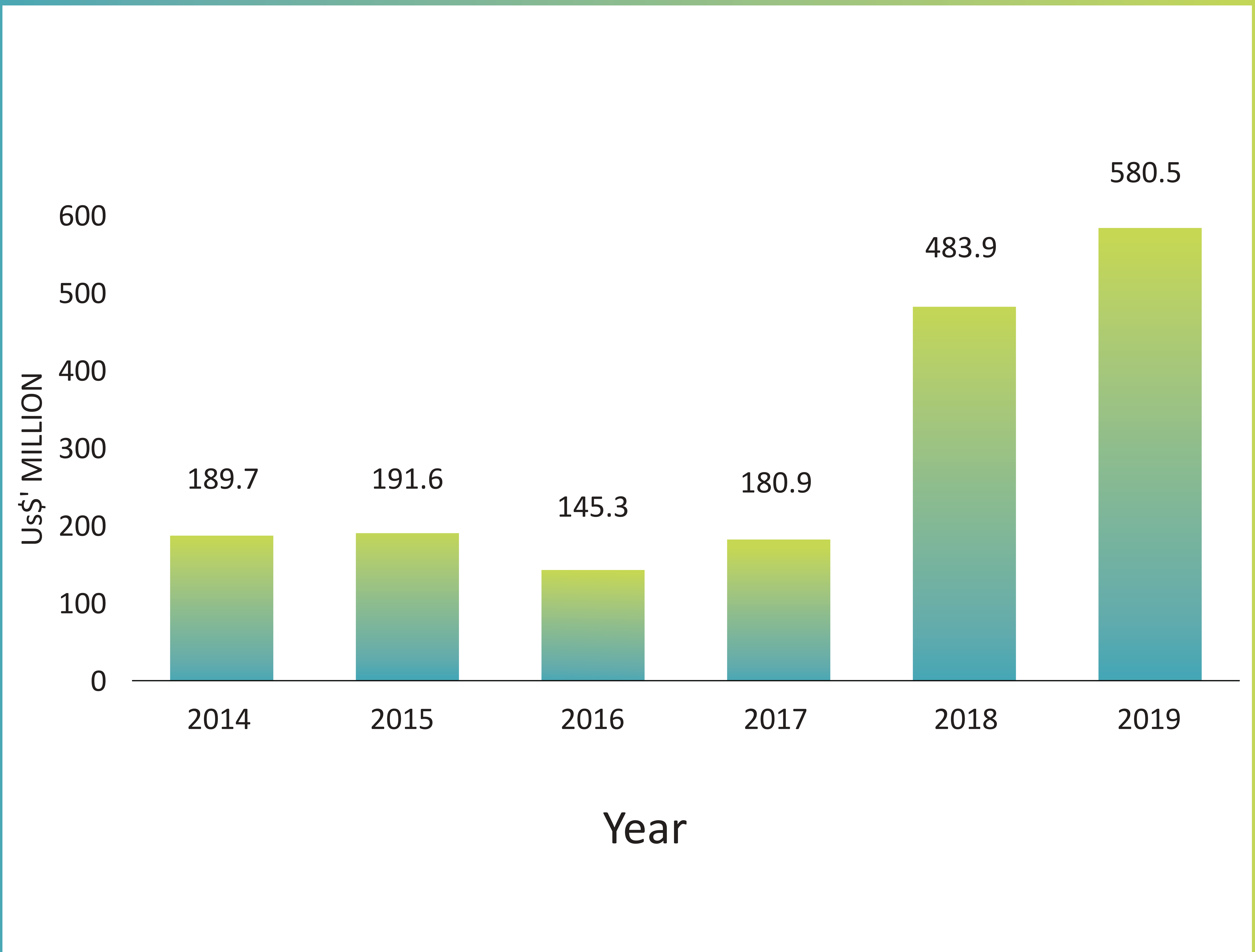
[72] Annual Public Debt Report for the 2019/2020 financial year, Republic of Malawi Ministry of Finance
[73] Annual Public Debt Report for the 2019/2020 financial year, Republic of Malawi Ministry of Finance

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 a weak domestic economic environment and exacerbated by prevalent PFM systemic weaknesses and corruption, which increase the country's sovereign risk. Nonetheless, steps can be taken to address these shortfalls and position the country to be able to expand its finance sources by participating in the global capital market.

External Borrowing

Due to its developmental lending status, most external loans to Malawi come on highly concessional terms. Development finance from emerging economies such as BRICS and Arab states is equally used by the GoM just as is concessional financing from traditional DFIs (i.e., World Bank, AfDB, European DFIs).

Figure 27: Loan portfolio for Malawi



Source: Deloitte analysis based on data from Ministry of Finance

External Debt was primarily owed to multilateral creditors (79%), with the rest repayable to bilateral creditors (20%). The main provider is the International Development Association (IDA) followed by the African Development Fund (ADF) and the IMF. The International Development Association (IDA) is the largest creditor by volume, being owed USD 919 million by the Malawian government, followed by the African

Development Fund (ADF) and the IMF with USD 325 million and USD 222 million, respectively. China and India are the main holders among bilateral creditors, with China accounting for about 12% of total debt[74].

Table 10: Composition of External Public Debt (Million U.S. dollars)

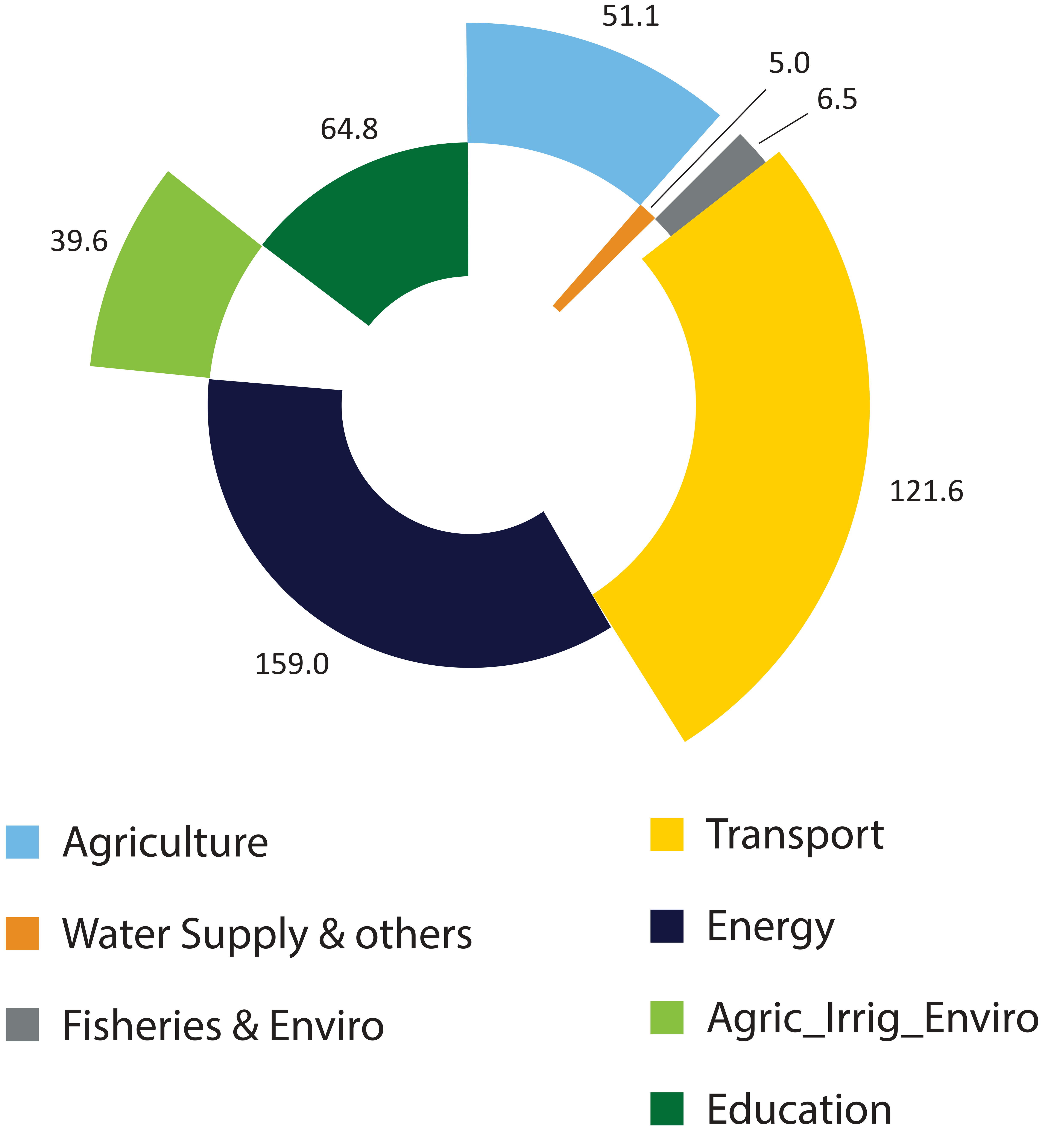
	2015		2016		2017		2018	
	Actual	Share	Actual	Share	Actual	Share	Actual	Share
Multilateral	**1,172**	**73**	**1,293**	**75**	**1,584**	**78**	**1,708**	**79**
IDA	590	37	642	37	860	42	919	43
ADF	229	14	248	14	290	14	325	15
IMF	163	10	206	12	224	11	222	10
IFAD	72	4	73	4	77	4	79	4
Other multilateral	119	7	124	7	133	6	163	8
Bilateral	**440**	**27**	**426**	**25**	**437**	**21**	**424**	**20**
China	243	15	227	13	236	12	220	10
India	152	9	147	9	142	7	145	7
Others	45	3	52	3	58	3	59	3
Commercial	0.4	0	0	0	0	0	0	0
Total	**1612**	**100**	**1179**	**100**	**2401**	**100**	**2151**	**100**

Source: World Bank, IMF (2019) Debt Sustainability Analysis

External finance from DFIs (both traditional and emerging) normally sector specific based on identified priorities by both the GoM as well as the development partners. It is thus relatively well aligned to national development strategies. Data from MoF indicates that most of external development finance are invested in energy, seconded by transport, followed by education and agriculture, in that order (Figure 28) which is in alignment to the priority areas of Malawi Vision 2063.

[74] Joint World Bank-IMF Debt Sustainability Analysis November 2019

Figure 28: Loan Map of Malawi with priority areas (2019)



Source: Ministry of Finance (2019)

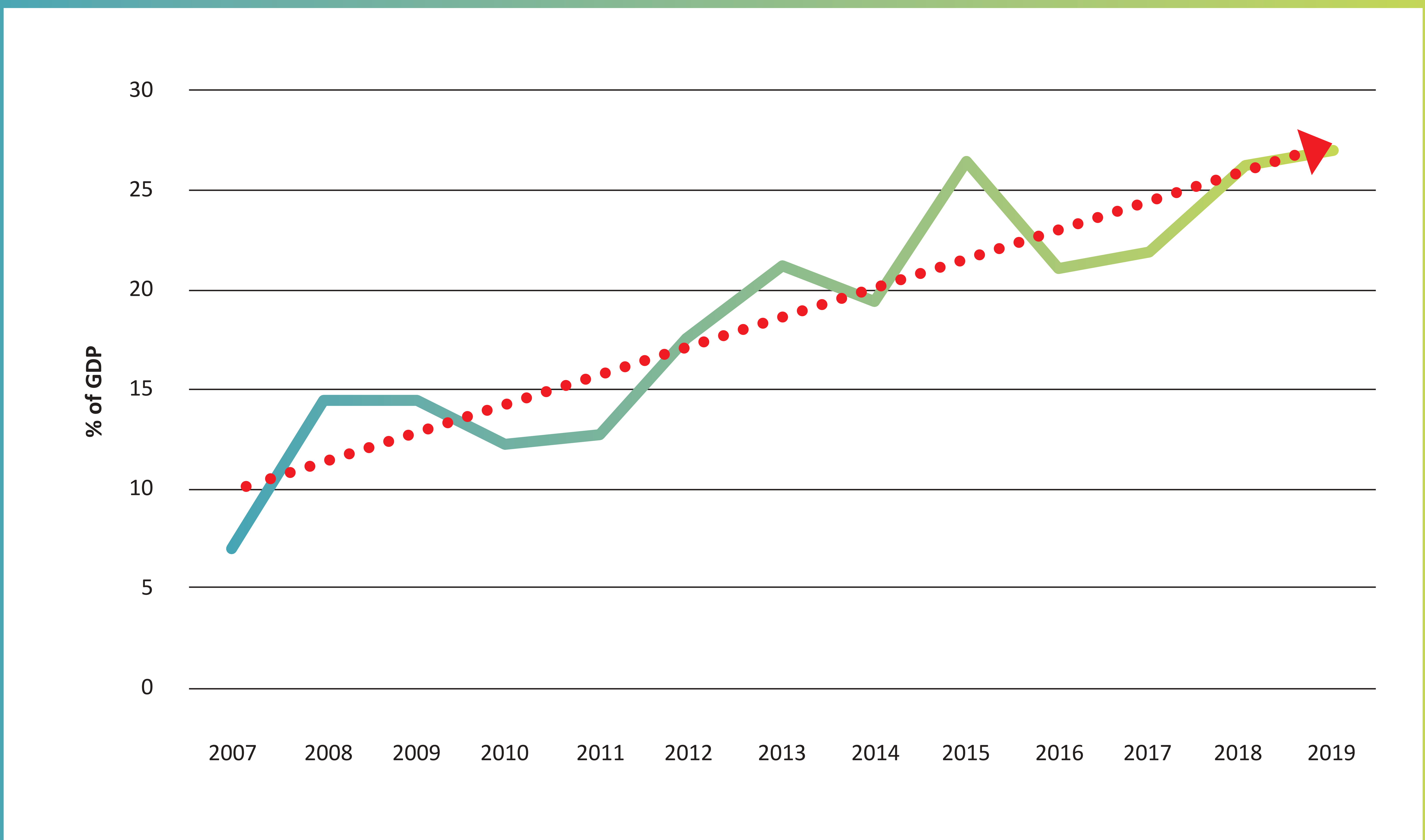
Based on current projections, debt servicing and repayments, particularly to emerging DFIs, is expected to drastically increase considering the present COVID 19 pandemic situations, thus causing further strain on the financing and implementation of the national development strategies including the now ongoing Malawi Vision 2063.

Domestic Borrowing

The GoM has in recent years tended to borrow short-term from the domestic capital and money markets, especially in form of treasury bills. Whilst these short-term instruments attract high interest rates, their allure is the flexibility they afford government in terms of loan management, as they are unconditional (not tied to development sectors, projects or conditions compared to foreign concessional financing).

Public domestic debt is held by commercial banks, the non-bank financial sector, and the RBM. Public domestic debt, 28.3 % of GDP at end-2018, is expected to edge up to 32 % in 2019—7 % points higher than envisaged in the previous DSA. The primary deficit (net of budget support and dedicated grants) in FY 2018/19 was 3.4 % compared to the previously programmed level of 1.1 %, mainly due to faster than envisaged implementation of rural electrification and domestically financed development spending planned for FY 2019/20, expenditure overruns related to ensuring safety during elections and post-election protests, and disaster relief after Cyclone Idai. The current DSA continues to incorporate guarantees to SOEs of MK 17 billion (0.4% of GDP). The IMF notes that the progressive shift from external to domestic borrowing is largely because of sustained large fiscal deficits between 2013 and 2018, as donors withheld budgetary support in the wake of the cash gate scandal.

Figure 29: Total Domestic Debt (% of GDP)



Source: Deloitte analysis based on data from IMF and World Bank data 2019

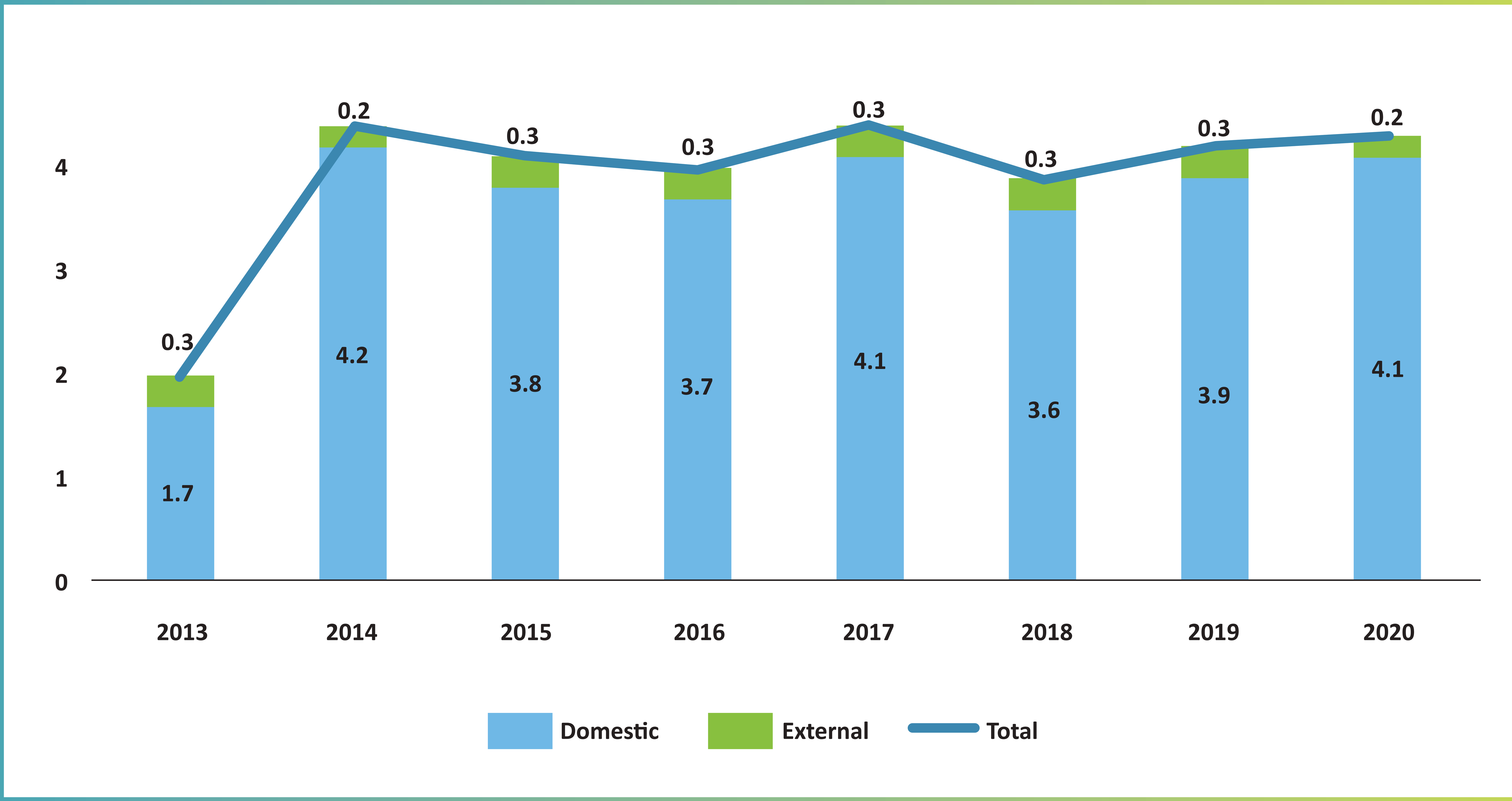
The Government of Malawi planned that gross domestic debt, as a percentage of GDP will gradually decline over a five-year period, from 22.1 % at the end of 2016 to around 12 % of GDP at the end of 2022[75]. However, it has been impacted by the COVID pandemic adversely. Policy implications of the current situation though are that failure to exercise fiscal restraint will exacerbate pressures on the exchange rate and non-food inflation; and crowd out private sector borrowing and investment. It will further erode perceptions of government commitment to policy reforms and sustaining macroeconomic stability. It is thus imperative to uphold the government commitment of containing domestic borrowing by among other measures, operationalizing

[75] https://www.imf.org/external/pubs/ft/dsa/pdf/2017/dsacr17183.pdf

the Debt Management Policy, including the conversion of short-term debt instruments into long term instruments. The IIMF has presented many more recommendations to the GoM on how to curb public debt and reduce the risks of domestic borrowing[76] .

As depicted in Figure 30, the total interest expense as a percentage of revenue has been hovering around 4.3 % in 2020.

Figure 30: Public Debt Interest Expense (% of GoM Revenue)



Source: World Bank, Malawi Economic Monitors

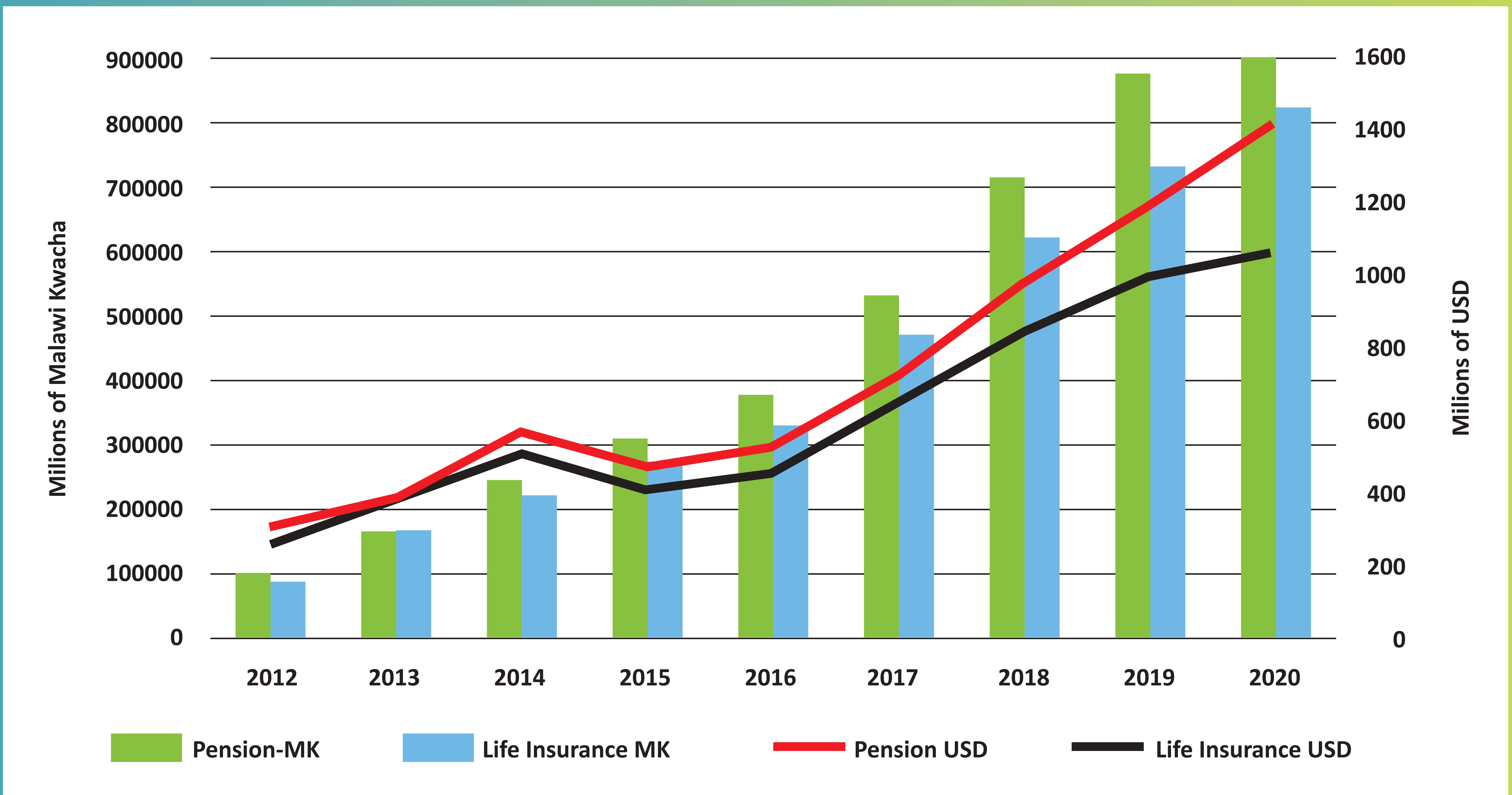
4.7 Pension and Life Insurance Funds

Pension funds have increased manifold in absolute Malawi Kwacha and USD terms since the Pensions Act came into force in 2011 (Figure 31). The Act enunciated a mandatory requirement for all employees to be on pension, with employers required to contribute a minimum of 5% of an employee's gross salary towards pension. Life Insurance funds have similarly increased (Figure below). Pension assets grew by 22.5 % in 2019 to MK878.1 billion due to growth in contributions and investment income. Total assets held by life insurers invested in deposit administration products increased by 17.7 % to MK731.9 billion from MK621.6 billion in December 2018[77] .

[76] IMF. (2017). Malawi Article IV Review. Washington DC: International Monetary Fund

[77] The Registrar of Financial Institutions Annual Report 2019

Figure 31: Pension and Life Insurance Funds



Source: Deloitte analysis based on data from Reserve Bank of Malawi

Asset Portfolio Mix of Pension and Life Insurance Funds

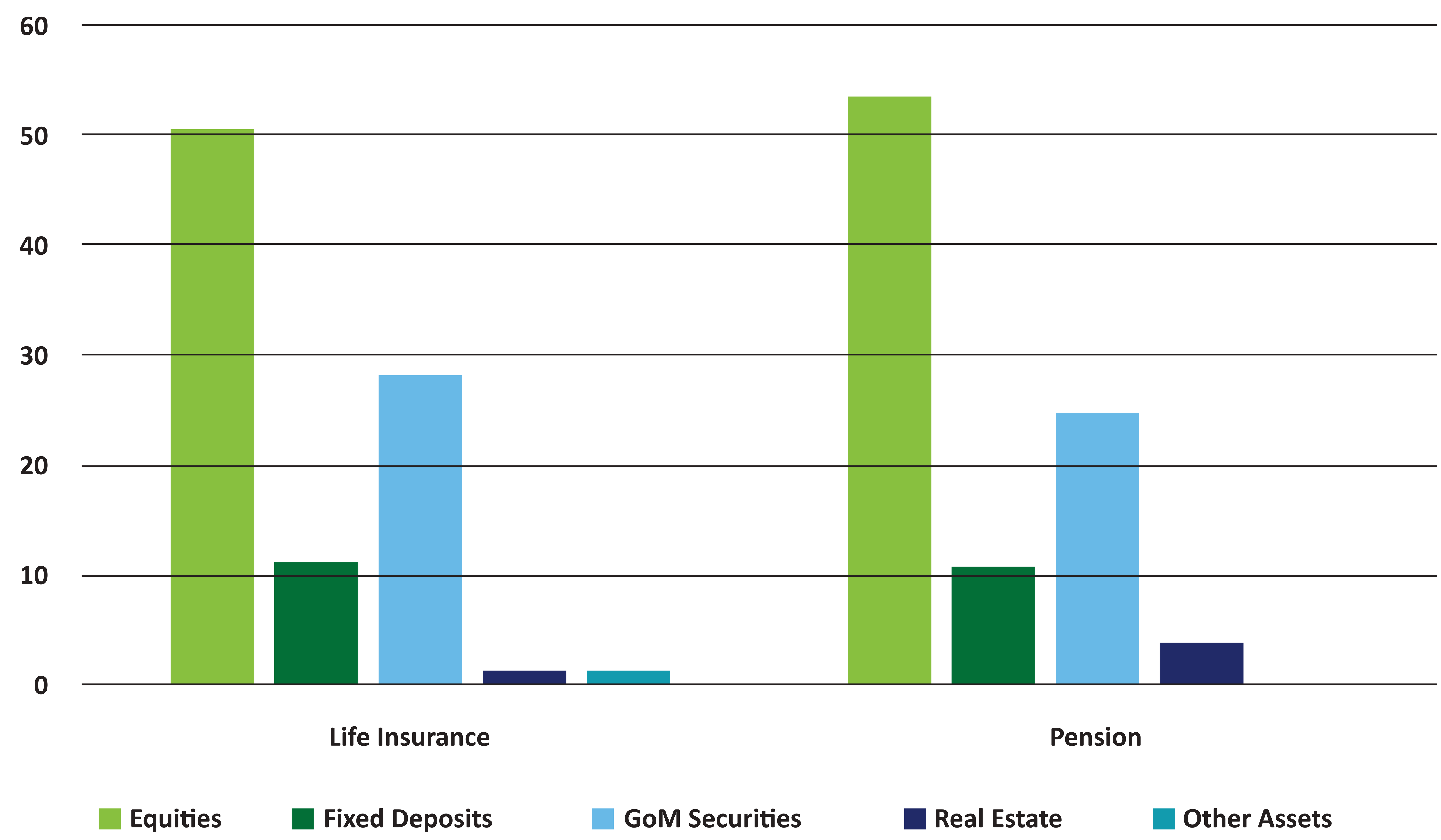
The asset portfolio of the pension sector remained concentrated in equities and Government securities. Concentration in equities increased to 53.6 % in 2019 of total assets, compared to 43.1 % in 2018. Following a decline in interest rates, pension funds generally undertook a shift into longer dated government securities from treasury bills to lock-in prevailing interest rates. Consequently, concentration in long term Government securities increased to 24.8 % from 16.8 % in December 2018. Fixed deposits constituted 10.9 % of total assets from 7.8 % reported in 2018. Aggregate investments in interest bearing assets remained largely unchanged at 41.9 % of total pension assets while investments in real estate slightly increased to 4.0 % from 3.8 % in 2018[78].

Investment assets increased to 98.0 % of the life insurers' total assets from 96.1 % recorded in December 2018. Equities, both listed and unlisted, constituted the highest proportion of assets at 50.1 % from 49.6 % recorded in 2018, followed by government securities at 28.5 % from 26.8 %. Despite the recorded nominal growth concentration risk evidently materialized as the sector was negatively impacted by poor performance of the stock market. Nonetheless, fixed deposit increased substantially to MK83.2 billion in December 2019 from MK34.2 billion in December 2018. Interest rates for such investments are negotiable hence more attractive[79].

[78] The Registrar of Financial Institutions Annual Report 2019

[79] The Registrar of Financial Institutions Annual Report 2019

Figure 32: Pension and Life Insurance Assets Investment Portfolio Mix (2019)



Source: Deloitte analysis based on data from Reserve Bank of Malawi

The growth in pension and life insurance funds presents a hitherto untapped source of development finance for the Government of Malawi, especially in respect of infrastructure development.

Despite some experts arguing that these types of funds are highly risk averse to invest in risky, decades-long infrastructure projects, there is a strong case that "with the right governance, regulation, and instruments to assess and manage the risks associated with long-term investment in infrastructure, these funds could take on a greater role in transforming the infrastructure landscape. African Unions' New Partnership for Africa's Development (AU-NEPAD) estimates that pension funds totaling US$ 380 billion in only three of Africa's largest economies, can finance the entire regional Programme for Infrastructure Development in Africa (PIDA)[80].

[80] https://www.un.org/en/africa/osaa/pdf/pubs/2017pensionfunds.pdf

Case Study 1: Pension Funds Infrastructure Investment in Africa

Pension funds can use several channels to invest in infrastructure. Direct exposure is gained mainly through the unlisted equity instruments (direct investment in projects and infrastructure funds) and project bonds, while indirect exposure is normally associated with listed equity and corporate debt. More specifically, pension funds can rely on several options such as:

Listed infrastructure companies: investment in equity of companies that are exposed to infrastructure.

Infrastructure funds: investment in publicly listed equity funds trading on a stock exchange or in unlisted equity funds that focus on infrastructure investments.

Direct investment (or co-investment along infrastructure funds): investment in equity of a single-asset project company or a portfolio of infrastructure assets that provide diversification among geographies and sectors.

Debt financing: lending to the owner or operators of the infrastructure, for instance through project bonds or general obligation bonds.

Source: Amadousy[81]

Pension fund investment in Africa has taken several different routes. South Africa has the largest variety of instruments available to institutional investors, and pension funds have invested in infrastructure using project finance loans for toll roads, municipal bonds, and jointly owned infrastructure funds. Pension funds in other countries have favored instruments such as corporate bonds (Cape Verde, Uganda, Mozambique) and government bonds earmarked for infrastructure financing (Kenya, Senegal, Ghana) as well as state bonds and government- sponsored infrastructure funds (Nigeria), regional funds (Ghana's SSNIT), and infrastructure funds (Nigeria Infrastructure Fund). In addition, the listing of an infrastructure bond on the domestic stock exchange is under consideration in Namibia.

The broader African experiences (Text Box below) and the trend in the growth of Malawi's pension and life insurance funds point to a clear opportunity for supporting infrastructure development; particularly the flagship projects proposed for partnerships with the private sector. The equity portion of the fund assets can be directed to companies that are active in infrastructure development in Malawi, while the large portion of assets invested in government securities can be re-structured to be more targeted to specific development programmes and projects. Traditional treasury notes could for instance be transformed into infrastructure bonds. The Malawi Stock Exchange (MSE) has in fact already submitted proposals to the MoF along these lines. The MSE however laments government's tardiness in reacting to the proposals. MSE's proposal includes the issuance of bonds by central government, local governments, and state-owned enterprises.

[81] Source: Sy, A. (2017). Leveraging African Pension Funds for Financing Infrastructure Development, New York: Brookings Institution. pp. 31&32

Text box 4 below is an extract of some examples of infrastructural projects that can be financed in this manner as presented by the MSE.

Text Box 4: Extract from MSE Proposal - Examples of Infrastructure Bonds

Airport revenue bonds to fund the construction of airports. Such bonds can be secured using landing fees, fuel fees, and lease payments.

Industrial revenue bonds to fund public projects such as factories, industrial parks, and stadiums. This can be secured using service fees, concessions, and lease payments.

Public power revenue bonds can be issued to fund expansion of power plants. Repayments can be secured from electricity tariffs.

Housing revenue bonds can be issued to fund the construction of housing units for different social classes. These may be secured by Mortgage payments.

Student loan revenue bonds can be issued to fund loans taken by college and university students. These are secured by the student loans themselves.

Water revenue bonds can be issued to finance water and sewer projects. These are secured using connection fees and usage fees.

Toll road bonds or gas tax revenue bonds can be issued to fund the construction of toll roads. These are secured from gas tax revenue bonds and highway revenue bonds. These can be secured using toll fees and fuel levies.

College and university revenue bonds can be issued to finance the construction of centers of higher learning and accommodation units. These can be secured from dorm fees and tuition payments.

Source: Malawi Stock Exchange

Other than affording government an alternative source of development finance, more benefits accrue to issuance of long-term bonds as offered by the MSE and summarized in Text Box below:

Text Box 5: Advantages of Bond Issuance

Listing of Treasury Notes/Bonds will allow investors to discount these securities on an open and well-regulated market and therefore increasing the liquidity of such instruments.

Listing of Government debt securities will also allow government to reduce its cost of debt as interest rates of listed securities are usually lower than interest rates on privately placed securities. This is partly due to the reduction in liquidity risk that is brought about through listing. In addition, when the Notes/Bonds are being traded on the Exchange, there will be more price discovery which has the potential to reduce interest rates since individual investors will benchmark this against the return that they receive on fixed deposits.

The listing of Government Securities will also have positive externalities such as incentivizing private companies to also list corporate paper. Firstly, as government issues more long debt securities, a yield curve will be developed, and private companies can benchmark against the yields when issuing their own papers.

Listing of Government Securities will provide an opportunity for individuals to own Government Securities by purchasing them on the secondary market.

Source: Malawi Stock Exchange

Overall, pension and life insurance funds through bond issuance represent a hitherto untapped development finance source, such that government should seriously consider the MSE's proposal. Other than the cited benefits, increased activity on the local source will be taken capital market deepening, a factor that will posture the country in good light as it positions itself for future participation in the global capital market.

4.8 Risk insurance initiatives of GoM

Malawi is one of the least developed countries in the world. Its risk insurance industry remains in infancy despite insurance industry being in existence for 60 years. The industry is divided into the life assurance sector and non-life insurance sector. The life assurance sector accounts for more than 85 %[82] of the insurance industry in terms of assets and premium covers. The life insurance sector is significantly supported by employment and pension acts, which are compulsory, while the non-life insurance sector is usually administered on voluntary basis.

Overall, the use of non-life insurance across Africa is very low, with penetration levels ranging from around 2.7 in South Africa (premium volume as a % of GDP) to 1.08 in Malawi and 0.79 in Tanzania (Swiss Re Sigma – 2018)[83]. Whereas current status quo therefore indicates that the non-life insurance industry has little impact on the Malawian economy but has huge potential, considering the unexpected risks prevalent in the economy. GoM's development agenda has initiatives to enhance it. For instance, Malawi's vison 2063 has priorities to scale up affordable and consumer oriented agricultural insurance for smallholder farmers

[82] https://www.cccep.ac.uk/wp-content/uploads/2019/10/working-paper-359-Surminski-et-al.pdf
[83] https://www.cccep.ac.uk/wp-content/uploads/2019/10/working-paper-359-Surminski-et-al.pdf

and targeted agriculture insurance for large commercial farms and cooperatives to cushion them from losses due to internal and external market failures to spur markets linked production[84]. Listed below are some of the areas this DFA exercise via thorough review of literature on the non- life insurance market of Malawi and judged to be discussed in this section.

Agriculture Insurance

The Malawian agricultural sector has two distinct subsectors. The smallholder agricultural subsector is characterized by low productivity and profitability as it is operated mostly on a subsistence basis with limited insurance products. Insurance products such as index-based insurance, crop insurance and climate change insurance schemes, have been piloted in Malawi. There are very few local Malawians involved in commercial agriculture. Large-scale agricultural activities are undertaken by foreign-owned entities, which normally seek offshore insurance schemes. The local insurance industry has little penetration in this market. Local insurers can liaise with government to access a portion of this insurance business for growth and experience. The absorption rate is, however, too low, and only linked to a few farmers who access credit from microfinance lending institutions. They have exerted pressure on the national budget with low demand and uptake by the intended farmers. The greatest challenge has been to design sound insurance products that meet the requirements of farmers while ensuring effective demand. Further, an intensive awareness campaign that seeks to sensitize farmers about the insurance products and their benefits could potentially increase their uptake. To enhance supply and uptake of agriculture insurance GoM has plans[85] which include to conduct a feasibility study on agricultural insurance, work with relevant stakeholders to develop tailor-made options to increase agricultural insurance penetration in Malawi; and creation of a conducive police and regulatory framework for agricultural insurance, build capacity of private insurance companies on agricultural insurance, sensitize farmers on agricultural insurance and enhance access to public sector data (e.g., weather and production data) for insurance companies.

The Manufacturing Sector

The manufacturing industry is tilted towards agriculture. It comprises production of cane sugar, semi-processed tobacco, semi-processed cotton and tea for both local and export markets. All the major players in this sector are foreign-owned entities, which arrange insurance covers at group or regional level implies that local insurers have little share in this sector. Offshore insurance schemes are either used due to group policies or the inadequate capital bases of local insurance companies to underwrite substantial insurable risks. Local insurers should liaise with government to acquire more business from manufacturers through joint ventures with foreign counterparts where policy issues determine the choice of insurer and should encourage the syndication of insurance deals to cover substantial insurance schemes.

Private property catastrophe insurance

Private property catastrophe insurance is currently almost non-existent in Malawi due to a combination of constraints on the side of existing insurance companies and lack of awareness and/or demand for such products on the part of private households and companies. Catastrophe insurance could provide reliable and timely financial relief for the recovery of livelihoods and reconstruction, providing security in the post-disaster period. It could also prevent people from falling into poverty and destitution or provide the liquidity

[84] https://malawi.un.org/sites/default/files/2021-01/MW2063-%20Malawi%20Vision%202063%20Document.pdf
[83] https://www.cccep.ac.uk/wp-content/uploads/2019/10/working-paper-359-Surminski-et-al.pdf
[85] Disaster Risk Financing Strategy and Implementation Plan (2019-2024), Ministry of Finance, Malawi

necessary to restore livelihoods in the short term. In addition, increased private catastrophe risk transfer could significantly reduce the country's disaster related contingent liabilities. GoM, is therefore, developing options to increase catastrophe insurance penetration. As a first step, GOM is planning to conduct an analysis of the current constraints, including legal and capacity gaps, in the insurance sector. Based on the findings, it will develop actions to alleviate identified constraints. This will be done in close collaboration with the Reserve Bank of Malawi, the private sector, and development partners[86]. The inclusion of disaster risk in public investment planning requires commitment from stakeholders in charge of the identification, formulation, prioritization, and implementation of investment projects. Towards this end GoM should collaborate with government ministries, departments, agencies and local councils responsible for public sector projects and should initiate measures to integrate disaster risk considerations in all stages of the project cycle to ensure that all projects are risk informed.

The Malawian non-life insurance sector can grow tremendously if it can develop tailor-made products befitting Malawi's environment or modifying universal insurance products to increase accessibility of insurance products to the local masses. Insurers should liaise with the government for joint ventures or other financial partnerships to insure government assets as means of boosting the insurance industry asset base so that it can contribute effectively in improving country's economy[87].

4.9 National Development Strategy

Government of Malawi (GoM) has begun to implement the country's new long-term vision, Malawi Vision 2063, from this financial year, 2021/22. The new vision succeeds Vision 2020 and its last five-year medium-term strategy whose aim was to "build a productive, competitive and resilient Nation." The new long-term Malawi Vision 2063 aims to create "an inclusively wealthy and self-reliant Nation". The movement from Vision 2020 and its medium-term development plans to Vision 2063 with its own medium-term development plans, and aspirations captured in the SDG's, requires holistic thinking to rationally utilize all the sources of development finance available. The last medium-term development strategy was under the Malawi Vision 2020 and this has come to an end in 2021. There were four medium-term plans under the Vision 2020 (PRSP, MGDS-I, MGDS-II, and MGDS III), and the last one was launched in March 2018. The last Vision 2020 development plan aimed at enhancing Malawi's productivity, competitiveness, and resilience to climate-induced shocks that pose a perennial risk. The last Vision 2020 development plan aimed at enhancing Malawi's productivity, competitiveness, and resilience to climate-induced shocks that pose a perennial risk. The new Malawi Vision 2063 is linked to regional and global development campaigns that Malawi is part of. These include Agenda 2030 for Sustainable Development, the African Union's Agenda 2063, the Vienna Programme of Action for Land-Locked Countries, the Istanbul Programme of Action for LDCs, the SADC Regional Indicative Strategic Development Plan, and the COMESA Treaty. While aligning to the SDGs and priorities of these international development frameworks, the Malawi Vision 2063 has three pillars – agricultural production and commercialization (P1); industrialization (P2); and, urbanization (P3). It also has seven enablers: mindset change (E1); effective governance system (E2); public sector performance (E3); private sector dynamism (E4); human capital development (E5); economic infrastructure (E6); and, environmental sustainability (E7). With the three pillars and seven enablers, the linkages of Malawi Vision 2063 to SDGs are enumerated in table below.

[86] Disaster Risk Financing Strategy and Implementation Plan (2019-2024), Ministry of Finance, Malawi
[87] https://www.emerald.com/insight/content/doi/10.1108/AJEMS-01-2013-0002/full/html

Table 11: Malawi Vision 2063 Pillars and Enablers and Linkages to SDGs

#	Pillars and enablers	SDG Alignment
1	P1 – Agricultural production and commercialization	1, 2, 10
2	P2 – Industrialisation	9, 12
3	P3 – Urbanisation	11, 15
4	E1 – Mindset change	12, 16
5	E5 – Human capital development	3, 4, 5, 6, 7, 8, 9, 14, 16
6	E6 – Economic infrastructure	9, 17
7	E7 – Environmental sustainability	13, 14, 15

Source: Deloitte Touche, 2021

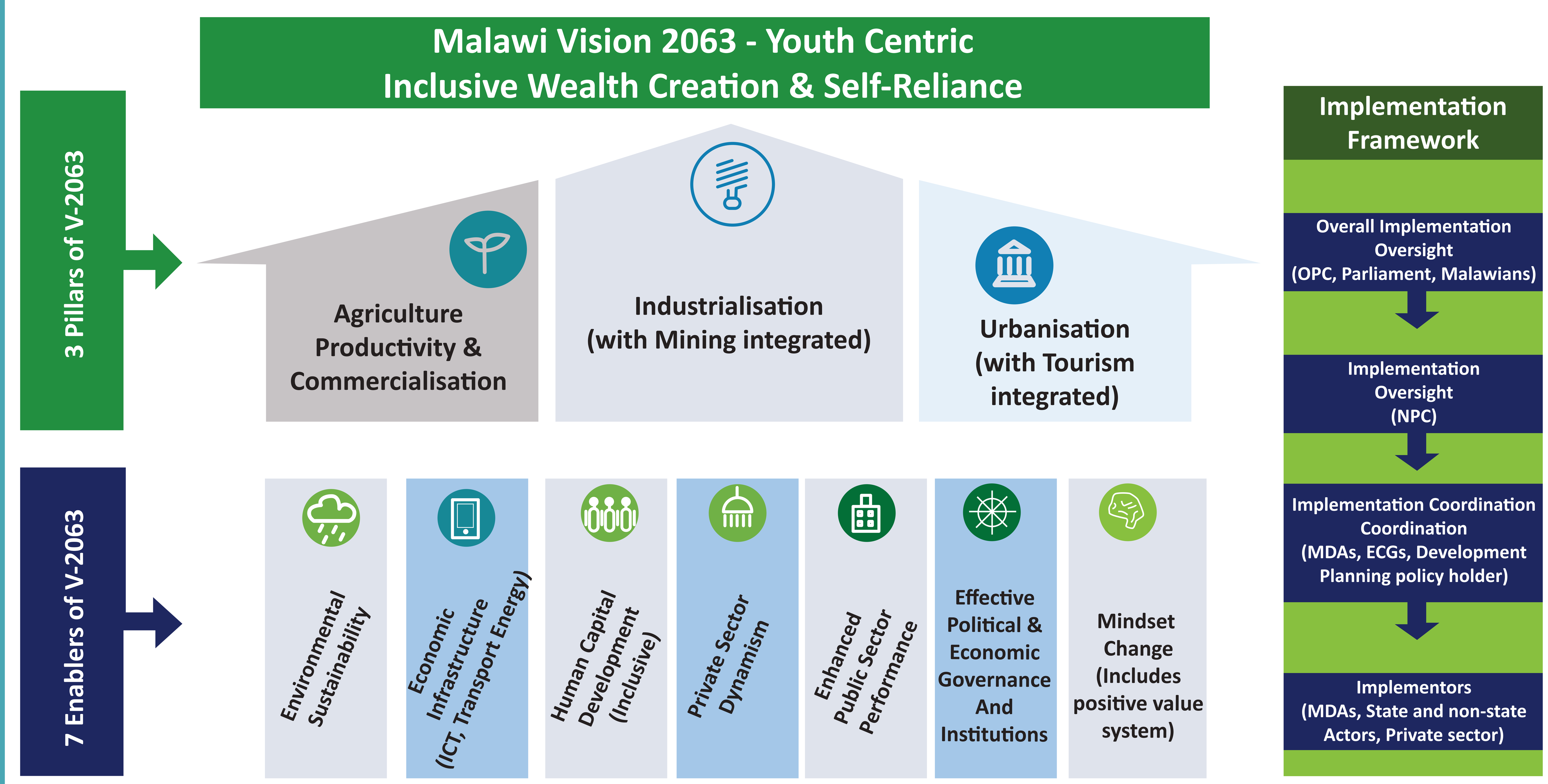
It is expected that the new development strategy will have more specifically defined priority development areas, including a portfolio of flagship projects that the Government plans to implement within its time-frame. Lessons from the MGDS-III have been integrated to improve implementation arrangements of Malawi Vision 2063 Implementation Plan (MIP). These include defining the roles played by various national and local government bodies, sectoral ministries, state-owned enterprises, private sector, civil society, and international development partners. A monitoring and evaluation framework has also been set up, to be overseen by the newly established National Planning Commission (NPC) and also the MoF. Under the last five-year development strategy, the country witnessed noticeable improvement in ICT, maternal and child health, sanitation rural electrification, macroeconomic stability and many more halfway of its life span[88].

It is expected that the Malawi Vision 2063, launched in January 2021 this year, will accelerate the achievement of SDGs.

The Malawi Vision 2063 focuses on youth centric development with 3 pillars and 7 enablers as illustrated in the figure below:

[88] MGDS III midterm review report

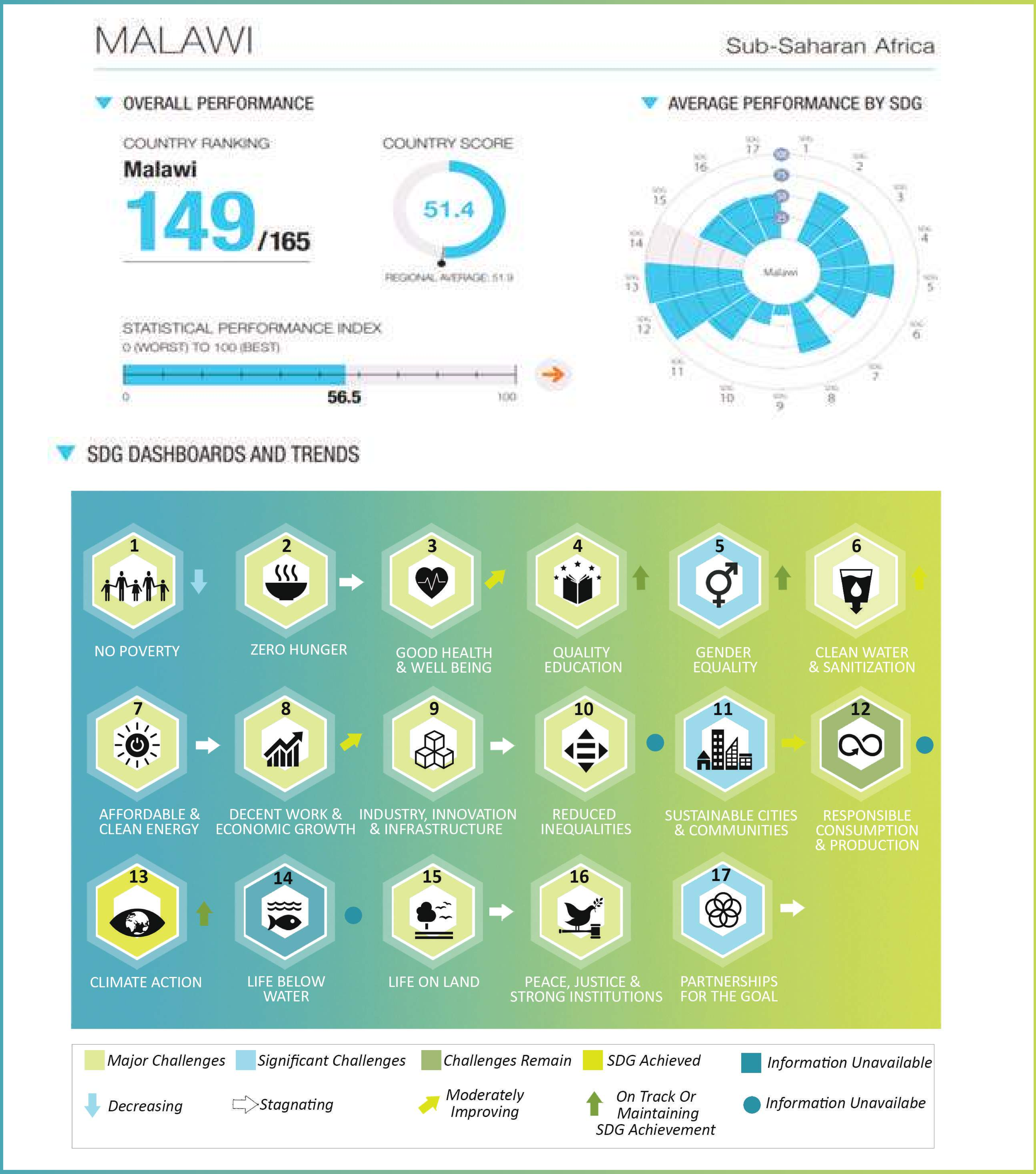
Figure 33: Malawi Vision 2063



Malawi ranks 149 among 166 countries in the average performance list by SDG which has improved 3 positions over the last 2 years. Details are given in the figure below:

[88] MGDS III midterm review report

Figure 34: SDG dashboard 2021



Source: Dashboard SDGs 2021[89]

[89] https://dashboards.sdgindex.org/static/profiles/pdfs/SDR-2021-malawi.pdf

Over the last 5 years of SDGs implementation, Malawi has been making significant progress on 29 of the 169 targets (17 %). There is a moderate progress with performance gaps on 59 of the targets (35%) and shows insufficient to no policy change or otherwise poor performance on 81 of the targets (48 %). The 29 targets on which the Malawi is making significant progress include SDG 3 (Good Health and Well-Being), Target 3.2, under-five mortality rates are significantly declining and likely to be met; SDG 4 (Education for All), Target 4.5, gender parity in primary schools is already equal to parity, Net Enrolment in Primary Schools is close to target[90]. As this coincides with the MDGS III success story, it can be assumed that NDS is in the right track and alerts to probe more to find out the reasoning for not achieving the other targets.

According to the key informants in MoF, there is an outstanding problem with national development strategies that have been implemented to date. The finance needs have always been too many and often outstrip resources. There is some form of organisation and prioritisation in the current development strategy, Malawi Vision 2063, but it is very broad and open ended, the priority areas themselves very broadly named, and everything in practice finds its place in a priority area. Sometimes international protocols play a role; sometimes the size of the sector itself; and sometimes just a preference for social spending or human development like education, health. There is no clear mechanism or formula for allocating resources, even the Budget Division can hardly explain the basis for its funding shares or allocations. It is a mixture of historical forces; preferences for social spending; emerging needs or problems; and other influences. The problem starts from the planning side: the relative activity-based priorities do not exist, even in the national development strategies. The relation of one sector or activity to another in terms of resources required lacks objective technical guidance. Another limitation in national development strategies is that they have usually counted on three main resources of finance: domestic revenues, external grants and debt. However, they have not sought more integrated financing, especially private finance is overlooked. This highlights the importance of INFF and a more integrated financing strategy for Malawi.

The Ministry of Local Government and Rural Development works with local councils to ensure that their local development plans are aligned to the national plans accordingly. The National Local Government Finance Committee (NLGFC) works closely with local councils to facilitate fiscal decentralization, financial management and local development in local governments. Area and Village Development Committees (ADCs and VDCs) at local level are in place to bring the needs of the community to the council to feed into the district plans, alongside participating in the monitoring of ongoing projects and programmes in their areas through Community Monitoring and Evaluation (CME) systems.

At the local government level, district development is guided by a district development plan (DDP). The DDPs are closely aligned to the national development strategies at the national level. All financial flows to a district council are meant to be guided by district development plans. All district councils in the sample for this study have development plans for five years with a standard framework of presentation. However, there are marked differences in content and presentation: there are both similarities and differences in key priority issues to be addressed, and the ranking is usually different. All of them have 'food security' as the topmost priority, but thereafter there are differences. It can be safely concluded that district councils have a foundation for guiding development interventions, and the gap common to all of them is that there is no specific arrangement specified for implementing such guidance on the ground. It is up to the interested stakeholders to choose what do in the DDP, with the usual problems of concentration in one area at the expense of other important areas.

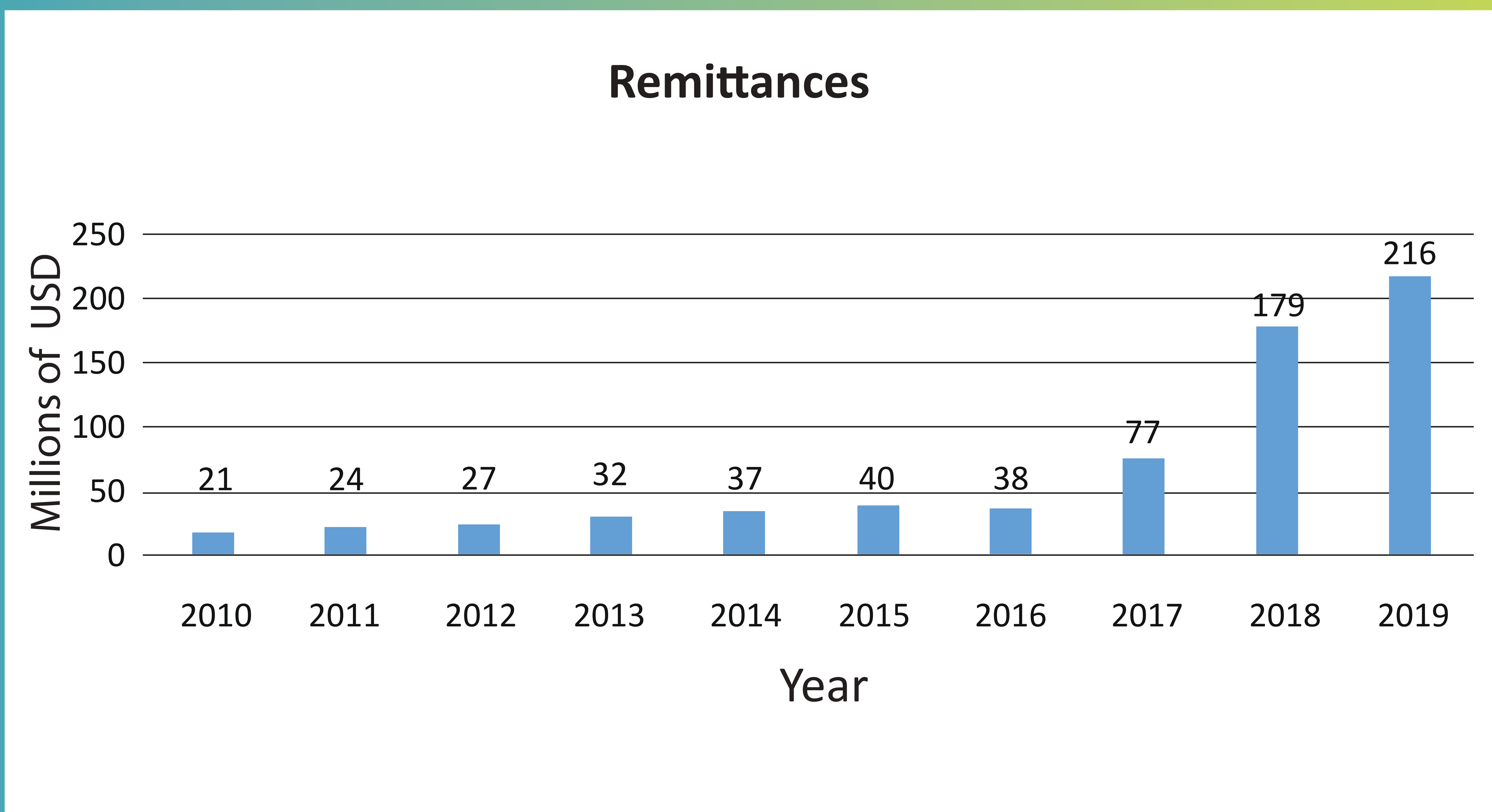
[90] Voluntary National Review Report for Sustainable Development Goals (SDGs), Malawi 2020

One of the main challenges at the local government level is the costing of the DDPs. Usually, these provide no estimates for financial resources that would come from each constituency of development stakeholders. Such information would serve good preparation for resource mobilization efforts. A much bigger challenge here is that budgets for investment for most of them do not reflect the prioritization of key priority areas are unbalanced, and wildly unrealistic. For example, in the sample used for this study, Lilongwe District Council has projected an annual budget for investment of K78 billion, which is more than twice the size of total fiscal transfers to all 28 district councils in the country of about K35 billion. Zomba District has an estimate of K21 billion. Only Nkhata Bay District is closer to reality with an estimate of K2 billion per year.

4.10 Remittances

Remittances are increasingly gaining currency as a source of development finance for developing countries around the world. In Malawi, inflows of remittances have remained relatively small and static since 2000 and recently shown an increase since 2017. This however only represents remittances through official channels. Remittances through informal channels are estimated to be much higher than this, although difficult to quantify. The actual volume of remittances to Malawi is thus assumed much larger than what is reported in the formal banking system.

Figure 35: Remittances into Malawi through Official Channels

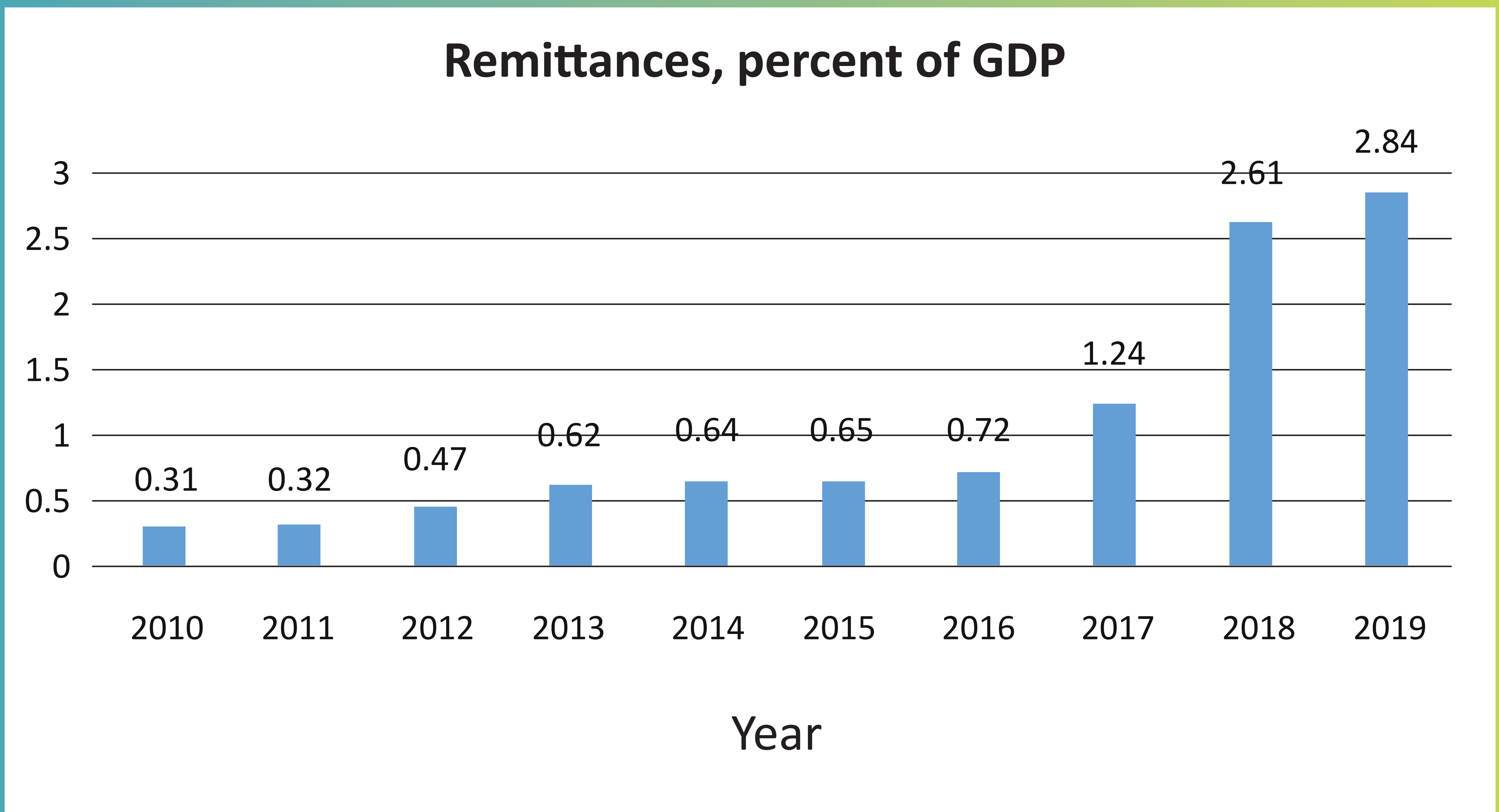


Source: Deloitte analysis based on data from Reserve Bank of Malawi[91]

[91] https://www.theglobaleconomy.com/Malawi/Remittances/

Malawi's remittances were estimated to decrease to 189 Million USD in 2020.The average value of Malawi's remittances as percent of GDP from 1994 to 2019 was 0.53% with latest available value in 2019 of 2.84 % and expected to be at a lower rate of 2.2% in 2020, which is low when compared with the world average 4.65%[92].

Figure 36: Malawi's Remittances as percent of GDP



Source: Deloitte analysis based on data from RBM and MOF[93]

To encourage remittances through official channels, the Ministry of Foreign Affairs and International Cooperation's Diaspora Affairs Unit, in collaboration with the RBM, MoF, MITC and the Private Sector (such as Commercial Banks), are already implementing the Malawi Diaspora Engagement Policy (MDEP) which was approved by Cabinet on 31st August 2017.

While the policy specifies about diaspora bonds, it could further explore how remittances can be better channeled into investment instruments, such as foreign currency denominated accounts, treasury bills and bankable projects, as it has been done elsewhere in the region or other developing countries that include Ethiopia, Kenya, Nigeria, Rwanda, Ireland, India, Philippines, etc. Some of the Indications from the RBM are that remittances have started increasing and prospects are that the Malawi Diaspora remittances, especially those in western countries like the USA and UK can uplift the socio-economic state of the country. In the context of the foregoing, ensuring that the MDEP is effectively implemented is of importance, as remittances stand to contribute towards development financing and poverty reduction, directly through the instruments or indirectly through improved incomes for recipient households.

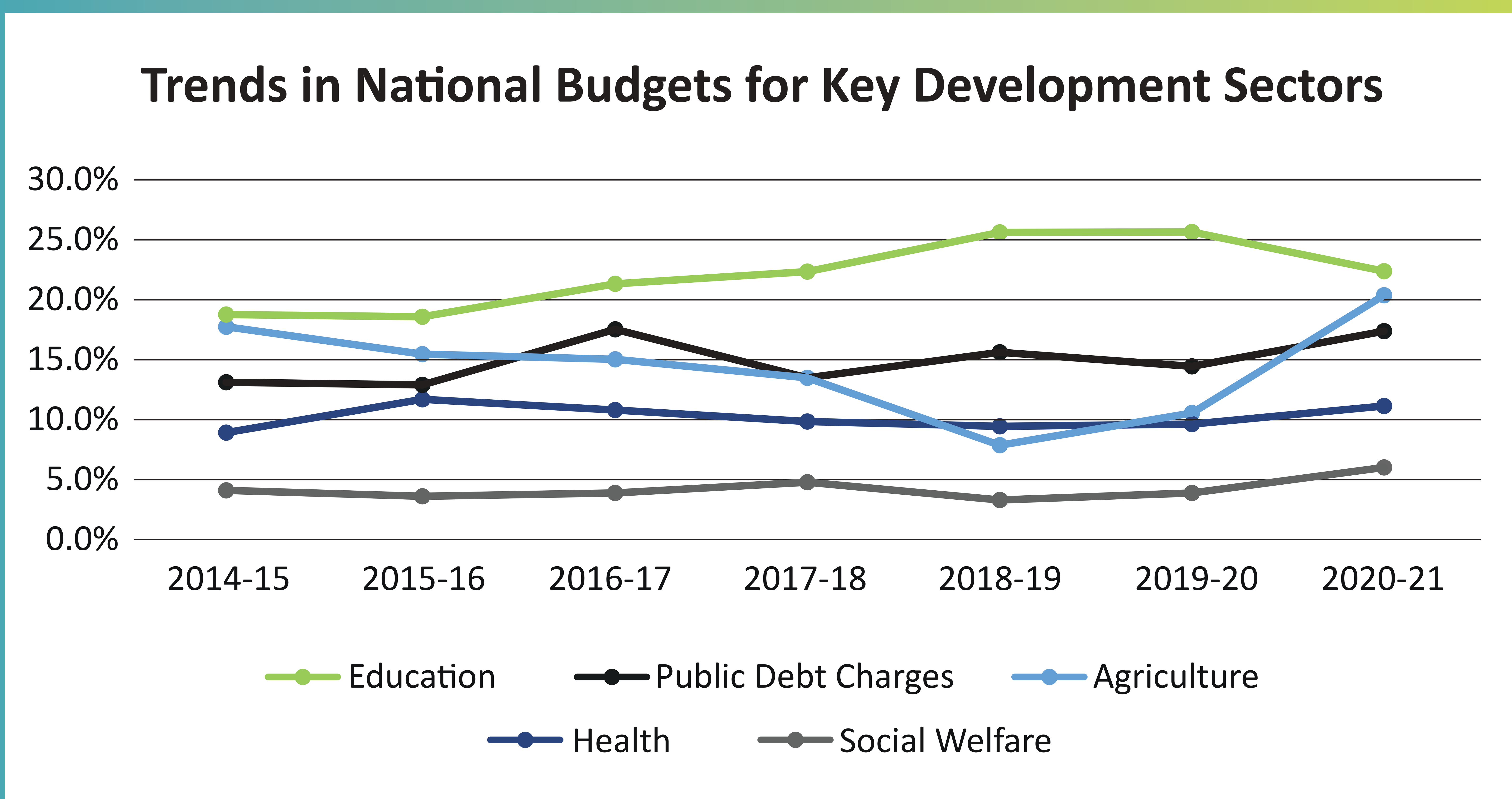
[92] https://www.knomad.org/sites/default/files/2021-05/Inward%20remittance%20flows%20May.%202021.xlsx
[93] https://www.theglobaleconomy.com/Malawi/Remittances/

The ongoing COVID pandemic has an adverse impact on the remittances in line with any other developing countries. As per the World Bank report[94], the remittances to Sub-Saharan Africa declined by 12.5 % in 2020, which is one of the costliest regions to send remittances to. As the COVID-19 pandemic affects both destination and origin countries of Sub-Saharan migrants, the fall in remittances is expected to further lead to an increase in food insecurity and poverty. In case of Malawi, it has recorded a 33% drop in remittances from Malawians working or living abroad in the last five months, remittances have dropped to US$78.96 million from US$118.03 million received during the same period last year[95]. The drop is largely due to the economic crisis triggered by the COVID-19 pandemic and lockdowns in some countries which has resulted in a reduction in wages and employment of migrant workers[96]. As a result of COVID-19 impact, the remittances inflow to Malawi dropped by 13% to $189 million in 2020 from $217 million in 2019, comparable to the reduction level for Sub-Saharan Africa (12.5%). 80% of surveyed households in Malawi reported a decrease in remittances received during the household survey in June 2020[97].

4.11 Public Finance and Expenditure Analysis

From the Figure 37, it is worth to note that government-spending proportions have implications on the development progress in Malawi. It is quite critical for the GoM to learn which areas have significant impacts on poverty reduction when allocating more resources. The following section analyses the existing data and provides the road map, aids and way ahead for the GoM for achieving its developmental goals.

Figure 37: Proportion of Government Expenditure



Source: UNICEF Budget Brief – 2019-20 for Malawi & Budget 2020-21

[94] https://www.worldbank.org/en/news/press-release/2020/10/29/COVID-19-remittance-flows-to-shrink-14-by-2021
[95] https://itweb.africa/content/GxwQDq1ZdP5vlPVo
[96] RBM
[97] https://www.knomad.org/sites/default/files/2021-05/Migration%20and%20Development%20Brief%2034_0.pdf

In 2019, the overall budget for the education sector was MK275.8 billion, of which MK 224.5 billion was for recurrent expenditure and MK51.3 billion was for development outlays. Government continues to invest in the early years of its citizens to spur sustainable development. In 2018, Government constructed 53 Early Childhood Development (ECD) Center's country wide and distributed ECD care and stimulation materials to 2,500 ECD centers. This enabled 2,203,431 children to access ECD services. The National Early Childhood Development Policy was also launched, with the aim of improving ECD Services and strengthening coordination among key ECD stakeholders. Compared to 2018/19, the visible child protection budget declined by 49% in nominal terms and by 54% in real terms, from MK796 million to MK406 million in 2019/20. The decline was registered in a context of overall increase in the 2019/20 Government Budget of 21%. In per capita terms, the total visible allocation to child protection translates to approximately MK23 (US$0.03) per each of the 8.7 million children per year. Such amounts are too low to allow the country to meaningfully prevent and respond to the high rates of child marriage, violence, abuse, exploitation and neglect. The direct child protection budget is a very small share (0.02%) of the 2019/20 Government Budget (MK1.73 trillion) and is negligible relative to the nation's GDP[98].

In 2019, GoM increased the Social Cash Transfer coverage from 176,000 to 280,000 households covering all 28 districts. Currently, monthly transfers are made to 280,000 households with funds disbursed to beneficiaries amounting to MK24 billion. As of August 2020, the program reached approximately 283,000 households and 1,195,000 individuals, or 7 % of the total population. Transfer amounts vary by household size and number of school-aged children, and averaged MK 6400 per household per month (approximately US$8). The specific benefit structure as of August 2020 was: MK2600, MK 3300, MK 4400 and MK5600 for households of size one, two three and four or more, respectively. An additional bonus of MK 800 and MK 1500 was provided to household members of school going age[99]. In response to COVID-19, UNICEF is providing technical assistance to the Malawi Government for the upcoming 'Government Urban Cash Initiative'. The initiative extends cash transfer support to vulnerable families living in urban areas who are affected by income losses due to COVID-19[100]. GoM has also launched emergency cash transfer programme targeting about 1 million people and small businesses affected by the coronavirus pandemic. Eligible households will receive a 35,000 Malawi kwacha ($40) monthly payment, matching the country's minimum wage, through mobile cash transfer[101]. In order to achieve the broader social protection, GoM can consider including not only non-contributory cash transfer but also contributory social insurance.

On women's economic empowerment, the GoM is implementing the Village Savings and Loans Initiative targeting the poor including rural women. Over 3,000 clusters of loans and Village Savings Groups are operational, 4.5 million individuals benefit, and over MK5 billion (USD 7 million) are in circulation. This will go a long way in ensuring that women and girls are economically emancipated.

Financing for Gender Equality and Social Inclusion (GESI) is carried out through mainstreamed and dedicated Projects. Despite commitments made by GOM, Gender Equality and Empowerment of Women is the lowest funded component from national budget.

98 https://www.unicef.org/malawi/media/3186/file/Child%20Protection%20budget%20brief%202019%20-%202020.pdf

99 https://transfer.cpc.unc.edu/countries-2/malawi/#:~:tex t=The%20Government%20of%20Malawi's%20Social,provided%20by%20the%20Ministry%20of

100 https://www.unicef.org/malawi/stories/cash-transfers-help-fam ilies-during-COVID-19#:~:text=The%20Government%20of%20Malawi's%20Social,them%20meet%20their%20basic%20needs.

101 https://www.africanews.com/2020/04/29/malawi-launches-40-cash-transfer-to-cushion-the-poor//

GESI in the national budget for 2020/21

- Vulnerability, disaster management and social support – MK50,800,000
- Gender, Youth Development and social welfare – 50,737,000
- Vulnerability, disaster management and social support – MK45,970,000, 000
- Gender, Youth Development and social welfare – MK50,737,000, 000
- Gender Equality and Empowerment –MK1,970,000,000
- Gender Based Violence-MK528,000,000
- Social and Economic Empowerment-MK420,000,000
- Gender Mainstreaming-MK345, 000, 000
- Disability –MK2,053,000,000
- Social Protection Welfare and Development -MK18,600,000,000

CHAPTER 5

INSTITUTIONAL READINESS FOR ESTABLISHING AND OPERATIONALIZING THE INFF

INSTITUTIONAL READINESS FOR ESTABLISHING AND OPERATIONALIZING THE INFF

5.1 Overarching Financing Strategy

National Budgeting Framework

Central to the execution of NDS in Malawi is the Medium-Term Expenditure Framework (MTEF), adopted in 1995. The MTEF introduced a performance (results) orientation to public budgeting by shifting the budget focus from tracking of inputs (aggregated in line items) to outputs, through an 'Output Based' Budget format. Characteristically, the MTEF brought about forward revenue and expenditure estimation as a way of enabling government to better manage its finances – predicated on the rationale that government should strive for the "best possible allocation of limited resources"[102].

The MTEF consists of two parts: Estimation of the public sector resource envelope, involving macroeconomic modeling of forward revenue and expenditure estimates over a three-year period; and a mechanism for sectoral resource allocation based on the forecasted resource envelope. The latter involves inter-sectoral tradeoffs in allocation depending on national priorities, requiring "policy makers to look across sectors, programs, and projects to examine how public spending can best serve national development objectives over the medium term"[103]. Besides spanning several years, another important feature of the MTEF is convergence of the recurrent and development budgets.

The adoption of Programme Based Budgeting (PBB) in 2016/2017 further extended the performance orientation to Malawi's public budgeting to outcomes (impacts of spending) from the focus on outputs. The PBB aims at expressing government's strategic intentions by linking allocations to anticipated policy outcomes; taking a long-term view encompassing the broadest range of issues: long-term goals, objectives and policies including their relatedness to expenditure choices. PBB aggregates related activities into programs that target outcomes. Figure 38 below graphically represents this aggregation and the linkage between policy and allocations.

It should be noted that there is no separate budgeting framework for district councils: they feature in the national budget under estimation for transfers in the MTEF. The allocation of resources to district councils is governed by the intergovernmental fiscal transfer formula in line with devolved sectors.

Fiscal Discipline

Despite the elaborate planning and budgeting systems in Malawi, there is ample evidence of limited functionality of the expenditure framework. Figure below depict the perennial incidence of adverse expenditure variances, pointing to the budgetary overruns. System's failure to contain expenditure within approved appropriations. Over the last decade, actual expenditure has averaged 10% above the approved budget and in 2019 it reached the peak registering 27%. For the FY 2020-21, the fiscal deficit has been pegged at 754 billion MK or 34% above the budget or 12% of the total GDP.

[102] Durevall and Erlandsson, 2005, Evaluation of Public Financial Management in Malawi p. 21

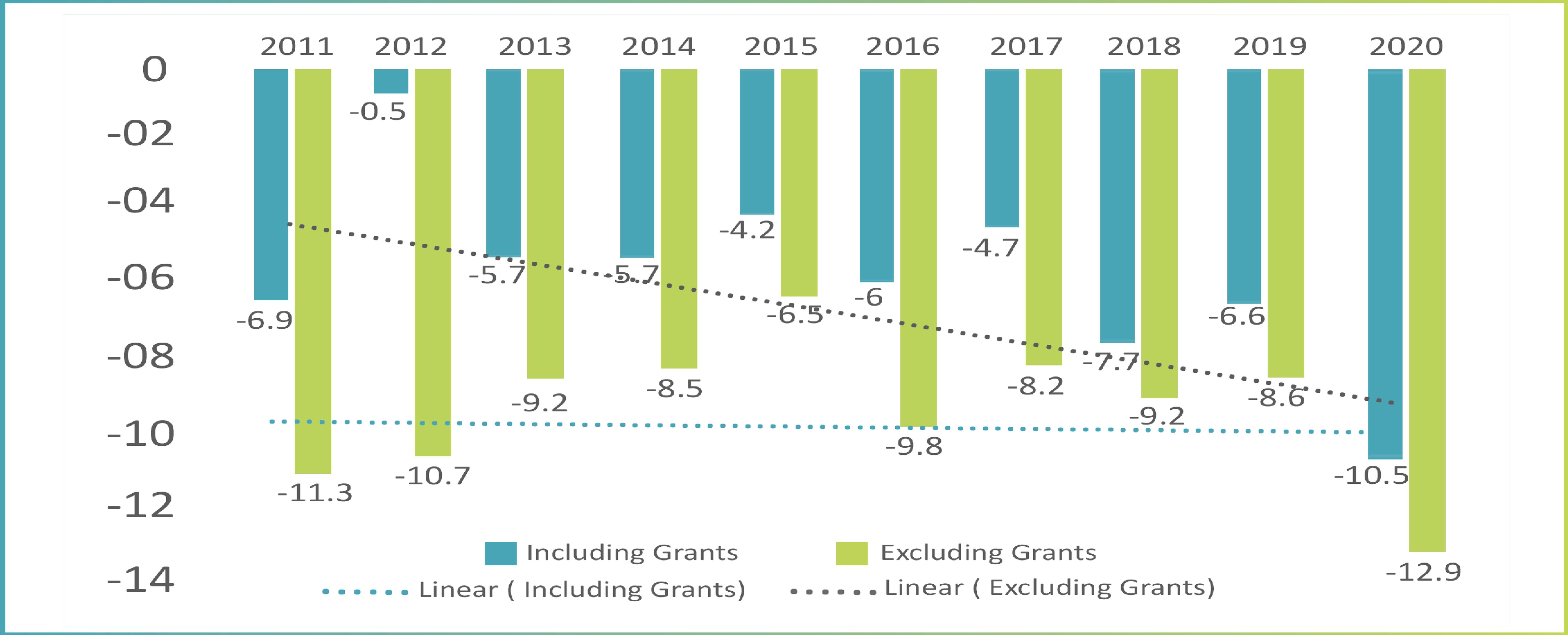
[103] World Bank, 2012 Public Expenditure Review, p. 1

Figure 38: Public Expenditure Variance Trend in Malawi

Source: Deloitte analysis based on MoF data

As Figure 39 shows, Malawi's fiscal space has been characterized by continuous deficits over the last decade. The overall deficit has averaged 10% and 6% of GDP exclusive and inclusive of grants, respectively. Whilst the trend of the overall deficit excluding grants reflects some improvement over the period (as represented by the sloping linear trend-line in the Figure 39) the overall deficit inclusive of grants has marginally deteriorated over the same period, further pointing to challenges in achieving fiscal sustainability. Malawi's fiscal sustainability is in fact traditionally reliant on foreign assistance; accounting for up to 40% of the total budget. Further, to the extent that the current balance has persistently been in deficit, Malawi's fiscal stance points to structural deficits, a sign that the country is perpetually unable to finance its current consumption domestically. Not surprisingly, fiscal policy has tended to be expansionary, characterized by domestic borrowing and accumulation of arrears.

Figure 39: Malawi - Overall Fiscal Balance as a % of GDP(2011-2020)



Source: Deloitte analysis based on MoF data

The Open Budget Survey (OBS) is a widely acknowledged assessment that can be used to proximate the degree of a country's accountability. The 2019 OBS recommends that Malawi should prioritize the following actions to improve budget transparency:

a. Publish the Pre-Budget Statement, Enacted Budget, In-Year Reports, Midyear review, and Year-End Report online in a timely manner.
b. Include debt and macroeconomic information in the Executive's Budget Proposal. This includes publishing information on the composition of total debt (e.g., the total debt burden at the end of the year, the interest rates on the debt, the maturity profile of the debt, and whether the debt is domestic or external), as well as estimates of the nominal GDP level and interest rates for the upcoming budget year.
c. Improve the comprehensiveness of the Audit Report and Citizens Budget.

Allocative efficiency

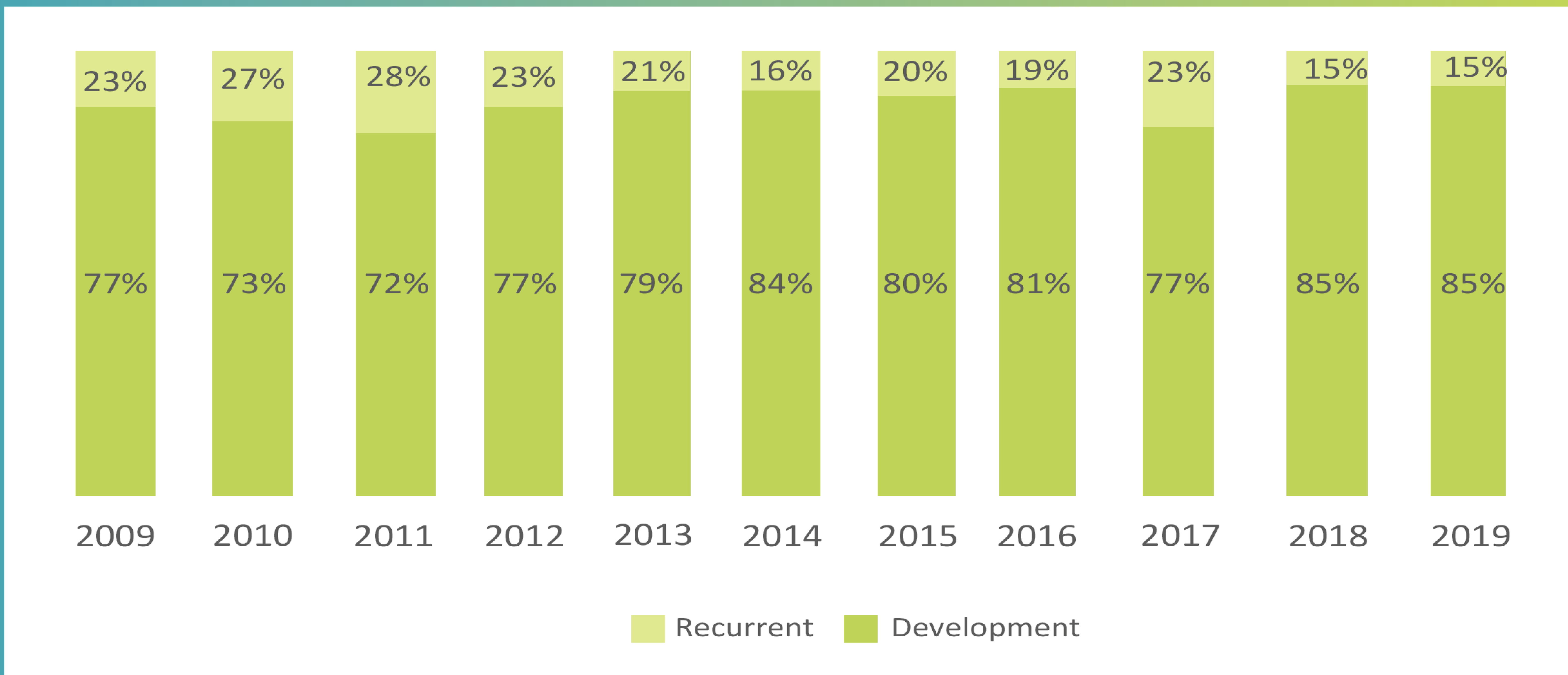
Limited functionality in Malawi's budgetary system is also evidenced by differences in strategic allocation of resources, as far as the expenditure distribution between the national development strategies and actual budgetary allocations are concerned. The thrust towards poverty reduction through development and infrastructure as evident in the NDSs should have ordinarily translated in a shift from consumption to investment, by reallocating resources from ongoing government operations to development programming. To the contrary, the recurrent versus development expenditure-distribution-trend points to a static picture as Figures and indicate; with allocations skewed towards consumption.

Recurrent expenditure has trended around 80% (over 20% of GDP) of total expenditure, reaching as high as 85% in recent years of 2018 and 2019 (Figure 40). This points to allocative inefficiency born out of disjunction between policy and planning on one hand and budgeting and spending on the other. This trend has continued despite Government's acknowledgement of the situation as early as 2004; when the MoF undertook that:

"Future budgets will be distinguished by far lower recurrent expenditure accounts relative to the investment expenditure account. Our future budgets, in the medium term, will focus on the generation of public savings rather than emphasizing consumption, as has hitherto been the case"[104].

[104] 2004/2005 Budget statement by Hon. Goodall Gondwe

Figure 40: Distribution of Government Expenditure



Source: Deloitte analysis based on MoF data

At the local government level, nearly all fiscal transfers are going into two sectors: education and health. These two sectors have been taking up about 80% of government transfers on a yearly basis. There is a little bit for agriculture, and in some cases water. The budget funding can be said to have been entirely social, over a long period of time, with little investment into economic sectors. Considering that other development stakeholders like donors and NGOs are mostly active in these same sectors, it can only mean that economic sectors like trade and industry and transport are largely neglected. Of note are the financial flows provided by government for development activities, and these are the constituency development fund (CDF), the district development fund (DDF) and the boreholes fund (BF). The CDF is partially hedged (must be spent within a constituency) and personalized around a Member of Parliament. The DDF is fully discretionary, and the BF is hedged – catering for a one borehole per constituency. These development funds have their own management problems[105] but for this study it is enough to state that they provide far too little resources for the investment plans of local authorities, all together below 1% throughout the period of this study. It can be said therefore that government has not yet started providing adequate funds for investing in the implementation of district development plans, and yet most of them are in their third year of implementation.

The fiscal allocations amongst the district councils are governed by a formula that considers population, poverty, and other things. This formula is applied by the National Local Government Finance Committee (NLGFC). From the study, it is noted that the formula may not be consistently applied. For example, the largest share of fiscal transfers goes to the district with the highest population, Lilongwe District, and the smallest share goes to the district with the smallest district, Nkhata Bay District. However, Zomba, whose population is the same as Nkhata Bay and Blantyre districts combined, gets almost the same as Blantyre: in some years slightly higher, in others slightly lower. Given more locally generated revenue, Blantyre has always a bigger budget than Zomba. On both poverty and population grounds, Zomba is supposed to get

[105] Audit reports by the National Audit Office are full of stories of misuse and misallocation. Key infor mants said that the Ministry of Finance refuses to fully fund DDF budgets for district councils because of fear of misuse, often in the form of Council level re-allocations.

far much more than Blantyre District. There may be more such anomalies in the fiscal transfers systems, and the planned review of the formula as reported by key informants is in order. In addition, the formula may include the progress made by the districts under different SDGs and other green finance indicators towards achieving the overall development in economy and environment.

5.2 Specific Financing Policies

The comprehensive review of national development strategy (MGDS II), shows that the strategy failed to yield intended results principally due to financing constraints. It showed that up to 90% of Public Sector Investment Projects (PSIPs) were not implemented over the strategy's life, mainly because of inadequate financial resources[106]. One of the major bottlenecks highlighted in this regard relates to disjunction between national planning and budgeting in the sense that planning has tended to be just needs based, without having adequate consideration of available resources which needs to be corrected for the future.

In terms of the specific financing policy hitherto pursued by the GoM, the bulk of finance has historically come from tax revenues. As discussed, there is scope for improving tax collection by broadening the tax base and widening the tax net. There are also opportunities for further improving tax administration. The second most important financing flow for Malawi has been grants, followed by deficit financing arrangements with lenders: international and domestic; multilateral and bilateral. These flows have ordinarily been channeled through the national budget. Increasingly though, financing is being channeled directly to projects by International NGOs and through direct implementation by the donors themselves. It is learned from MGDS-II that failure to holistically manage finance flows has been detrimental to development effectiveness. The INFF is thus timely to engender an approach to financing that attempts to align resources with planning priorities. The INFF is thus timely to engender an approach to financing that attempts to align resources with planning priorities.

One of the merits of the INFF is that it seeks to bring together fragmented approaches in the use of the different sources of finance to systematically address development priorities. The DFA should set the government on this trajectory, as it provides a bird's eye view of the various development finance flows, which can be mobilized and aligned to meet the financial needs of the Malawi Vision 2063.

Table 12: Degree of Government control over Finance Flows

Ease of mobilization	Type of financing	Comments	Government influence	Responsible agencies
1.	Domestic Public Revenue	Fully under government control. Can be planned with more flexibility and predictability	Full	MRA / MoF
2.	Domestic Loans	Can be more easily mobilized and negotiated, and provides relative flexibility to government in planning	Partial	MoF / RBM

106 MoFEPD. (2016). "Malawi Growth and Development Strategy II Review and Country Situation Analysis Report", pp.33

Ease of mobilization	Type of financing	Comments	Government influence	Responsible agencies
3.	External Loans (traditional & emerging DFIs)	External Loans (traditional & emerging DFIs)	Partial	MOF/ DAD
4.	External Grants (bilateral, multilateral, NGO)	Dependent on good will of external partners, well aligned to development priorities, but has proven to be unpredictable	Partial	MOF/NGO Board
5.	Domestic & Foreign Private Investment	Unpredictable, requires concerted efforts and creative arrangements to align to national development planning	Limited	MITC / PPPC
6.	Remittances	Incomplete and unreliable information, very difficult to control and direct towards national development planning	Extremely Limited	RBM / MoF

Source: Deloitte analysis based on MoF data

At the local government level, there are no specific financial policies which are significant as all funding follow policies that apply at the central government level due to lack of fiscal decentralization. It should be mentioned though that the two city assemblies of Lilongwe and Blantyre rely mostly on their own revenue, raising as much as over 80% from self-generated revenue. The reverse is the case for the other two city assemblies and the rest of the 28 district councils. Government has clearly underfunded the district councils over the period of the study, and it can only be expected that government will want to improve on this. So, district councils can only expect better funding from government. However, Central government revenues depend on tax revenues, borrowing, and to a large extent on development partner support. All these are dependent on the level of economic activity and the risk is that with COVID pandemic still taking its toll, there may not be adequate resources for government to use and allocate to local authorities.

5.3 Gender equality and social inclusion

The Constitution of the Republic of Malawi adopted in 1994 is the basic legal framework that promotes gender equality and full participation of women in Malawi under Sections 13, 20 and 24. Govt of Malawi passed legislation Gender Equality Act (GEA) in 2013 to ensure gender equality. Section 11 of the Act specifically relates to recruitment and appointment into public service. It provides for gender quotas by requiring no less than 40% and no more than 60% of either sex in any department in the public service. Sections 12 and 13 call for greater accountability and transparency measures in implementation of the quotas provided and non- compliance in implementation of these quotas can be challenged in court.

The assessment found that the Gender Equality Act is not usually adhered to during recruitment in the Public Service bodies because the two pieces of legislation, that guide recruitment in the Public Service namely the Public Service Act of 1994, and the Malawi Public Service Regulations are not aligned with the Gender Equality Act. The review of the Public Service Act that was done in 2016 identified 15 provisions in the Act relevant to recruitment, appointment and conditions of service in the Public Service and found that these provisions are inadequate in ensuring gender equality. The provisions do not go beyond formal equality to recognize the need for specific attention to mainstream gender and ensure gender equality. It is thus imperative to align the provisions of the Public Service Act and Malawi Public Service Regulations on recruitment and appointment with the Gender Equality Act, in particular Section 11.

The second edition of the National Gender Policy launched in December 2015 provides guidelines for mainstreaming gender in public institutions and various sectors of the economy with the overall goal of reducing gender inequalities and enhancing participation of women, men, girls and boys in socio economic and political development. The aim of the Policy is to strengthen gender mainstreaming and women empowerment at all levels to facilitate the attainment of gender equality and equity in Malawi. The policy is targeting the following priority areas: gender in education and training; gender and health; gender and agriculture, food security and nutrition; gender and natural resources, environment and climate change management; gender and economic development; gender, governance and human rights. The Policy also prioritizes interventions in gender-based violence and capacity of the national gender machinery.

Agenda 2063 – Malawi's Vision 2063 - has targets on Gender Equality and Social Inclusion (GESI) under Enabler 5 – Human capital development. Statutory corporations have entered contracts with the OPC to establish gender mainstreaming (e.g., MACRA) and monitor and assess progress of capacity development of public sector employees in response to Gender Equality Regulations and MDGS III objectives. The country adopted the gender responsive budgeting (GRB) regulations to eliminate gender inequalities in financing. GRB monitors whether policy commitments related to poverty reduction and gender equality are reflected in budget allocations; not separate budgets for women but general budgets that are planned, approved, executed, monitored and audited in a gender-sensitive way. Gender responsive budgeting is grounded in the understanding that public budgeting decisions and the public financial management (PFM) systems that underpin them can affect the economic and social outcomes for men and women.[107] The 2019/20 Budget guidelines also give priority to mainstreaming gender in the budgeting process. The inclusion of gender mainstreaming and gender responsive budgeting in these key government documents creates a favorable environment for mainstreaming and is an opportunity for the Ministry of Gender Children Disability Social Welfare but the main problem relates to implementation and enforcement. One key informant pointed out:

"The missing link is that these documents are usually drafted by technical officers, yet controlling officers within the government ministries, departments and agencies do not show real interest to implement the provisions of these documents. GRB is a very important initiative for the economy which need to be debated and adopted in Parliament and at Cabinet and ensure that there are penalties and incentives for implementation. Many of the penalties and incentives for implementation. Many of the public sector reforms currently have no penalties for lack of implementation and incentives for doing well".[108]

107 Welham et al. 2018

108 Ministry of Finance, July 2019*

Furthermore, GoM has been promoting gender mainstreaming in the national development process by building capacity in Ministries, Departments and Agencies (MDAs) including Health, Agriculture, Transport and Education. In 2018, the Government deployed 52 gender and development officers to district councils, who are key in gender mainstreaming at the district and community levels. In the same year, Government developed and launched the Strategy for Ending Child Marriages and carried out a campaign to end child marriages in collaboration with the media as well as CSOs to reduce cases of Gender Based Violence. To reduce gender-based violence and increase the participation of men, women, boys and girls in development, the Government printed and disseminated the Gender Related Laws to key stakeholders in courts, the police, traditional authorities, as well as religious and opinion leaders in all districts. It further facilitated the nullification of 600,000 child marriages, and children withdrawn from child marriages were readmitted to schools.

GoM recognizes the significant role and contribution that NGOs play in the social-economic and political development of the country. Hence, these are considered as important partners contributing to democracy, accountability and development. To ensure the coordination among NGOs, Government facilitated the registration of 680 NGOs and conducted monitoring of NGO programmes in nine districts. In 2019, as a way of strengthening coordination among the NGOs, Government developed a Non-Governmental Organization Policy, which was approved by Cabinet on 14th February 2019. This policy seeks to transform the board to become an NGO Regulatory Authority. GoM further intends to comprehensively review the NGO Act to take on board emerging issues for the benefit of all Malawians.

5.4 Monitoring and Evaluation

Supported by various partners, the GoM has over the years endeavoured to institutionalize evidence-based decision-making in MDAs, as well as at the local government level, by embarking on the implementation of a “whole of government” Monitoring and Evaluation (M&E) system. In this regard, a National M&E (NMEM) Master plan was developed in 2006 to guide the process and provide a conceptual framework for the M&E agenda, particularly the monitoring of development policies and programs. The NMEM comprises five pillars: (1) Monitoring of NDS implementation; (2) Monitoring of Development Outcomes; (3) Impact assessment and policy analysis; (4) Development Monitoring Information System (DMIS); and (5) Communication and Advocacy.

The MoEPD & PSR is vested with the central responsibility for monitoring overall progress of national strategies, but its role is expected to change with the establishment of the National Planning Commission, whose functions will include monitoring and evaluation of national policies, strategies and programmes. Sectoral M&E is institutionalized through joint sector reviews that are conducted annually to assess the progress of sector wide plans. Sixteen Sector Working Groups (SWGs) were created in 2008 to, among other activities, provide a platform for inclusive monitoring of sectoral policies, strategies and programmes. Much of the M&E functions in Ministries, Departments or Agencies (MDAs) are carried out through planning units that have an M&E function. In addition, Performance Enforcement Department (PED)-established by Presidential Decree in 2012- in OPC also has a monitoring role.

At the local government level, the M&E function is retained in the secretariat in the District Planning and Development Directorate. Sector Departments expected to report to the Secretariat. Monitoring and evaluation officers were deployed in district councils which led to the establishment of district monitoring and evaluation committee in most district councils in the country.

INSTITUTIONAL READINESS FOR ESTABLISHING AND OPERATIONALIZING THE INFF

The National Statistical Office (NSO) is the government agency tasked with providing high quality, timely and independent statistical information. The NSO implements the National Statistics System (NSS) Strategic Plan, whose overarching goal is to make quality statistics easily available to users for evidence-based policy and decision-making. This includes monitoring the country-level progress on the SDGs and other internationally agreed conventions. Some of the challenges faced by NSOs[109] are as below:

- Limited dissemination
- Poor data quality among MDAs producing statistics
- Limited skill capacities for data processing among MDAs in the NSS
- Limited financial resources for consistent data collection and processing in MDAs in the NSS
- Limited sustainability of sector and national surveys without donor support

Monitoring & Evaluation should also cover monitoring, tracking and reporting systems for financing in addition to development policies and programs. In order to track public financial flows from mobilization through allocation to expenditure processes, Government of Malawi has set up FMIS (Financial Management Information Systems) with the support from World Bank[110] and African Development Bank[111]. However, an evaluation of FMIS by the World bank group[112] found that the functioning FMIS in Malawi did not deliver because of a lack of political commitment. According to the report, though the GoM implemented the FMIS with a set of core modules successfully, it lacked expenditure management because of weaknesses in the control environment. There were security firewall protocols dismantled without authorization and other control mechanisms were ignored because of a breakdown in the accountability chain leading to financial mismanagements. Effectively, this is not the technical failure of FMIS but disregard for existing monitoring systems and processes. Therefore, it is essential to communicate these aspects to counterparts in government and donor partners and obtain government commitment.

In addition, it was witnessed that the Aids Management Portal has not been functional over the last 2 years leading to irregular updation of aid data from development partners.

Notwithstanding the concerted efforts made to develop national M&E systems in Malawi, concerns abound as regards the overall effectiveness of M&E at all levels. For one, support and appreciation for M&E disparately obtains across different sectors and sub-national districts. More poignantly, M&E capacities are varied from one sector or district to another. Finally, whilst evaluation is an essential component of the M&E cycle, investment in this regard has tended to be minimal.

109 MESA – Malawi 2021 document shared by UNDP.

110 https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ppar-malawi.pdf

111 https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Malawi%20-%20Public%20Finance%20Management%20Institutional%20Support%20Prect%20-%20Appraisal%20Report.pdf

112 https://openknowledge.worldbank.org/bitstream/handle/10986/29222/WPS8312.pdf?sequence=5&isAllowed=y

In 2014, the Strengthening Institutional Capacity for Development Effectiveness and Accountability Programme (DEAP) supported the GoM in undertaking a comprehensive assessment of the State of M&E in the country. Amongst its findings, the report decried a poor M&E culture in the country and concluded that deliberate efforts were necessary for promoting M&E as requisite for effective development management. Amongst its recommendations, the report highlighted the need for placing M&E at the centre of implementation of national development growth strategies and achieving internationally agreed goals. To entrench M&E in development programming, the report further recommended the development of a substantive M&E Policy, currently underway, that should be operationalized by the NMEM. A summary of the report's findings is reproduced in figure below, highlighting the strengths, weaknesses, opportunities and threats of the M&E architecture. As the state of play has not significantly changed, the SWOT analysis below is still relevant and can help inform the recommendations to finalize, strengthen and operationalize the M&E policy currently being developed.

Figure 41: Malawi Public Sector M&E SWOT Analysis

Source: ACTS Consultancy (2015)

Fiscal reports that capture sex-disaggregated data on the outputs and outcomes of policies rely on good information systems (often using a financial management information system) as well as a chart of accounts and budget classification structure that captures gender-related appropriations and expenditure.[113] Still the system displays drawbacks such as:

[113] IMF,2017

Result matrix of the last national development strategy, MGDS III, did not explicitly refer to '*leaving no one behind*' principle but rather addressed civil society participation, poverty reduction, gender equality and illiteracy. However, it has been taken care in Malawi Vision 2063.

Gender Responsive Budgeting guidelines requires effective mechanisms for monitoring of gender disaggregated budgetary inputs, outputs and outcomes and for feedback of monitoring information into the subsequent planning cycle. Findings from consultations and desk review show that accurate data on GESI are not adequately collected and analysed due to inadequate technical capacity, systems, enforcement etc.

It is not clear if gender balance reports are requested from partners. Malawi has not established proper systems for monitoring allocation of resources towards GESI. No gender sensitive balance sheet to report on how much is going to different genders and groups.

Data management systems on GESI are project based and championed by Development Partners with support from NSO; Malawi Police – for GBV. Private sector entities rarely report on GESI.

Donor funded Projects provide the much-needed capacity and tools to improve GESI indicators. Challenge is sustainability and replication of lessons by others. Donor specific guidelines and tools.

Minimal coordination and follow-up on financial resources – weak accountability structures. NGOs mainly report to donors.

Sex-disaggregated data and information are considered crucial for policy makers to be able to assess and develop appropriate, evidence-based policy responses. Performance-related budgeting frameworks have been used in this context to facilitate the integration of sex-disaggregated data in the budgeting process and to inform decision making and resource allocation.[114] This integration has been done in other Sub-Saharan African countries. For example, in Rwanda and Ukraine, by focusing on sex-disaggregated data as part of planning and reporting on objectives, outputs, and outcomes achieved in the delivery of public. To summarize, it is more important to operationalize the monitoring and evaluation process under INFF to judge whether it matches the gender standards that are universally accepted.

5.5 Accountability and Dialogue

An enabling environment for accountability and dialogue (A&D) is imperative for building trust among stakeholders to channel public funds for national development priorities and mobilize additional financing from partners outside the government. Such an environment further ensures broad ownership and acceptability of policies for effective implementation as it ensures a voice for citizens, civil society, business, and other developmental actors.

Legislative and Policy Framework

Malawi has a panoply of legislation designed to promulgate accountability. As a point of departure, Chapter 18 of the Constitution sets out Malawi's fiscal architecture and enunciates provisions for appropriation

[114] Bosnić and Schmitz 2014; Klatzer 2008; Sharp 2003

and accounting of public funds. The constitution importantly clearly defines the roles of the executive, legislative, and judicial branches of government.

Other than the Constitution, there is a plethora of legislation relating to the management of public finances, audit, and corruption. These include the 2003 Public Finance Management Act (PFMA), the 2003 Public Audit Act (PAA), the 2015 Public Procurement and Disposal of Assets Act (PPDAA), the 1995 Corrupt Practices Act (CPA), the 2006 Money Laundering, Proceeds of Serious Crime, and Terrorist Financing Act (MLPSCTFA), and the 2013 Public Officers Declaration of Assets, Liabilities and Business Interests Act (PODA).

The Malawi Government created the Internal Audit Common Service in July 2003 to improve the use of public resources and curb financial mismanagement. It consists of the Central Internal Audit Unit (CIAU), which is under the MoF, and internal audit units in Ministries and Departments. The internal audit function is presently considered weak according to a Public Finance and Economic Management (PFEM) situational analysis report.

To inculcate a culture of results and accountability, the GoM has since 2015 been implementing Performance Contracts, in which responsible MDAs are assessed on their performance, based on specific targets set at the beginning of each financial year. The performance evaluations are based on rigorous criteria and are conducted by a team of Performance Enforcement Department staff and independent evaluators. Spot checks in districts and at MDAs are conducted through an exercise called "ground truthing". This is aimed at verifying whether what was being reported by MDAs in their Progress Reports corresponds with the actual progress of projects on the ground. Despite teething problems, mostly to do with lack of understanding of the process of the Performance Contracting Management System (which affected the quality of the contracts), the process has steadily gathered momentum.

Institutions of Public Accountability

The Constitution and legislative Acts above have spawned several governance entities tasked to champion accountability and transparency. Apart from the Ministry of Finance, notable is the Malawi Parliament, National Audit Office, Ombudsman, Anti-corruption Bureau, Public Procurement and Disposal of Assets Authority, and the Financial Intelligence Unit.

Parliamentary Oversight: Parliamentary standing orders provide for two committees of the National Assembly involved with fiscal affairs. The Budget and Finance Committee considers the budget and related reports, whilst the Public Accounts Committee considers annual accounts and other ex post reports. Although in recent years the Budget and Finance Committee has started taking an active role in monitoring the financial performance against the budget, the limited availability of fiscal data has inhibited the effectiveness of this role.

Supreme Audit Institution: The National Audit Office created under the 2003 Public Audit Act, is the designated supreme audit institution. It champions probity in fiscal affairs by undertaking a programme of audits: examining transactions, books, accounts and other public records of every ministry, statutory office, agency and public funds received by non-profit organizations, including relevant international organizations.

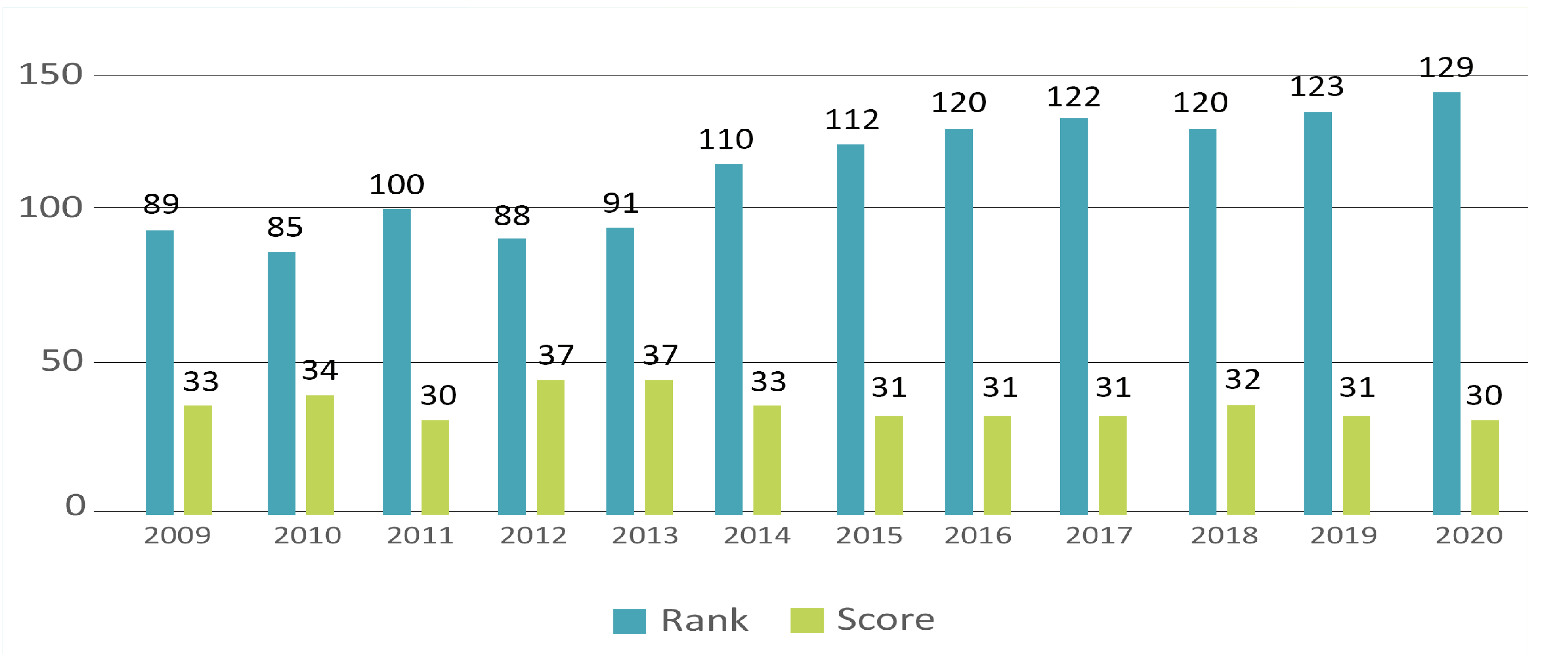
The Auditor General is appointed under Section 184 of the Constitution and is mandated to audit and report on the public accounts of the Republic of Malawi at least once a year to Parliament through the

Minister responsible for Finance. In its current strategic plan (2015-2019), the NAO seeks to enhance its independence by pushing for the review and amendment of the constitution and PAA to reflect international best practice.

The effectiveness of the NAO has strengthened over time, as evidenced by improved timeliness in the submission of Government audited accounts to Parliament and its instrumentality in uncovering financial malfeasance in the public service. Notwithstanding, the NAO has potential for further improvement in terms of enhancing its technical capacity to undertake audits that are more complex. The NAO has hitherto relied on outsourced services to undertake forensic audits for example. There is also scope for capacity development to increase the frequency and number of regularities audits and follow up on audit recommendations.

Anti-corruption Bureau: Corruption is an enduring challenge for Malawi. The ACB has been a highly visible vehicle for pursuing issues of corruption, but it has experienced some difficulty in bringing individual corruption cases to a close. Despite concerted efforts to curb corruption, guided by an elaborate Anti-corruption strategy launched in 2008, perceptions of corruption have worsened over the years, especially in the aftermath of the Cash gate. Figure 42 depicts trends in corruption perception as reported by Transparency International.

Figure 42: Corruption Perception



Source: Transparency International

This situation has an obvious negative bearing on mobilizing finance, especially attracting FDI and ODA. The need to further ratchet the anti-corruption drive can therefore not be over-emphasized.

Local Government Structures: The Ministry of Local Government and Rural Development (MLGRD) have been implementing a substantial decentralization initiative intended to enhance service delivery and localize accountability. This has given operational responsibility for expenditure programs to the assemblies. Policy responsibility however remains the remit of the central government ministries. Some sectoral responsibilities are still being resolved.[115] While the role of the assemblies has not been extensive to date, it is expected that this will increase substantially. Under the initiative, the financing of the local government authorities is predominantly through central government transfers as the assemblies have limited tax powers, which are focused on property taxes and licensing activities. The transfers are through a combination of unconditional grants and sector specific grants. There is significant scope for improving accountability at local government level. The latest audit of local government assemblies by the NAO, conducted in 2015 revealed significant financial management shortfalls, ranging from missing documents to poor record keeping and mismanagement of resources.

Four things were noted in the auditing system of Malawi:

The first was the huge information gap that exists between the public and the office of the Auditor General; crucial information is not accessed by the public – especially civil society.

The second was the inefficiency by Parliament in attending to reports submitted by the Auditor general; Parliament takes too much time to attend to reports submitted.

The third was the need for Parliament to act on the content in the Auditor General's reports.

Lastly, it was identified that the Auditor General ought to submit his audit reports to Parliament in time also.

For Malawi's auditing process to achieve effectiveness and efficiency necessary for good governance, the following must be done among other things. First, the Auditor General ought to submit national audit reports timely. So far, there is progress on the part of the Auditor General, however, more needs to be done. Second, Parliament ought to attend to the audit reports submitted to it expeditiously. Third, contents of reports submitted must be acted upon as soon as possible. Fourth, information from the office of the Auditor General must be accessible for the sake of transparency and accountability.

Platforms for Multi-Stakeholder Dialogue

The 2014-2018 Development Cooperation Strategy (DCS) recognizes the importance of inclusive dialogue by setting up various engagement platforms. These include: (1) High Level Forum on Development Effectiveness; (2) Sector Working Groups; (3) Common Approach to Budget Support Mechanism; (4) Intragovernmental Coordinating Group; (5) Development Partners Dialogue Groups, (6) PFEM Dialogue Structures, (7) Non-state Actor's dialogue groupings; (8) Public Private Dialogue and (9) District Dialogue Mechanism. Evidence though indicates that structures that have mediated meaningful dialogue are those involving donor partners. In addition, UN Department for Economic & Social Affairs (DESA) has been pioneering the promotion of SDG financing dialogue platform to guarantee the multi-stakeholder's interest of investment at the country / regional level.

In case of Malawi, the active and functional structures for multi-stakeholder dialogue are those around the development cooperation agenda at sector level, as these attract the interest of important international

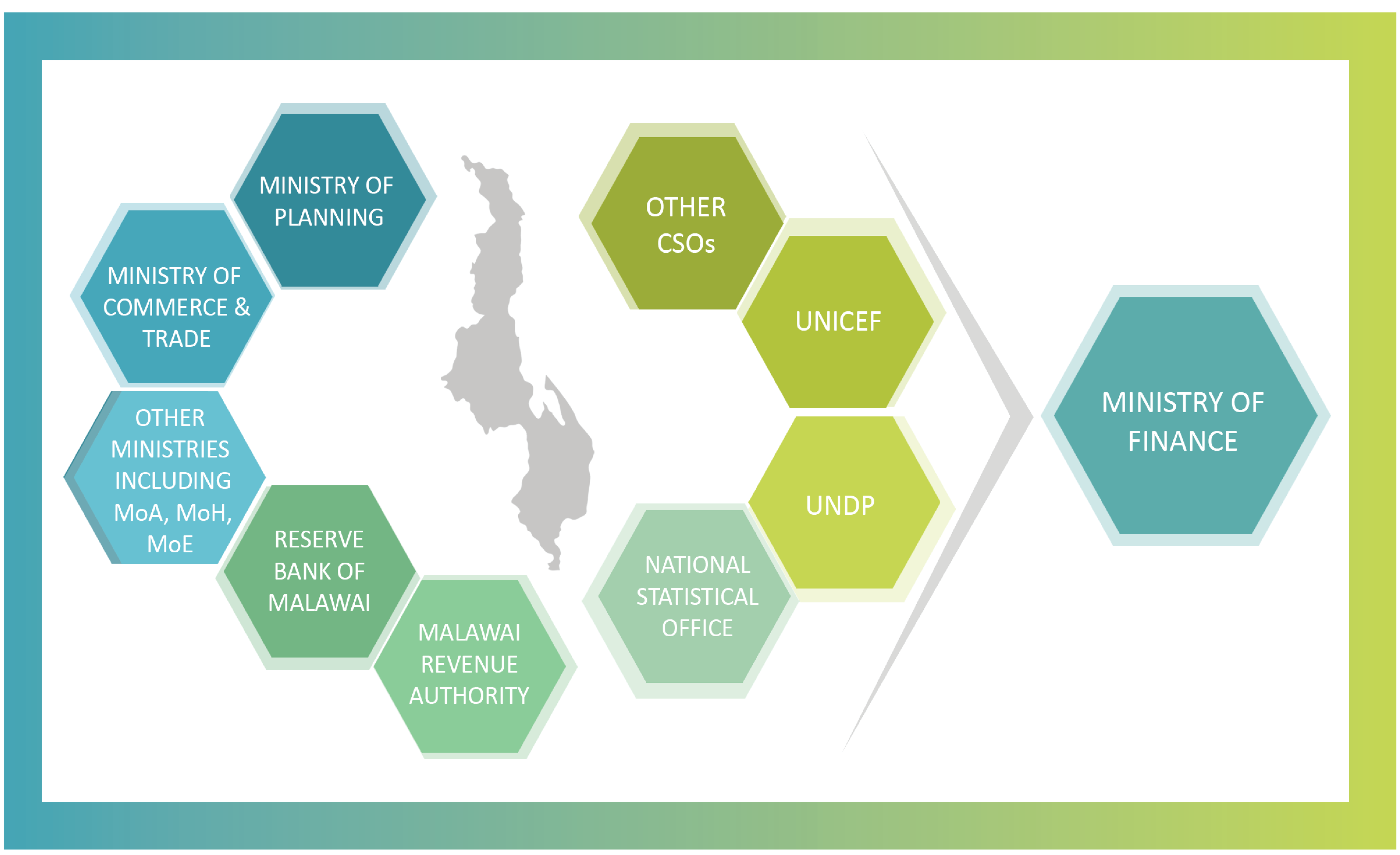
115 Republic of Malawi Programme Framework for Integrated Rural Development and Decentralization, 2016- 2021

partners which meet mostly annually or bi-annually. Some concerted efforts have been made to also include private sector, academia, and civil society in the process of formulation of national development visions such as MGDS-III and Malawi Vision 2063. Nonetheless, more regular and intensified dialogue and coordination is continuously required between different government organs and non-state actors to effectively finance, implement, and achieve the ambitious goals and projects of the national development strategy. According to key informants from the development partners, they would be reluctant to support the creating of new platforms or institutional capacities for integrated development funding. They believe existing coordination arrangements are adequately providing information exchange and quality of engagement with government can improve. Identify and liaise with the relevant local actors including authorities and inform them about the project thereby gaining acceptance and support to ensure an enabling environment for project implementation throughout the country. Strengthen links with the local actors by initiating and sustaining dialogue to receive their support in gaining project acceptance and facilitation of access, communicating project goals and rules within their communities or relevant audiences including the targeted beneficiaries and any other stakeholders.

At the local level, no such or similar platforms exist. Development stakeholders have no common platform to share plans, information, and monitor progress. Key informants reported that many NGOs are not accountable to communities and communities do not have capacity to demand such accountability on a regular basis from NGOs and the District Council itself. This problem has implications for the effectiveness of development interventions as communities are caught up in a multiplicity of fragmented efforts. Meanwhile, substantial amounts of resources are spent without showing meaningful improvements in community welfare. One of the districts in the sample for the study, Blantyre District, reported that she had to particularly summon some of the NGOs to provide reports about their activities in the district. This problem has implications for the whole agenda of development financing at the district level, especially on direct interventions to communities, questioning its efficacy.

5.6 Governance and Coordination

Figure 43: IINFF – Oversight Committee for Government of Malawi



Source: https://inff.org/inff-dashboard

INSTITUTIONAL READINESS FOR ESTABLISHING AND OPERATIONALIZING THE INFF

The Ministry of Finance (MoF) led the development planning, budgeting, and monitoring processes over the period of the DFA updation and LLFA. In 2017, an independent National Planning Commission (NPC) was established to guide economic planning and oversee implementation of national development plans with specific functions (furnished in Text Box 6).

Text Box 6: Functions of the National Planning Commission

Identify Malawi's social-economic development priorities and formulate the national vision and strategy for social economic goals considering the country's resource potential and comparative advantage.

Oversee the implementation of long-term national vision and strategies and medium-term development plans.

Formulate innovative and progressive flagship projects and programmes for implementation in line with the national vision and strategies for the country.

Identify and commission research on any matter the Commission deems relevant to the attainment of the objects of the National Planning Commission Act.

Engage relevant individuals and institutions in all sectors of the economy in the conduct of the functions under the National Planning Commission Act.

Appraise the President and National Assembly annually on the progress made about the implementation of plans, programmes, and projects; and

Perform any other functions in relation to national planning, as it may deem.

Source: Malawi National Planning Commission Act, 2017

The MoF still remains the central institution spearheading the DFA and INFF processes. The MoF is vested with significant authority regarding public financial management, particularly budgeting processes, within the provisions of the Public Finance Management Act. Additionally, the ministry has responsibility over aid coordination and development effectiveness processes. Between 2014 and 2016, Malawi served as the Co-Chair of the Steering Committee for the Global Partnership for Effective Development Cooperation (GPEDC). Malawi also played a prominent role in the Third UN Conference on Financing for Development (FfD3) held in Addis Ababa in 2015, where the MoF highlighted the importance of national ownership, the imperative of strengthening domestic resource mobilization, and the urgent need for better climate financing arrangements. The MoF is thus in a strategic position to provide institutional leadership in building a broader development-financing framework.

Other than the MoF and NPC, other government institutions within the ambit of Malawi's national planning, monitoring and financing framework include RBM, NSO, MRA, MITC, PPPC, and NGO Board. All these are well-established institutions, playing leadership roles in their areas of influence. Furthermore, some of the sectorial ministries (such as Energy, Agriculture, Water Affairs) which play a significant role in the implementation of national development priorities should be welcomed in the INFF system. Notwithstanding the fragmentation earlier highlighted, the MoF and these related institutions alongside many others may constitute a veritable ecosystem that should act as a springboard for the INFF implementation. Maybe some of the non-state actors including UN agencies can be part of such ecosystem to infuse the independence and global benchmarking point of view. Success of these institutional set-up will depend on the enhanced coordination.

Institutional readiness of integrated development financing

Institutions, policies, legislation and their linkages are important dimensions for the delivery of integrated development financing and in this section, the key stakeholders are highlighted.

The MoF already has a High-Level Forum for Development Cooperation (HLF DC) – which can be transformed into a high-level umbrella body for guiding integrated financing. The advantage with the HLF DC is that it has already representation from almost all the major funding agencies in the country and is chaired by the MoF. The Debt and Aid Division (DAD) is its secretariat, and it is supposed to meet once in a year. Below the HLF DC, there is the Development Cooperation Group (DCG) chaired by the Secretary to the Treasury which is supposed to meet twice a year. In practice, institutional arrangements involving the MoF can be compromised in terms of efficiency because of the Minister's busy schedule. It is a situation that needs careful consideration in the design of the INFF. The DAD itself monitors aid and external loan using the AMP and CS-DRMS, however it is not easy to collect data from donors and the AMP has not been updated. The CS-DRMS captures some of the concessional loans. Private finance is hardly monitored – domestic borrowing and external concessional loans – even though institutional arrangements and capacity exist to carry out the activity. This is because there is no funding for the activities of monitoring.

Within MoF, institutional linkages exist under the Cash Management Unit of the Budget Division: there is a system for monitoring all the financial flows – domestic revenue; aid; loans/debts – to manage revenue and expenditure gaps. The relevant authorities are organized into a Technical and Steering Committee – the RBM; the MRA; and the MoF. The authorities likely manage the funding flows as given or as they come in: they do not review policies and terms governing the various funding flows. So, at the policy and planning level or stage, there seems to be no clear mechanism for linkages.

The PFM Act was enacted to guide management of public finance and, but it provides no formula or guidance on the allocation of or access to public finances by various Ministries and departments. A draft policy is available on debt management, and occasionally analyses are provided upon request by the authorities to find out about costs and benefits of specific lines of debt. Some provisions of the debt policy are being used but the policy itself has not yet been approved and cannot be enforced in cases of non-adherence. These is no system to guide access and allocation of resources other than finance. For instance, social responsibility or human resources support. Loose arrangements around emergencies exist to guide the timing of human resources support and flow of resources along with sufficient institutional coordination by the authorities.

Government will complete the review of the Public Finance Management Act of 2003 during this 2020/2021 fiscal year. The revised Act is expected to strengthen accounting, budgeting, revenue and expenditure management, internal controls and other areas of public finance management. Proposed changes in the revised PFM Bill include specific responsibilities of public officers with the inclusion of sanctions for violations against the PFM Act; placement of personal accountability to controlling officers and public officers for actions taken in executing their roles and responsibilities; and placing the obligation of accountability of third parties that receive resources for the intended benefit of the people of Malawi.

There are also sectoral institutional arrangements to guide development financing that are linked to the MoF through adherence to debt and aid management policies' frameworks. Arrangements for funding mechanisms at the sector level are guided by these policies and costed sector investment plans. At this level, the allocation of development resources follows guidelines for alignment to sectoral priorities. In the agriculture sector for example, it has been observed that there are several existing stand-alone coordination mechanisms in place involving donors, CSOs and to a limited extent the private sector that can be tapped on or modified to address issues of integrated financing in the sector.

At the local government level, the Local Government Act provides for a formula for allocating government resources to district councils, but it is out of date and decisions are currently based on historical funding patterns i.e., mostly incremental depending on previous allocation levels. This is happening because a new formula to replace the old one (developed in 2001) must be approved by Parliament. Modifications to the old formula have been made, and to a certain extent being used to allocate discretionary resources for the DDF. Further guidelines have been developed to guide the usage and accountability of the DDF. The councils also follow the IFMIS regulations for accounting and reporting.

There are governance risks in working at the local government level because of serious capacity challenges in district councils to coordinate financial issues across different stakeholders and because of the composition of the district council itself as a governing body. Staff skills and numbers are in question in all local authorities, more pronounced in district councils, and this is the storyline in most relevant reports and studies on decentralization. The problem cuts across many functional areas: planning, budgeting, monitoring, accounting, management. The importance of engaging and mobilizing non-state actors around national development planning, implementation, monitoring, and financing processes, is widely acknowledged. This is especially the case with the emergence of governance paradigms such as network governance, whereby the role of government is increasingly that of "steering and not rowing".

The private sector can become an important player in both the mobilization of finance, and enhancement of public service delivery, through for instance PPPs. NGOs and FBOs can similarly play an important role in reaching out to the most vulnerable and marginalized members of society, and translating community needs into effective development projects, to be supported by government, private sector and international partners. Academia, think tanks and professional organizations, can also play an important role in providing the critical analysis and advise to development policymakers and investors. Besides its watchdog function, the media too needs to be engaged as a channel for dialogue between the state and the citizenry.

CHAPTER 6

REVIEW OF SELECTED DEVELOPMENT PRIORITY SECTORS IN VISION 2063

REVIEW OF SELECTED DEVELOPMENT PRIORITY SECTORS IN VISION 2063

This chapter spotlights three of the key development sectors under the three pillars of the Malawi Vision 2063[116] – one per pillar - to assess their financing requirements, review the effectiveness of financing strategies and explore potential finance sources. The pillars of Malawi Vision 2063 are – (i) Pillar 1 - Agriculture Productivity and Commercialization, (ii) Pillar 2 – Industrialization (with Mining integrated) and (iii) Pillar 3 - Urbanization (with Tourism integrated). The sectors are: Energy (under Pillar 2), Agro-processing (being part of commercialization, Pillar 1), and Tourism (under Pillar 3), and they have been selected as focus sectors for the DFA to exemplify how financing strategies can be developed around each of the three pillars and seven enablers of the Malawi Vision 2063.

In the last national development strategy, (MGDS III) almost 53 % of the total budget was allocated to key priority areas. Table below shows the projected allocations to various key areas.

Table 13: 2020/21 Budget Estimates by MGDS III Key Priority Area

Key Priority Areas	2020/21 Approved Estimates	%
Agriculture, Water Development and Climate Change Management	3,54,810	16%
Education and Skills Development	3,84,530	18%
Energy, Industry and Tourism Development	57,802	3%
Health and Population	2,04,731	9%
Transport and ICT Infrastructure	1,50,588	7%
Other Areas	10,37,420	47%

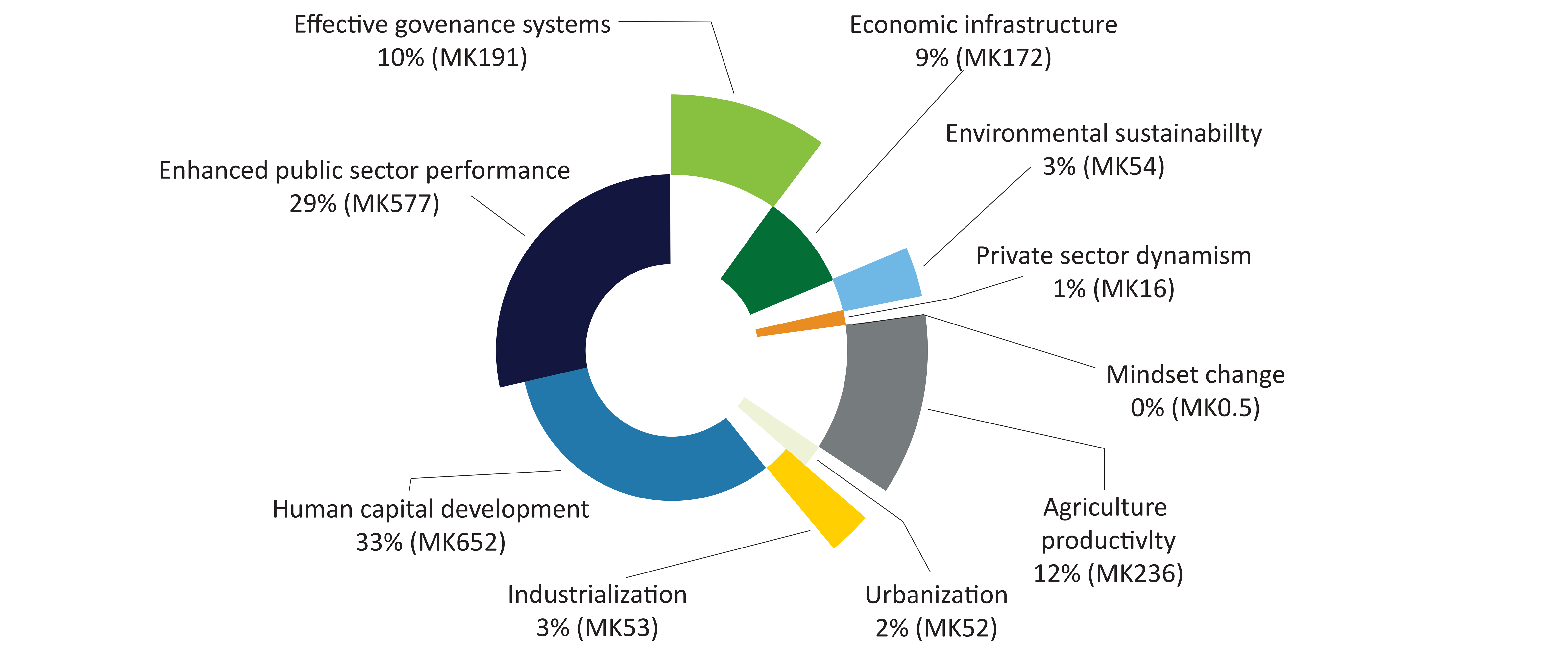
Source: Deloitte analysis based on MoF data

The Education and Skills Development sector continued to get the largest allocation, and in the 2020/21 Budget Estimates it has been allocated a total of K389.2 billion as compared to K384.5 billion for 2019/20 Mid-year Revised budget representing 18.0 % allocation of the total budget. The Agriculture, Water Development and Climate Change Management Priority Area is the second largest in terms of resource allocation. The sector has been allocated K354.8 billion representing 16 % while Health and Population has been allocated K204.7 billion; Transport and ICT Infrastructure K174.6 billion; Energy, Industry and Tourism Development K150.6 billion. Other Development areas that directly impact implementation of the Key Priority Areas account for an overall amount of K1,037.4 billion representing 47 % of the 2020/21 Budget Estimates.

[116] See Section for 4.9 for further details on the national development strategy

The Budget 2021-22 has made allocations according to the Malawi Vision 2063 pillars and enablers. 11.9 percent of the total budget has been allocated to Agricultural Productivity and Commercialization, 2.6 percent has been allocated to Urbanization and 2.0 percent to Industrialization.[117] The allocation to the enablers of Malawi Vision 2063 is as presented below:

Figure 44: Budget 2021-22 Allocations by Pillars and Enablers of Vision 2063



Source: MoF, Citizen's Budget 2021-22[118]

In order to enhance agricultural productivity as required under the first pillar of the Malawi Vision 2063, the Budget Statement of FY2021-22[119] stated that the Agriculture Sector has been allocated K284.4 billion which forms 2.8 percent of GDP and 14.3 percent of the total budget. Some of the projects in the agriculture sector include (i) the Agriculture Infrastructure and Youth in Agribusiness, (ii) Shire Valley Transformation Project; and (iii) the Livestock Infrastructure Development for sustainable animal health.

In order to support industrialization as required by the second pillar of the Malawi Vision 2063, the Budget Statement of FY2021-22[120] stated that GoM has allocated K2.0 billion for the development of Special Economic Zones in Matindi and Chigumula in Blantyre, Area 55 in Lilongwe, and Katoto in Mzuzu. Implementation and construction of the Special Economic Zones will commence in the 2021/2022 fiscal year. GoM has also announced the following interventions to enhance the growth of the mining sector which forms a part of the second pillar of Malawi Vision 2063: (i) Establishing the Mining Regulatory Authority to regulate the sector in developing, managing and utilisation of mineral resources in line with sustainable development principles and practices; (ii) Establishing Mining Corporation, a State-owned Company to ensure optimal development of the mining sector and maximization of national mineral revenues and social benefits; (iii) Completing construction and rehabilitation works of the Ministry of Mining Headquarter Offices and Mineral Laboratories at Area 4 in Lilongwe.

117 Malawi Citizens' Budget 2021-22, Ministry of Finance, Government of Malawi

118 https://www.finance.gov.mw/index.php/our-documents/budget-statements/category/10-budget-in-brief-2020-2021

119 Budget Statement FY2021-22 delivered by the Minister of Finance on 28 May 2021, Government of Malawi.

120 Budget Statement FY2021-22 delivered by the Minister of Finance on 28 May 2021, Government of Malawi.

The third pillar of Malawi Vision 2063 – Urbanization is supported by the National Urban Policy 2019 (NUP) of Malawi. The NUP seeks to create an enabling environment for the attainment of sustainable urbanization.[121] The NUP is aligned to the UN's New Urban Agenda (NUA); Agenda 2063: The Africa We Want; Sustainable Development Goals (SDGs); Sendai Framework; and the United Nations Framework Convention for Climate Change (UNFCCC) that reflect the aspiration of the nation to have sustainable urban development.

6.1 Energy

Background and Setting

The Energy sector is one of the key focus areas of the DFA for the obvious reason that unreliable power has been an enduring bottleneck to economic activity and growth in the country. Development of the Energy sector is critical in achieving the second pillar of Malawi Vision 2063, i.e. Industrialization. Malawi's energy sector is one of the most constrained in Sub Saharan Africa (SSA); with electrification at only around 18.02 % according to the World Bank[122]. This is way below that for SSA (47.66 %) and the neighbors of Malawi: Zimbabwe (41.04%), Tanzania (35.55%), Zambia (39.81%), and Mozambique (31.1%). The same has been echoed in the MCCCI survey on obstacles for ease of doing business in Malawi.

Given the heavy reliance on hydropower and low rainfall in recent years, high levels of sedimentation due to severe watershed degradation, inadequate water levels during the dry season left the system operating at less than 50 % of the full hydro capacity. Production capacity has dropped to as low as 150 MW (2017) and in January 2020, capacity has increased only around 200 MW. As a result of this and the aging hydro plants that experience frequent outages due to poor water quality, and limited maintenance, electricity generation remained constant. Consequently, load shedding has been a prevailing situation since 2016, with daily load sheds of 6–12 hours, which has been exacerbated by high transmission and distribution losses of up to 22% and electricity theft of 10% per year[123].

[121] https://cpi.unhabitat.org/sites/default/files/documents/National%20Urban%20Policy_April-2019.pdf

[122] https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=MW&name_desc=false

[123] http://documents1.worldbank.org/curated/en/697811607978316710/pdf/Malawi-Economic-Monitor-Doing-More-with-Less-Improving-Service-Delivery-in-Energy.pdf

Table 14: Malawi's Electricity indicators in comparison with its neighbors

Particulars	Unit	Malawi	Mali	Sierra Leone	Zambia	Mozambique	Madagascar
Electrification	(% of population)	11%	35%	20%	27%	24%	23%
Rural Electrification	(% of population)	4%	2%	3%	3%	5%	17%
Electricity price	(% of population)	11.3*	16.2	16.9	8.1	8.8	19.5%
Installed capacity	(% of population)	395	471	171	2906	2893	768
Availability of finance	(% of population)	0.25	1.75	0.25	1	0.75	0.25

Source: Malawi Sustainable Energy Investment Study, Rocky Mountain Institute, 2019

Malawi has committed to achieving "Sustainable Energy for All", as enshrined in SDG 7. Energy is a means to an end; it provides a platform for social and economic development, and a pathway for achieving many of the other SDGs. The Malawi Vision 2063 says "We shall establish PPPs and provide incentives that will attract private equity in investment in the energy sector, as public resources alone are not adequate to address the current gaps." Improved access to reliable and sustainable energy supply is one of the core outcomes that Malawi Vision 2063 seeks to achieve. In response to these commitments, the Ministry of Natural Resources, Energy and Mining (MoNREM), acting through the Department of Energy Affairs (DoEA) and Malawi Energy Regulatory Authority (MERA), has worked to put in place policies, regulations and a framework that will allow increased investment and rapid growth in the power sector. The National Energy Policy (2018) and the Malawi Renewable Energy Strategy (2017) build on the targets laid out in the Sustainable Energy for All Action Agenda (2017) and provide high-level policy direction, complemented by detailed technical analysis made available in the most recent Integrated Resource Plan (2017). To translate these goals into reality, the Ministry will rely on clear plans to move key investments forward, based on transparent funding arrangements that aim to provide reliable and sustainable energy for Malawians at the lowest possible cost. The way forward for Malawi represents a significant investment over the coming decades, of up to $3 billion, but this investment will create enormous benefits for the country[124].

A 2017 study commissioned by MoNREM, which culminated in the development of Malawi's energy sector Integrated Resource Plan (IRP)[125] established that:

Considerable investment in new infrastructure is necessary to improve security and regularity in supply and meet a growing demand driven by the increase in population (estimated at 2.8 % per annum) and requirements for economic growth and electrification.

124 https://www.un.org/en/unpdf/assets/pdf/PDF-SDG-2017-05%20Malawi.pdf

125 Norconsult AS in association with Economic Consulting Associates (ECA) and Energy Exemplar (EE)

The IRP approximates Malawi's total installed capacity for power generation in the interconnected grid at 370 megawatts (MW). This comprises 350 MW of hydropower and 20 MW diesel generators (reciprocal engines). The Electricity Supply Company of Malawi (ESCOM) additionally operates some off-grid diesel generation. Out of the 350 MW of installed hydropower capacity, actual production averages around 150 MW due to a combination of faulty aged installations and hydrological factors affecting the Shire River: siltation, precipitation in the catchment areas, off take for water consumption, evaporation from Lake Malawi and water level of the lake. This production is against a suppressed demand of 330 MW and full demand of 449 MW. Not surprisingly, power outages and load shading are frequent. The IRP forecasts that maximum demand will reach 719 MW by 2020, 1,873 MW by 2030, and 4,620 MW by 2040.

This situation has serious implications on economic productivity and negatively affects the country's attractiveness to investment. Initiating measures aimed at improving power generation has thus been invariably a matter of urgency. Malawi urgently needs to diversify its energy sources. Malawi's total installed generation capacity is estimated at 370 megawatts (MW). This comprises 350 MW of hydropower and 20 MW diesel generators (reciprocal engines). Neighboring countries outperform Malawi in terms of energy mix and capacity.

Financing Malawi's energy sector improvement plans demands mobilization of resources from a broad range of sources. Efforts should be made to create the right climate for the private sector; as well as capacitating the Power Single Buyer, through a cost reflective tariff, geared at improving the corporation's counter-party credit worthiness. The domestic capital market, through bond-issuance targeting pension funds can also be leveraged to finance energy projects. Malawi has an option to tap into the regional power pool grid, as Malawi's electricity grid is currently not interconnected with the Southern Africa Power Pool (SAPP). This integration would help ensure security of power supply[126].

Institutional and Policy context

Apex policy organs in Malawi's energy sector include the Office of the President and Cabinet (OPC), the Ministry of Natural Resources, Energy, and Environment (MoNREE), and the Malawi Energy Regulatory Authority (MERA). The Energy Generation Company (Egenco) is responsible for power generation whilst the Electricity Supply Company of Malawi (ESCOM) is responsible for transmission and distribution. The MoNREE sets overall energy policy whilst MERA acts as an independent regulator whose (mandate is set out in the 2004 Energy Regulation Act), responsible for (i) reviewing tariff applications from ESCOM and recommending tariff changes to GoM, (ii) granting licenses for generation and distribution operators and (iii) arbitrating commercial disputes that arise under the 2004 energy legislation.

The MoNREE has developed the 2018 National Energy Policy, a successor to the 2003 National Energy Policy. The 2018 NEP aims at: (1) Making the energy sector sufficiently robust and efficient to support GoM's socio- economic agenda of poverty reduction, sustainable economic development, and enhanced labor productivity; (2) Catalysing the establishment of a more liberalized, private sector driven energy supply industry in which pricing will reflect the competition and efficiency that will develop in the reform process; and (3) Transforming the country's energy economy from one that is overly dependent on biomass to one with a high modern energy component in the energy mix. Key reforms implemented within the timespan of the former (2003) NEP include: The establishment of the Malawi Energy Regulatory Authority; (2) Establishment of the National Oil Company of Malawi; (3) Establishment of Rural Electrification Fund and Rural Electrification Management Committee, and (4) Restructuring of the power market –

[126] https://sustainabledevelopment.un.org/content/documents/26317MalawiVNRReport.pdf

specifically, ESCOM was unbundled into EGENCO and residual ESCOM consisting of Transmission, Distribution, System Market Operator and Single Buyer. This followed new Energy legislation passed in 2016. The 2016 legislation also provides for private power producers' participation in energy generation, with ESCOM acting as single buyer.

Developments to improve Power Generation and Supply

The IRP assessed and spelled out several flagship energies projects either being implemented or planned to be implemented in the short term (2020) and medium term (2035) to progress Malawi towards power sufficiency. Other than the power generation expansion projects listed above, other interventions involve upgrading of the transmission grid. The IRP observes that the grid has suffered from many years of under-investment and the system is, as a result, in need of upgrades to replace old and outdated equipment. Projects are ongoing to address these issues.

Financing Strategies

Private Investment

In the quest to increase power generation capacity, the Government unbundled the power generation segment of the power market in 2016 and opened it up for the private sector. Following this reform, the Electricity Supply Corporation of Malawi (ESCOM) signed 14 Power Purchase Agreements (PPAs) in May 2019, 10 with the Electricity Generation Company (EGENCO) and 4 with private sector Independent Power Producers (IPPs). A new solar IPP (US$67 million)—the Salima Solar Project—reached financial close in 2019 and is backed by a guarantee from the Multilateral Investment Guarantee Agency (MIGA). It will be the first IPP in the country and once operational (at the end of 2020) will bring onstream 60MW of new generation capacity. The flagship Mpatamanga Hydropower Project – set to double installed capacity – is supported through collaboration among World Bank, IFC and MIGA. The successful closure of this US$1.1 billion deal will send a powerful signal to the market and can catalyze wider investment and PPP opportunities[127]. The Nkhotakota project is part of a push by the Malawian government to use solar power to strengthen the country's electricity infrastructure. Currently only 15% of the population has access to power, and the national capacity is estimated at 362 MW. The new capacity added will make a significant contribution to the government's target of increasing power access to 30% of the population by 2030[128].

Considering that Malawi Vision 2063 has earmarked PPPs and IPPs to finance its flagship projects, private investment will, going forward, assume more prominence in the sector. The need to address binding constraints in the business environment is thus more pronounced that ever. Whilst the enabling policy is now in place given the adoption of the Power Purchase Agreement framework, of critical importance is the need to ensure that energy investments can yield reasonable returns. Central to this is a cost-reflective tariff structure that will incentivize investors.

Allied to this, the financial viability and credit worthiness of ESCOM as the PPA counterparty will in the end bear on the bankability of new power generation investments. This is in the sense that IPPs are predicated on the ability of ESCOM (being Single Buyer and Transmission licensee) to sufficiently monetize wattage. The exception of course would be in cases of direct sales by IPPs to bulk consumers – allowable by the amended Energy Act. In any case, ESCOM and IPP revenues will be driven by the applicable end-user tariff regime.

[126] https://sustainabledevelopment.un.org/content/documents/26317MalawiVNRReport.pdf

However, ensuring the financial sustainability of the power sector, especially of ESCOM and predictability of tariffs would be critical. ESCOM is the only entity in the sector that generates revenues directly from consumers, hence it is key to the funding of projects seeking private capital. However, as explained in subsequent sections, ESCOM is facing severe financial problems, putting the sector's sustainability at risk. Following the unbundling, the Malawi Energy Regulatory Authority (MERA) published a 'New Tariff Methodology' that requires the separation of the different activities to ensure that cost recovery principles are applied in each component of the sector.

The current tariff applied to ESCOM is not cost reflective. the Malawi Energy Regulatory Authority (MERA) published a 'New Tariff Methodology' that requires the separation of the different activities to ensure that cost recovery principles are applied in each component of the sector[129].

ESCOM's performance has however recently deteriorated, the regulator is unwilling to allow tariff increases without performance improvement. In April 2018, ESCOM applied for a 60 % increase in base tariff, covering all business units. After due consideration and consultation with the public, MERA approved budgets which would result in an average end-user tariff of MWK 97.5 per kWh (US$13.26 per kWh) for 2018–2022, effective from October 1, 2018. The approved rate is 19 % lower than what was requested by ESCOM. A downward adjustment of the budget submitted by ESCOM was made to what MERA deemed to be realistic and to encourage greater efficiency. ESCOM's revenue projection was decreased by 20 %, head office costs were decreased by 35 %, bad debts initially were allowed at 3 %, but the final base rate requires a reduction to 0.5 %[130]. ESCOM was also required to isolate revenue asset revaluation gains and allocate it to a specific fund to be used only for infrastructure enhancements, additions, and improvements. MERA has also resolved that results against key performance indicators will be part of the licensing agreements with electricity sector entities and nonperformance will be subject to penalties.

Equity and Debt Instruments

Energy infrastructure projects can also be financed through bond issuance, targeting the hitherto untapped pension funds, life insurance assets and remittances, as earlier discussed. Without belaboring the point, energy bonds can be issued to fund expansion of power plants, with repayments secured from electricity tariffs. Advantages of long-term borrowing, as opposed to short-term debt abound, including the fact that it eases pressure on government cash flows due to the principal repayment being spread over a longer period.

External Grants

External grants have been a key source of development finance towards Malawi's energy sector, targeting reforms aimed at restructuring the sector as well development of power plants. Notable grantors are the World Bank and the Millennium Challenge Compact.

Malawi's $350.7 million Millennium Challenge Corporation (MCC) compact is a single-sector five-year (2014 to 2019) program designed to contribute to Malawi's efforts in reducing poverty through sustainable economic growth. It is estimated that approximately one million Malawians will benefit from the compact interventions through increased consumption of electricity. Specifically, the MCC is among notable gains expected to translate in income benefits estimated between US$567.2 million and US$832.0 million over the next 20 years.

129 http://documents1.worldbank.org/curated/en/697811607978316710/pdf/Malawi-Economic-Monitor-Doing-More-with-Less-Improving-Service-Delivery-in-Energy.pdf

130 Malawi Economic Monitor December 2020

The MCC and World Bank have hitherto been critical partners. Whilst the MTEF projects World Bank funding towards the sector, the MCC ends in September 2018, the country having missed out on a new compact. Malawi's eligibility for another compact rested on satisfying a set of 20 indicators in the MCC scorecard, paramount of which was fighting corruption[131]. Out of 20 indicators in the 2018 scorecard, Malawi failed in five, four of which are on fiscal policy, inflation, regulatory quality, gender in the economy and business startup under the category of economic freedom. Given how instrumental the Compact has been in supporting the energy sector, it would be remiss not to seriously address the indicator shortfalls and vie for a new compact once the current infrastructure projects are fully implemented.

However, in 2020 Malawi has sparkled on the 2020 MCC scorecard, excelling in 18 of the 20 indicators examined. The scorecard released in November 2020 shows that Malawi performed well in the critical areas of political rights, civil liberties, control of corruption, government effectiveness, rule of law and freedom of information. The country also excelled in inflation and regulatory quality. Malawi, however, recorded a dismal performance in fiscal policy[132].

International Climate Finance

Whilst hydropower will remain the key source of energy for Malawi for the foreseeable future, renewable energy presents good prospects going forward as the world promotes green energy. To this end, there is considerable potential for Malawi to benefit from International Climate Finance (ICF) and leverage South-South Cooperation through countries such as India, that are pioneering the renewable energy movement amongst developing countries. In this regard, the International Solar Alliance, championed by India, particularly presents opportunities for countries like Malawi to address their energy infrastructure requirements (see Text Box below). Malawi already being a member, should develop credible investment renewable energy projects and actively engage the Alliance to solicit finance.

Text Box 7: International Solar Alliance – Overview

The International Solar Alliance announced by India at the Paris climate conference invites together 120 countries to support the expansion of solar technologies in the developing world. The cost of solar cells has decreased over the past four decades, and the trend seems likely to continue. Solar energy has moved from a niche market for providing power in remote places (at the very beginning in 1958 to space satellites) to a mainstream technology which feeds into the national grid.

Most richer countries have been supporting solar power for some time and the rest of the world is now catching up, turning to solar not only for energy access in remote areas but to power cities. Emerging countries such as China, India, Brazil, Thailand, South Africa, Morocco or Egypt are investing in large solar plants with ambitious targets. In developing countries such as Bangladesh, Ethiopia, Kenya, Rwanda, Senegal or Ghana, solar farms or the large roll-out of solar home systems are a solution to unreliable and insufficient electricity supplies. Large solar farms can be built in just a few months – compared to several years for a coal plant and even longer for a

131 http://mwnation.com/malawi-misses-new-mcc-compact/

132 https://www.businessmalawi.com/malawi-shines-on-mcc-scorecard/

nuclear plant – without generating massive environmental and health damages. Modular decentralized generation with solar is a way to increase access to energy while remaining on top of rapidly increasing appetites for electricity.

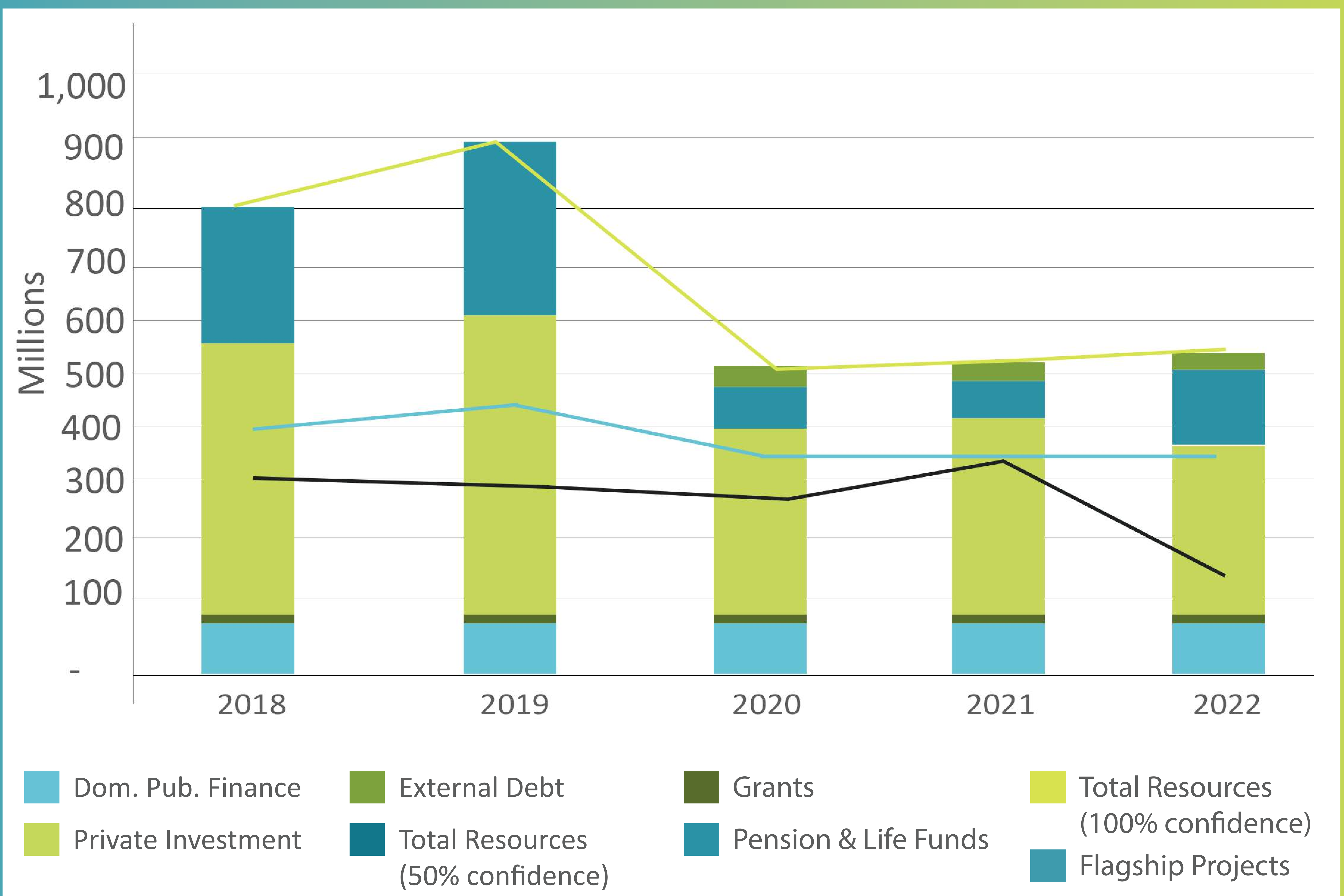
This alliance could boost the solar market in the Global South by accelerating the circulation of knowledge, facilitating technology transfer and securing investments. Such a partnership would aim to create a common culture among people working in solar energy. Permanent innovation is the key to success in a field where technologies evolve fast and where norms and standards are not yet established. So, an alliance could help countries exchange policy ideas while benchmarking performance against each other.

Source: https://isolaralliance.org/

Future Finance Flows towards the Energy Sector

Financing Malawi's energy sector improvement plans evidently demands mobilization of resources from a broad range of sources. Figure below illustrates that all factors being equal, resources abound to finance the flagship projects planned to be implemented over the coming five years.

Figure 45: Projected resources vs development requirements (USD)



Source: MoF and MITC

As depicted above, even at 50% confidence, projected resources surpass the corresponding capital outlay necessary to finance key projects. Actualizing this is however premised on the country being able to implement an integrated approach to financing, that facilitates access to non-traditional sources of finance. As discussed above, creating the right climate that unlocks private investment, particularly FDI, as well as the policy framework that positions government to leverage pension and life insurance funds is critical.

6.2 Agro-Processing

Background and Setting

Agriculture remains the mainstay of the Malawian economy; contributing as much as 30% of GDP, 64% of employment, and up to 80% of national export earnings – 60% of which are contributed by tobacco alone[133]. The sector is dominated by smallholder subsistence farmers who contribute about 80% of production. Small and medium-sized food processors contribute more than $115 million to the Malawian economy annually, mostly in the processing of cereals, cassava, potatoes and soy[134].

Restrictions related to COVID-19 have led to serious disruptions and agricultural structured markets (e.g., tobacco) have been delayed or are functioning below optimum levels, resulting in loss of income to farmers, as well as increased storage costs and losses. Export and import of agricultural commodities and supplies have been crippled due to border closures, overall income streams for the farmers[135]. The government developed a National COVID-19 Preparedness and Response Plan. In synch with the national plan, the Ministry of Agriculture and Food Security also developed a COVID-19 response plan for fiscal year 2019/2020 to 2020/2021 aimed at addressing the impact of COVID-19 on people's livelihoods and the agriculture sector.

Agriculture production and commercialization constitute priority pillar for Malawi Vision 2063, number one of the three pillars. The major goal of this pillar is to attain sustainable agricultural transformation that is adaptive to climate change and enhances ecosystem services. This in turn is intended to catalyze sustainable economic growth and poverty reduction, leading to a productive, competitive, and resilient nation.

Within the ambit of the Pillar 1, the DFA focuses on agro-processing to assess its state of play and explore opportunities for strengthening financing strategies. The choice of agro-processing as the DFA's agricultural focus area is informed by the emphasis placed on it by the National Agriculture Policy (NAP) and the National Agriculture Investment Plan (NAIP) as discussed in the next section.

Institutional and Policy Context

To guide the design of agricultural subsector policies, strategies, and other actions, the Ministry of Agriculture Irrigation and Water Development (MoAIW) has developed and oversees implementation of the National Agricultural Policy (NAP) and the National Agriculture Investment Plan (NAIP). The NAP defines the country's vision for developing its agricultural sector over the five-year period: 2016 to 2021. It envisions that by 2020, agriculture in Malawi will increasingly be oriented towards profitable commercial farming through specialization of smallholder farm production, output diversification at the national level, and value addition in downstream value chains. This will ensure (1) sustainable agricultural production and

[133] GoM (2017). Malawi Growth and Development Strategy III

[134] https://www.technoserve.org/our-work/where-we-work/malawi/

[135] https://agra.org/wp-content/uploads/2020/06/Malawi-COVID-19-Policy-response-package-_June-2020.pdf

productivity, (2) increased mechanization, (3) increased area under irrigation, (4) increased agro-processing and value addition, (5) enhanced risk management, (6) strengthened marketing systems, (7) accelerated export growth, and (8) improved food security and nutrition.

The NAIP on the other hand is the country's medium-term investment framework for the agriculture sector, covering the five years: FY2017/18 to 2022/23. It provides a framework for coordinating and prioritizing investments by various government agencies, development partners (DPs) and non-state actors in the sector. The NAIP builds on the achievements and lessons learned under its predecessor, the Agricultural Sector Wide Approach (ASWAp) that was implemented from FY2011/2012 to FY2015/2016. It particularly draws from and is guided by the 2014 Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods and serves as the main implementation vehicle for the NAP.

Developments to improve Agro-Processing and Value Addition

The GoM is committed to developing agro-processing and value adding to buoy its quest for transforming the economy from a consuming to an importing one. As the NAP articulates, the goal is to re-orient the country's agriculture towards profitable commercial farming by increasing the productivity of smallholder farmers, diversification, and value addition in downstream value chains.

The NAIP embodies the essence of an integrated financing framework. Whilst focusing on public investment, it recognizes that broad-based agricultural growth must be driven by private investment: ranging from smallholder farmers to companies engaged in input supply, production, and value addition. Importantly, the NAIP recognizes that the willingness of non-state actors to invest depends on an enabling policy and investment environment. To this end, the NAIP is framed in such a way that it: (1) supports critical policy, legal and regulatory reforms, (2) strengthens public institutions to fulfil their mandates for services and public investments, and (3) creates appropriate coordination mechanisms across the public sector and between the public and private sectors, including farmers and other non-state actors.

Financing strategies

Overview of Agro-Processing financing

Investment in the sector is very limited, productivity characteristically low, and climatic shocks a high risk due to reliance on rains. Available data over the past few years indicates that financing the agro-processing sector in Malawi has been dominated by private investment. External grants and domestic public finance have also played a role in developing the sector, albeit significantly lower.

Private Investment

Whilst private investment is of such critical importance, government's influence over the same is limited and the degree to which alignment with national priorities can be realistically pursued, fraught with difficulty. Private investment can thus only be included in the NAIP budget and results framework to the extent that its co-finances public investment and service provision unless clear private sector investment commitment is demonstrable. Further, as earlier discussed, a lot needs to be done to attract private capital given the manifold obstacles to doing business. The NAIP recognizes this and targets an improved enabling environment for business by engendering stable and predictable policies, supporting legislation, and improving infrastructure and support services. Tax incentives and special economic zones for agro-processing are also earmarked.

Quantifying private investments in agriculture is challenging due to the lack of reliable data. The only current data on agriculture private investments is the New Alliance/Grow Africa data base. However, the data are self-reported by participating companies and are not verified independently and not updated regularly the last update was in 2016. However, international evidence[136] shows that farmers are the main financiers of the sector and are expected to make important contributions through co-financing of most NAIP activities. The private sector including farmers is expected to co-finance activities amounting to USD 1.4 billion (46% of the total NAIP budget). Such financing would be in cash or in-kind for a broader range of investments and services. Private agribusiness and SMEs receiving matching grants or participating in PPPs will also make contributions. Assuming an average co-financing share of 20%, this would result in USD 293 million being mobilized by the private sector. Combined with the USD 148 million of investments pledged under the NA/GA, total private financing would be at least USD 441 million[137].

Public Private Partnerships

A feasibility study commissioned by the GoM in 2013 showed that there was a great need for the establishment of a development financial institution (DFI) in Malawi. The study found significant financing gaps particularly in the areas of infrastructure development and small and medium enterprises (SMEs). The findings of this study have been confirmed by a recent feasibility study which was conducted in 2018. Following the updated feasibility report, GoM decided to pioneer the establishment of an autonomous, sustainable and private sector-led development finance entity. The entity works in collaboration with the existing banks and financial institutions and is a source of capital for the underserved sectors of the economy thereby accelerating the country's economic growth and development.

The establishment of Malawi Agriculture and Industry Investment Corporation (MAIIC) is a ground-breaking partnership between Government, the private sector and international investors to play a leading role as a catalyst for socio-economic development, job and wealth creation in Malawi. Operating as a sustainable and commercially driven entity, MAIIC has an independent board of directors, the majority of whom are from the private sector. MAIIC's shareholding structure consists of Malawi Government's stake at 20 % and 80 % to come from the private sector, the public and foreign investors[138]. With an initial investment of K35 billion and operating under a Public Private Partnership (PPP) model, MAIIC work closely with businesses to build their capacity to better articulate their business plans and work with the commercial banks in ensuring economic gains. Now after completing almost a year that it has been operational, its impact can be seen through the 530 jobs created in various sectors, 102 jobs of which were created through financing Multiseed Company Ltd alone.

In line with promoting private sector led growth as discussed above, the GoM is implementing agro-processing initiatives in joint arrangements with the private sector, modeled around PPPs. Notwithstanding teething challenges: the on-going initiatives are an invaluable learning experience for posterity. An example in this regard is the Salima Sugar Company (Case Study), a joint undertaking between the GoM through the Green Belt Authority and private capital.

136 FAO (2012) The State of Food and Agriculture: Investing in Agriculture for a Better Future

137 https://www.scotland-malawipartnership.org/files/9815/3113/0121/National_Agicultural_Investment_Plan_2018_Final_Signed.pdf

138 MAIIC Website

Case Study 2: PPPs in Agro-processing - Salima Sugar Company.

Salima Sugar Company traces its origins to the 2009 India/Africa Summit that the then Malawi Head of State attended; whereby the President lobbied for Indian foreign investment to finance projects under the Green Belt Initiative. The factory was built by Apollo of India for the GoM at USD33mn, financed by a line of credit from the EXIM Bank of India. A consortium of Aum Sugar Limited and Allied Sugar Limited was identified as a joint venture partner to establish Salima Sugar Company Limited. The GoM holds a 40% shareholding through GBI Holdings Limited whilst the consortium holds 60%. The consortium contributed USD2mn capital as part of the management contract.

Operations started in 2015 and the company employees 800 people including 45 Indian expatriates. 2000 hectares have so far been developed for sugar cane cultivation. The supply chain incorporates surrounding small-scale farmers. Current production capacity is 6000 tonnes per annum with plans to grow the capacity to 12000 tonnes. The company's sugar is currently wholly sold on the domestic market at an average of MK750 a kilo. Incentives extended to the company include an eight-year tax holiday.

Matching Grant Facilities

Another private sector spirited initiative targeting development of the agro-processing industry is the Malawi Innovation Challenge Fund (MICF). The MICF is a matching grant facility established by UNDP, KFW, DFID and IFAD, to provide co-financing to the private sector for innovative inclusive business initiatives in the agricultural, manufacturing and logistics sectors. The MICF aims to support the process of transformation within the Malawian economy from one that is dependent on imports and consumption to one that is geared to exporting and production along the targeted priority sectors of the National Export Strategy (NES).

The MICF has been designed to bring real impact in changing market systems, increasing employment, and raising incomes of the poor. The fund "challenges" the private sector to achieve pre-defined objectives, often enabling technological innovations, and pre-defined pro-poor impacts. The MICF is a competitive mechanism to bring ideas to life by allocating financial support to innovative projects to improve incomes of the poor and test the long-term commercial viability of the idea.

IMCIF's agriculture portfolio includes innovative initiatives that deliver new products, services and business models that increase the supply of processed and semi-processed agricultural commodities by integrating low-income producers into the value chain. These initiatives aim to develop or enhance existing export markets or deliver products that can substitute imported products in the Malawian market[139].

Over the past 4 years, till 2019 the fund holds a portfolio of 23 projects and has launched 4 competitive rounds spread across the Agriculture, Manufacturing, Agribusiness, Logistics and Irrigation sector[140].

A first round of competition contracted US$5.7 Million whilst private sector contributions amount to US$10.1 million. Most companies leveraged new external finance in the form of debt finance, private

[139] MICF website

[140] MICF newsletter 2019

equity, and vendor financing for implementation and scale-up. A second round was launched in 2016 and contracted US$5.1 million with a contribution of around US$9.5 million from the Private Sector.

The aggregate number of poor people experiencing net positive income or livelihood improvement amounts to 326,100 (30% of which are women). The number of permanent jobs expected to be created because of the MICF is 1,400 (or which 30% minimum are women). The number of smallholder households benefiting from new or enhanced income generating, or livelihood improvement, opportunities amount to 45,000. The number of low-income direct consumers utilizing new or enhanced products/services that affect their basic human needs because of MICF Projects is 30,500 over the last 5 years of implementation.

Case Study 3: Sunseed Oil Company[141] - Grantee in Malawi Innovation Challenge Fund, UNDP

Sunseed Oil Limited is a grantee under the UNDP administered MICF. The company is 100% Malawian. It started its operations in 2013 and employs a total of 600 direct employees – up to 1000 depending on season. Its products include margarine, laundry soap and cooking oil. Other than the local market, it exports to other countries such as Mozambique, Kenya and Tanzania. There are plans to start exporting to Zambia.

The company accessed USD750,000 under the MICF. The company invested matching funds amounting to USD1.4mn. This enabled the company to triple its margarine production. So far operations are profitable.

The MICF grant has expanded the company's operations, producing 300 tonnes of fridge free sunflower margarine per day. The margarine, Sunspread, provides a locally produced alternative to South African margarines within retail outlets. The company contracted over 10,000 farmers to supply raw material which acted as a catalyst for income growth amongst smallholder farmers. The margarine has been positively received on the domestic market since its introduction; an element that presents encouraging prospects for import substitution. Under the MICF's inclusive business model, the company buys sunflower from twenty thousand smallholder sunflower farmers. This number is expected to grow to one hundred thousand. The company offers technical assistance to these farmers by providing them with seeds and other technical services through 60 technical centres. It also multiplies seed.

Other than offering income and employment to locals, the company undertakes various CSR initiatives. within its catchment area. Notables are three orphanages, community road upgrades and boreholes.

Some of the major challenges include energy and water availability. Exports are also affected by lack of accreditation of the Malawi Bureau of Standards.

Leveraging Agribusiness

Promoting smallholder farmers associations is another important development supporting the development of agro-processing and value adding in Malawi. Within the implementation period of the ASWAp,

[141] MICF website and annual reports

smallholder farmers associations have gained currency and become more structured and organized. These associations encourage smallholder farmers to approach farming as a profit-making enterprise, looking beyond the field (raw produce), to how they can add value to their primary products. A good example of this is the case of the National Smallholder Farmers Association of Malawi as described in Case Study below:

Case Study 4: National Smallholder Farmers Association of Malawi (NASFAM)[142]

NASFAM is the largest smallholder owned membership organization in Malawi. It is founded on the principles of collective action and is democratically governed by its members. Funded by the US Government, the NASFAM concept was set up in 1995 to support and organize smallholder tobacco production. Since that time, the NASFAM focus has diversified to production of other cash and food crops. NASFAM, as it is now, was legally registered under the Trustees Incorporation Act in February 1998.

NASFAM is a farmer-member controlled system. This control starts at Association level. The NASFAM system is organized into a unique extension network to support its membership of around 100,000 smallholder farmers. The smallest operational unit of NASFAM is the Club, made up of 10-15 individual farmers. Clubs combine to form Action Groups that are the key points in the extension network for dissemination of information to members, and for the bulking of member crops. Action Groups combine to form NASFAM's Associations. Currently, NASFAM has 43 associations, and has a membership of over 100,000 farmers spread across 22 districts of Malawi[143].

NASFAM functions are split into Commercial and Development activities. These provide members with both the commercial and development services they need. Commercial services include improved access to output and input (e.g., seed and fertilizer) markets and expanding range of value-addition opportunities. Development services include comprehensive training support in best agricultural practices using conservation principles adapted to climate challenges, programmes on HIV and AIDS, gender equality, food and nutrition security and association governance. Services are propagated through direct member contact supported by radio and ICT approaches and supported by active engagement in the policy arena. NASFAM's Commercial and Development operations are respectively divided between an independently registered for profit company and a legally registered NGO. Both are governed by a Farmer Board, which is democratically elected each year by the membership[144].

National export strategy

Efforts to develop agro-processing and value adding are further supported by the National Export Strategy (NES), operative from 2013 to 2018. The NES endeavors to expand the country’s productive capacity and export base by providing a framework for strengthening the enabling environment for business and exports; and mediating cross-sectoral policy coherence and alignment. It emphasizes agro-processing and value adding by identifying oil seed products, sugar cane products and manufacturing as clusters with

142 NASFAM website

143 https://www.nyasatimes.com/german-boosts-malawi-government-nasfam-response-to-COVID-19-fight/

144 http://www.nasfam.org/index.php/about

potential to equate to over 50% of exports by 2027. These clusters are targeted to complement tobacco, which is exported raw or semi-raw. The target was to raise exports as a share of imports from 51.5% in 2011 to 75.5 % in 2017 and 93.4 % in 2022.

Disquietingly, the NES has evidently not succeeded in increasing exports in general and the targeted clusters. Whilst implementation of the NES was expected to significantly increase exports, the outturn has been to the contrary, as exports (in total and for each of the targeted clusters) have trended downwards between 2013 and 2017. Notwithstanding its good intentions, implementation of the strategy has been poor. This needs to be seriously considered in the review of the NES, currently under way. The Commonwealth Secretariat is assisting the Government of Malawi through the Ministry Industry, Trade and Tourism to review its National Export Strategy (NES) 2012-2018 and to draft a successor strategy to run 2019-2023 . The government, through the Ministry of Trade is in validating a draft strategy to be implemented between 2021 and 2026. The strategy projects that by 2026, Malawi shall become a competitive and visible exporter of value– adding and poverty-reducing labour with a robust tourism sector. it focuses on increasing supply of tradable services through increased production, value addition and competitiveness of Malawi's labour and tourism industries, promotion of access to markets for services to make Malawi a visible and effective exporter and enhance economic sustainability and inclusivity. Malawi is participating in regional and multilateral trade negotiations to unlock trade opportunities for goods and services. While Malawi's services exports are relatively small, there is huge potential to grow. To facilitate this GoM is also planning to establish a department that would play and oversight role in developing and promoting trade in services.[146]

Domestic public finance: Agriculture Sector Wide Approach

GoM and its Development Partners agreed to formulate the Agriculture Sector Wide Approach (ASWAp) as a means for achieving agricultural growth and poverty reduction goals of the Malawi Vision 2063in continuation to MGDS III. ASWAp is a unique approach; that envisages a single comprehensive programme and budget framework; has a formalized process for better donor coordination, harmonization of investment and alignment of funding arrangements between GoM and donors; promotes increased use of local procedures for programme design, implementation, financial management, planning and monitoring. The ASWAp has hitherto directed agricultural financing. The ASWAp identified three priority areas: (1) Food security and risk management; (2) commercial agriculture, agro-processing, and market development; and (3) sustainable land, and water management. These priorities were supported by two key services: (4) Technology generation and dissemination; and (5) institutional strengthening, and capacity building.

Whilst agro-processing has been a clear priority for the GoM as expressed in the ASWAp, actual investment has been below anticipated levels. ASWAp allocation towards commercial agriculture, agro-processing and market development was about 7%. Actual expenditure over the ASWAp period was however below 1% of the Ministry of Agriculture's budget. The World Bank Agricultural Public Expenditure Review (AgPER) for instance evidenced significant allocative inefficiency over the ASWAp implementation period between 2011/12 and 2015/16.

145 https://thecommonwealth.org/sites/default/files/documents/vacancies/terms-of-service/TORs_MalawiReviewNES-Revised-May2018.pdf

146 https://times.mw/experts-dissect-exports-strategy/

Agriculture Sector Wide Approach-Support Project II (ASWAp-SP II) started in November 2017 to run up to December 2019. Targeting 12 Districts,300,000 rural households with a funding of US$ 55M and to engage 24 organizations.

The major driver of allocative inefficiency in Malawi's agricultural investment is widely considered to be the Farm Input Subsidy Program (FISP). The FISP, constituting almost 70% of the Ministry of Agriculture's annual budget, was launched in 2004/2005 to afford needy subsistence farmers farm inputs at subsidized cost. Despite attracting significant criticism for its limited impact and being fraught with many operational challenges (that have spawned widespread corruption), successive governments have maintained it for obvious political economy reasons. The opportunity cost though is that more potent programs have stalled, such as the Green Built Initiative – a nationwide irrigation project under the Sustainable Land and Water Management component of the ASWAp. As the World Bank has observed, the predominance of FISP leaves no room for pursuing allocative efficiency. Not surprising then that agro-processing has been crowded out, against the backdrop of limited fiscal space. Reforming the FISP presents scope for improving the status quo and should be expedited. Some of the key suggested reforms targeting the FISP as offered by the NAIP include those depicted in Text Box below.

Text Box 8: FISP Reforms

Despite the contribution of the FISP in increasing maize production, there is a growing consensus on the need for Government to improve its efficiency and sustainability. On-going FISP reforms include: (i) improvement in targeting of productive poor smallholder farmers.; (ii) the increasing involvement of the private sector in input distribution; (iii) Increase farmer contribution to the input; and (iv) the use of FISP as a tool to promote diversification through expansion towards other cereal seeds. These FISP reforms aim at reducing its financial burden to free resources for sustainable agriculture investment by the GOM.

The re-orientation of the FISP requires the harmonization with other policies such as social cash transfers in terms of the Unified Beneficiary Registry and other tools. This requires a new targeting approach currently being piloted. The use of the Unified Beneficiary Registry developed under the MNSSP would help to improve targeting efficiency and ensure that various interventions are harmonized. The latter include other interventions under the NAIP, under Program B and IA 6, which target strata of the rural population that will no longer be eligible under the FISP.

Further reforms should consider opportunities to address environmental and soil fertility issues requiring a more holistic approach to soil fertility management. The reform areas should include management practices such as use of organic fertilizer and provision of varied fertilizers depending on soil types and cropping systems; crop rotation and expanding the choice of seeds to include more legumes, cereals and oilseeds crops; and linking FISP eligibility to the adoption of good agricultural practices.

Source: MoAIW, NAIP

GoM adhering to the suggestions ended the FISP and have now introduced the Affordable Inputs Program (AIP). Government will implement the Affordable Inputs Programme (AIP) whereby all smallholder farmers, estimated at 4.2 million, will access fertilizer at K4,495/50kg bag. Each smallholder farmer will be able to purchase two bags of fertilizer and enough seed for maize and legumes commensurate with their land holding size. To ensure that the programme is managed effectively, National Identity Cards, which will be linked to an electronic tracking system will be used when purchasing the fertilizer and other farm inputs. Government will also tighten border security to control cross border smuggling of the cheap farm inputs. Total cost of the program is about K165 billion (fertilizer, seed and operations). GoM has spent K140.2 billion on Affordable Input Programme (AIP) from the initial K160.2 billion allocation in the 2020-2021 national budget.[148]

However, Government leadership has conceded the AIP as a failure as subsistence farmers are failing to access affordable subsidized farm inputs, 89% of the targeted beneficiaries across the country have not yet accessed their inputs[149]. Government has identified three challenges facing to access low- cost inputs under the K160 billion AIP which are the logistical glitches, ow delivery of inputs, and corruption. Network outages are also making it difficult to retrieve information of the beneficiaries. To address these issues, government has had several engagements with the key stakeholders and expects these problems are to be resolved soon.

The government has again allocated quite substantial amount of funds to the Ministry of Agriculture and Food Security from the 2019/2020 national budget. The sector has been allocated MK167 billion (approximately US$ 226.9 million) of the total MK 1.7 trillion. This is a slight increase from the proposed estimates of the 2018/2019 financial year which was pegged at MK 151 billion (approximately US$206.6 million) representing a 10 % increase. The 2019/20 allocation which represents 9.7% of the total budget is slightly lower than the recommended 10% budget allocation as per the 2003 Maputo declaration on agriculture and food security. The development budget (agriculture projects) has increased to MK 106 billion (approximately US$ 144 million) from MK69 billion (approximately US$ 93.7 million). Nonetheless it should be mentioned that 94% (MK100.5 billion, equivalent to US$ 136.5 million) of the development budget is financed by donors whereas 6% (MK5.8 billion, equivalent to US$ 7.8 million) is from the government. Other Recurrent Transaction (ORT) has been reduced from MK66.7 billion (approximately US$ 90.6 million) to MK53.2 billion (approximately US$ 72.3 million). However, the distribution of the budget remains unbalanced with regards to alignment to the National Agriculture Investment Plan (NAIP) priority pillars[150].

In the latest 2021 budget Agriculture has received K354.8 billion (474 million U.S. dollars), which is 19.9% of the total budget, representing 5% of GDP for wages and salaries, maize purchases and Affordable Input Program (AIP) and other developmental projects[151].

External Grants

Agricultural spending has a significant component of foreign financing in form of grants and loans. Strengthening agribusiness has attracted some external funding, albeit insignificant relative to other focus areas. Nonetheless it should be mentioned that 94% (MK100.5 billion, equivalent to US$ 136.5 million) of

148 https://malawifreedomnetwork.com/k140-2-billion-spent-on-affordable-input-programme-aip/

149 https://www.nyasatimes.com

150 https://www.jica.go.jp/malawi/english/activities/c8h0vm00004bpzlh-att/agriculture.pdf

151 Malawi 2020/21 budget speech

the development budget is financed by donors whereas 6% (MK5.8 billion, equivalent to US$ 7.8 million) is from the government[152]. There are several activities being implemented by various development partners to improve the sector. These include:

World Bank and African Development Bank: The two banks have joined hands and are co-financing the Shire Valley Transformation Program. This is the biggest investment in the irrigation subsector. The cost of the program for phase 1 is about US$234.6 million. The program comprises several components including Irrigation Facilities and Structures, Rural Infrastructure development, Agricultural Production Development, Agro-Processing Facilities and Project Management. World Bank is also implementing the Agriculture Commercialization Project which aims at increasing commercialization of agriculture value chain products. The project is targeting all districts in Malawi and its duration is from 2018 to 2023. The total budget for the project is US$ 95million. AfDB on the other hand is implementing the Malawi Agricultural Infrastructure and Youth in Agribusiness Project (AIYAP). The project is designed as a stand-alone investment project whose main objective is to support the development of irrigation infrastructure to facilitate the development of high value food-crop production, agricultural value chains along with agribusiness skills for youths and capacity building activities. Total funding for the project is US$ 21.8million and the duration is from 2016 to 2022.

European Union: EU is implementing Euro100 million (approximately US$113.5 million) Kulima project in 10 districts. The project supports extension services through Farmer Field Schools, agricultural research, access to finance through blending with EIB (European Investment Bank) and value chains.

FAO: FAO has supported the government of Malawi in the development of National Agriculture Investment Plan (NAIP). FAO has also been on the forefront in the fight against Fall Army Worm attack which has been a concern in recent years.

USAID is implementing several projects including the “Agricultural Diversification” Project (2016-2021) whose budget is US$37 million.

Irish Aid is supporting the Root and Tuber Crops for Agricultural Transformation in Malawi (RTC-ACTION Malawi) and the Malawi Seed Industry Development Project Phase II (MSIDP II).

The Flanders government is, among other projects, implementing a project for Strengthening Farmer Organizations and Rural Structured Trade Mechanisms and Marketing Capacity Building Project for Smallholder Farmers.

Several other donors have channeled their commitments towards climate change adaptation and resilience activities and nutrition security.

152 https://www.jica.go.jp/malawi/english/activities/c8h0vm00004bpzlh-att/agriculture.pdf

Future finance flows towards agro-processing development

Malawi Vision 2063 emphasizes on Agriculture Productivity and Commercialization which will produce and supply raw materials for industrial processing and healthy and nutritious food. The growth of agro-based industries associated with job creation will economically anchor the creation of urban centers. Evidence from the DFA, indicates that there are ample resources to finance agro-processing development in Malawi. Assuming prevailing trends in private investment, external grants and domestic public finance continue, financing Intervention Area fifteen[153] of the NAIP, can be easily financed. Notwithstanding, a key cross-cutting finding of the DFA is that more needs to be done to engender an integrated approach to development financing, whereby non-state actors, specifically the private sector, is afforded the right climate to thrive. This, again, calls for a heightened sense of urgency in addressing the bottlenecks to doing business, as earlier discussed. Further, rationalization of budgeted resources is imperative to ensure that the MTEF delivers the national developmental priorities. This requires fostering fiscal discipline and allocative efficiency, by curtailing wasteful expenditure through reforming programs such the FISP. Finally, the capacity of government, through the NPC and MoF, to coordinate development spending beyond government, needs to be carefully reviewed.

6.3 Tourism

Background and Setting

It is common knowledge that tourism in general has suffered a major blow since the onset of the global COVID-19 pandemic, and the analysis in this section is based on the understanding that the sector would bounce back. Global Travel & Tourism (T&T) exhibited resilience despite heightened terrorist threats, political instability, health pandemics, and natural disasters. According to the World Travel and Tourism Council (WTTC), the sector contributed direct global GDP growth of 10.3%. While the global economy grew by 2.5%, T&T sector grew significantly more at 3.5% and created 330 million net additional jobs in 2020, equivalent to 1 in 4 jobs in the global economy.

In Malawi, Tourism is billed as one of the key sectors for urbanization – Pillar 3 – in the Malawi Vision 2063, as the sector is widely regarded to have potential to catalyze sustainable economic growth. This is in recognition of the sector's socio-economic contribution to the growth of the national economy. According to the WTTC, T&T directly contributed MWK389,421 MN (USD523.1MN) to Malawi's GDP in 2020, representing 6.7% of total GDP. It directly supported 525900 jobs (6.8% of total employment). Visitor exports generated MWK32,649.6MN(USD43.9MN), representing 2.2% of total exports in 2020; whilst it attracted MWK20,423.5mn in investment, representing 4.0% of total investment (USD28.8mn).

Tourism in Malawi has a unique advantage over other traditional sectors in that it is non-cyclical and less vulnerable. Further, it has lower barriers to entry and creates better paying and more gender sensitive jobs. More importantly, the industry is also built on natural and cultural assets and consumed onsite, an element that renders it pro-poor through the employment and business opportunities it creates in remote areas, where there are few other opportunities.

Popularly known as the 'Warm Heart of Africa', Malawi boasts of unique tourist attractions: including Lake Malawi with its clear waters, fish, sand beaches, islands, rivers, valleys, national parks, wildlife and forests reserves, mountains, plateaus, historical sites, monuments, rich and authentic culture, the people themselves, known for being friendly, hospitable and peace loving. These tourist assets offer opportunities for the country to develop high value niches: resort/beach tourism, adventure tourism, business tourism, eco-tourism, cultural and other special interest tourism.

[153] Intervention Area 15 of the NAIP targets agribusiness, including agro-processing

Domestic tourism also plays a key role in social economic development of the country through among other things creation of various economic opportunities in rural areas. As the country's major attractions and facilities are in rural areas, increased local travel has great potential to improve community livelihoods through job creation and utilization of local products and services.

Trade and Tourism has been allocated an amount of K14.2 billion in the 2019/20 fiscal year budget. This represents an increase from K12.7 billion allocated to this sector last financial year. Most of the infrastructure developments planned to commence this year under the tourism sector will be financed outside the budget through private sector participation. Afrexim Bank who have shown interest to finance the Nankumba Peninsula offshore financial center. This will include the construction of a 5-Star hotel and the Logistic Center in Mangochi. Government has also allocated resources to finance auxiliary works around the site to facilitate early commencement of this project.

Impact of COVID-19 Pandemic on the T&T Sector

A preliminary study by the Malawi Tourism Council (MTC) shows that the tourism sector has lost about K40.5 billion in potential revenue in the past three months due to the COVID-19 pandemic. the study sampled average incomes of key operators before COVID-19 hit the sector, which contributes about seven percent to the country's gross domestic product (GDP). The findings show that the tourism sector contributes about K13.5 billion per month to the economy on average. The study has recommended a monthly bailout package of K7.3 billion for wages, pension remittances and tax to avoid massive dismissals. As of March 2020, the sector, which employs about 200,000 or 2.9 % of the total employment in Malawi, according to the World Travel and Tourism Council, laid off 35 000 employees due to the COVID-19 impact[154]. In its latest report, Reserve Bank of Malawi states, due to COVID-19 pandemic, the tourism industry is projected to contact by 9.9% from an estimated growth of 4.8 in 2019.

Policy, Planning and Institutional Context

Tourism falls within the remit of the Ministry of Industry, Trade and Tourism (MoITT) in general and the Department of Tourism (DoT) in particular. The MoITT is tasked with the overall industry, trade and tourism policy making and implementation responsibility, including developing, managing and promoting a vibrant tourism industry. To this end, the ministry developed the National Tourism Master plan (NTM), whose tenure has since elapsed – it was operative from 2012 to 2017. The NTM has been succeeded by an overarching ministerial strategic plan, covering the years 2016 to 2021. Given the strategic importance of tourism within the Malawi Vision 2063, it is however imperative that the NTM is revised, and a focused national tourism investment plan developed.

The MoITT strategic plan intends to: (1) Develop tourism support infrastructure; (2) Improve quality services and customer experiences through increase in tourism units meeting minimum standards (3) increased number of qualified personnel working in the tourism sector; and (4) Increase number of both local and international tourists.

To attract foreign tourists, the Government is intensifying tourism marketing and promotion of Malawi as a tourist destination by creating awareness in both domestic and international markets. Currently, the

[154] https://www.mwnation.com/tourism-sector-loses-k40bn-in-3-months/

Government is implementing the Tourism Marketing Strategy, which is a five-year strategy (2018 – 2023) for marketing Malawi locally, regionally, and internationally. The strategy seeks to direct public, private, NGOs, donor partners and stakeholders' resource and efforts towards growing domestic tourism promotion which can catalyze further development of the sector and expand a range of available economic opportunities to support local livelihoods.

This will increase utilization of tourism products and services by, among others, increasing the average hotel room occupancy rate from 54.9% to 70%, which would increase the sectoral employment contribution to total employment from 6.2% to 8.0% and visitor exports from 2.5% to 5.0% by 2021.

The GoM has announced its development of a strategic five-year 2020 Tourism Development plan to guide the country's developments in the tourism sector. The plan will see tourism in Malawi contributing up to 15% to the GDP, double the number of tourist arrivals to about 2 million and creating 140,000 jobs in addition to the current 140,000.

Further, the Government, through support from the African Development Bank (AfDB) is implementing a four-year project, Promoting Investment and Competitiveness in the Tourism Sector (PICTS), aimed at promoting investment and competitiveness in the tourism sector. The project's broad development objective is to create an enabling environment for investment in the tourism sector through enhanced capacity in planning and business management, and improved governance in management of natural resources.

The Project focuses on five areas, namely: (1) development of a Tourism Investment Master Plan for ensuring that the sector is well planned and monitored; (2) capacity building for tourism statistics, so that data on tourism is readily available and the economic contribution of the sector is clearly known or quantified; (3) development of touristic products, with a focus on ecotourism; (4) strengthening capacity in management of touristic products, enterprises, and related businesses, with a view to increase the economic performance of the sector; and (5) strengthening collaboration between the Government, the private sector and communities in conservation and product development, with an aim to create employment opportunities and generate revenue. It is envisaged that once implemented, the project will assist to transform the tourism sector.

In addition, the Malawi Innovation Challenge Fund (MICF) is seeking applications for the Tourism Sector Recovery Window, supported by the United Nations Development Programme. MICF will provide matching grants up to USD 300,000 (with a minimum of 30% contribution from successful businesses), to solicit business ideas from firms in the Tourism Sector (including hotel and accommodation providers, tour operators, and eco-tourism providers) aiming to implementing projects within Malawi that can:

Re-orientate exiting product offers to a new market segment; introduce digital technologies to create new value-added user experiences or integrate specialist SME suppliers into the product offer.

Improve the quality and range of the product offer, particularly focusing on skills development to support better guest experiences.

Improve integration of their offer with local communities and businesses to strengthen and deepen supply chains that integrate into the new service offerings and/or support sustainable use of natural resources, long-term conservation, benefit sharing with host communities, measures to protect/promote biodiversity.

Challenges affecting Tourism Development

Notwithstanding efforts, the sector has grown only marginally, thus overshadowing any successes. According to the MOITT and a study by the World Bank[155], the slow growth rate can be attributed to several challenges, including:

- Inadequate investment due to financing constraints.
- Poor responsiveness by MDAs that contribute to the realization of the reform goals and objectives: acquisition of land, issuance of business residency permits (BRP) and review of tax laws.
- Policy inconsistencies across Ministries.
- Poor private sector participation in the activities of the Ministry: commercial Banks are not keen to address constraints of credit access by MSMEs.
- Inadequate skills in most specialized functions.

Some notable challenges in growing domestic tourism include:

These include lack of disposable income to undertake travel, lack of motivation for travel, higher cost of holidays, and cultural perceptions that leisure travel is for foreigners. It is worth noting that a considerable number of those interviewed indicated that a culture of travel is slowly permeating through the society but that more needs to be done on raising awareness about other key attractions and activities in addition to lake Malawi that one can undertake as well as on the pricing ranges of most of the tourist facilities and services.

- Lack of integrated packaging and differentiated marketing of the tourism products by operators.
- The misconception of travel as an unnecessary luxury.
- Limited partnerships and cooperation for domestic tourism.
- The perceived high costs of travel and tourism facilities.
- Poor access to some major tourist attractions including some protected areas which limits self-drives.

To move forward, Malawi's T&T sector needs a clearer tourism destination positioning in a crowded marketplace. This requires a more innovative set of product lines, a concerted effort to arrest and then reverse degradation of Malawi's natural assets, more value to be extracted from Malawi's rich cultural heritage and a more creative approach to the promotion of Malawi as a diverse and unique destination. Moving forward also requires recognition that over two thirds of Malawi's international visitors come for reasons of work or business, and most of these are from the East and Southern African region. The domestic T&T market is also dominated by, and geared towards clients that use facilities for work, conferences, and meetings, particularly in the urban and lakeshore areas. This work-related segment has shown

155 World Bank (2011), Malawi Travel & Tourism Sector ESW Realizing the Potential by Jason Agar

the strongest growth and is more resilient than tourism to international factors, such as the global economic downturn. Growing this work-related segment requires Malawi's marketing and positioning to reflect its importance in the information and messages that are communicated. It also requires a continued flow of supply of new accommodation and facilities, particularly in the urban areas where demand is highest.

To maximize the economic value of the T&T sector to the Malawi economy there is a need to improve the multiplier effects through improved supply chain responses. The tax yield is already high and recent changes in taxation of new investment have made investment more expensive. Getting the right balance between the front-end taxing of investment and the medium to long-term tax yield from ongoing revenue streams will be important in enabling the T&T sector to grow faster: maximizing its pro-poor impacts, positive environmental benefits and increasing contribution.

Financing strategies

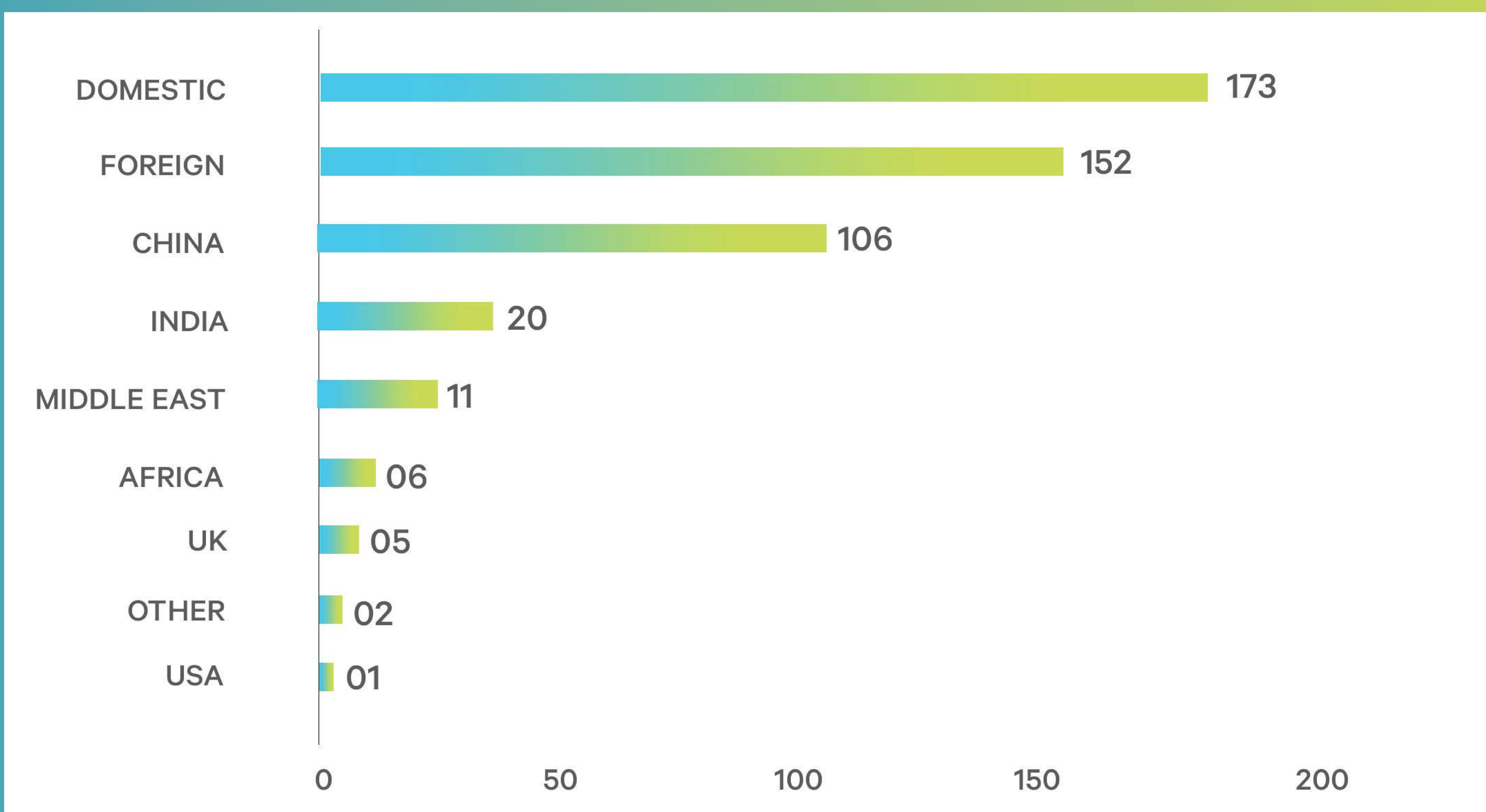
Overview of Tourism Finance Flows

The composition and distribution of finance flows towards the tourism sector in Malawi. Like the energy and agro-processing sectors, the dominance of private investment is clear. Other key flows include external debt, domestic government revenues and external grants.

Private investment

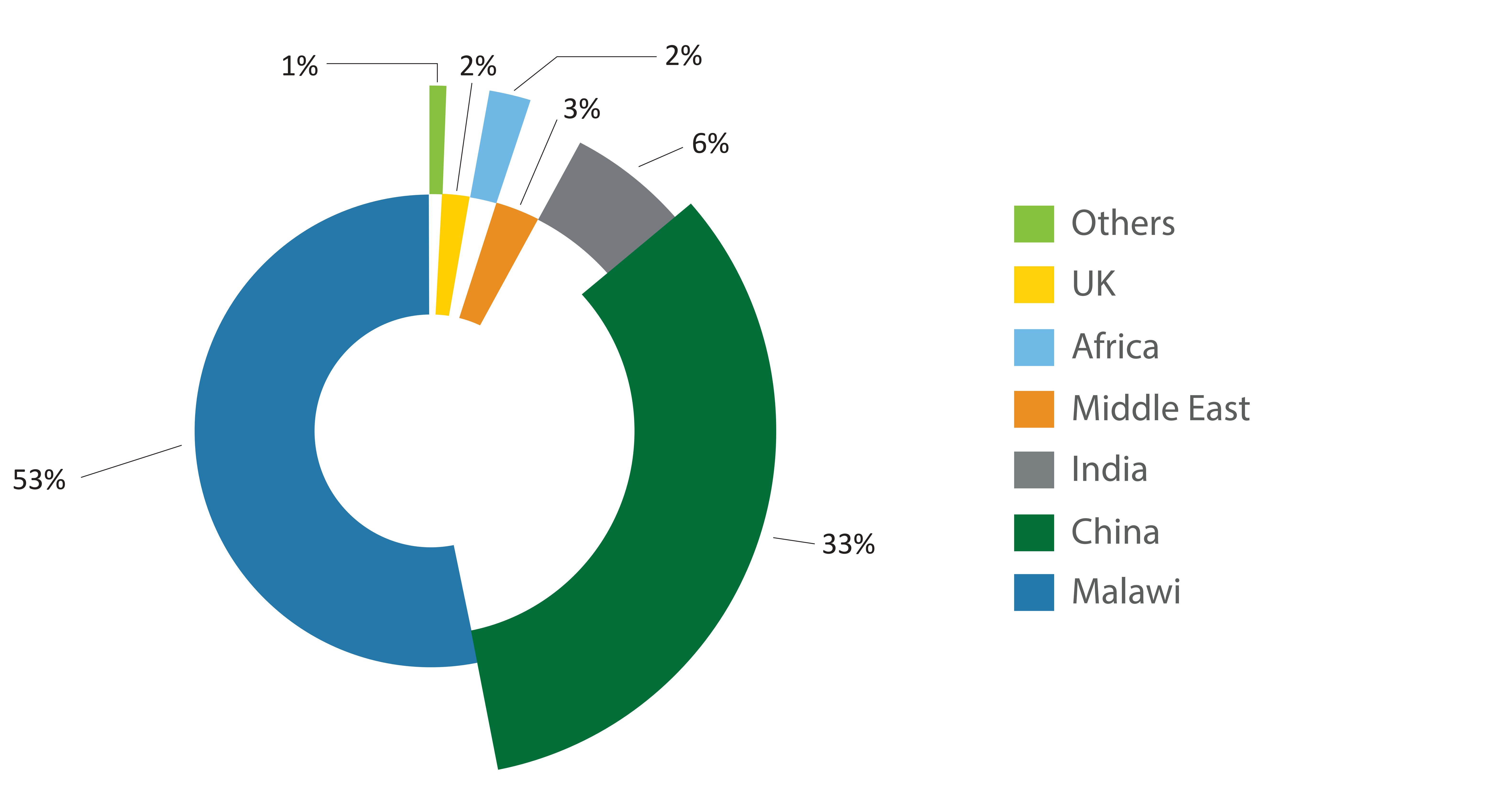
Over $300MN was pledged towards the tourism sector over the period under review. This was supposed to create between 13000 and 14000 jobs. Figure depicts the distribution of this investment in terms of origin of capital.

Figure 46: Origin of Tourism Private Investment



Source: MITC data

Figure 46: Origin of Tourism Private Investment



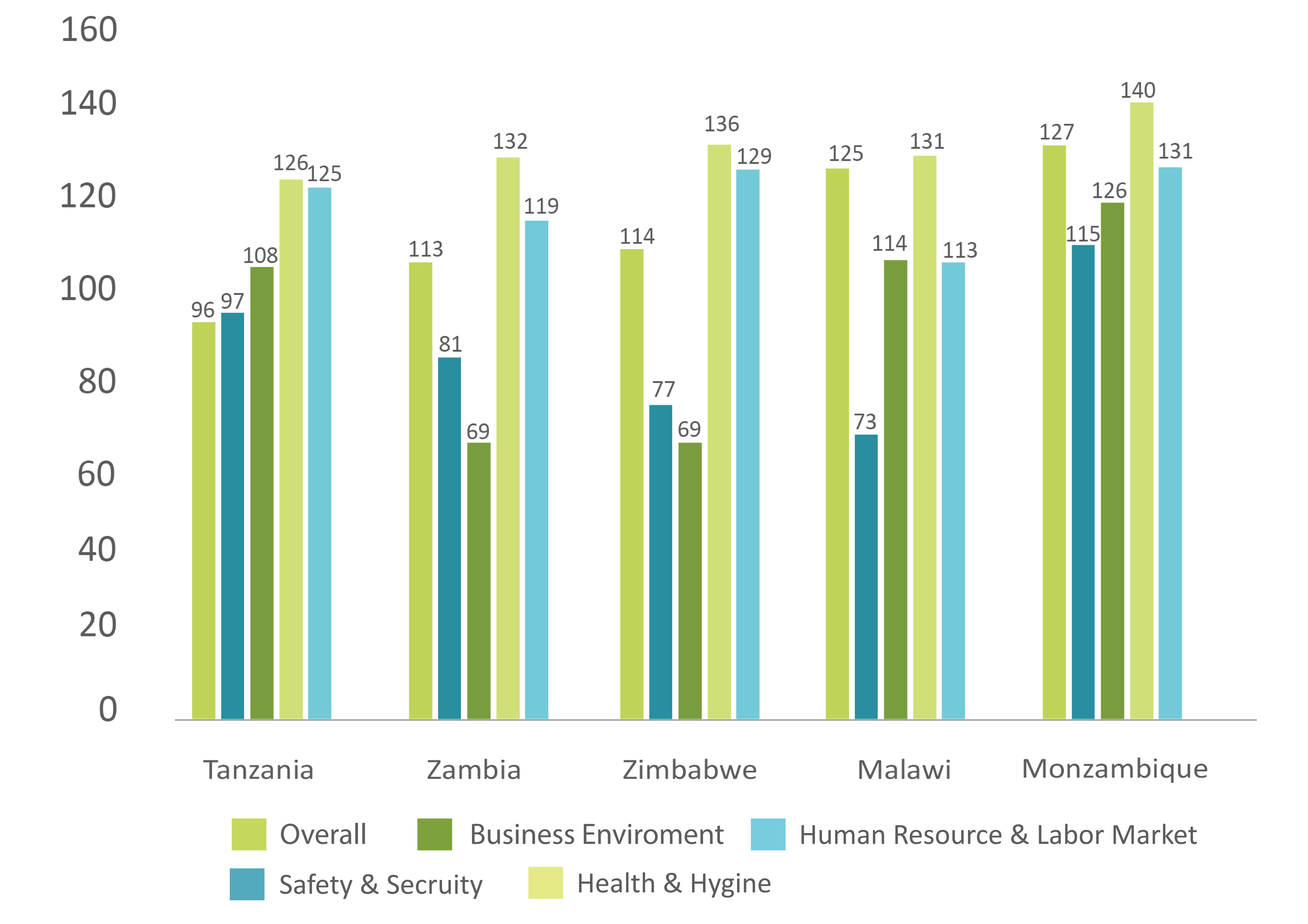
Source: MITC data

As previously noted, data pertaining to actual FDI flows is not readily available. Notwithstanding, there is clear evidence that tourism has attracted significant interest both domestically and internationally. Growth is thus in many respects pivoted upon continued private capital participation. This requires the government to play its rightful role of steering, ensuring that bottlenecks to investment are addressed to enable the private sector row unhampered.

As earlier highlighted, some of the bottlenecks that need to be addressed, particularly with respect to encouraging private capital participation in tourism include: (1) Policy inconsistencies across Ministries; (2) Constraints of credit access by MSMEs; (3) Weak destination positioning; (4) Insufficient product innovation; (5) Limited supply of well-trained staff; (6) Tax treatment of investments; (7) Weak institutional arrangements; (8) High cost of air transport and poor air access; (9) Poor access roads and international access roads; (10) Poor quality utility supply; (11) Poor zoning of land and; (12) High operating costs.

These bottlenecks are reflected in the country's competitiveness as depicted in the World Economic Forum Tourism Competitiveness Index (WEF TCI) (Figure 47). The WEF TCI measures tourism competitiveness in four areas: safety and security, business environment, health and hygiene and human resources and labor market. As summarized below, the 2017 Report indicates that Malawi has significant scope for improvement in all areas, with an overall ranking of 123 out of 136 countries.

Figure 47: 2019 Tourism Competitiveness Rankings (out of 140 countries)



Source: 2019 World Economic Forum Competitiveness Report

Impact Investing

One of the most important trends shaping investment – including tourism – in developing countries is the emergence of investing in projects using a Triple Bottom Line approach. TBL seeks returns on investment that are not only financial but also social, and environmental. Related to this is social investing, where the primary focus is on using investment to affect social change. Also referred to as socially responsible investing (SRI), the aim is to evaluate the social impact of investment, both positive and negative. A more recent and closely related trend is impact investing, which in general is more project or venture capital-focused, as opposed to social investing, which typically focuses more on portfolio investment (minority stakes in a range of investments, through securities and other more traditional investment vehicles).

Impact investing blends philanthropy and private equity to achieve philanthropic objectives more sustainably through the development of self-financing initiatives and enterprises that generate triple bottom line returns.

Impact investing is currently minimal in Malawi and represents a potential source of finance for tourism development. For a start, the Networks of angel investors, professional venture capitalists, and foundations such as the Investor's Circle, that promote impact investment by sharing knowledge, experiences, and resources, and provide funding for projects should be leveraged. Leading organizations in the impact investing movement include the United States government agency, Overseas Private Investment Corporation (OPIC). The OPIC recently approved a $5million proposal by Ecobank Malawi Limited to catalyze support for impact investments in Malawi. Whilst the Ecobank facility targets agribusiness (SMEs), the same can be explored for tourism development. USAID similarly leads in promoting impact investing and has collaborated with the Rockefeller Foundation, Global Impact Investing Network (GIIN), and JP Morgan Chase to develop Impact Reporting and Investment Standards (IRIS), which rates social and environmental returns on financial investments. Organizations such as the MITC should be pro-active in promoting impact investment opportunities by linking potential beneficiaries to funders.

External Debt

Other than promoting private investment in tourism, the GoM has previously utilized external debt for tourism infrastructure development. A case in point in this regard is construction of the Umodzi Park complex, financed by a USD91.4 million concessionally loan from EXIM Bank of China. The Umodzi Park precinct in the heart of Malawi's capital of Lilongwe. The Umodzi Park complex includes the world-class Bingu Wa Mutharika International Conference Centre (BICC), the Presidential Villas and the 5-star President Walmont hotel, which is Malawi's first and only five-star hotel. The multi-faceted development forms a vital part of Malawi's plans to boost the tourism sector and is managed by Peermont Hotels, Casinos and Resorts. Peermont was awarded a ten-year management contract by Umodzi Holdings. Umodzi Park is set to raise Malawi's profile within the African conferencing industry, making Malawi an attractive option for conference delegations from within the continent, as well as from the rest of the world. The case of Umodzi Park demonstrates how external debt can be deployed to catalyze meaningful infrastructural investment in tourism. The MoITT should more proactively identify similar investment ventures.

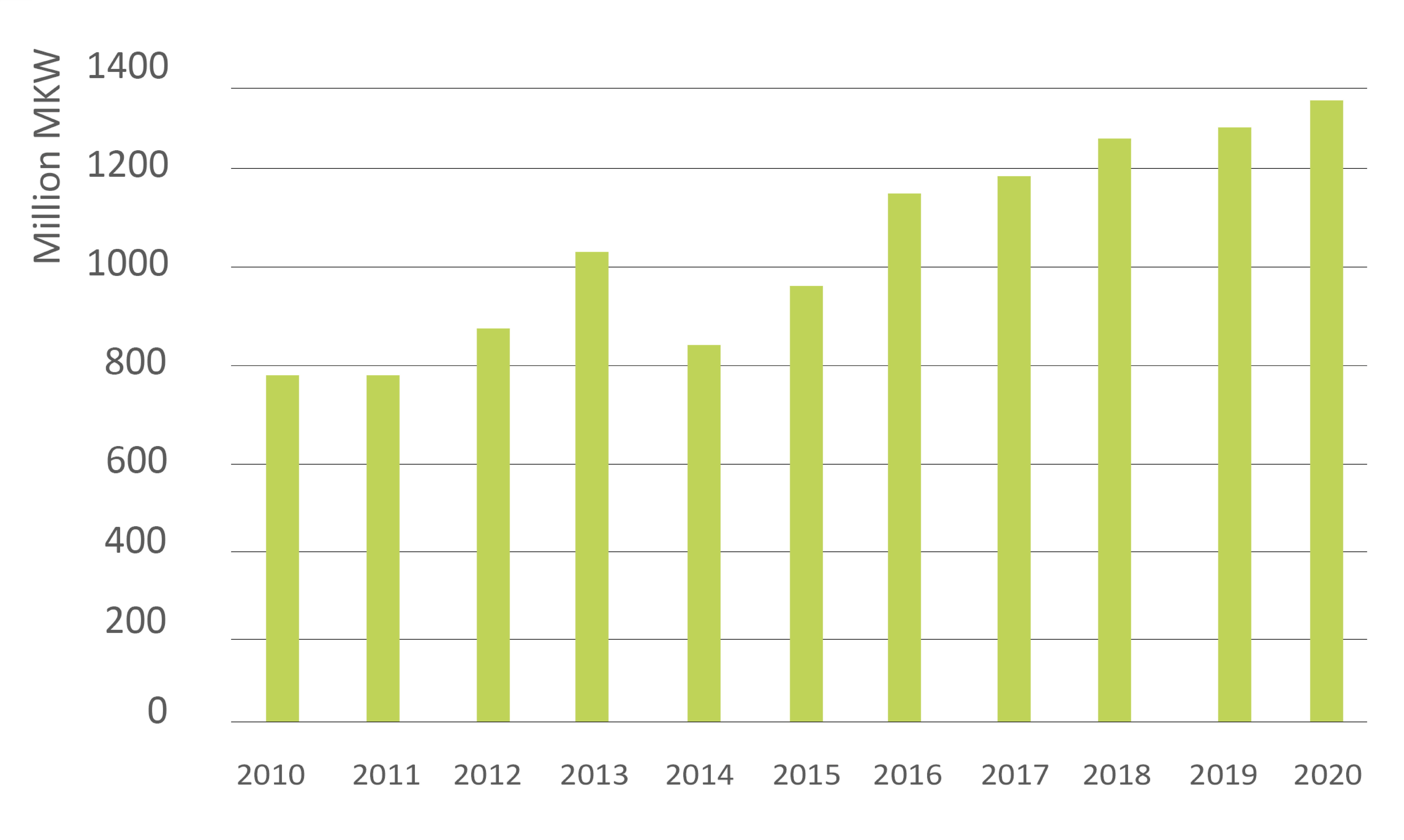
External Grants

Tourism development in Malawi has benefited from grant funding from multilateral and bilateral development partners. Most grant funding has been bilateral, exclusively from the Norwegian government. Multilateral grants have predominantly come from UNESCO. One of the most notable programmes that has benefited from grant funding is the Malawi Cultural Heritage programme. The trend shows a decline in grant funding towards tourism. The situation calls for the GoM to prioritise alternative sources of finance, such as private capital and Impact investing as discussed above.

Domestic Public Finance

Government funding towards tourism has significantly reduced in dollar terms over the period under review (Figure 46). This is despite the sector being identified as a priority sector. In 2020, Government individual travel and tourism spending as a share of total government was as low as 1.4 %.

Figure 48: Government Spending on Travel and Tourism Service

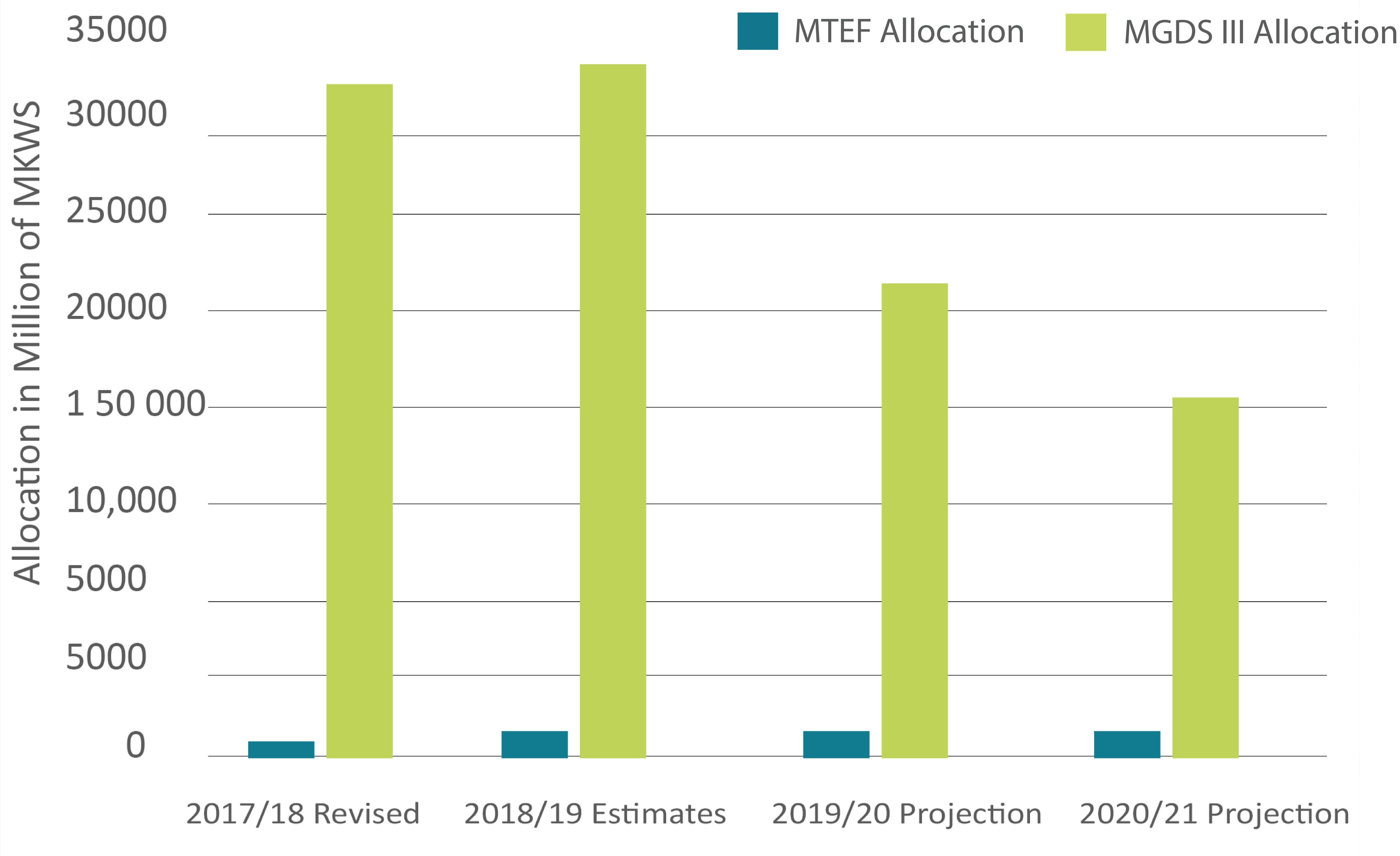


Source: World bank sourced from World tourism council[156]

Analysis of current and forward budgetary estimates as per the MTEF indicates significant disjunction with Public Sector Investment Plan (PSIP) projections. For the four years 2017/18 to 2020/21, the PSIP projected a total of K136bn as required towards tourism development whilst the MTEF estimates a total of only K6bn (Figure 49). This represents 4% of required resources to implement the development projects.

[156] https://tcdata360.worldbank.org/indicators/govt.tat.spend?country=MWI&indicator=24659&viz=line_chart&years=1995,2028

Figure 49: MTEF Vs. PSIP Tourism Development Expenditure Allocations



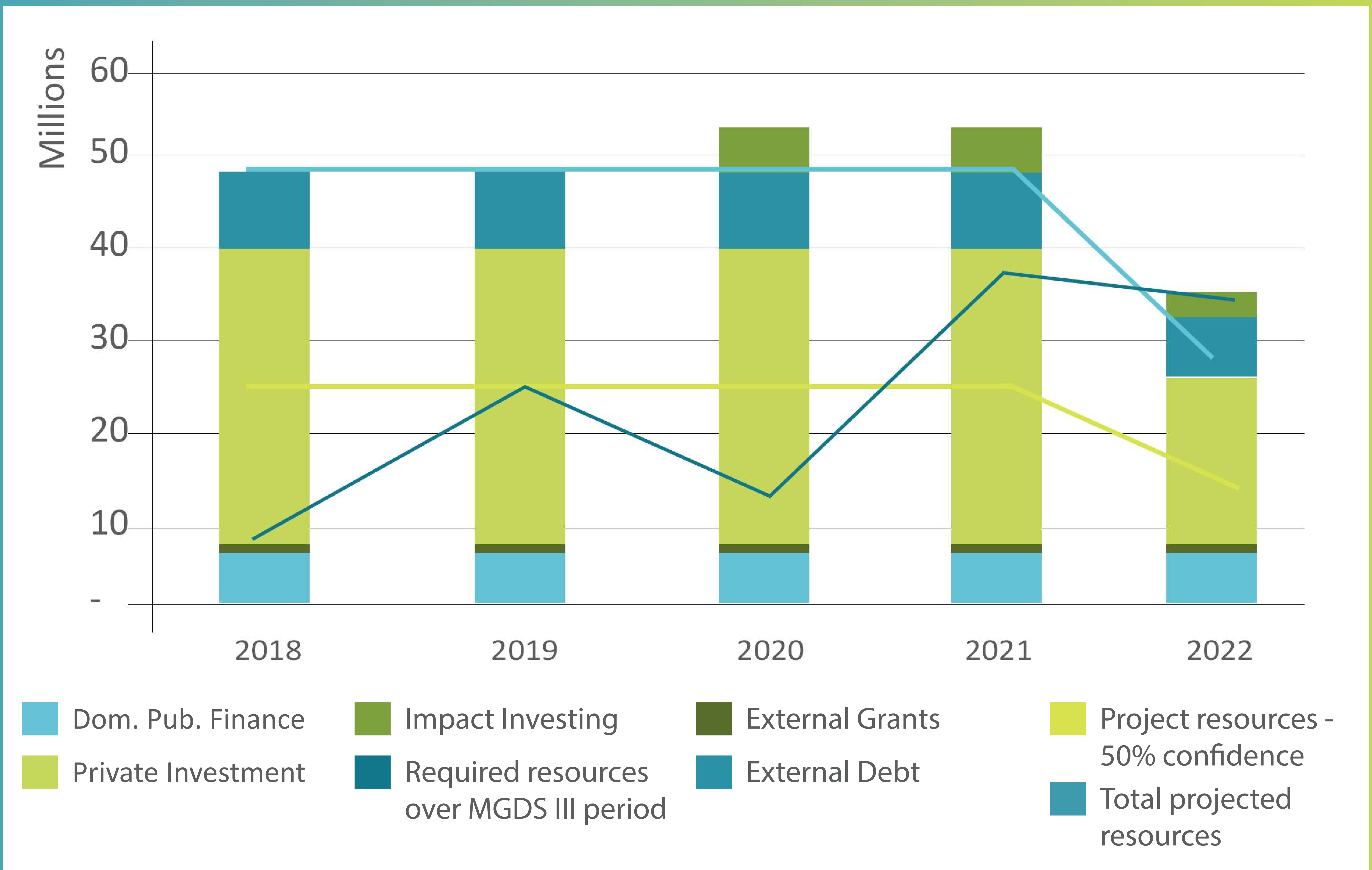
Source: MoF, 2018/19 Programme Budget and PSIP allocation

Given the above, government should seriously review budgetary allocations towards tourism to reflect its relative importance in its current Malawi Vision 2063.

Future tourism finance flows

The DFA has evidenced that the tourism sector is currently under-invested, mostly due to impediments affecting the flow of private capital. Going forward, analysis indicates that with strengthened business environment, improved allocation of government revenues (to reflect the relative importance of tourism), strategic contracting of debt, and diversification towards hitherto non-traditional sources of finance such as Impact investing can mobilize adequate resources to sufficiently finance the sector. As Figure below depicts, current trajectories in these finance flows can cover projected required resources to grow the sector.

Figure 50: Projected vs required resources towards tourism development (USD)



Source: MoF and MITC

Positively, GoM is currently working on developing risk management plans for the tourism industry, which will ensure proper management of the ongoing pandemic and future crises. The move forms part of government's interventions towards restarting tourism. Government after engaging a broad section of industry stakeholders had introduced several interventions to mitigate the impact of the pandemic. Government suspended the tourism levy, negotiated for deferment of loan repayments and promotion of pay cuts to sustain jobs, allowing unpaid concessionaire pull-out.[157]

157 https://www.atta.travel/news/2020/08/were-developing-risk-management-plans-for-tourism-industry-malawis-tourism-minister/

CHAPTER 7

LOCAL LEVEL FINANCIAL ASSESSMENT

LOCAL LEVEL FINANCIAL ASSESSMENT

7.1 Introduction to the Local Level Financial Assessment

The local government system (LGS), with 28 district councils, three city assemblies and four town councils are an important feature of public administration with increasing responsibility for local development and basic service delivery in Malawi (Government of Malawi, 2013). Governance over local councils is enshrined under Chapter 14 of the Constitution of the Republic of Malawi; the Local Government Act 1998; Chiefs Act 1967; Business Licensing Act 2012 and Business Licensing Regulations 2014; Tourism and Hotels Act 1970; Public Financial Management Act 2003; and many other regulations, and district council by-laws governing the collection of local revenues.

District Councils are funded through government fiscal transfers and locally generated resources, with government transfers forming the bulk of resources for district councils (over 95%). For the City Assemblies, it is almost the opposite – government provides less, about 13% (2019/20) for Blantyre City. From the financial year 2013/14 to 2015/16, total transfers to local governments nearly doubled – from K17 billion to K30 billion but have since stagnated or marginally increased and were around K31 billion (2019/20). Importantly, the District Development Fund (DDF) was introduced in 2016, for the first time providing discretionary development resources for councils to address local development priorities. This followed the introduction of the Constituency Development Fund (CDF) in 2006, a fund that is hedged around a Member of Parliament (MP) and is for development activities for a particular constituency. The latest development fund to be added over the period of this study is the Boreholes Fund in 2017, whose funds are entirely hedged for the construction of boreholes in each district and city council. These three funds constitute all that is provided by government for developmental activities, otherwise most of the transfers (72%, 2018/19) are for other recurrent transactions.

Generally, these resource transfers have been seen to be far inadequate for the development needs of the District Councils[158] and they themselves are seen not to be capable of delivering improved service delivery because of capacity constraints[159]. The local councils are seen to be challenged with fiscal constraints, poor planning processes, and political interference which result in inefficient allocation of the limited resources and insufficient oversight systems. All these have had consequences for service delivery and human and economic development outcomes.

In order to appreciate the level and trends of financial flows, including government fiscal transfers to the local councils, this study on Local Level Financial Assessment (LLFA) has been undertaken. It is part of the updated DFA that will inform the formulation of an Integrated National Financing Framework (INFF) for Malawi. The LLFA has its focus on issues of public finance, donor finance, private finance and finance for non-governmental organizations (NGOs) at the district level. It was designed to respond to the scope of work that is provided in the Annexure.

7.2 Methodology

The methodology for the compilation of this LLFA involved the following:

[158] Lilongwe District Council alone estimates K78 billion per year resource requirements for its five-year development plan

[159] Numerous reports and studies on decentralisation and finance, for example, Silver Oyet Okeny -DAI, Improving Local Revenues for District Local Councils in Malawi, 2017; World Bank, Malawi Governance to Improve Service Delivery Project: A Project Appraisal Document, 2020

- Discussions and consultations with the UNDP on study protocols, data questionnaires and sampling of districts for the LLFA
- Identifying and collating the relevant data for preparing LLFA from sampled districts and a city and follow-up accordingly with the concerned data keepers
- Conducting key informant interviews with Ministries and other public sector bodies involved in local government administration
- Conduct data analysis, document review and draw preliminary insights
- Provide a draft report of the LLFA capturing gender equality and social inclusion dimensions
- Provide a final report after presentation to the validation workshop and incorporating comments therefrom.

There are 28 district councils spread across four geographic regions, namely Northern, Central, Southern and the unofficially recognized Eastern Region. For entire population of 28 districts, 10% or 3 districts is a statistically acceptable sample size. Accordingly, named below are four districts representing each of the four regions, and one city assembly, that have been used:

1.	Northern Region	:	Nkhata Bay
2.	Central Region	:	Lilongwe
3.	Eastern Region	:	Zomba
4.	Southern Region	:	Blantyre
5.	City Assemblies	:	Blantyre

Please refer to Annexes 1-5 for analysis and observations in each district council and Blantyre city assembly.

7.3 Consolidated observations

It is the purpose of the LLFA to assist with identification of opportunities for mobilizing additional sources of finance and use existing financial resources more efficiently to achieve development goals at the local level. These findings are also meant to inform the development of an integrated national financing framework (INFF) for mobilizing development finance at the national and local level. The overall findings and recommendations based on the interactions with the selected Local Governments are as categorized below.

a) Donors and NGOs and Private Sector Finance

As can be observed in the chapters for districts, there is no data on financial flows for these important development stakeholders. Some district councils have made some ad hoc attempts to estimate support from donors, but there has been nothing for NGOs and the private sector. Key informants reported that these institutions do not provide reports to the district councils on what they are doing. They usually show up at the time of starting a project or an intervention. According to key informants at the Ministry of Local Government, they believe that this problem may come from the lack of capacity at the district level to coordinate and collaborate with other development stakeholders. In particular, they singled out that the monitoring function is weak and neglected, to the extent that the sub-committees of district councils on monitoring and evaluation exist only on paper.[160] Key informants from the NGO Board reported that it is become increasingly difficult to engage with district council officials because of their demands for allowances.

As a way forward, it has been recommended that there is a need to institute a well-capacitated monitoring function, more effective than the current arrangements. Each District Council should have at least minimum high-quality capacity in monitoring and evaluation which can be complemented by and linked to shared capacity at regional or national (Ministry) level. This arrangement is important given the persistent failure of District Councils to recruit and retain competent people. The monitoring function should be able to set up and maintain, among other activities, integrated financing dashboards to track financing data flows to the district from all stakeholders.

b) Future trends in financing

For all District councils, the dependence on government fiscal transfers is very high, unlike City Assemblies. Government has clearly underfunded the District Councils over the period of the study, and it can only be expected that government will want to improve on this. So, District Councils can only expect better funding from government. However, government revenues depend on tax revenues, borrowing, and to some extent, a large extent on development partner support. All these are dependent on the level of economic activity and the risk is that with COVID pandemic still taking its toll, there may not be adequate resources for government to use. The City Assemblies are highly dependent on businesses and reduction in that, especially from measures put in place to control the COVID-19 pandemic, immediately resulted in revenue losses. This may also affect plans for PPP arrangements as the success of these also depend on the level of economic activity in a city.

As a way forward on this matter, it is advised that District Councils, City Assemblies, and government are all fully aware of the risks on the availability of future development resources if the current situation continues. The funds and potential support for struggling developing economies at the international level should be targeted but it requires investment into capacity and better systems of management to access it. Institutions could use this for worst hit areas and individuals to facilitate recovery.

[104] It would appear that the situation can only be expected to get worse in the interim: the Department of Human Resource and Management in the Office of the President and Cabinet has demanded the abolition of monitoring and evaluation (M&E) positions in all district councils, and these used to serve as secretaries of the district council committees on monitoring and evaluation.

c) Opportunities and Challenges

There are some opportunities for improving financial flows for district assemblies, but there are also challenges to overcome. The opportunities available are:

i) The District Councils and City Assemblies have got powers, backed by law, to improve their own revenue generation. Here and there the powers and laws are limited, and need improvement, but generally better performance can be achieved in the current set up. Revenues from market establishments, licenses and permits, and fees and charges need not be where they are today. It would take disciplined leadership and improved revenue capacity, skilled and adequate staff to take advantage of this.
ii) Development stakeholders are many but lack proper coordination and collaboration. The development partners, NGOs, and the private sector are active in all districts in the sample, even though with difference in numbers. District Councils are not aware of the achievements being made by these stakeholders in their districts. Investments into monitoring would help with this effort.
iii) The District Councils and City Assemblies already have institutional structures in place showing what type of staff they should recruit at what level. They need to be provided resources so that recruitments and postings can be undertaken.
iv) Private sector finance: There is need for district councils to position themselves for the mobilization of private sector finance to augment financing for development interventions. Some companies, especially in the extractives industry, have mandatory social corporate responsibility which can be easily directed to support DDP priorities. Many of these companies, who have established themselves in rural areas, are using it for social projects of their choice.

There are challenges to be overcome in order to take advantage of these opportunities and they are as listed below:

i) Planning and budgeting: The District Councils need to clearly define overall objectives for their five-year development agenda (DDP), revise their over-ambitious and unbalanced development investment plans, and specify clear resource mobilization strategies involving the private sector, development partners and NGOs. The City Assemblies need to clearly define a costed investment plans that would form a basis for their resource mobilization agenda.
ii) Local revenue growth: even for Councils and Assemblies where this is relatively high compared to others, there is great potential to increase locally generated even more with appropriate institutional capacity investments in revenue collection, developing or expanding new lines of income, and PPPs.
iii) Private sector contribution: there is need to invest in requisite capacity to mobilize private finance especially through PPPs – there is need to monitor and enforce performance. This would have positive implications for the performance of basic revenue collection.

d) Risks

Key informants and studies and reports on local government systems show a number of risks that can affect financing needs, trends and availability of financing for local development priorities in many districts and city assemblies in the country. Key risks are as follow:

i) Governance risks: current governance arrangements are a risk to district development. The failure to hold local government elections for a period of about 9 years resulted in legalized administrative changes to the management of district councils by giving voting rights to MPs, introducing a perennial governance conflict between Councilors and MPs that cripples the setting and prioritization of financing needs for development. It has become a challenge for a district to agree on one or two development priorities in the face of limited funding as decision makers make sure they only support what has benefits for their voting blocs within the district. As a result, discretionary resources are usually shared in a fragmented manner to satisfy the interests of each representative block. This is a big problem for the implementation of the DDP: without adequate resources, which is often the case, chances are quite high that activities in the DDP will not be implemented. There is urgent need to redefine the role of MPs in the district councils.[161]

ii) Fiduciary risks: the common problem of 'misuse' or 'misallocation' of financial resources over the recent years has not been resolved and indications are that is not getting any better. Even the Ministry of Finance, according to key informants, is on record that it can allocate more funding for discretionary development resources to district councils for fear of misuse. But even where resources are hedged, the Ministry of Finance has reported substantial challenges with procurements and implementation capacities that lead to substandard work for the value of money spent. These problems, unless resolved, are a deterrent to attracting discretionary funding that tends to be more responsive to the priorities of the DDP.

iii) Development accountability: Development stakeholders, especially NGOs, are not accountable to communities and communities do not have capacity to demand such accountability on a regular basis from NGOs and Council. This problem has implications for the effectiveness of development interventions as communities are caught up in a multiplicity of fragmented efforts. Meanwhile, substantial amounts of resources are spent without showing meaningful improvements in community welfare. One of the districts in the sample for the study, Blantyre District, reported that she had to summon some of the NGOs to provide reports. This problem has implications for the whole agenda of development financing at the district level, especially on direct interventions to communities, questioning its efficacy.

iv) Institutional capacities: Staff skills and quantity are a concern in all local authorities, more pronounced in District Councils, and this is the storyline in most reports and studies on decentralization. The problem cuts across many functional areas: planning, budgeting, monitoring, accounting, management. A report on capacity assessment in eight district councils puts the average vacancy rate at 71%.[162] The failure to find data on financing from development partners and NGOs at the district level has its roots in staff capacities: the monitoring function, which is the custodian of data, statistical information, and progress reporting, is often an added responsibility for the few planning staff that are available. This is also the case with the revenue collection function: it is an added function to the already few accounting staff who also happen to have limited skills. The staff capacity gaps have implications for future financing flows as district councils face limits on absorption of and accountability for funds. For example, it is not possible for a district like Lilongwe to move from an investment program of around K3.5 billion a year to K78 billion with such capacity gaps: the attendant volume of work cannot be effectively discharged and District Councils face severe limits in accessing increased financial flows. They have to establish and build robust monitoring and evaluation capacity, as well as revenue collection capacity. They have to fill vacancies and create relevant positions and solicit resources to fund them, including logistical support.

v) COVID-19 pandemic: There are no studies available in public domain yet showing the potential impacts of this pandemic on financing flows to district councils either through government or other development stakeholders. However, the pandemic has implications for economic activities and this in turn, especially for districts with high local revenue generation, will affect revenue collection. Government too may be affected in terms of tax revenue generation as it is likely to fall. With limited budgetary

[161] See Asiati Chiweza, Decentralisation Roadmap, 2018, pg. 6. The study advocates for a reversal of 2010 amendments to the Local Government Act.

[162] Ministry of Local Government and Rural Development, June 2017. For districts in the sample for the study, Zomba had 81% ; Blantyre 76%; Lilongwe 63%.

support from donors, the pandemic may have negative implications for the level of fiscal transfers to district councils. If the pandemic continues, even a cut in the planned levels of fiscal transfers may be expected.

e) Other observations

- The NLGFC uses a formula for allocating resources to District Councils that takes into account population, poverty, and other things. From the sample of this study, it is noted that the formula may not be consistently applied. For example, the largest share of fiscal transfers goes to the district with the highest population, Lilongwe District, and the smallest share goes to the district with the smallest district, Nkhata Bay District. However, Zomba, whose population is the same as Nkhata Bay and Blantyre districts combined, gets almost the same as Blantyre: in some years slightly higher, in others slightly lower. And given more locally generated revenue, Blantyre has always a bigger budget than Zomba.

- On both poverty and population grounds, Zomba is supposed to get far much more than Blantyre District. There may be more such anomalies in the fiscal transfers systems, and the planned review of the formula as reported by key informants is in order.

- Skills capacity and the number of staff for district councils has been questioned by many key informants and reports. For example, revenue collection and recently monitoring and evaluation have no dedicated staff. Salaries have been decentralized for many sectors, but staff loyalties are failing to align to district councils – they are mostly loyal to sector ministries especially at the DC and Director grades. To a large extent this is because the district councils have no powers of recruitment over them.

- Until the Councils are given full powers of recruitment with additional funding, it will be difficult to expect progress in staff capacity and performance; this is also dependent on legal and management reforms of the politically charged Councils themselves.

CHAPTER 8

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS AND RECOMMENDATIONS

Malawi's recent pathway on fast socio-economic development trajectory has been interrupted by the global COVID-19 pandemic, but the full extent of the impact is still unknown as the crisis unfolds. International and national supply chains have disrupted as well as the exports. Businesses of all sizes, but especially SMEs, have been severely impacted; the hotel and restaurant sector has been hit hard. Compelled by shortcomings of previous national development strategies, the government endeavors to anchor the Malawi Vision 2063 in a clear financing strategy, that ensures all the priority areas and flagship projects are successfully implemented over the next years.

The need to mobilize resources for the Malawi Vision 2063 comes at a time of transformation in the global development landscape that now presents a diversity of financing opportunities; beyond traditional finance sources: taxation, foreign aid etc. The UNDP and EU have within this context provided support to the MoF to conduct this DFA, to map sources of finance (public, private, domestic and external) that can be leveraged and aligned to the Malawi Vision 2063.

This DFA report has presented detailed analyses and findings, sketching upon the Integrated National Financing Framework (INFF), conceptualized by the Addis Ababa Action Agenda along with the insights from LLFA. Specifically, the report has covered a thorough assessment of various financial flows, currently and potentially available to Malawi: tax and nontax revenues, official development assistance, South-South cooperation, climate financing, non-governmental and philanthropic flows, government borrowing, pension funds, remittances, private investment, and public-private partnerships. The report has prominently discussed how these finance sources can be tapped to support implementation of the Malawi Vision 2063 and its first national development strategy. The assessment has spotlighted the priority areas of energy, agro-processing, and tourism, to explore more specific strategies that can be put into place to finance development in these focus sectors. A basic finding of the assessment is that resources are available to support implementation of the new national development strategies under the new Malawi Vision 2063. Aligning the resources and coordinating state and non-state actors presents the major bottleneck that needs to be addressed through strong leadership by the MoF and the NPC. Further, a weak public financial management system, that has facilitated endemic misuse of resources, is a cross-cutting impediment to actualizing most of these finance flows. This has caused the private sector, external development partners, and the public to lose faith in the capacity of government to efficiently manage the diversity of development financing in Malawi. Table below summarizes the DFA's findings and recommendations. The reference relates to specific sections of the report under which a thematic area has been discussed, highlighting the basis for the findings and recommendations.

In the development of the analysis and consultations undertaken as part of the DFA, a series of recommendations about the steps that can be taken to strengthen the financing of the Malawi Vision 2063 and SDGs have been developed.

Table 15: Summary of Findings and Recommendations

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
1. Tax Revenue	Legacy systems are fragmented and limited to taxpayer registration and accounting for assessments and payments.	1.1. Utilise and enhance the usage of Electronic Fiscal Devices (EFD) for monitoring and improving tax compliance.	Medium	Operational	Short term	MRA
	Significant improvement scope exists given the narrow tax base and net – due to huge proportion of market operating in the tough-to-register informal sector.	1.2. Restructure the Malawian economy from subsistence to commercial. For instance, consider shifting agriculture towards more specialized, market-oriented production and increase agriculture's contribution to economic growth, through agro-processing and manufacturing for domestic consumption and export as envisioned in National Agriculture Investment Plan (NAIP). 1.3. The VAT system can be made more progressive by exempting essential items and putting a higher rate on luxury items. 1.4. Stimulate Malawi's informal sector to bring them into the formal sector for tax purposes, through incentivising business registration and formalization, increasing financial inclusion, increase connectivity; improve quality of human capital and better access to markets and price discovery. 1.5. Taxing corporations: There is a potential to increase tax revenues by reducing large tax exemptions and deductions offered to corporations.	High	Operational	Medium term	Ministry of Agriculture Irrigation and Water Development (MoAIW), MRA
	Until recently, MRA was collecting taxes manually, that was porous and aiding tax evasion. MRA recently introduced digital e-payment system but still faces infrastructure challenges that	1.6. GoM should try to push Internet rates down to induce accessibility because most of the things people do to digitize their services or even paying taxes hinge on accessibility and affordability of Internet.	Medium	Operational	Short term	MRA, GoM, Malawi Communication Regulatory Authority (MCRA)

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
	need to be sorted out to scaleup digital payment platforms.					
2. Non-Tax Revenue (NTR)	NTRs currently represent only about 2% of GDP or 12% of domestic public revenue. Significant scope for improving NTR collection to the GDP exists.	2.1 Long-term holistic integrated financing strategy that sets out the types and scale of investments is in need. 2.2 Develop performance management plans for parastatals and State-Owned Enterprises (SOEs).	High	Operational	Medium term	MRA, Ministry of Finance (MoF)
	NTRs currently represent only about 2% of GDP or 12% of domestic public revenue. Significant scope of improvement exists.	2.3 Standardize the fiscal system and create an integrated financing dashboard for improving NTR collection. 2.4 Develop performance management plans for parastatals and State-Owned Enterprises (SOEs).	High	Operational	Medium term	MRA, MoF & SOE's
3. Local Government Development Finance	Development interventions, costing and budgeting not reflecting plans and priorities.	3.1 Office holders should account for development results and should be closely monitored. Accelerate planned reforms, introduce legally backed and more executive management-oriented structures with capacity to develop and implement district development plans and their financing mechanisms. 3.2 Revise DDP investment budgets by using competent technical experts to assist with scenario building.	High	Policy	Medium term	NLGFC, MoLGRD & MoF
	Improve the level of financial resources for development.	3.3 Provide adequate funding for both development and operations and support public accountability institutions to deal with problems of misuse of public resources.	High	Operational	Short term	MoF/NLGFC
	Tracking financial resources of non-government actors	3.4 Institute a well-capacitated monitoring function, capable of setting up and maintaining integrated financing dashboards to track financing data flows to the district from all stakeholders. 3.5 Investment into staff capacity and better systems of management.	High	Policy	Medium term	MoLGRD/NLGFC

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
	Development interventions, costing and budgeting not reflecting plans and priorities.	3.6 Revise the intergovernmental fiscal transfers formula for allocation of funds to a district and provide detailed and enforceable guidance on sectoral allocations and accounting, perhaps even hedging such funding. 3.7 Review laws that limit district councils to collect charges reserved for central ministries; build technical capacity in revenue collection as separate from the accounting function; and invest into income generating activities	High	Policy	Short term	NLGFC/MoLGRD /MoF
4. Public Financial Management (PFM)	Planning has tended to be needs based, without adequate consideration of available resources, thus undermining the Public Sector Investment Plan	4.1 Develop a financing strategy and ensure projects are designed in line with projected resources which would roll into the national development strategies.	High	Institutional	Short term	National Audit office, MoLG and NGLFC
		4.2 Strengthen the technical capacity of the National Audit Office to undertake complex audits (e.g., forensic audits) and increase the frequency & number of regularities audits and follow up on audit recommendations. Strengthen the anti-corruption drive by capacitating and depoliticizing the Anti-corruption Bureau (ACB).	High	Institutional	Short term	National Audit Office, ACB
		4.3 Promote Performance Contracting across government to institutionalize ground truthing and evidence-based policy under PFM. 4.4 Strengthen Local Government accountability by enhancing the control environment and ensuring regular audits. 4.5 Operationalize Access to Information Act.	High	Operational	Short to medium term	MoLG and NGLFC

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
5. Public Debt	Debt accumulation has been one of the fastest amongst countries that benefited from the heavily indebted poor countries initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI).	5.1. Ensure aggregate fiscal discipline by introducing fiscal responsibility laws to ease borrowing pressure. 5.2. Cautiously contract new debt, especially domestic. debt and ensure it is used for income, employment generating investments. 5.3. Pension and life insurance funds through bond issuance represent a hitherto untapped development finance source for supporting infrastructure development.	High	Policy	Medium term	MoF, NPC RBM, Malawi Stock
6. Private Investment	Malawi has lagged in creating a favourable 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 recognized accreditation body.	6.1 GoM must address concerns of the private sector business climate impediments such as increase in the cost of finance, availability of electricity etc. Towards this end GOM should focus on diversifying the economy from agriculture to other sectors to mediate an exporting economy, should undertake measures formalize the informal economy to provide them access to the credit, and measures to improve the availability of increased electricity supply and improved transport corridors that can address key infrastructure constraints that currently stifle the private sector growth. 6.2 Conduct a mapping of investment opportunities in sectors aligned with the key Malawi Vision 2063 priority areas (based on UNDP's SDG Investor Map methodology), for attracting domestic and international private sector investment in sector areas and businesses that have high productive growth potential, and those with potential of export in line with AfCFTA. 6.3 Promote mobilization of private investment in diversified blended finance modalities, such as through guarantee and insurance schemes, syndicated loan (A/B loan), collective investment	High	Policy	Medium term	Ministry of Industry (MoI) and Ministry of Trade (MoT)

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
		vehicles, direct investment (esp. as equity investor), and credit lines and on-lending. 6.4 Set up a development finance institution to address the lack of financial intermediation.				
7. Public Private Partnerships	Strides have been made to leverage Public Private Partnerships (PPPs) for development financing, but bottlenecks persist.	7.1 Enhance awareness about PPPs, especially to MDAs and rigorously market PPP opportunities to prospective foreign investors. 7.2 Set up a development finance institution to address the lack of financial intermediation to promote mobilization of private investment in diversified blended finance modalities, such as through guarantee and insurance schemes, syndicated loan (A/B loan), collective investment vehicles, direct investment (esp. as equity investor), and credit lines and on-lending.	High	Operational	Short term	PPPC, MoF
8. Foreign Direct investment	COVID-19 pandemic can make FDI inflows to shrink further as foreign investors will be focusing more on boosting growth in their own economies.	8.1. GoM must take the lead in restoring investor confidence for promoting domestic private investment. Towards this end should work with MITC and more closely with investment and trade attaches at the embassies in key markets of India, South Africa, the UK, China and the US.	High	Operational	Short term	MoF, GoM
9. International trade	The African Continental Free Trade Area (AfCFTA), marks a significant step in Malawi's journey towards regional and continental integration.	9.1. Build an action plan to utilise the benefits from this free trade agreement and diversify its trade package.	High	Institutional/ Operational	Medium term	GoM & AfCFTA
	Malawi's services exports are relatively small, there is huge potential to grow.	9.2. GoM should actively participate in regional and multilateral trade negotiations to unlock trade opportunities for services. GoM as planned in the NES (2021-2026) should ensure the formation and proper functioning of a department that would play and oversight role in developing and promoting trade in services.	Low	Policy	Medium term	GoM, MITC

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
	Currently, Malawi is unable to penetrate foreign markets due to limited quality infrastructure and absence of an internationally recognized ac-	9.3. GOM should improve its competitiveness in global market by having an adequate and sustainable National Quality Infrastructure (NQI) in place, in par with international and regional principles. This can be achieved through this targeted intervention in legal and industrial metrology with the Malawi Bureau of Standards.	High	Policy/ operational	Medium term	GoM, MITC, Malawi Bureau of Standards (MBS)
10. Civil Society Organizations (CSO)	The need of NGO financing aligned with priorities of Malawi Vision 2063 through Pillar Coordination System (PCS) of NPC	10.1. Strengthening the budgetary allocation to MDAs to support and resuscitate the coordination functions of sector working groups to align NGO financing with Malawi Vision 2063 developmental priorities of Malawi through Pillar Coordination Groups (PCGs) and Enabler Coordination Groups (ECGs)	High	Operational	Short term	MoF, NPC
	Significant amount of development finance for Malawi is channelled through international and national non-governmental organizations (NGOs), faith-based organizations, and private foundations. Exact quantum of these flows is fraught due to inadequate records and reporting.	10.2 Review NGO legal framework and finalize NGO Policy in collaboration with stakeholders, to demand yearly financial reports from all NGOs: To be submitted to, NGO Board, MoF or AMP. 10.3 MoF should ensure that NGO Board collates and publish reports on the accomplishments of NGOs in Malawi on an annual basis through Pillar Coordination System (PCS). 10.4 MoF should ensure that NGO Board collates and publish reports on the accomplishments of NGOs in Malawi on an annual basis.	High	Policy	Medium term	GoM, MoF & NGO Board
	Need to improve the relationship between GoM and Ngo's is vital.	10.5 Revitalize GoM-CSO dialogue platform within the context of the Development Cooperation Strategy to strengthen mutual trust between GoM and NGOs	High	Operational	Medium term	GoM & NGO Board
11. Climate Financing	Malawi do not have national institutions that have received accreditation to act as intermediaries and recipients of these global funds	11.1. Malawi needs to strengthen national institutions and work towards having nationally accredited institutions to facilitate climate financing.	Medium	Institutional	Medium term	MoF

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
12. Agriculture	• Actual investment in Agro-processing has been below anticipated levels as per the national development strategies. • Agriculture investments lacks allocative efficiency.	12.1 Review the Affordable Inputs Program (AIP) to orchestrate allocative efficiency. 12.2 Increase the allocative efficiency of investments in agriculture by reforming inefficient subsidy programs such as the Farm Input Subsidy Programme (FISP) through better beneficiary targeting.	Medium	Policy	Medium term	MoF & MOAIW
13. Energy	Financing Malawi's energy sector improvement plans demands mobilization of resources from a broad range of sources	13.1 Address shortfalls in the Millennium Challenge Corporation (MCC) Compact and pave the way for a new compact once the current infrastructure projects are fully implemented. 13.2 Address the business environmental factors as a prerequisite for PPPs & IPPs earmarked for financing and implementing energy flagship projects. 13.3 Adopt a cost-reflective tariff structure that will incentivize investors since the bankability of energy projects will be contingent upon ESCOM's credit worthiness, as counterparty to PPAs. 13.4 Consider financing of energy infrastructure projects through bond issuance targeting pension funds. 13.5 Undertake necessary steps to engage the International Solar Alliance for financing Renewable Energy projects.	Low	Institutional	Medium term	MoEPD MoEPD&PSR & ESCOM
14. Tourism	Tourism sector of Malawi is underdeveloped and under-invested	14.1 Promote private capital participation and modalities such as Impact Investing and PPPs in Tourism. 14.2 Review the MTEF considering Vision 2063 and tourism investment thresholds and its global impact on tourism. 14.3 Develop more ground-breaking tourism investment projects along the lines of the Umodzi Park, utilizing concessional debt.	Medium	Operational / Institutional / Policy	Long term	GoM, MoT

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
15. Gender equality and social inclusion	Improving resource flows for addressing gender inequalities and social inclusion.	15.1 Review national and decentralized level legal frameworks, policies, strategic plans, frameworks and tools for budgeting, planning, monitoring and evaluation to integrate GESI, livelihoods and empowerment to address negative growth and effects of gender inequality and social exclusion. 15.2 Strengthen capacity in GRB and mainstreaming or integrating GESI in financing: simplify GESI response and recovery guidelines and tools to guide mainstreaming and integration; train teams in GESI responsive budgeting and resource mobilization and tracking, applying the principle of Leaving no-one Behind in project planning and funding appraisals.	High	Operational	Medium term	MoF, MoHP, MoLGRD & MoGCDSW
	COVID-19 has resulted in loss of income and loss of jobs as per the CSR study conducted by UNDP	15.3 Need for a comprehensive social protection system for Malawi that will work for all who may be affected by various shocks and disasters including pandemics	High	Operational	Short term	GoM, MoF
16. Foreign Grants and Aid	Official Development Assistance (ODA) is more inclined towards off budgetary support and there are significant differences between ODA disbursements and commitments for some specific development partners (DPs).	16.1. Ensure reporting consistency and effective aid planning and channel required external financing to meet funding gaps through better coordination and collaboration between development partners	Medium	Institutional/ Operational	Medium term	MoF, GoM
	The web-based Aid Management Platform (AMP) managed by MoF, created for monitoring foreign grants and aid is not functioning.	16.2 Review, Improve and increase the efficiency of the Aid Management Platform (AMP), for proper monitoring, evaluation and utilization of foreign grants and aid in Malawi.	High	Operational	Short term	MoF, GoM

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
	Except from the Bilateral, Multilateral agencies and IDA aid disbursement to Malawi, under south-south cooperation witnessed gradual decline over the years. With traditional DAC donors becoming inactive in Malawi, South-South Cooperation is assuming more prominence.	16.3 GoM should take initiatives to integrate South-South cooperation aid to fund national development strategies.	Medium	Policy	Medium term	GoM, IDA, Multilateral and Bilateral agencies
	Notwithstanding the different terms and approaches of engagement between Northern and Southern partners in Malawi, activities of emerging development partners are significantly under-reported.	16.4 GOM should promote avenues for cooperation and should reinforce, create equitable multi-stakeholder partnerships involving non-state actors, including governments, regional organizations, non-governmental organizations and civil society actors, academia and the private sector networks promoting development.	Medium	Operational	Medium term	GoM, Multilateral and Bilateral agencies
17. Monitoring and Evaluation (M&E)	M&E capacities are varied from one sector or district to another; and emphasis & investment in evaluation has tended to be minimal.	17.1 There is need to identify champions for M&E at the highest level. The public sector reform program that adopts a results-based management approach and headed by the Vice President may be the starting point for the identification of champions. 17.2 Finalize development of the substantive national M&E Policy 17.3 Create an M&E collaborative platform based on which data, information and knowledge can be shared to inform development policy and implementation. 17.4 Coordinate the process of strengthening MIS in sectors that currently lag to facilitate reporting on selected national level sector key performance indicators.	High	Institutional	Short term	MoEPD & PSR

Theme	Finding	Recommendation	Priority	Level	Time	Institution Responsible
		17.5 Consider setting up an evaluation forum for discussion, debating and adoption of evaluation findings and recommendations to facilitate the usage of monitoring and evaluation results				
	M&E capacities are varied from one sector or district to another; and emphasis & investment in evaluation has tended to be minimal.	17.6 Consider developing Overall Developmental Dashboard at the country comprising data inputs from all development partners on domestic and international financing, spends progress and achievement of desired outcomes mapped to SDGs 17.7 Consider revisiting the need to create an evaluation plan and fund to facilitate the carrying out of government-led evaluations.	High	Institutional	Short term	MoEPD & PSR
18. Strengthen data collection and sta-	Data sources and back-end systems are fragmented despite rudiments of a good national statistical system. This has led to inconsistencies amongst different data sources. Further, data availability is a challenge in some areas: FDI flows, ODA, private investment and accountability of NGO's.	18.1 Implement sound policies and processes to continuously assess and monitor the quality, that leads to improved data availability and transparency to ensure data consistency across national reporting entities. The Integrated Financial Management System (IFMIS) should be leveraged to implement a government-wide automated platform for reporting GoM finances. 18.2 Establish a task force comprising Reserve Bank of Malawi (RBM), Malawi Investment and Trade Centre (MITC), and National Statistical Office (NSO) to review how best to capture actual foreign and domestic investment statistics.	Medium	Institutional	Medium term	GoM, MoF, MITC & NSO

From the above recommendations, the following road map[163] of steps to mobilize and enhance public, private and civil society investments to finance and successfully complete the development strategies are also developed. The are presented here along the building classifications of an INFF roadmap (i) assessments and diagnostics; (ii) a financing strategy; (iii) monitoring and review systems; and (iv) governance and coordination mechanisms. The actions covering activities under assessments and diagnostics should proceed while those activities in other three categories can be taken up in parallel.

[163] Usually, a roadmap is presented as a series of sequential actions, with a prioritized set of actions, timeframes and responsibilities, which should be undertaken to arrive at a particular position or target, which is in this case, is the functional INFF for Malawi. Sequencing all roadmap activities would have required more stakeholder analysis and consultations than was provided for. This is, as such, a roadmap that provides for more specific details on how activities that are on the critical path for establishing the INFF may be approached, and most of these activities have already been mentioned as recommendations in the previous table.

Table 16: INFF Road Map

Building Block	INFF Road Map	
	Activity	**Requirements**
I. Assessment & Diagnos-	1. The DFA established that the country has a considerable level of financial flows that can be mobilized for development, but there is a need to further study how those resources can be effectively mobilized and utilized for the development priorities. This is especially important for non-traditional resources, available to the private sector such as pension funds. Key factors that would help to achieve this is a well-functioning public financial management (PFM) system to mobilize resources and make development financing more impactful. GoM also recognizes the crucial importance of an efficient, effective, accountable, and responsive public service for the delivery of equitable and quality public services and for realization of national development goals.	1.1. Technical policy, institutional and capacity studies. 1.2. Technical support for capacity development and implementation of reforms. 1.3. High level consultations with institutions at the centre of handling financial flows.
	2. In-depth diagnostics would be needed for improving specific financial flows to the country. Malawi's current financial flows are dominated by domestic debt, external debt, domestic public revenue (tax & non-tax), Official Development Assistance (ODA), personal remittances and pension funds. Government is already moving towards restructuring domestic debt with the aim of having more long term dated debt than short term one and moving towards establishing for borrowing on international financial markets to access low interest rates.	2.1. Technical development finance studies. 2.2. Technical level consultations with institutions at the centre of handling financial flows
	3. There is a need for a study to propose ways for increasing fiscal decentralization at the local government level so that districts, cities and towns can manage their own financial affairs independently and in more accountable manner. And to address issues such as how to enhance the share of locally generated revenues against the central government fiscal transfers and to improve effectiveness and efficiency of fiscal transfers. This should be linked to the availability of capacity in the existing governance institutions at the local level.	3.1. Financial devolution and institutional capacity study. 3.2. High level political, ministry and district/urban level consultations.
	4. There is also a need to include gender equality and social inclusion considerations in allocating financial flows through budgeting systems under the Public Finance Management Act and provide budget funding consistent with gender responsive budgeting and other sectoral guidelines.	4.1. Mainstreaming study 4.2. Capacity building support

Building Block	INFF Road Map	
	Activity	**Requirements**
II. Financing Strategy	1. Creating fiscal space for accommodating more development investment. COVID-19 pandemic is having a severe impact on Malawi's economy largely on resource availability. Spill overs from the global slowdown, border closures, and economic disruption in neighbouring countries have reduced exports, raised trade transit costs, and weighed on remittances, tourism, and FDI; and a country-wide lockdown has slowed domestic activity. The most affected industries are accommodation and food services, transportation and storage, and wholesale and retail trade. The slowed economic activity has significantly worsened the fiscal space with huge public revenue shortfalls and the growing budgetary deficits financed largely through increasing domestic borrowing and accumulation of domestic payment arrears. The impact of revenue shortfalls is heavily felt especially at the local level as the DFA analysis shows.	1.1. High level political consultations with Ministry of Finance and the ST 1.2. High level coordination with large expenditure Ministries like Health, Education, Agriculture, etc. on expenditure management 1.3. On-going support to facilitate appropriate coordination and consultations.

Building Block	INFF Road Map	
	Activity	Requirements
II. Financing Strategy	2. There is an urgent need to encourage and support GoM to implement reform measures of fiscal prudence, results-based management, cost-saving measures from wastage and luxury consumption through public financial management reforms, and expenditure control on potential areas such as travel allowances, purchase, use and maintenance of state vehicles, and the cost-efficiency of public subsidies and hand-outs, such as Affordable Inputs Programme (AIP) and identify specific reforms measures and quantify cost-savings. The Government must strictly adhere to macroeconomic reforms on the expenditure side (Tax reforms, reducing subsidies, and appropriate fiscal and monetary policies) to gain macroeconomic stability, stimulating economic activity, and inducing recovery. This also provides an opportunity to urge the Government to implement fiscal measures as incentives to encourage increased investment by the both the private and public sectors in digital technology and green economy. Moving from COVID 19 response to recovery it will be critical that a coherent approach to budget management is in place. This will enable the government to ensure efficiency and effectiveness whilst rebuilding/retaining trust at a time of great fiscal constraint, to build a robust framework for accessing international finance including, and ultimately a sustainable recovery.	2.1. High level political consultations with Ministry of Finance and the ST 2.2. High level coordination with large expenditure Ministries like Health, Education, Agriculture, etc. on expenditure management. 2.3. Implementing controls on domestic borrowing. 2.4. On-going support to facilitate appropriate coordination and consultations.
	3. More action on finance is required on enhancing specific revenue streams, especially tax revenue which represents the single most important source of finance for Malawi. Scope for improvement exists given the narrow tax base and tax net – principally due to the huge proportion of the market operating in the tough-to-register informal sector. It is, therefore, important to develop innovative ways of mobilizing resources and emphasis must be on incentivizing the informal sector to bring them into the formal sector for tax purposes. Encouraging agriculture commercialization, along the lines of the Green Belt Initiative, including expanded agro-processing, value adding and diversification, is in this vein a worthy intervention that presents good prospects for broadening the tax base.	3.1. Finalise and implement domestic revenue mobilisation strategy. 3.2. Invest into effective revenue collection systems. 3.3. Support for pertinent institutional capacity investments.
	4. Apart from broadening the tax base, there is a need to improve both tax and non-tax revenue collection in the existing situation by enhancing voluntary compliance and reduction of the cost of tax collection, while stimulating investment and economic productivity. MRA should strengthen governance and project management; build effective core tax administration functions; improve management of the Integrated Tax Administration System (ITAS) project; and re-design customs processes. On non-revenue, mostly driven by receipts from parastatals, other departmental receipts, and various levies, standardizing the fiscal system and creating an integrated financing dashboard would improve collection.	4.1. Electronic revenue payment systems in relevant revenue collection institutions 4.2. Capacity building support to improve staff skills and expand coverage. 4.3. High level political consultations with Ministry of Finance and the ST
	5. A long-term holistic integrated financing strategy that sets out the types and scale of finances linked to prioritised development investments needed for the country to follow the sustainable development path will provide a firm foundation for implementing policies designed to mobilize and stimulate this financing. In a context of limited fiscal space and sluggish private sector investment, it can strengthen the effectiveness of public spending by facilitating the prioritization of government spending in areas that would not be attractive for financing by other actors. It would also enhance the government's capacity to leverage additional resources from non-state sources—be it international development partners or the private sector—by providing clarity for ministries working in those areas through identifying financing gaps in specific sectors. Setting out a long-term approach to financing can provide a strong foundation to carry forward lengthy structural reforms,	5.1. Technical development and finance study to estimate resource gap on development. 5.2. Technical support for capacity development and implementation of reforms. 5.3. High level consultations with institutions at the centre of handling financial flows, including Minister of Finance; ST; National Planning Commission; RBM.

Building Block	INFF Road Map	
	Activity	**Requirements**
II. Financing Strategy	such as the expansion of 'growth-friendly' taxes that pay off over a time horizon beyond that of short- and medium-term planning.	
	6. There is a need to strengthen the web-based Aid Management Platform (AMP) managed by the MoF to collect up to date information from development partners. This system is the key for GoM to properly monitor and evaluate the utilization of foreign grants and aid in Malawi.	6.1. Facilitation and consultation support on an on-going basis to MoF – Debt and Aid Division to improve coordination with development partners.
	7. Government must take the lead in promoting domestic investment by investing in areas that could trigger domestic private investment. With the economic effects of COVID-19 being felt globally, FDI inflows might shrink further as foreign investors will be focusing more on boosting growth in their own economies. The country should take advantage of the African Continental Free Trade Area (AfCFTA) to improve export revenues and employment creation.	7.1. Clear and transparent incentives for both domestic and private investment.
	8. In addition, GoM may consider diversifying the export base and the competitiveness of the country through investment in export diversification and e-trade to leverage the benefits from AfCFTA and other trade initiatives at the global and regional levels coverin both bilateral & multi-lateral arrangements.	8.1 Continous Consultation with Trade Bodies (domestic & international)

Building Block	INFF Road Map	
	Activity	**Requirements**
III. Monitoring & Review	1. The M&E performance framework should be broadened to include monitoring trends in various types of public and private financing and should capture the available information on the outcomes that they generate. In this way, the GoM and its development partners will develop a more comprehensive understanding of the investments being made and the contributions they can make toward the development strategies that can inform more responsive policy design and dialogue between public and private actors. Furthermore, GoM can take steps to develop an increasingly detailed picture of trends and financing at the local government level, which can inform policy designed to target the most deprived areas and increase equity and national unity.	1.1. Consultations and coordination between MoF-DAD; MoEPD&PSR; NPC; MoLGRD, and NLGFC. 1.2. Facilitation and technical support.
	2. There is urgent need to improve the monitoring of financial flows to civil society organisations. A significant amount of foreign aid to Malawi is channelled through international and national non-governmental organizations, faith-based organizations, and private foundations. Also, GoM should review the NGO legal framework and finalize the NGO Policy in collaboration with stakeholders, to demand more accountability from all NGOs for establishing the exact quantum of funds flowing to them. Within this context, the role of the NGO Board and its institutional capacity needs to be reviewed to make it a constructive and engaged entity.	2.1. Capacity support for the NGO Board and responsible Ministries. 2.2. More financial resources
	3. Government needs to develop and quickly implement the Integrated Finance Management Information System (IFMIS) to monitor inflows of climate resources towards climate change related interventions by different stakeholders, including international NGOs; bilateral and multilateral institutions; development banks; UN programmes; academic	3.1. Fully functional IFMIS. 3.2. Capacity support to Accountant General and MoF-DAD.

Building Block	INFF Road Map	
	Activity	**Requirements**
III. Monitoring & Review	institutions; the private sector and various non-state actors. It should work in consultation with various stakeholders to accelerate the process of establishing a National Climate Change Fund.	
	4. There is a need for strong monitoring systems both to evaluate the effectiveness of PPPs once they are set up and to understand costs and determine when PPPs could be more effective than alternative financing mechanisms in critical areas of the development strategies. PPPs can be considered an instrument that has the potential to mobilize 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. To ensure that this potential is realized, it is important that sufficient legal, financial and technical expertise is developed, and strong processes are put in place to determine when to use these instruments and effectively manage the risks and complexity that they entail.	4.1. M&E system linkages to the PPPC. 4.2. Facilitation support
	5. GoM should establish a task force comprising RBM, MITC, and NSO to review how best to capture actual foreign and domestic private investment statistics. Government should also re-align and reduce fragmentation of data sources and back-end systems to improve consistency amongst different data sources. Further, data availability is a challenge in some areas: FDI flows, ODA, private investment and accountability of NGO's. GoM should Implement sound policies and processes to continuously assess and monitor the quality, that leads to improved data availability and transparency to ensure data consistency across national reporting entities	5.1. M&E linkages between pertinent institutions 5.2. Facilitation support.

Building Block	INFF Road Map	
	Activity	**Requirements**
IV. Government & Coordination	1. Strong, systematic dialogue between government and the private sector is a key ingredient for stimulating private sector development that fulfils its potential in contributing towards Malawi's development strategies. Without strong dialogue, it is difficult for the government to develop realistic objectives for the contributions that the private sector can make, build an informed view of the constraints to private sector development or design and understand the impact of policies or interventions to overcome these constraints.	1.1. Facilitation support
	2. MoF, supported by MOEPD & PSR and NPC, should provide clear leadership to other institutions in terms of coordination for implementing development finance policies. Other government institutions within the ambit of Malawi's national planning, monitoring and financing framework include the RBM, the NSO, MRA, MITC, the PPPC, and the NGO Board. Furthermore, some of the sectorial ministries (such as Health, Education, Agriculture, Water Affairs, Energy) which play a significant role in the implementation of the National development strategies should be introduced and oriented on the INFF system. The quality of implementation of such stakeholder's engagement may also be assessed through the analytical framework recently developed by UNDESA and UNDP.	2.1. Coordination and facilitation support.
	3. The implementation of the Public Service Management Policy of 2017, which demonstrated Government's renewed commitment to transforming the public sector, will guide the governance and management	3.1 Consultations and lobbying with OPC Implementation capacity support.

Building Block	INFF Road Map	
	Activity	Requirements
IV. Government & Coordination	of the public service to become a result oriented, efficient, dynamic and high performing institution that will deliver quality public services and facilitate achievement of strategic national development outcomes and aspirations. 4. An enabling environment for accountability and dialogue (A&D) is imperative for building trust among stakeholders to channel public funds for national development priorities and mobilize additional financing from development partners outside government. Such an environment further ensures broad ownership and acceptability of policies for effective implementation as it ensures a voice for citizens, civil society, business, and other developmental actors. The private sector can become an important player in both the mobilization of finance, and enhancement of public service delivery; NGOs and Faith-Based Organizations (FBOs) can similarly play an important role in reaching out to the most vulnerable and marginalized members of society; and academia, think tanks and professional organizations, can also play an important role in providing the critical policy advice; and the media too needs to be engaged as a channel for dialogue between the state and the citizenry.	 4.1. On-going coordination and consultation 4.2. Facilitation support

Annex 1

NKHATA BAY DISTRICT COUNCIL

NKHATA BAY DISTRICT COUNCIL

1.1 Background

Nkhata Bay District is in the Northern Region of the country bordering Lake Malawi. It has a population of 285,000, out of which the female population is estimated at 145,000 and the youth 144,000 (NSO 2018 Census, figures rounded to the nearest 1,000). It is the smallest district of the sample for the study, while its poverty rate is on the high side, 57.7% (IHS 2016).[164] This makes Nkhata Bay the second poorest district out of five districts in the North – the highest in the region being Chitipa, at 73.8%.

1.2 Development issues

1.2.1 District Development Plan

According to key informants, the District Council has a District Development Plan (DDP) that was developed through a bottom up approach: grassroots advisory and implementation committees' plans formed the basis for coming up with the consolidated district development issues were taken from Village Action Plans and Area Action Plans to guide the formulation of the overall developmental aspirations.

The overall objectives of the Plan[165] are not specified but it states that it will act as a blue print for socio-economic development in the district: a comprehensive guide to all potential investors as to where and how to carry out development interventions, providing a district shopping list of the Council's development aspirations for development stakeholders to shop from. (Nkhata Bay DDP, pg. 2).

The Plan clearly identifies eight key priority issues in the following order:

i. Food insecurity
ii. High Illiteracy Levels
iii. Low tourism development
iv. Poor transport Infrastructure
v. High morbidity and mortality rates
vi. High levels of environmental degradation and natural disasters
vii. Poor access of vulnerable children, women, persons with disabilities and the youth to essential quality
vii. services
viii. Low economic development, unfair labour practices, child labour and human trafficking

It is worth noting that the plan has specific provisions for gender equality and social inclusion in the last two key priority areas: vii) and viii). The strategies for achieving each objective of the key priority areas are provided in the Plan, but not necessarily the strategies for implementing the overall plan.

1.2.2 DDP Costing

The DDP has a total investment and operational budget of MK 44.6 billion covering a five-year period, 2017 to 2022. The DDP also has annual investment plans that outline projects to be implemented in each year, with the first-year budget estimated at MK 4.6 billion. The sources of funding are mentioned as the government, locally generated resources, the development partners, the private sector, and the civil society organizations. Development partners are expected to contribute 36.6%. The remaining funds will have to come from the government, the private sector and the civil society.

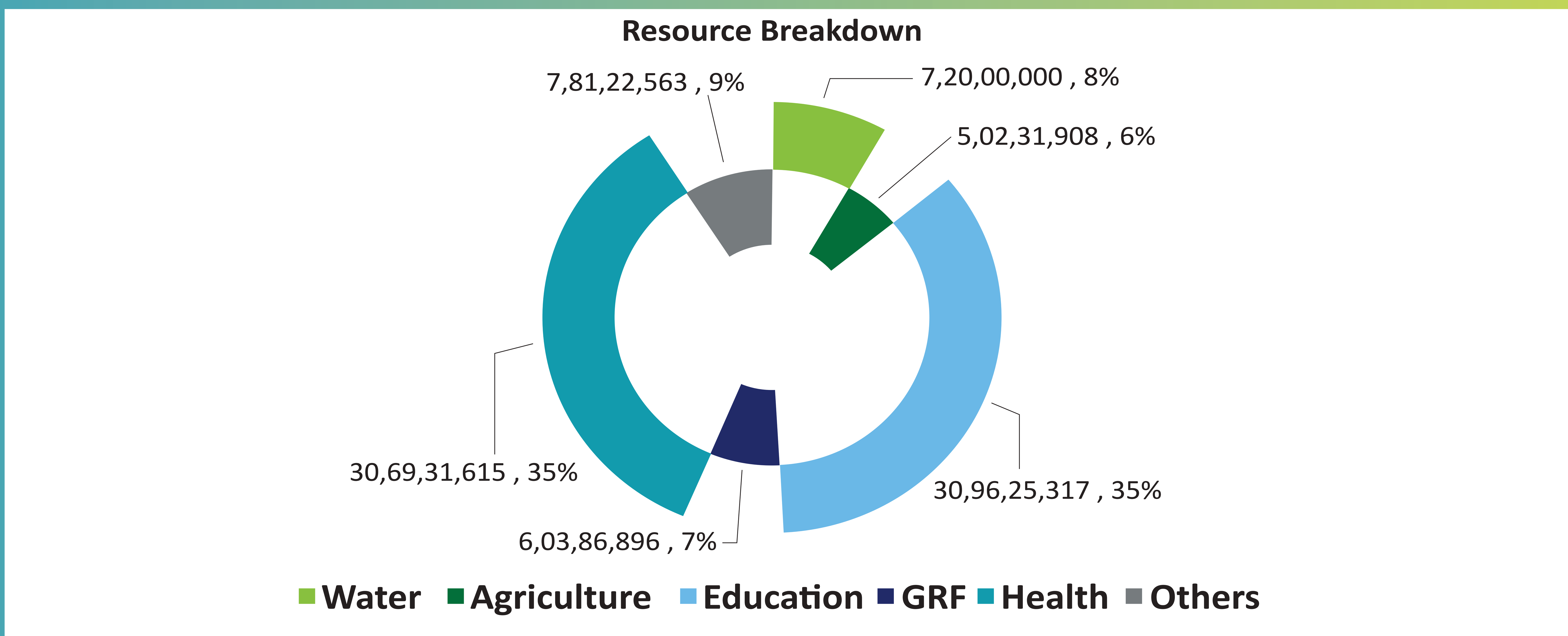
1.2.3 Budget Priorities

164 The IHS 2020 data is out, but the poverty rates have not yet been calculated.

165 Objectives, as well as strategies, are stated only in the context of each key priority issue and not the overall plan.

According to the recent trends in budget funding, most of the funding for the district is allocated equally into health and education, and these are followed at a distance by agriculture and water.

Figure 51: Resource shares for Nkhata Bay



Source: Deloitte analysis based on NLGFC data

The existing budget allocates nearly all resources to two sectors - health and education, while the investment plan of the Council's DDP and its costing – based on the eight key priorities - is allocating more resources to sustainable fisheries; irrigation and water; education and transport; in that order.

1.2.4 Gender Equality and Social inclusion

As specified earlier, issues of gender equality and social inclusion have been included in two key priority areas and funding comes mostly from the government (including social cash transfers) and partners for specific projects in health, education, agriculture, environment, water and sanitation, social welfare- socio-economic empowerment of marginalized groups, governance, human rights, and community mobilization/empowerment. The funding supports governance structures which act as watchdogs to resource utilization, demanding transparency and accountability. These areas have a combined allocation of about 4.7%. In the current system, resources allocated for GESI are less than 2%. However, in the preparation of the DDP, gender responsive budgeting and human rights-based planning were not considered as the concerned staff were not trained in the approaches. They were also not provided with gender responsive budgeting guidelines.

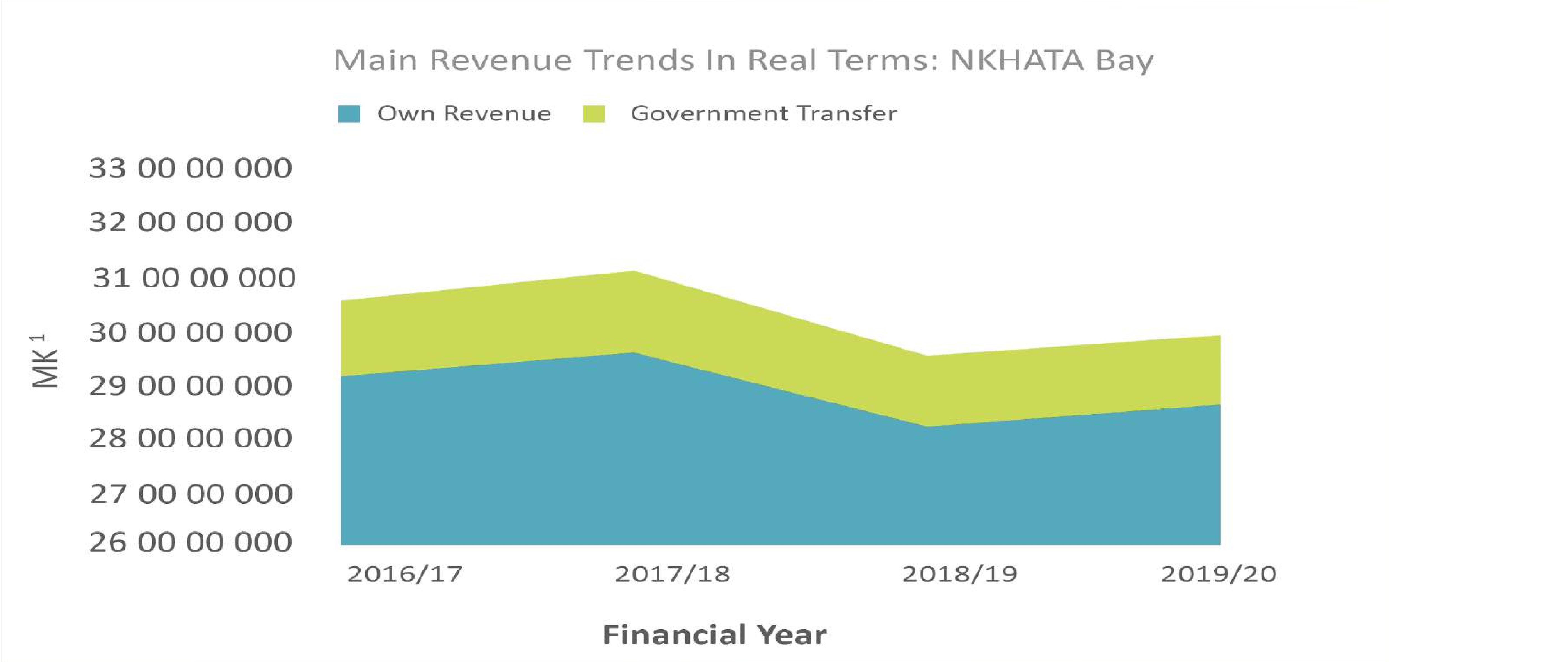
1.3 Financing Trends

1.3.1 Overall picture:

The District Council identifies sources for its development revenue as government, the development partners, the private sector and the civil society. However, financial data is only available for its own local revenue sources and government.

The overall trend of government transfers and its own locally generated revenue is given in the Figure below.

Figure 52: Revenue trends Nkhata Bay



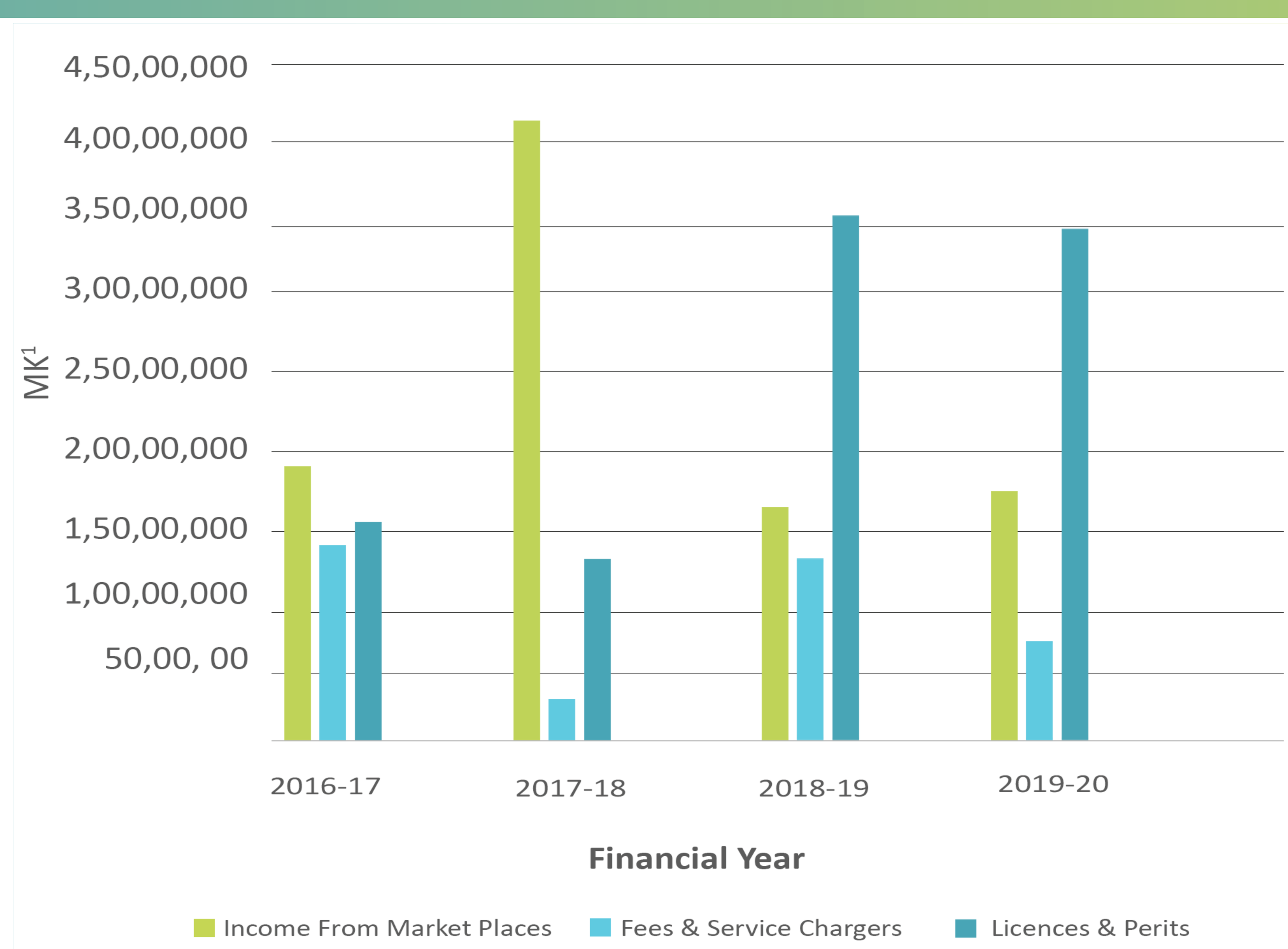
Source: Deloitte analysis based on NSO and NLGFC data

As can be seen from the Figure above, Nkhata Bay total revenue level in real terms has not gone above K320 million per year over the last four years. In general, in real terms, it has gone down over the period under consideration. It has had the lowest funding in the last two years, which also happen to be election years. And in real terms, the share of locally generated resources has remained fairly constant with no improvement. However, according to its ambitions for development, these two sources would provide some 24% or just a quarter of the requirements.

1.3.2 Local revenue detail

The district's own locally generated revenue is very meagre, the lowest among the sampled districts for this study.

Figure 53: Local revenue trend Nkhata Bay



Source: Deloitte analysis based on NLGFC

The Council has three main sources of locally generated revenue shown in the Figure above, and it is income from licenses and permits that shows a discernible increasing trend. The increase just compensates losses on income from marketplaces (which are open markets held periodically in specific localities or centres). The other two sources – income from market sources and fees/service charges are struggling and have gone down, but the overall picture remains that the amount of revenue collected is very small and in real terms declined over the period.

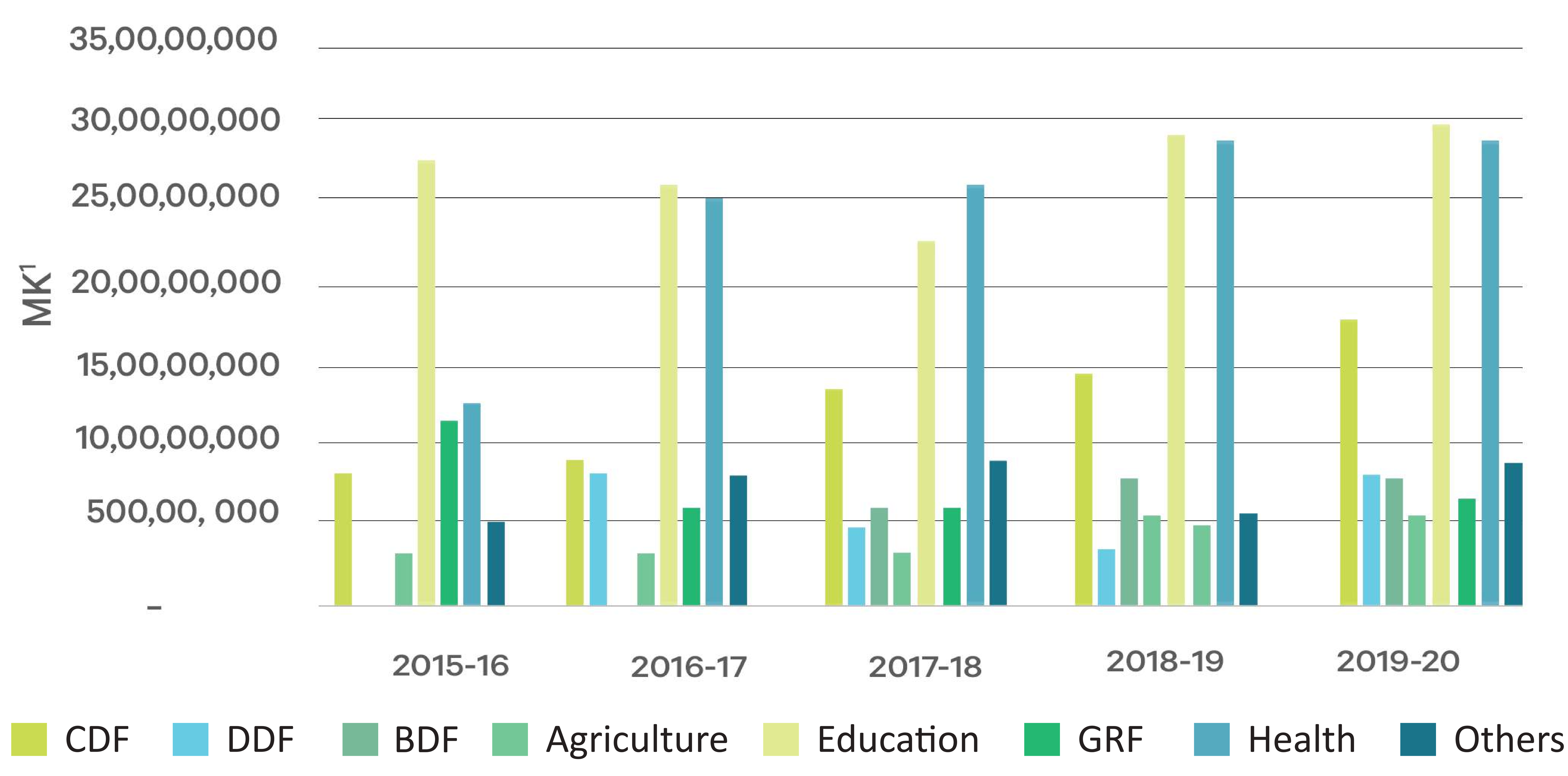
It is interesting to observe that the Council does not show any plan to raise the contribution of local revenue in its investment plan, its contribution development funding falling from close to 5% in 2017 to 1% at the end of the planning horizon. Apparently, this is in conflict[166] with its own statement in Section 4.1 of the DDP, where it says "In this plan's implementation period, the Council forestalls to move collection from the current 52% to 90%, through extensive revenue enhancement procedures. It is anticipated that a total collection of MK114 million for 2018/19 will be made from MK65 million in the 2017/18 budget." Records at the NLGFC of actual revenue performance show that the Council only realized K52 million, more than 100% below the planned target.

1.3.3 Government transfers in detail

Just like for all other local councils, Nkhata Bay receives government fiscal transfers for development and operational costs – other recurrent transactions.

The Figure below shows the trends for the major sectors and development funds for the Council over the last five years.

Figure 54: Fiscal transfers Nkhata Bay



Source: Deloitte analysis based on NLGFC data

[166] The Nkhata Bay DDP appears to the best prepared plan amongst the sampled districts, but it has this shortfall another one is the realism of development needs costing. The latter one is not as worse as for other Councils in this study.

The Figure above clearly shows that for the last five years, education has been the most dominant sector for government transfers, closely followed by health over the last four years. Its biggest development fund has been the constituency development fund aligning it to DDP priorities in terms of spending is challenging. For purposes of the DDP, it appears that the category of ‘other’ is the one that is supposed to be dominant as it has irrigation and water, fisheries development, transport, and other key priority issues.

One important thing to note that development resources – the three-district development fiscal transfers – add up to around 16% of the required development resources.

1.3.4 Donor Finance

Several development partners are active in the district, notably UN Agencies like UNICEF, UN Women, but overall data for their activities over the period of the study was not made available during the period of study. The investment plan has made a provision for contribution of around 36% from donors. There is no information on the strategy or plan for mobilizing development partner support.

The DDP envisages the following role for donors: “The role of NGOs, development and cooperating partners shall be to provide financial and technical support for implementation of the DDP. They also contribute to the implementation of the plan by undertaking projects in the district that responds to the DDP priorities.   The partners are thus required to shop from the plan and seek guidance from the Council before any interventions can be implemented.” (DDP, pg. 93). The arrangement seems to entrench the status quo – a rather passive role for working with development partners and NGOs.

1.3.5 NGO finance

Just like for development partners, NGOs are active in the district and more numerous than other development partners. For 2020, the NGO Board recorded 33 NGOs, around the average number of NGOs per district in the country. However, according to key informants, data for their activities over the period of the study was not available. The investment plan has no estimate for the contribution of NGOs to development.

The DDP has provided for a role of NGOs as follows: “The role of the civil society will mostly be on governance, discharging oversight and accountability functions to safeguard the interests of the communities in Nkhata Bay.” (DDP, pg. 93). This is a role that raises concerns about the developmental role of NGOs and their deliverables, as their accountability on spending is relatively low.

1.3.6 Private Sector

According to key informants and DDP, “Private sector is also seen as a major contributor to the district investments mostly through their corporate social responsibility programs. Primarily, it is expected that the private sector will share with the Council their corporate social responsibility plan for the Council buy-in to ensure that only high impact interventions to transform the communities are implemented. The Council will also promote Public Private Partnerships with the Private sector to stimulate development in the district.” (DDP, pg. 64). However, there is no data to show the existing contribution of the private sector in any of these types of ventures or arrangements.

It cannot be disputed that the District, with its placement on the third largest freshwater lake in Africa and at just an hour’s drive from the City of Mzuzu has great potential to attract private investment. The Council needs to invest in providing an enabling environment for smooth private sector operations, including electrification and access roads. Already, the District has a considerable portfolio of private investments in the name of Vizara Rubber Estate; Kawalazi Tea Estate; Mzuzu Coffee Association; commercial banks; and lodges and resorts.

1.4 Future trends

The District's resource projections to meet investment plans for the last two years remain high given the growing population. These resources have failed to materialize at a time before the COVID-19 pandemic has had its impact. This can only mean that in the short term, the District has to cope with low levels of funding and reorganize its investment plans to match with resources. As there are better opportunities for private investment that can benefit beyond the district's own frontiers, it is important that resources are provided for its development from government resources.

The District Council's potential to raise its own resources is high and it is unfortunate that the DDP does not come up with a clear and consistent strategy on the matter. Where potential is not realized, it is likely that there are problems with institutional capacities and these need to be resolved first and in this way the district can receive more investment both from the private sector and the public sector.

In summary, despite the COVID-19 pandemic shock, it is envisaged that the District will

- Continue to receive more government funding
- Generate more local revenue in the long term
- Attract increased private investment

1.5 Opportunity and challenges for mobilizing finance

- **Opportunities:** The District Council has in place
  - Adequate legislation it can rely own to enforce better local revenue generation,
  - The presence of other development partners – donors, NGOs and the private sector - that simply require better coordination and mobilization, and,
  - A gender team trained in gender responsive budgeting which can ably support resource mobilization for GESI.
- **Challenges:**
  - Planning and budgeting: The District need to clearly define overall objectives for its development agenda, specify a clear resource mobilization agenda for the private sector, development partners and the NGOs
  - Local revenue potential: there is huge potential to increase local revenue with appropriate institutional capacity investments, especially with a growing investment from the private sector
  - Private sector finance: The Council does not seem to have requisite capacity to mobilize private finance especially through PPPs, given its failure to improve basic revenue collection. It is unlikely in the medium term to see improvements in private sector finance for development.

LILONGWE DISTRICT COUNCIL

Annex 2

2.1 Background

Lilongwe District is in the Central Region and home to the capital city of the country bearing the same name. It has a population of 1.64 million, out of which the female population is estimated at 842,000 and the youth 789,000 (NSO 2018 Census, numbers rounded to the nearest 1,000). It is the biggest district of the sample for the study, and its poverty rate is in the lower range – 48% (IHS 2016). This makes Lilongwe the district with the lowest poverty out of nine districts in the Centre – the highest being Dedza, at 63%.

2.2 Development issues

2.2.1 District Development Plan

Lilongwe has a District Development Plan (DDP) that, just like for Nkhata Bay earlier on, was developed through a consultative approach: grassroots advisory and implementation committees' plans formed the basis for coming up with the consolidated DDP. Issues were taken from Village Action Plans and Area Action Plans to guide the formulation of the overall developmental aspirations, with issues of sustainability at the forefront of identifying particular interventions.

The overall objectives of the Plan are not specified[168] but it states that it will act as a comprehensive development framework for the district. The District Development Plan lays strong emphasis on community ownership and demand driven investment initiatives in which communities themselves will be making own contributions to the identified investment projects and programs. It calls for sustained resource mobilization from government and the other partners who have interest to work in the district.

The Plan clearly identifies 12 key priority issues in the following order:

i. Food and nutrition insecurity
ii. Education inadequacy
iii. Environmental degradation
iv. High poverty and unemployment levels
v. High morbidity and mortality rates (including high prevalence of HIV and AIDS,
vi. Inadequate access to portable water
vii. Poor road infrastructure
viii. High crime rates
ix. Limited availability of community centres
x. Limited functionality of decentralized structures
xi. High incidences of gender-based violence, and limited participation of persons with disabilities in social, development and economic life
xii. Inadequate and poor socio-economic infrastructure

Just like for Nkhata Bay, it is encouraging to note that one of the key priority areas captures of gender equality and social inclusion. The strategies for achieving each objective of the key priority areas are provided in the Plan, but not necessarily the strategies for implementing the overall plan.

2.2.2 DDP Costing

The DDP has a total investment and operational budget of K392 billion covering a five-year period 2017 to 2022. The DDP also has annual investment plans that outline projects to be implemented in each year,

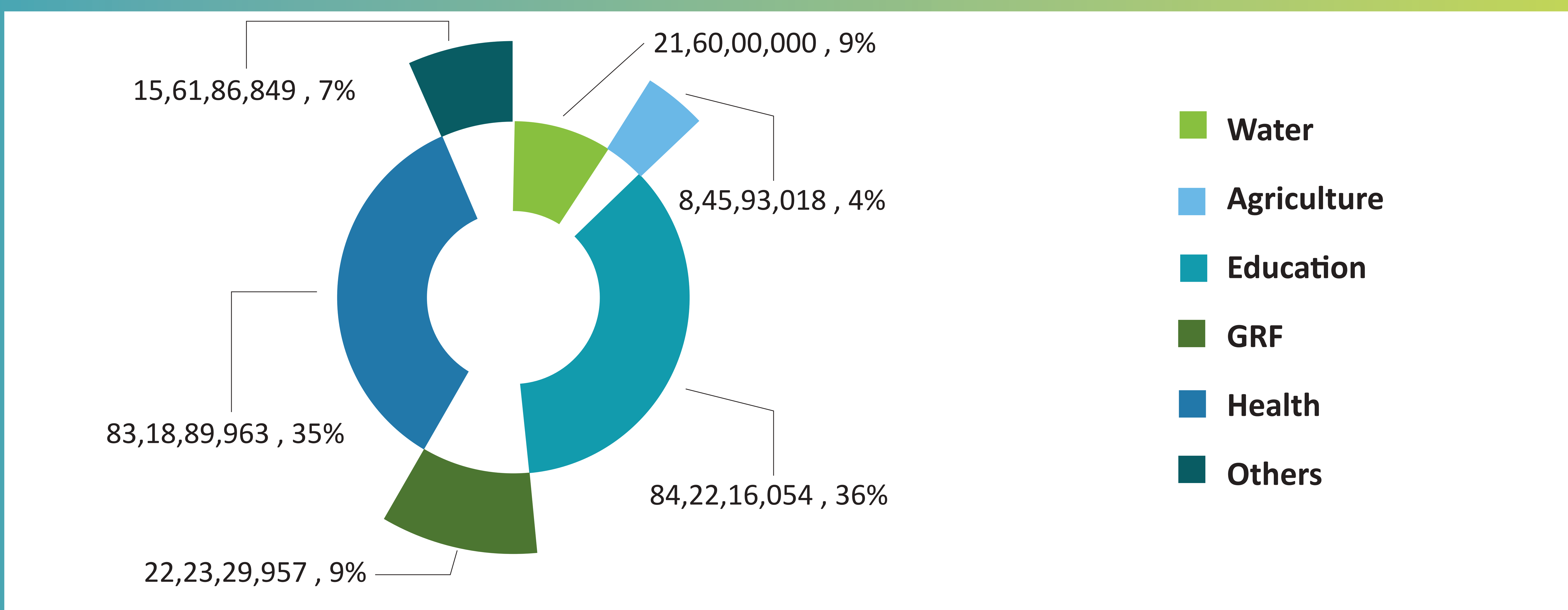
[168] It would appear the DDPs followed a standard template, and by design objectives stated are either related to the Council itself or the key priority issues. A plan's objectives are different and meant to sum up specifically what to achieve for an entity over its planning horizon.

with the first year budget estimated at K78 billion.[169] The sources of funding are mentioned as the "central government, district council structures, civil society organizations operating in the district, and private sector are expected to participate in the mobilization of the said required resources." (DDP, pg. 12) Development partners are expected to contribute 36.6%. The remaining resources will have to come from government, the private sector and the civil society.

2.2.3 Budget priorities

According to recent trends in budget funding, major funds for the district is allocated equally into health and education, followed at a distance by water, and these are followed further off by agriculture.

Figure 55: Lilongwe District resource shares



Source: Deloitte analysis based on NLGFC data

The existing budget allocates nearly all resources to the two sectors of health and education, and to some extent water, while the investment and its costing – based on the 12 key priorities - is allocating more than double the current level of resources to health for health, keeping education in second place at less than half the health budget; transport and road infrastructure come third, then access to water, and the other priorities. It is a health driven DDP and lacks a proper balance between the 12 priorities.

2.2.4 Gender Equality and social inclusion

The DDP has mainstreamed GESI development projects across sectors such as education, water and sanitation, economic empowerment, labour, environment, health, and infrastructure development. It has provided resources that are estimated at 1.5% per year of its annual investment of about K78 billion. This is an improvement over the 0.2% that has been provided through fiscal transfers over the last two years. However, in the preparation of the DDP gender responsive budgeting and human rights-based planning were not considered owing to the fact that staff were not trained on gender responsive budgeting and human rights. They were also not provided with gender responsive budgeting guidelines.

169 This is a huge estimate apparently inconsistent with reality, representing a movement from around K 3.5 billion to this amount within one year. There would be no capacity for such a movement.

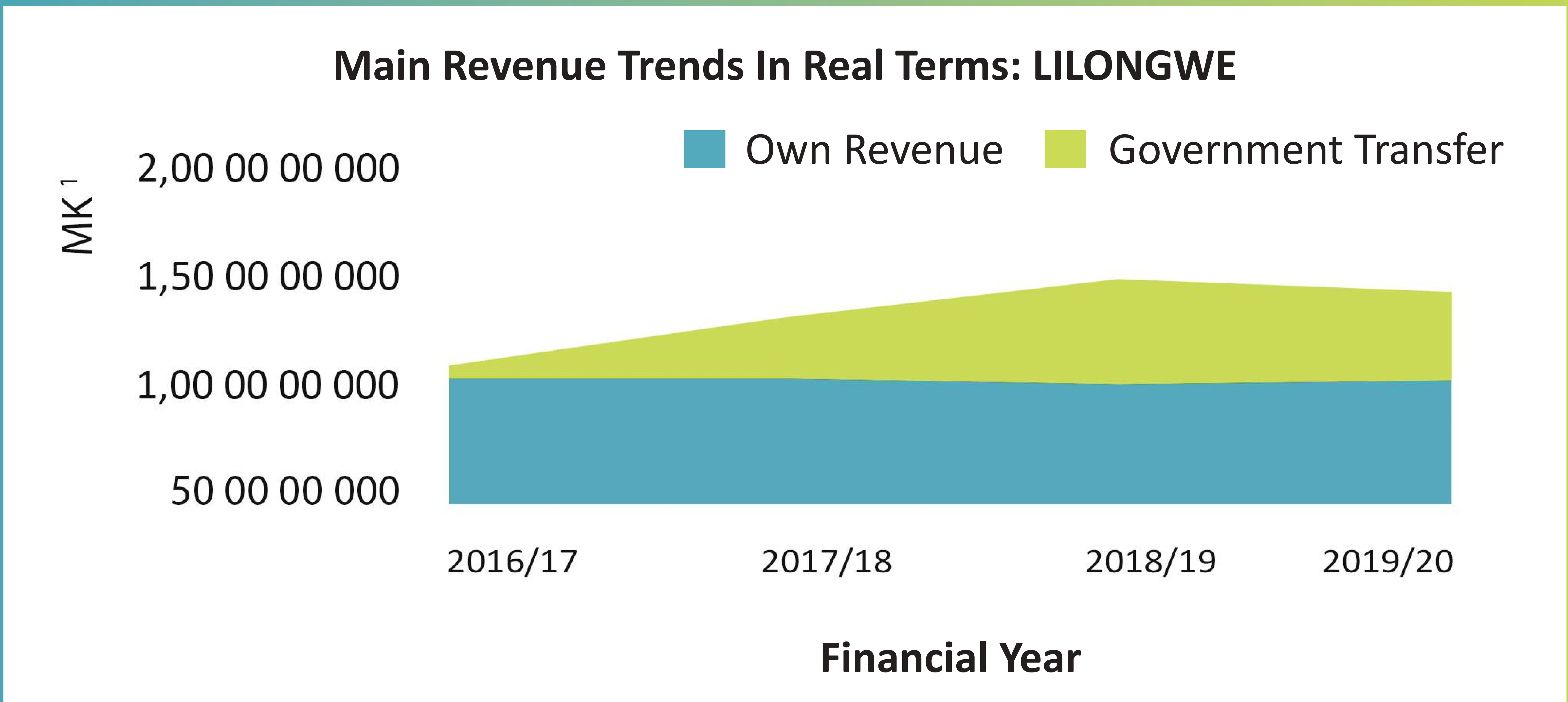
2.3 Financing trends

2.3.1 Overall picture

The District Council identifies sources for its development revenue as government, the development partners, the private sector and the civil society; however, financial data is only available for its own sources and government. An estimate for donor funding is available for the 2016-17 financial year, which is pegged at K240 million.

The overall trend of government transfers and its own locally generated revenue is given in the Figure below.

Figure 56: Lilongwe District revenue sources over time



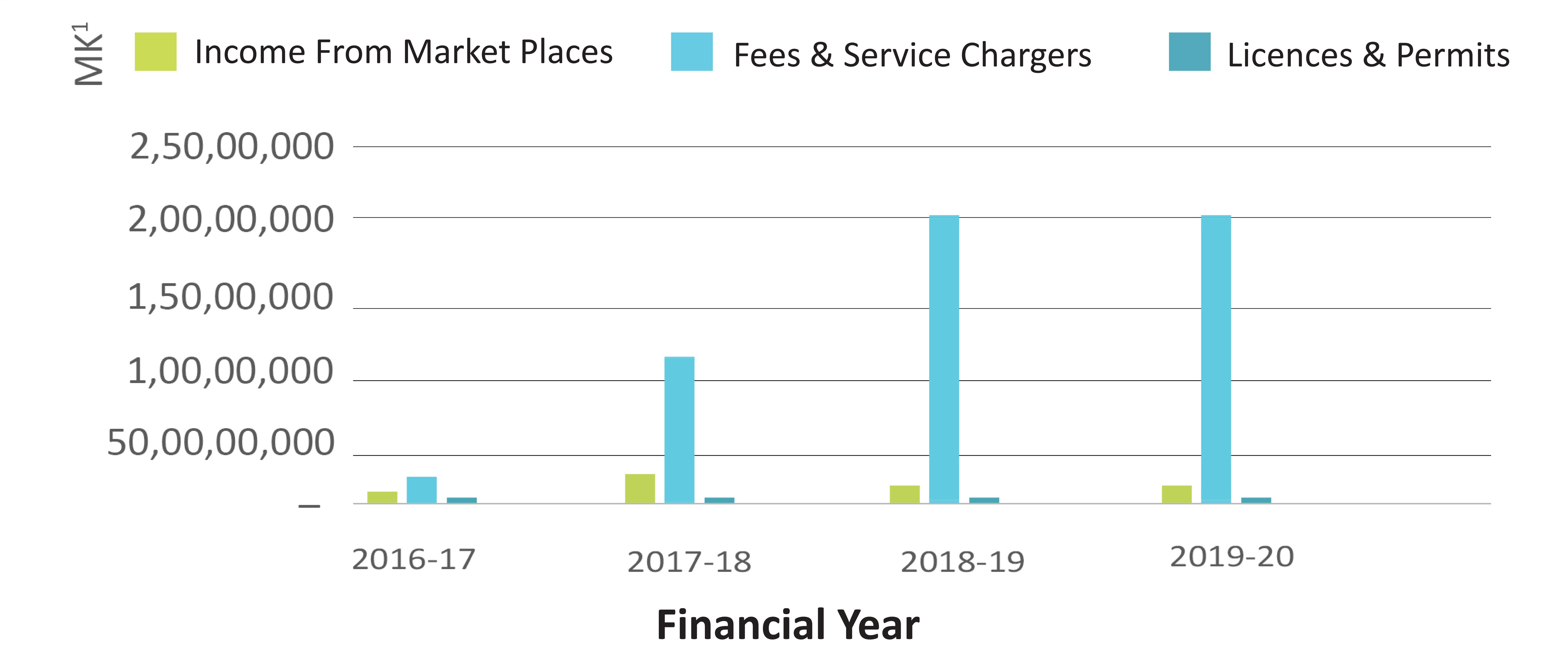
Source: Deloitte analysis based on NSO and NLGFC data

As can be seen from the Figure above, Lilongwe total revenue levels have risen to around K1.4 billion in real terms over the last two years, which also happen to be election years. While government transfers have remained fairly constant during the period, locally generated resources have risen significantly close to six times as much. However, according to its ambitions for development, these two sources would provide some 2% of the requirements.

2.3.2 Local revenue detail

The District Council's own locally generated revenue has increased during the last three years, due to income from fees and service charges.

Figure 57: Lilongwe District local revenue trends



Source: Deloitte analysis based on NLGFC data

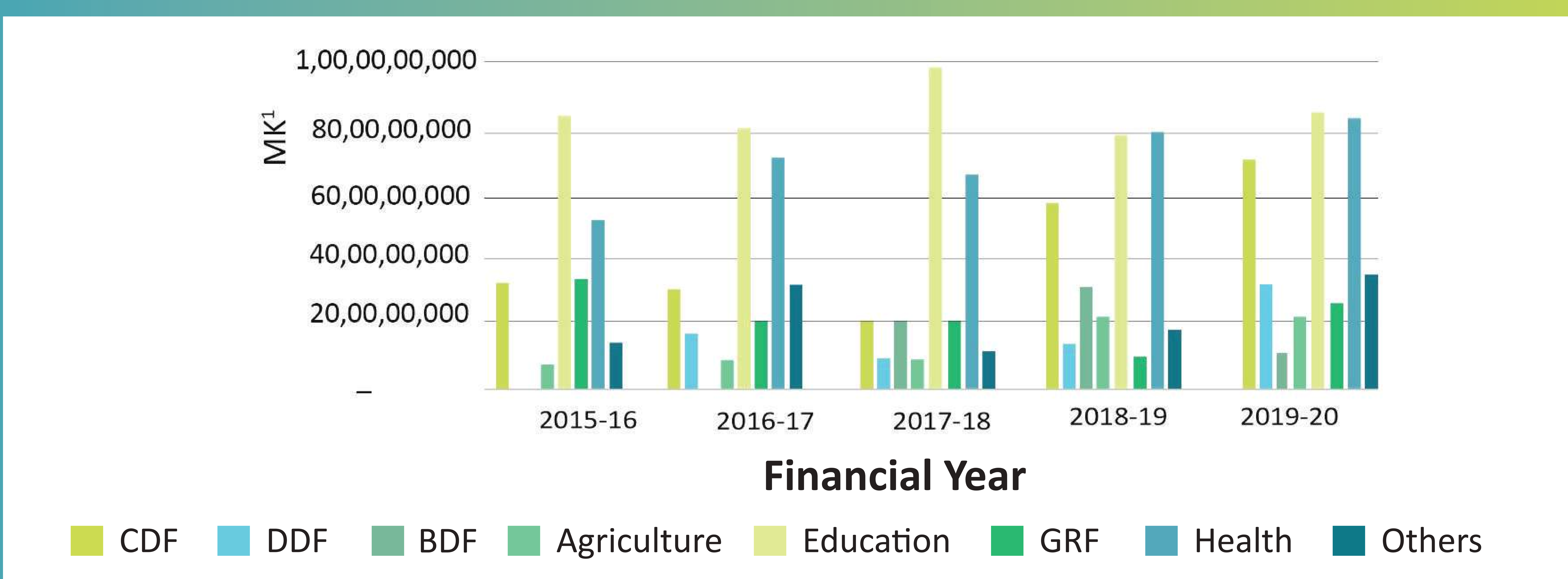
Of the Council's three main sources of revenue, shown in the Figure above, income from fees and service charges has grown tremendously over the period of the study. The other two sources – income from marketplaces and licenses and permits are struggling and have remained very low. The overall picture remains that the amount of revenue collected is very substantial and even increasing in real terms.

It is unfortunate, however, that the DDP does not provide projections for how locally generated revenue, and even government fiscal transfers, are expected to perform over the period of the Plan. Had it been projected, it would have revealed the unrealism of the investment budget over the period of the DDP.

2.3.3 Government transfers in detail

Just like for all other local councils, Lilongwe District Council receives government fiscal transfers for development and operational costs – other recurrent transactions. The trends for the counsel for the last five years are as follows:

Figure 58: Lilongwe District fiscal transfers



Source: Deloitte analysis based on NLGFC data

The Figure above clearly shows that for the last five years education has been the most dominant sector for government transfers, closely followed by health. Its biggest development fund has been the constituency development fund, the most difficult fund to align to DDP priorities in terms of spending. However, for the Council's DDP, health appears to be the future of the District's investment, rising to twice as much as education. One important thing to raise here is that development resources – the three district development fiscal transfers – when added up, would account for 1.2% of the required development resources for the DDP annually.

2.3.4 Donor Finance

In 2016/17, Lilongwe District Council estimated that development partners provided about K240 million for development interventions, equivalent of about 10% of its budget. The DDP acknowledges the support from development partners but also reports that on many occasions their projects have not been sustainable. The DDP has this to say: "Lilongwe District Council has had projects that have been initiated by the so-called development partners with positive but unsustainable outcomes on the targeted communities once the intervention closes down." (DDP, page i).

Several development partners are active in the District, notably KFW, UNICEF, USAID, EU, JICA, UNDP, UNICEF, but overall data for their activities over the period of the study was not available. The investment plan has made no specific provision for the contribution of all stakeholders, including donors, and yet the DDP talks of strategies for resource mobilization.

2.3.5 NGO finance

Just like for development partners, NGOs are active in the District and more than development partners. For 2020, the NGO Board recorded 33 NGOs, around the average number per district in the country. However, data for their activities over the period of the study was not available. And stated earlier, the investment plan has no estimate for the contribution of key stakeholder groups like NGOs. Key informants at the District Council mentioned that NGOs only provide information about what they are doing in the district and do not share reports on funding and progress of their activities. According to the NGO Board, NGOs are often frustrated by the allowance seeking culture existing at the District Council and as a result they do not form a proper working relationship with them.

2.3.6 Private Sector

Lilongwe District, surrounding the capital city and having the highest population per district, is well suited to attract private investment. The market for rural products is right within its precincts, but DDP does not specify any strategy for mobilizing the private sector. Just like for NGOs, there is no data to show the existing contribution of the private sector in any of the development initiatives specified in the DDP.

The district needs a clear strategy for private sector mobilization, their role in social responsibility, developmental partnerships like PPPs, and direct investments for income and employment generation.

2.4 Future trends

The District's financial resources are not adequate for meeting the annual needs of the investment plan over the last two years. It has not been possible for the District Council to realize adequate resources before the COVID-19 pandemic struck. This can only mean that in the short term, the District has to cope with current levels of funding, which are not that low compared to other districts, and reorganize its investment plans to match with available resources. Given that this is a district with good opportunities for private investment that can have benefits beyond the district's own frontiers, it would be important that resources are provided for its development plans from government resources.

The District Council's potential to raise its own resources is seemingly high. The two other revenue streams can also be increased. Unfortunately, the DDP of Lilongwe does not come up with a clear and consistent strategy on this matter. Where potential is not realized, it is likely that there are problems with institutional capacities which need to be resolved first to improve revenue collection further.

In summary, despite the COVID-19 pandemic shock, it is envisaged that the District is likely to be:

- Receiving more development financing from government, development partners, the private sector and the NGOs
- Sustaining and even increasing the relatively high levels of locally generated revenue
- Attracting increased private investment

2.5 Opportunity and challenges for mobilizing finance

- **Opportunities:** The Council has
  - Adequate laws to improve local revenue generation but needs to improve on capacities, and,
  - A host of development partners, the private sector and non-governmental organizations active in the district who can be called upon to invest more with better coordination.

- **Challenges:**
  - Planning and budgeting: The District need to clearly define overall objectives for its development agenda, revise its over-ambitious and unbalanced development agenda, and specify a clear resource mobilization strategy for the private sector, development partners and the NGOs.
  - Local revenue growth: Even though this is relatively high compared to other District Councils, there is great potential to increase it further with appropriate institutional capacity investments, especially with a growing investment portfolio from the private sector that is taking position outside the city precincts.
  - Private sector finance: There is a need to invest in requisite capacity to mobilize private finance especially through PPPs which would have positive implications for improving basic revenue collection.

ZOMBA DISTRICT COUNCIL

Annex 3

3.1 Background

Zomba district is in the Eastern Region of the country, home to the country's smallest city bearing the same name, and some 50 kilometers away from the country's lead commercial city of Blantyre. It has a population of 747,000, out of which the female population is estimated at 390,000 and the youth 357,000 (NSO 2018 Census, numbers rounded to the nearest 1,000). It is the second largest district in the sample for the study, and its poverty rate is towards the higher side - 55.9% (IHS 2016). However, Zomba is the least poor out of four districts in the Eastern Region, the poorest being Machinga, at 72.4%.

3.2 Development issues

3.2.1 District Development Plan Overview

As with other districts in the sample, the District Council also has a District Development Plan (DDP) and this was developed through extensive literature review and a consultative process "generated through purposive consultations involving local communities, specialists from sectors at district level, development partners, representatives of the private sector and the civil society organizations (CSOs) operating in the district." (Zomba DDP, pg. ii)

The overall objectives of the Plan[170] are not distinctly specified but it states that it will act as a comprehensive medium-term strategy for an all-inclusive development agenda. The plan outlines priorities that will drive the socio-economic development of Zomba district for the next five years by providing specific actions which will be undertaken in each sector throughout this period." (ibid)

The Plan clearly identifies 11 key priority issues in the following order:

i. Food and nutrition insecurity at household level;
ii. Loss of biodiversity and environmental degradation;
iii. High illiteracy rate;
iv. High maternal and infant mortality rates;
v. Limited access to potable water and improved sanitation;
vi. Poor transport and communication infrastructure;
vii. High poverty levels;
viii. High incidences of gender-based violence;
ix. High crime rate;
x. Weak institutional capacity for effective decentralized service delivery; and
xi. Poor development of trading (semi-urban) centers.

It is worth noting that the DDP has one key priority area dedicated to GESI, i.e., high incidences of gender-based violence. In addition, GESI is mainstreamed in other priority areas, including food and nutrition insecurity at household level; high illiteracy levels; high maternal and infant mortality rates; high poverty levels; and poor transport and communication infrastructure. Strategies for achieving each objective of the key priority areas are provided in the Plan, but not necessarily the overall strategies for implementing the DDP.

170 These, as well as the strategies, are stated in the context of each key priority issue.

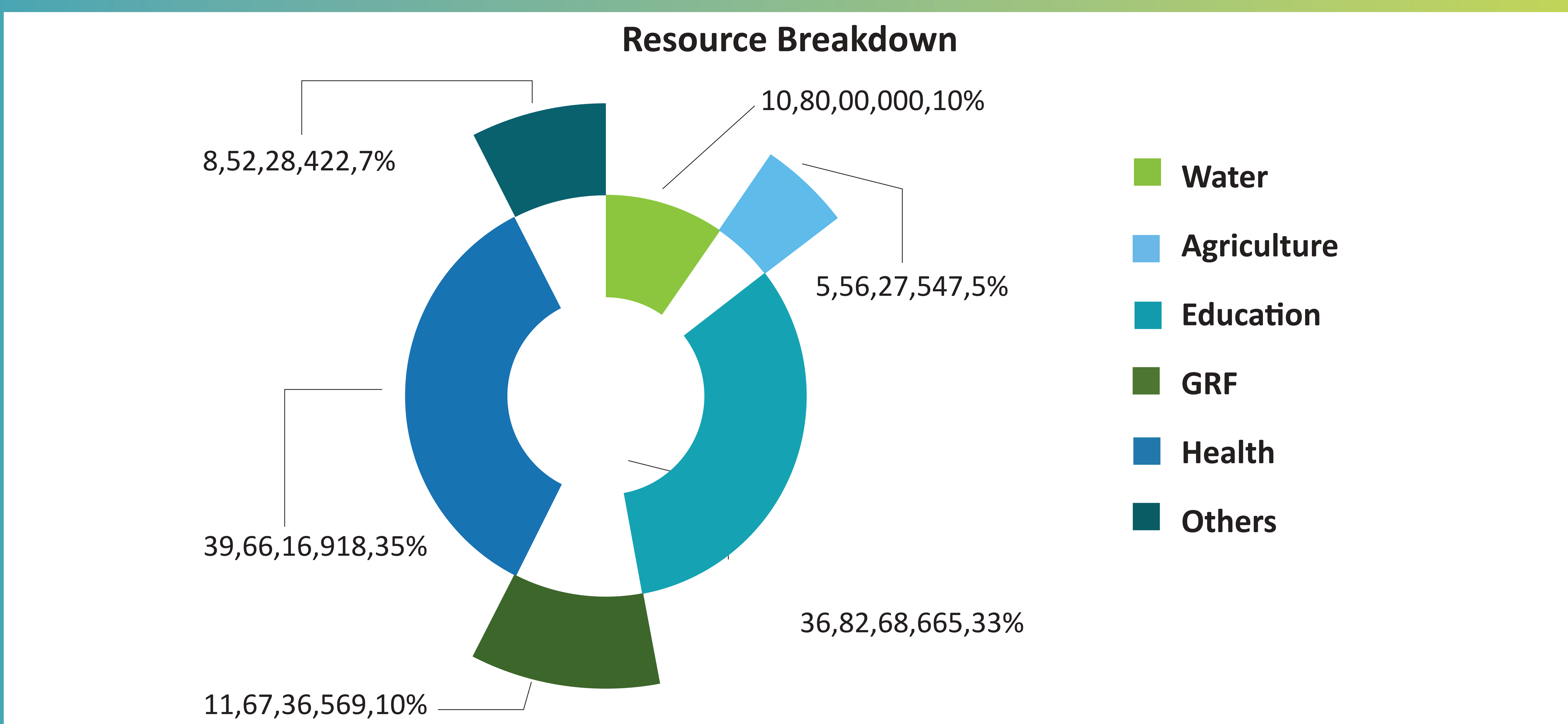
3.2.2. DDP Costing

According to recent trends in budget funding, major funds for the district is allocated equally into health The DDP has a total investment and operational budget of K106 billion covering a five-year period, 2017 to 2022. The DDP also has annual investment plans that outline projects to be implemented in each year, with the first-year budget estimated at K16.3 billion. Funding for the DPP will come from locally generated resources, transfers from the central government, the private sector, development partners, and civil society organizations. The investment plan show that government transfers and locally generated revenue will finance 50%, and the other stakeholders will also contribute 50%, even though there are variations in the shares of contribution on an annual basis.

3.2.3 Budget Priorities

According to the recent trends in budget funding, most of the funding for the district is going almost equally into health and education, and these are followed at a distance by water, and then agriculture. The rest fall under others.

Figure 59: Resource shares Zomba District



Source: Deloitte analysis based on NLGFC data

The existing budget allocates nearly all resources to the two sectors of health and education, and the investment plan and its costing – based on the 11 key priorities - is extending this trend and developing a clear gap between health and education in favor of health by nearly double as much. The clear advantage of the plan, given the findings of numerous reports on the issue, has given prominence into investing into “Strengthened institutional capacity for effective decentralized services delivery,” giving it the fourth largest share of resources.

3.2.4 Gender Equality and Social Inclusion

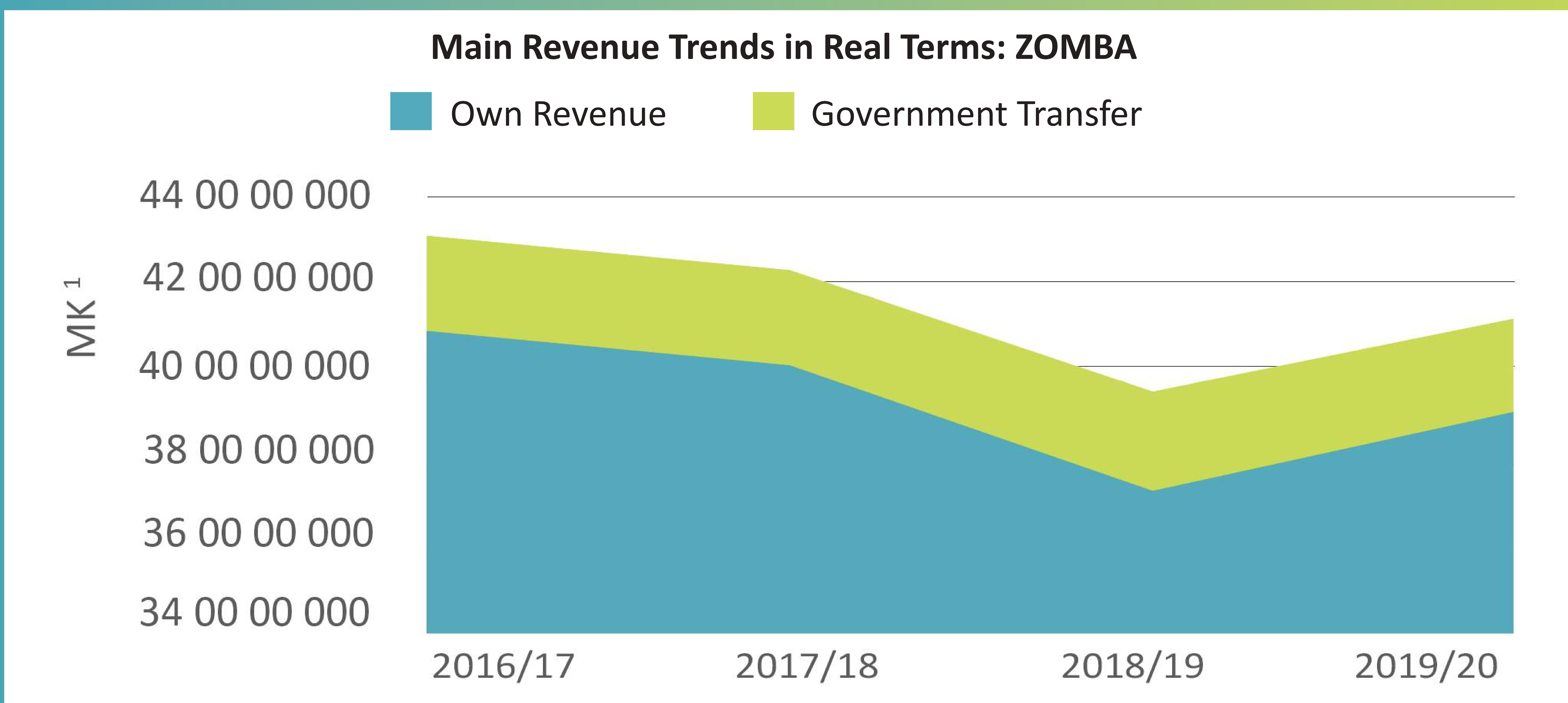
Finances for GESI are mainly coming as grants from government (including social cash transfer) and NGO partners for specific projects. There is no financing for GESI from locally generated resources, and the private sector provides minimal contribution through corporate social responsibility. According to the investment plan for the DDP, total resources required for direct GESI related interventions is estimated at 0.1% in an investment plan estimated to cost about of K106 billion over the period 2017-22. With mainstreamed activities, it is likely that GESI would take up more than 5% of the resources. Under the current budget, direct GESI activities are allocated less than 0.4%. The risk is high therefore that under the new DDP, GESI may be receiving less funding than before on the basis of direct interventions**.**

3.3 Financing trends

3.3.1 Overall Picture

The District Council identifies sources for its development revenue as government, the development partners, the private sector and the civil society; however, financial data is only available for its own locally generated revenue and government. The overall trend of government transfers and its own locally generated revenue is as follows:

Figure 60: Revenue trends Zomba District



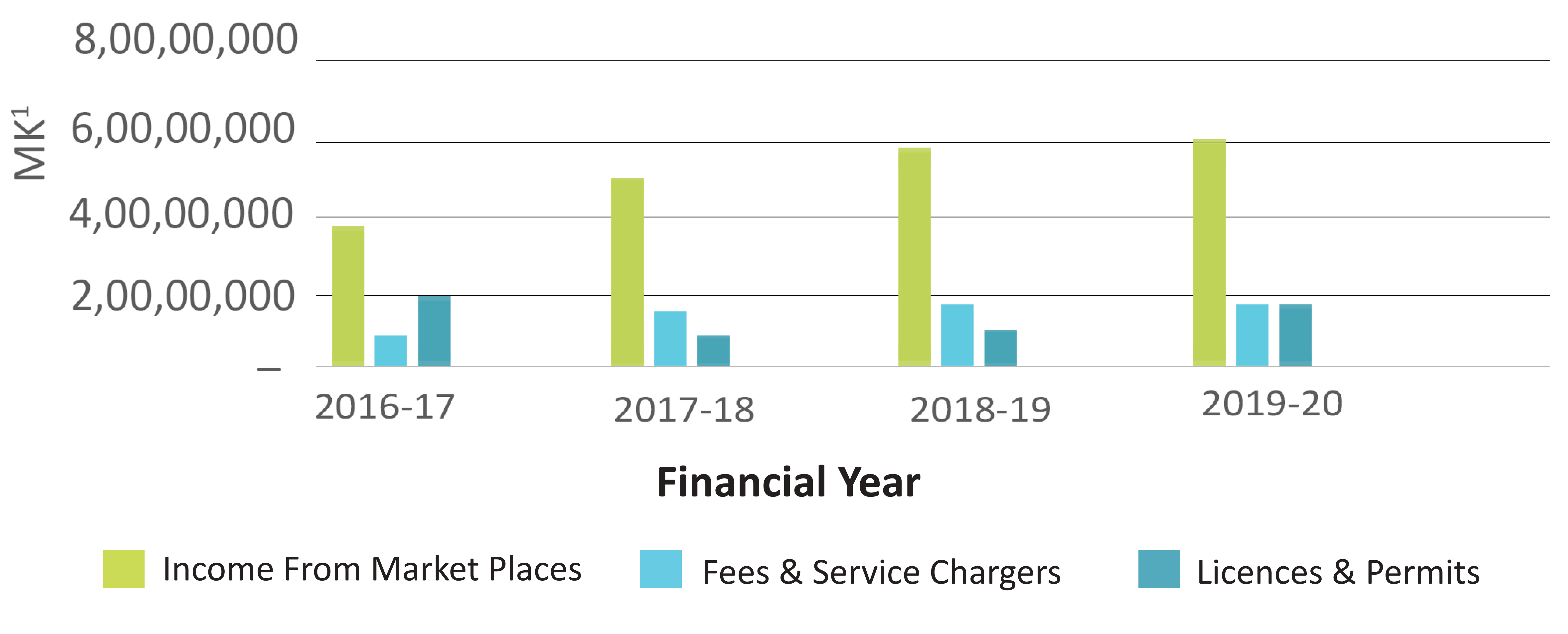
Source: Deloitte analysis based on NSO and NLGFC data

As can be seen from the Figure above, Zomba District funding levels have not gone above K435 million per year (in real terms) over the last four years. It has had the lowest funding over the last two years, especially 2018-19, which also happens to be one of the two consecutive election years. In general, it can be said that the revenue for the Council has fallen, in real terms, over the last four years. And also, the share of locally generated revenue, in real terms, has remained fairly constant. According to its ambitions for development, these two sources of revenue would provide 50% or half of the development resource requirements.

3.3.2 Local Revenue Detail

The District's own locally generated revenue is very meagre, probably among the very lowest in the sampled districts.

Figure 61: Local revenue sources Zomba District



Source: Deloitte analysis based on NLGFC data

The Council has three main sources of own revenue shown, in nominal terms, in the Figure above. Income from marketplaces that shows a discernible increasing trend while it has declined for the other two sources – income from fees and service charges, and licenses and permits. The overall picture remains that the amount of revenue collected is very low for the Council's needs and in real terms has declined over the period.

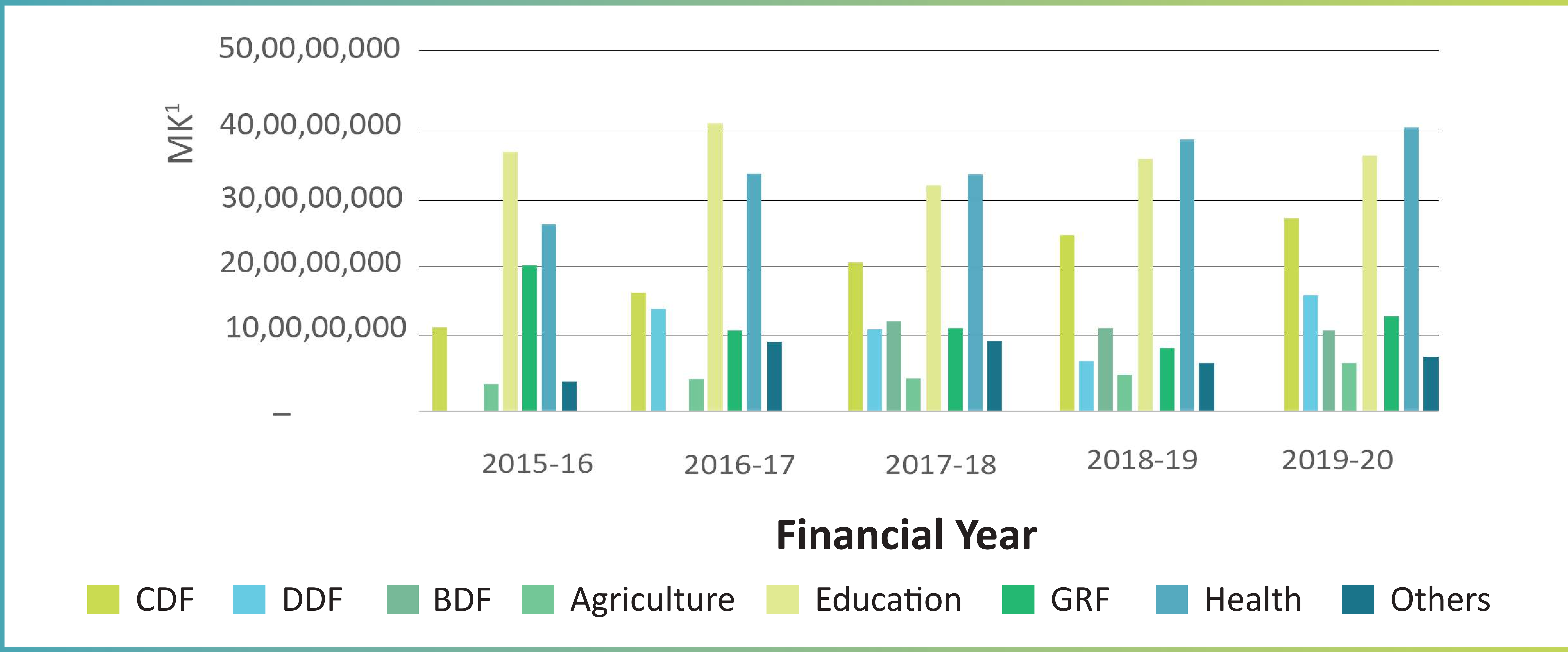
Just like for Lilongwe District Council, it is unfortunate however that the Zomba DDP does not provide projections for how locally generated revenue, and even government fiscal transfers, are expected to perform over the period of the Plan.[171] These projections might have helped to assess the realism of the investment budget over the period of the DDP.

3.3.3 Government Transfers in Detail

Just like for all other local councils, Zomba District Council receives government fiscal transfers for development and operational costs – 'other recurrent transactions.' The trend for the major sectors and development funds for the Council over the last five years are as follows:

[171] Estimates would have served an important function in resource mobilization, especially to track progress. On this dimension, the Nkhata Bay DDP is written better.

Figure 62: Fiscal transfers trend Zomba District



Source: Deloitte analysis based on NLGFC data

The Figure above clearly shows that for the last five years, education has been the most dominant sector for government fiscal transfers, closely followed by health, even though for the last three years health has marginally eclipsed education. The Council's biggest development fund has been the constituency development fund aligning it to DDP priorities in terms of spending is difficult. For purposes of implementing the DDP, with 11 priority areas, it appears that the status quo will be strengthened and health will be outstandingly dominant over the other priorities.

One important thing to point out here is that development resources – the three district development fiscal transfers – add up to around 2.4% of the required development resources. But even this contribution may not be realized if no firm measures are taken to align the said funding sources to the district's DDP priorities.

3.3.4 Donor Finance

According to key informants, nearly everything that is consequential on development in the district is carried out by development partners. However, the District Council does not have estimates for the support that is provided. Several development partners are active in the District but the DDP has specific names of only two donors and prefers to use the term 'development partners' throughout without indicating the names of the development partners involved. The investment plan has not specified the contribution of any of the development stakeholders, even government and donors, and yet the DDP speaks about strategies for resource mobilization.

3.3.5 NGO Finance

Just like for development partners, NGOs are active in the District and more numerous than development partners. For 2020, the NGO Board recorded 45 NGOs, the fifth highest number per district in the country.[172] However, data for their activities over the period of the study was not available. The investment plan has no specific estimate for the contribution of NGOs to development interventions planned under the current DDP. There is no visible separation about the role of development partners and the NGOs in funding the DDP activities.

3.3.6 Private Sector

Key informants indicated that the participation of the private sector for purposes of implementing DDP investments as partners is largely a new area. Furthermore, to achieve the stated goals and fast-track economic development, the District Council believes that private sector participation is essential and has committed itself to encourage new innovations and developments by the private sector through public private partnerships as well as wholly-owned private sector initiatives or ventures.

The areas identified for the private sector include agriculture, forestry, banking and credit facilities, tourism and fisheries. The DDP states that "There are also opportunities for the private sector to invest in the tourism sector as this sector is currently underdeveloped. To fully exploit these potentials the private sector is expected to invest a considerable amount of resources through public private partnerships (PPPs) or entirely by the private sector itself." (DDP, pg. 35) However, there are no data to show the existing contribution of the private sector in any of these types of ventures or arrangements.

3.4 Future trends

The District's overall revenue failed to meet investment plans based on the DDP for the last two years, but development needs remain high given a growing population. The resources have failed to materialize at a time before the COVID-19 pandemic has had its impact. This can only mean that in the short term the District has to cope with low levels of funding and reorganize its investment plans to match with resources. Given that this District has good opportunities for private investment as it has a readily available market in its own city of Zomba and the nearby commercial city of Blantyre, it is important that resources are provided for her development investment as these will have far reaching effects beyond the district's frontiers.

The District Council has potential to raise its own resources and it is an oversight that the DDP does not come up with a clear and consistent strategy on this matter. Where potential is not realized, it is likely that there are problems with institutional capacities which need to be resolved first to facilitate investment both by the private sector and the public sector.

In summary, despite the COVID-19 pandemic shock, it is envisaged that the District will be

- Receiving more government funding
- Improve local revenue collection
- Attracting increased private investment

[172] The NGO Board has data on the spending of NGOs is some districts and Nkhata Bay is not one of them. However, the NGO district expenditure data requires cleaning for it to be credible.

3.5 Opportunities and challenges for mobilizing finance

- **Opportunities:** The Council has
  - Adequate legislation to improve revenue collection. Just like for Nkhata Bay and Lilongwe, Zomba has the opportunity to increase revenue collection with investments into capacity, and,
  - A number of active development stakeholders that need to be well coordinated and mobilized to improve their contribution.

- **Challenges:**
  - Planning and budgeting: The District need to clearly define overall objectives for its development agenda, estimate resource flows for development needs, specify a clear resource mobilization agenda for the private sector, development partners and the NGOs
  - Local revenue potential: There is great potential to increase local revenue with appropriate institutional capacity investments, especially with a growing investment portfolio from the private sector
  - Private sector finance: The Council has good opportunities to mobilize private finance especially through PPPs, given its proximity to two cities, but it must also invest into institutional capacity to improve basic revenue collection and manage private contracts. This means that in the short term, it is unlikely to see improvements in private sector finance.
  - There is a general lack of transparency and accountability on how much resources organizations like NGOs, development partners and the private sector spend on social welfare related services. It needs to conduct a comprehensive resource mapping.

BLANTYRE DISTRICT COUNCIL

Annex 4

4.1 Background

Blantyre District is in the Southern Region and home to the leading commercial city of the country bearing the same name. It has a population of 451,000 million, out of which the female population is estimated at 233,000 and the youth 222,000 (NSO 2018 Census, numbers rounded to the nearest 1,000). Of the four districts in the sample, it is the third largest and has the lowest poverty rate – 38.9% (IHS 2016). This makes Blantyre the lowest poverty district out of nine districts in the Southern Region – the highest being Phalombe, at 83.2%, which is also the highest for the country. Blantyre District is also the district with the lowest poverty rate in the country.

4.2 Development issues

4.2.1 District Development Plan

According to key informants, Blantyre has a District Development Plan (DDP) that was developed through a consultative process from the grassroots – village level – up to higher structures and implementation committees' plans at the lower level formed the basis for coming up with the consolidated District Development Plan. The DDP itself reports that the preparation of the plan followed a long, comprehensive and participatory process involving almost all development partners including government sectors, non-state actors and even people at the grassroots level through the village action planning process.

As with DDPs of other Councils in the sample, the overall objectives of the Plan are not specified[z] but it states that it "provides an inventory of the prioritized developmental priorities from which all development partners shall identify projects/programmes for their implementation. Hence, no project will be implemented within Blantyre District outside the DDP during the period 2017 – 2022 and programs." (Blantyre DDP, page ii)

The Plan clearly identifies 13 key priority issues ranked in the following order:

i. Food insecurity
ii. Low household incomes
iii. High population growth rate,
iv. Poor standards of education
v. Poor road network
vi. Environmental degradation
vii. Teenage pregnancies and early marriages
viii. High level of youth unemployment
ix. High neonatal and under five morbidity and mortality
x. Low access to potable water
xi. High levels of malnutrition
xii. High crime rate
xiii. Poor governance and accountability structures

It can be observed from the list that the DDP for Blantyre District has no dedicated priority area for GESI, but there are clearly visible priority areas where it has been mainstreamed, like teenage pregnancies and early marriages; high level of youth unemployment; high crime rate. Strategies for achieving each

[173] It would appear the DDPs followed a standard template, and by design objectives stated are either related to the Council itself or the key priority issues. A plan's objectives are different and meant to sum up specifically what to achieve for an entity over its planning horizon.

objective of the key priority area are provided in the Plan, but not necessarily the strategies for implementing the overall plan.

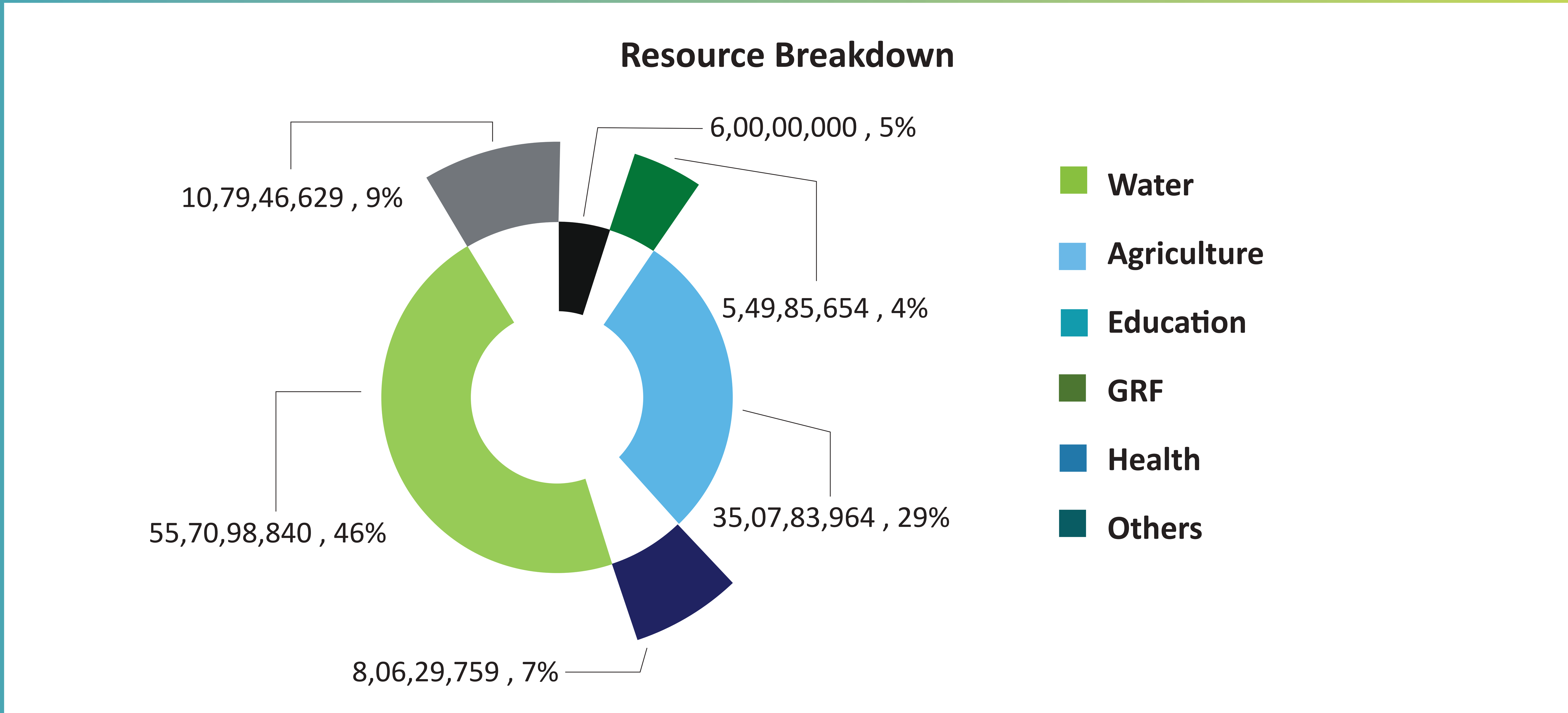
4.2.2 DDP Costing

The DDP has a total investment budget of K32 billion covering a five-year period, 2017 to 2022. The DDP also has annual investment plans that outline projects to be implemented in each year, with the first year budget estimated at K5.9 billion.[174] The sources of funding are mentioned as the "The investments will be financed by central government, locally generated resources by the district council, NGOs, donors, private sector and beneficiary communities' own contributions." (DDP, pg. 88)

4.2.3 Budget Priorities

According to the recent trends in budget funding from government, most of the funding for the district is going almost 50 %into health, followed by education, and small equal shares of agriculture and water. However, the share of 'others' is comparably bigger than in other Councils, implying a little bit more funding for economic sectors than in other districts.

Figure 63: Resource shares Blantyre District



Source: Deloitte analysis based on NLGFC data

The Figure above shows that the budget allocates most resources to the two sectors of health and education, as in all other Councils in the sample, while the investment plan in the DDP – based on the 13 key priorities - is allocating nearly half of the resources (for development only) to transport (road network). Education and health in the investment plan are allocated an equal share of around 14 %each. It is a road-driven DDP and lacks a proper balance between the 13 key priority issues.

[174] This is a huge estimate apparently inconsistent with reality, representing a movement from around K 3.5 billion within one year. There would be no capacity for such a movement.

4.2.4 Gender Equality and Social Inclusion

Finances for GESI are from grants from government (including social cash transfers) and partners for specific projects. The DDP for Blantyre District has visible mainstreaming of GESI initiatives under its key priority areas as mentioned earlier on. However, gender staff capacity has been recently established and as a result the current investment plan has minimal activities on gender. For the 2020/21 financial year, Blantyre has planned one gender related project on human trafficking and gender-based violence prevention with a budget of K5.0 million. Activities for youth are predominantly construction and skills development. The DDP targets youth, women, girls, men, trafficking - no albinism; disability; elderly. Some of the mainstreamed GESI related projects include school feeding; keeping girls in school; construction of youth multipurpose centres; vocational skills development; and youth friendly health services program. An estimate of these interventions indicates an allocation of between 3 to 11 %in the DDP investment plan over the five-year period of 2017 to 2021. Over recent years, direct GESI funding from government has fluctuated between 0.5 and 1.2 %of the budget.

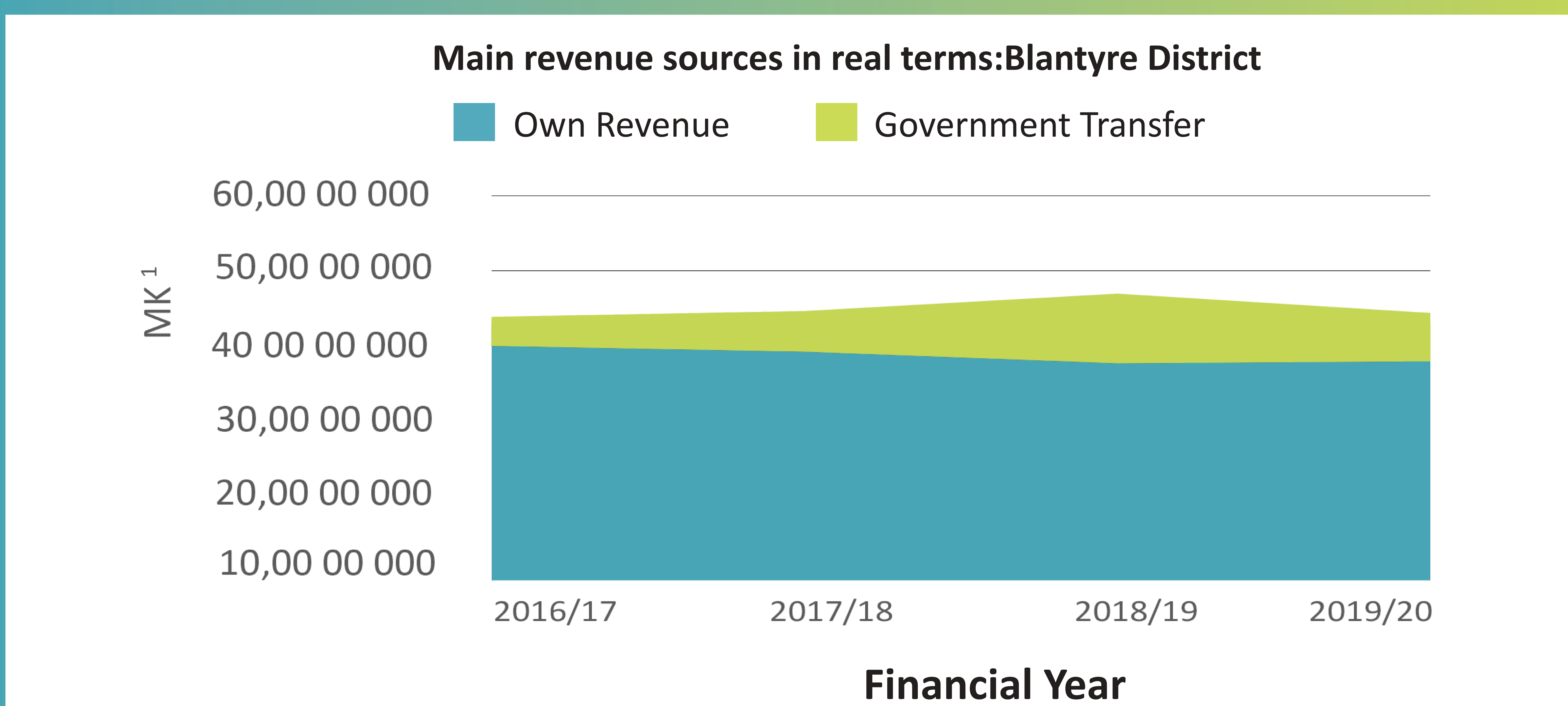
4.3 Financing trends

4.3.1 Overall Picture

The District Council identifies sources for its development revenue as government, the development partners, the private sector and the civil society; however, financial data is only available for its own locally generated resources and government. Key informants reported that donor funding takes place for a number of interventions but there are no financial Figures provided to the Council.

The overall trend of government transfers and the Council's own locally generated revenue is as follows:

Figure 64: Revenue shares Blantyre District



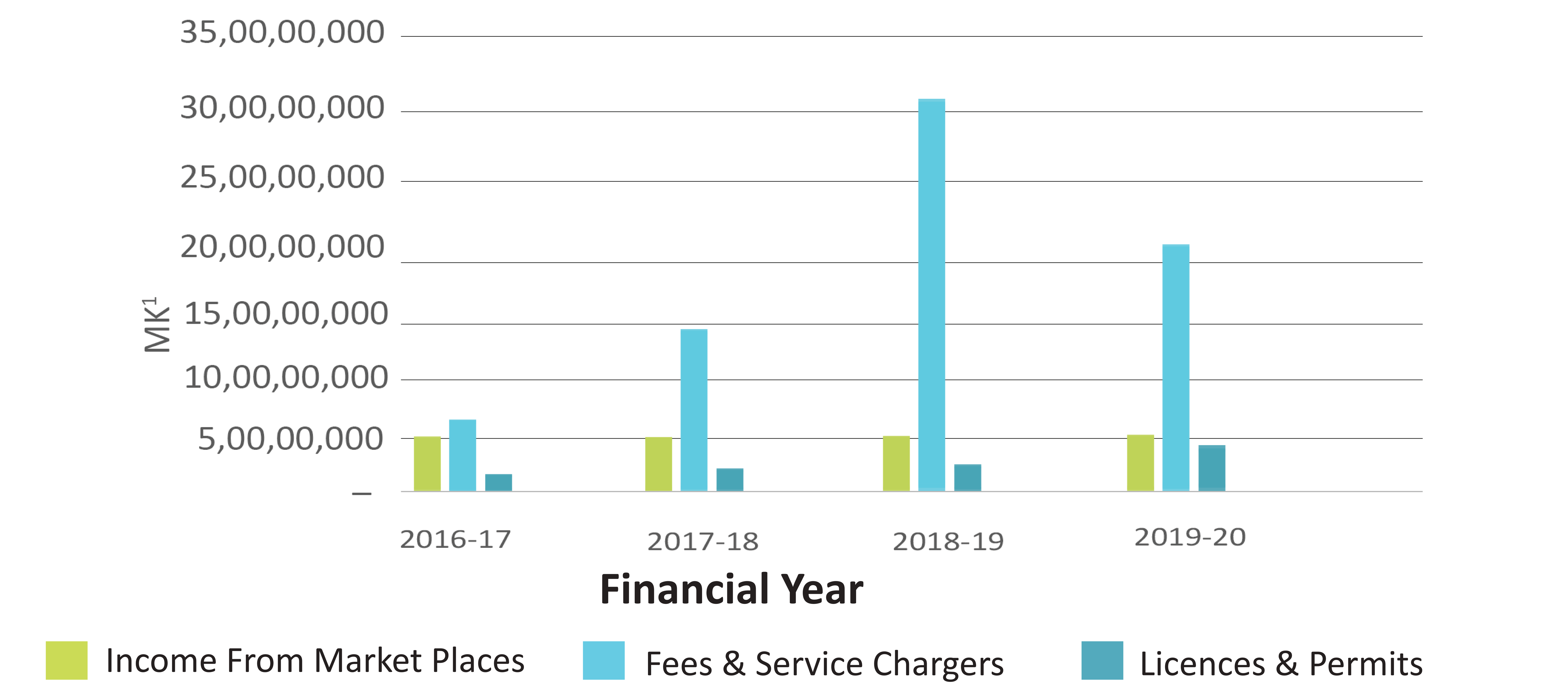
Source: Deloitte analysis based on NSO and NLGFC data

As can be seen from the Figure above, Blantyre District overall revenue levels have been fairly constant in real terms over the period, at about K450 million. However, government transfers themselves have been going down over the period, but it seems locally generated resources have risen adequately to cover more than the government shortfall, especially in the 2018-19 financial year.

4.3.2 Local Revenue Detail

The District Council's own locally generated revenue has grown to be quite substantial over the last three years, thanks to income from fees and service charges.

Figure 65: Local revenue trends Blantyre District



Source: Deloitte analysis based on NLGFC data

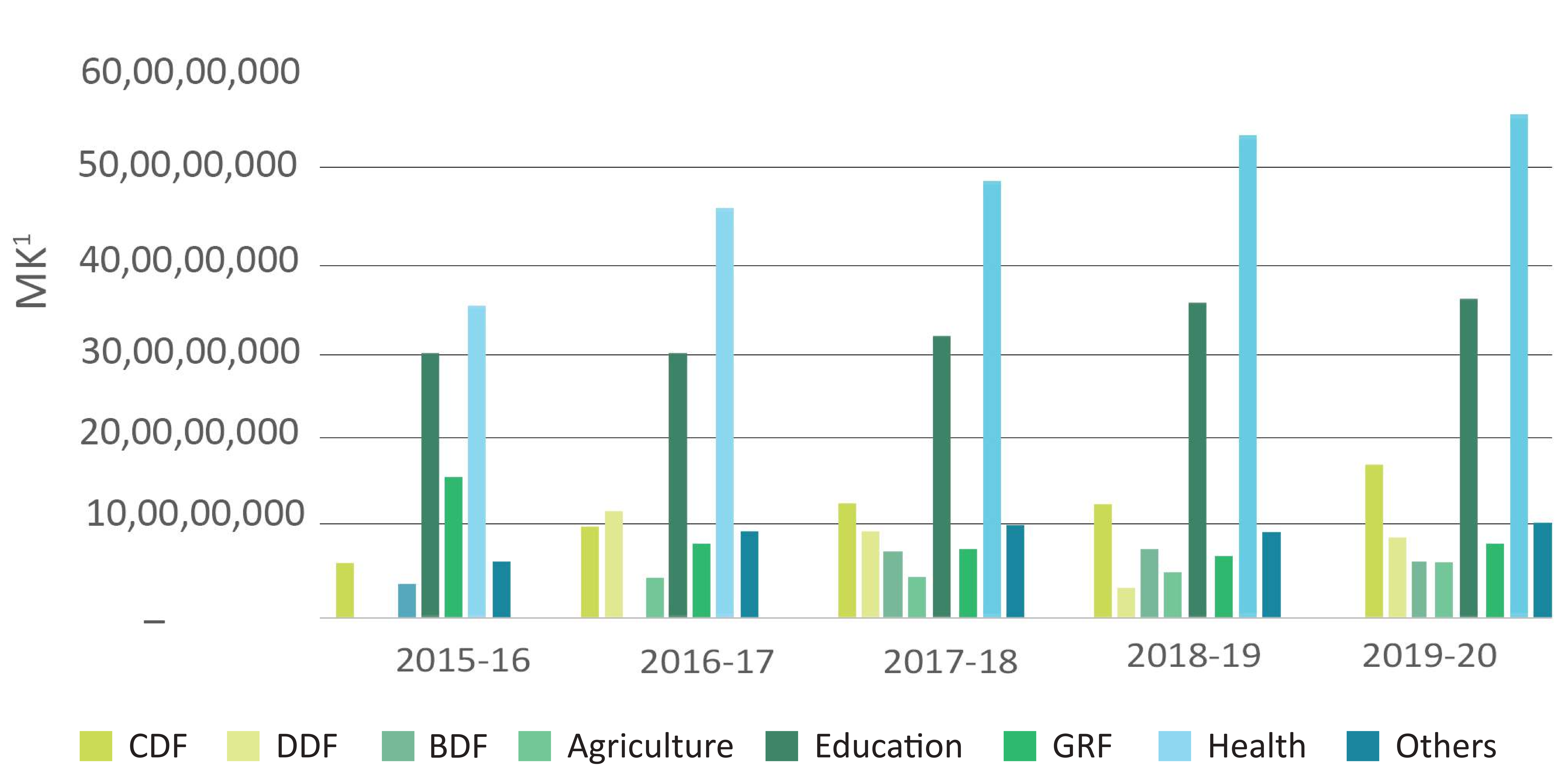
The Figure above shows the trend in the Council's three main sources of revenue, and it is income from fees and service charges that has grown substantially over the period of the study. The other two sources – income from market sources and licenses and permits are struggling and quite low. The overall picture remains that the amount of revenue collected is substantial and even increasing. It is unfortunate however that the DDP does not provide projections for how locally generated revenue, and even government fiscal transfers, are expected to perform over the period of the Plan. Perhaps if this was done, it would have shown that the investment budget may be difficult to realize.

4.3.2 Government Transfers in detail

Just like for all other local councils, Blantyre District Council receives government fiscal transfers for development and operational costs, commonly known as other recurrent transactions (ORT). The trends for the Council over the last five years is as follows:

[171] Estimates would have served an important function in resource mobilization, especially to track progress. On this dimension, the Nkhata Bay DDP is written better.

Figure 66: Fiscal transfers trends Blantyre District



Source: Deloitte analysis based on NLGFC data

The Figure above clearly shows that for the last five years, health has been the most dominant sector for government transfers, far ahead of education which is the second largest share. Her largest development fund is the constituency development fund, the most difficult fund to align to development priorities in terms of spending. However, for the Council's current DDP, transport (roads) appear to be the future of the District's investment, budgeted at almost 50% of the development budget. One important thing to raise here is that development resources – the three-district development fiscal transfers – when added up, account for 4.6% of the required development resources for the DDP annually.

4.3.3 Donor Finance

Development partners are funding many projects in the district but they seem to be not providing financial reports to the Council. Key informants acknowledged that there is a lot of support from development partners but they have little influence on what they do and report. Some of the big donors mentioned are the World Bank, AfDB, and USAID. The investment plan has made not specified the amount of contribution of any development stakeholder, even government, and yet the DDP talks of strategies for better resource mobilization.

4.3.4 NGO Finance

Just like for development partners, NGOs are active in the District and more than development partners. For 2020, the NGO Board recorded 123 NGOs,[175] the highest number per district in the country. However, data for their activities over the period of the study was not available. And as already pointed out earlier on, the investment plan has provided no specific estimate for the contribution of NGOs and other key development stakeholder partners.

[175] This number needs to be verified: the SEP for the district puts it at 43 in 2017, and it is difficult to believe that it has more than doubled in three years.

4.3.5 Private Sector

Given that a big city is within its vicinity, Blantyre District is already home to some large scale private firms like Terrastone Ltd, Thames Cement block Manufacturing Company, Peoples Trading Centre Ltd, Project Peanut Butter, Export Trading Group and Kings Manufacturing Company. These play a significant role in the development of the rural community by creating job opportunities and providing easily accessible markets for produce from rural residents. The market for rural products is right within the District Council's precincts, but the DDP does not specify any strategy for mobilizing the private sector and getting more developmental support from them.

Just like for NGOs, there is no data to show the contribution of the private sector to development initiatives specified in the DDP. Key informants mentioned the regular support of two private sector companies to rural communities of about K5.0 million. The District needs a clear strategy for private sector mobilization – their role in social responsibility, developmental partnerships like PPPs, and direct investments for income and employment generation.

4.4 Future trends

The District's financial resources, especially those dedicated for development, have failed to meet the annual needs in the investment plan for the last two years, but the needs remain high given a growing population. The resources only cover 4.6% of the development needs. However, the District has demonstrated capacity to improve the generation of local revenue and this would be helpful in the future than relying on uncertain external support, especially in the context of the COVID-19 pandemic. The investment plan is certainly over ambitious given on-going resource mobilization challenges and it needs to be adjusted to realistic levels, in the range of probable government fiscal transfers and locally generated resources.

The District Council's DDP has not captured the opportunity to support the generation of local revenue sources because it has not come up with a clear and consistent strategy on the matter. Where potential is not realized, it is likely that there are problems with institutional capacities which need to be resolved first in order to improve revenue generation further.

In summary, despite the COVID-19 pandemic shock, it is envisaged that the district is likely to be:

- Receiving more development financing from government, development partners, the private sector and the NGOs
- Sustaining and even increasing the relatively high levels of local revenue
- Attracting increased private investment

4.5 Opportunities and challenges for mobilizing finance

- **Opportunities:** The District has
  - The legal mandate to use for helping it improve revenue collection and institutional arrangements to manage partners working in the district.
  - Many development stakeholders working in the district that can be mobilized to provide more and consistent support for the implementation of its DDP.

- Gender, social welfare and youth officers who can champion and mainstream GESI interventions in the district plans and lobby with partners to support GESI projects.

Challenges:

- Planning and budgeting: The District needs to clearly define overall objectives for its development agenda, revise its over-ambitious and unbalanced development agenda, and specify a clear resource mobilization agenda for the private sector, development partners and the NGOs
- Local revenue growth: Even though this is relatively high compared to many district councils, there is great potential to increase it further with appropriate institutional capacity investments, especially with a growing investment portfolio from the private sector that take position outside the city precincts.
- Private sector finance: There is need to invest in requisite capacity to mobilize private finance especially through PPPs, and this would have positive implications for improving basic revenue collection.

Annex 5

BLANTYRE CITY ASSEMBLY

5.1 Background

Blantyre City is in the Southern Region and the leading commercial city of the country. It has a population of 800,000, out of which the female population is estimated at 399,000 and the youth 429,000 (NSO 2018 Census, numbers rounded to the nearest 1,000). It is the only city assembly in the sample for the study, and in terms of population it comes second to Lilongwe City. It has the lowest poverty rate among the four cities and in the whole country – 8% (IHS 2016).

5.2 Development issues

5.2.1 City development plan and costing

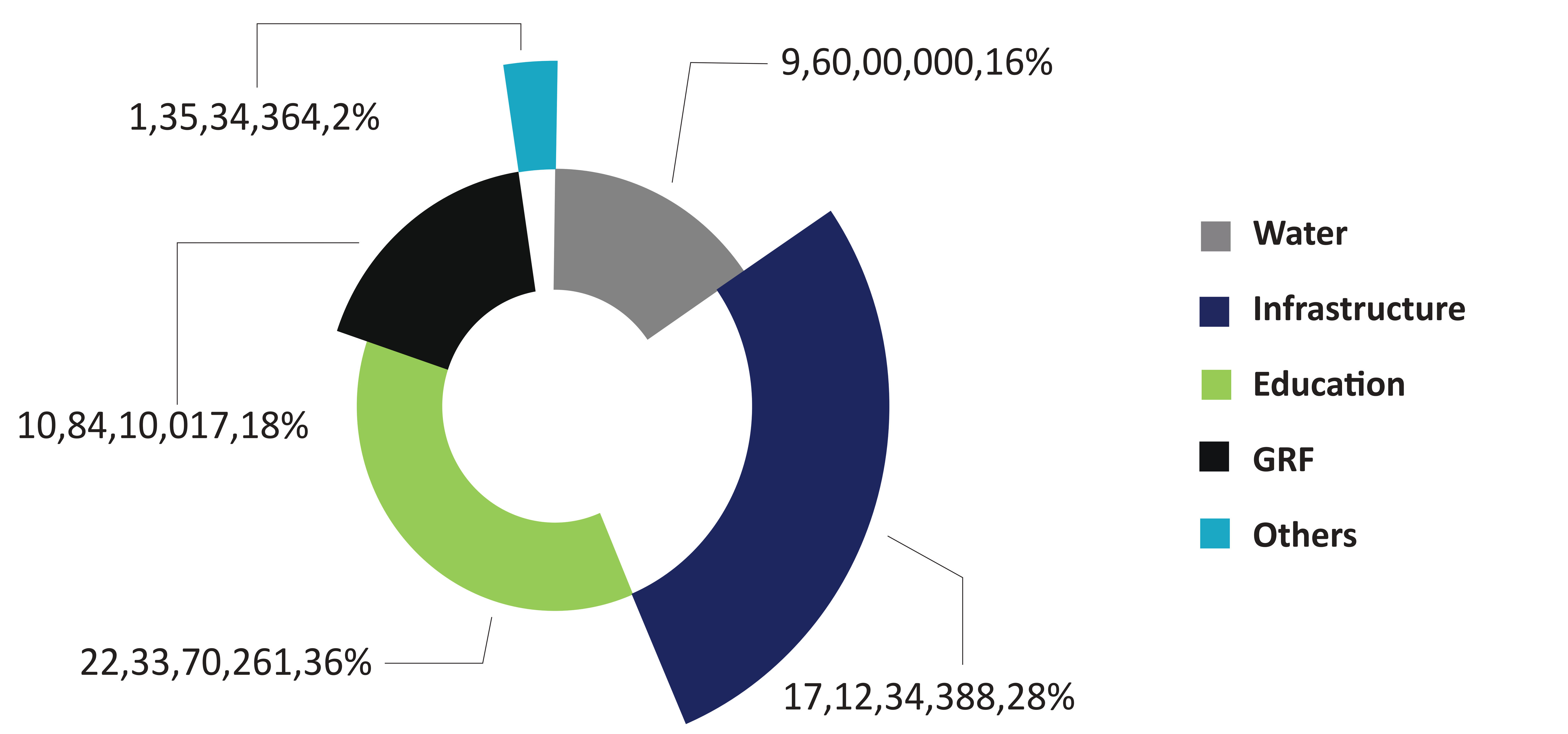
According to key informants, Blantyre City Assembly has a City Development Plan (CDP) based on its physical growth and this informs her annual investment and budget planning. It is a development plan unlike that of district councils, and it is not costed. The City uses a town planning committee comprising all concerned stakeholders which comes together and discuss various developmental interventions – based on the city's needs, challenges and strengths.

The City Development Plan (CDP) is not costed; it is a listing of potential development interventions. Resources for development are mostly provided through government – the CDF and BF - and recently by the private sector through contracting-out or PPP. There are no development partners or NGOs assisting with development funding and most of them prefer working directly with the District Council.

5.2.2 Budget priorities

According to the recent trends in budget funding, most of the funding received from government for the district is going almost equally into education and infrastructure, followed by a smaller share of water – boreholes to be specific.

Figure 67: Resource shares Blantyre City Council



Source: Deloitte analysis based on NLGFC data

The Figure above shows that fiscal transfers for activities that the government is held responsible for a city in the country, as the City Assemblies are expected to fund most of the interventions on their own, or they are provided through the District Council like health and also by the private sector.

5.2.3 Gender equality and social inclusion

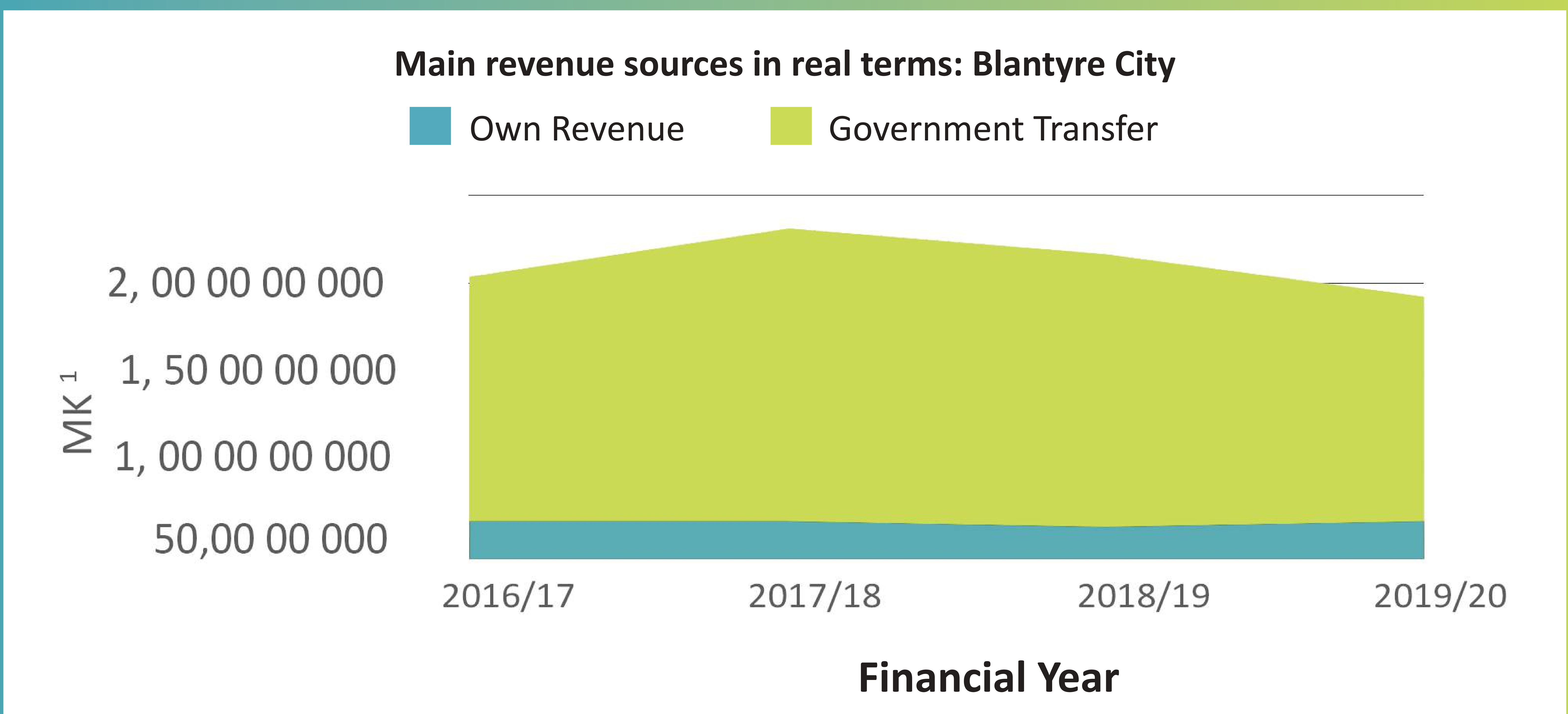
The private sector, especially the business community, provide support on education bursaries, street children but use parallel financing system. They do this through their corporate responsibility roles. The Assembly has no comprehensive data on amounts involved. Finances for GESI are from grants from government (including social cash transfers) and partners for specific projects. Direct GESI activities receive a meagre annual allocation far below K1 million.

5.3 Financing trends

5.3.1 Overall picture

The City Assembly identifies sources for its development revenue as government, and to a limited extentners, its own locally generated revenue, commercial loans and the private sector through corporate social responsibility and PPPs.[176] As pointed out in an earlier section, key informants reported that donor funding and NGO funding are not available. The overall trend of government transfers and the Assembly's own locally generated revenue is as follows:

Figure 68: Revenue trends for the City



Source: Deloitte analysis based on NSO and NLGFC data

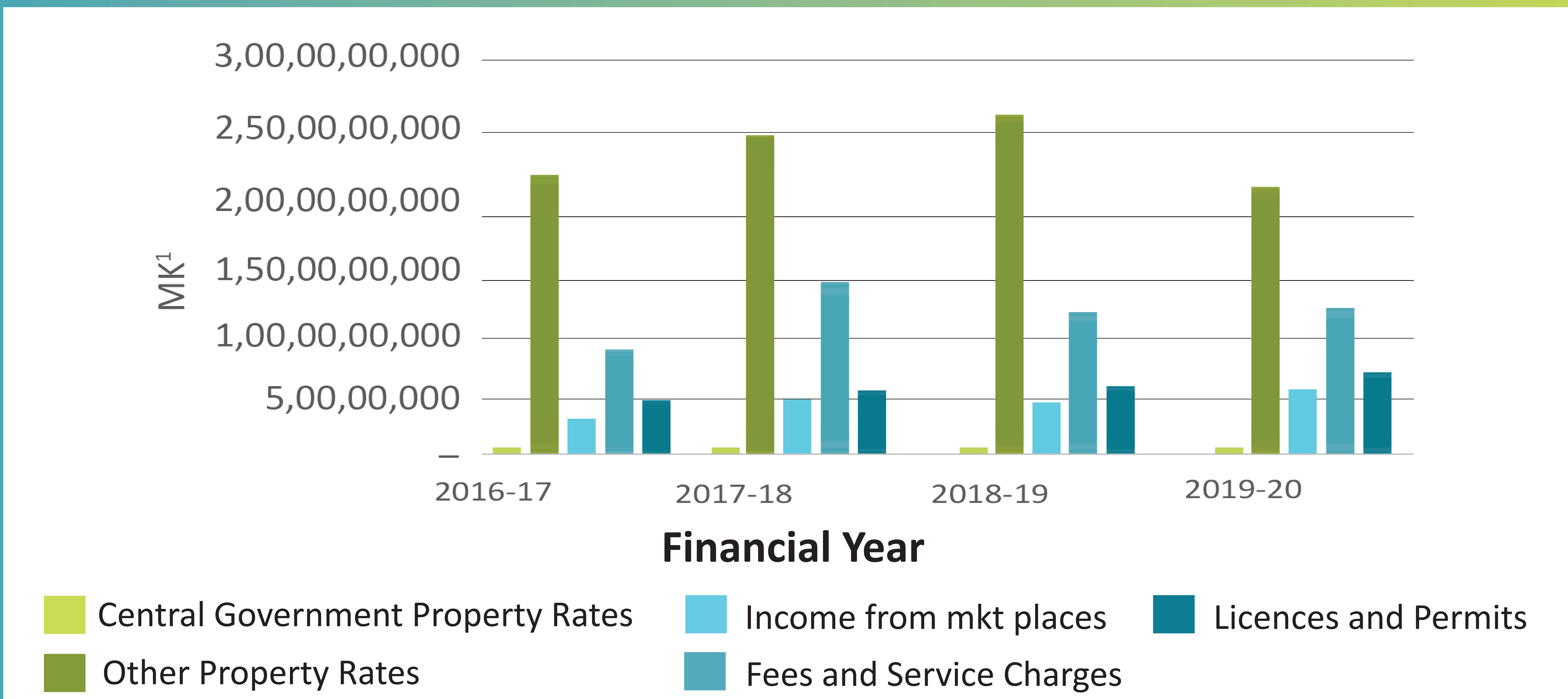
As can be seen from the Figure above, Blantyre City overall revenue in real terms has decreased over the last four years, from a peak of about K1.8 billion in 2017/18 to K1.4 billion last year. However, government transfers in real terms have been fairly constant over the same period at the equivalent of K200 million per year. The decline comes from its own locally generated revenue sources, and details are given a section below.

[176] The financial data on commercial loans and PPP investments has not been made available.

5.3.2 Local revenue detail

The City Assembly's own revenue is far much bigger than government's contribution, largely because of property income from property rates, from properties not owned by government. There is also a significant contribution from fees and service charges.

Figure 69: Local revenue trends BT City



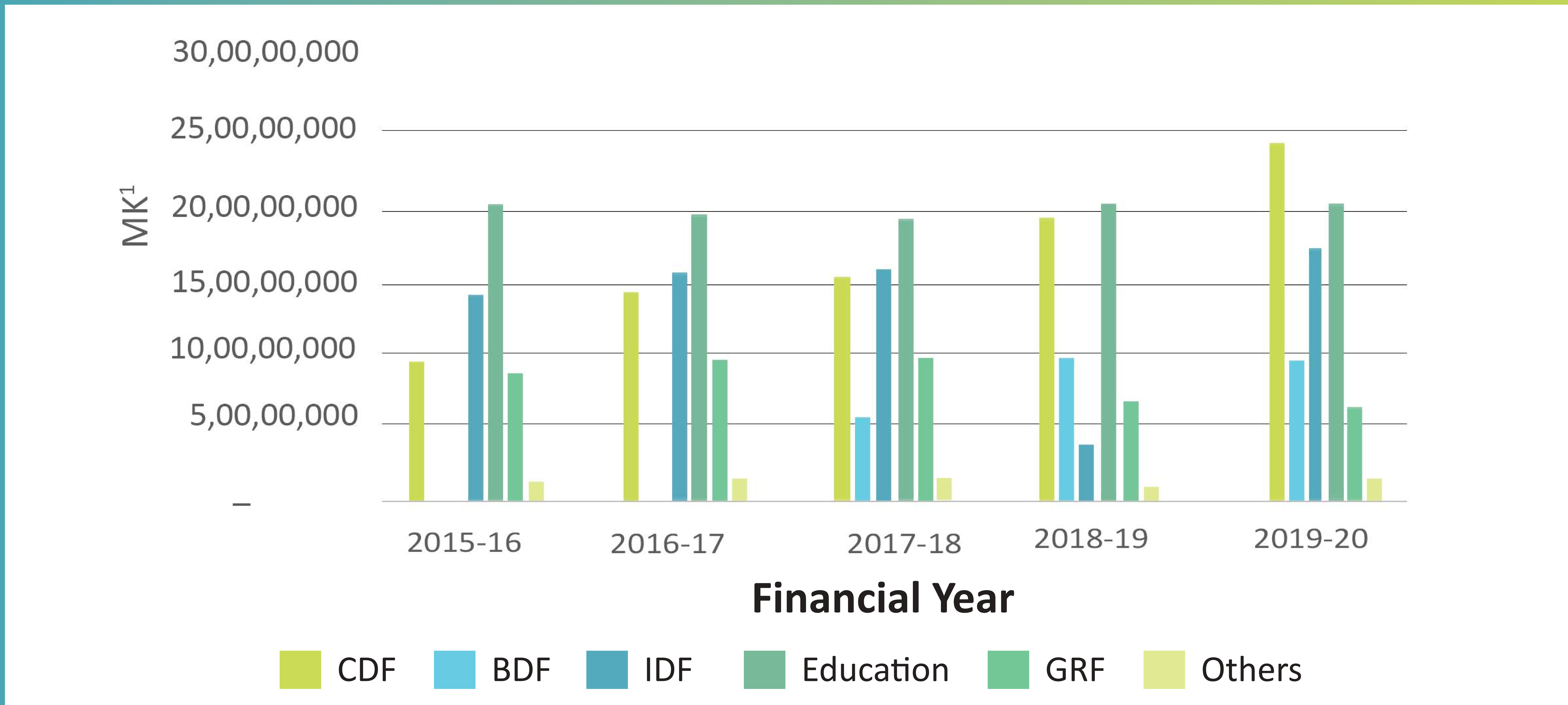
Source: Deloitte analysis based on NLGFC data

The Figure above shows the Council's five main sources of revenue, and it is income from other property rates that drives the levels of revenue followed by fees and service charges. The other three sources – income from marketplaces and licenses and permits are struggling and quite low however they are not as low as witnessed in the District Councils. The overall picture remains that the amount of revenue collected is substantial even though in real terms it has declined over the period of the study.

5.3.3 Government transfers in detail

Similar to District Councils, Blantyre City Assembly receives government fiscal transfers for development and operational costs, commonly known as other recurrent transactions (ORT). The trends for the Assembly over the last five years is as follows:

Figure 70: Fiscal transfers Blantyre City Assembly



Source: Deloitte analysis based on NLGFC data

The Figure above clearly shows that for the last five years education, followed by the CDF and then IDF have been the lead areas for government transfers. Except for one year, 2018/19, when it went down, infrastructure development funding has been fairly constant. Its largest development fund, especially over the last two years, is the constituency development fund, the most difficult fund to align to development priorities in terms of spending. The largest development fund used to be for roads but it was moved to the Roads Fund Administration (RFA). According to key informants, the RFA has planned to fund directly about K2 billion of roads in the city. But as already pointed out, government resources given directly to the City Assembly do not constitute the largest share of the City's income.

5.3.4 Private sector (PPP and others)

The City Assembly is home to some of the biggest private sector investments in the country. The private sector comes in, as pointed out earlier on, through PPP arrangements (build operate and transfer (BOT)) and corporate social responsibility. The PPP arrangement has already been put in-place for e-ticketing and in the near future, parks will come on board.

5.4 Future trends

The City Assembly's financial resources are highly dependent on business activity and reduction in that, especially from measures put in place to control the COVID-19 pandemic, results in revenue losses. This may also affect plans for PPP arrangements as the success of these also depend on the level of economic activity.

In summary, despite the COVID-19 pandemic shock, it is envisaged that the District is likely to be

- Receiving more development financing from government and the private sector through PPPs
- Sustaining and even increasing the relatively high levels of locally generated revenue
- Attracting increased private investment

5.5 Opportunities and challenges for mobilizing finance

- **Opportunities:** The City Assembly has
  - The legal mandate and institutional mechanisms to manage partners operating in the City.
  - A large private sector presence that can be engaged to support more developmental and GESI interventions through social responsibility and PPP.

- **Challenges:**
  - Planning and budgeting: the City Assembly needs to clearly define a costed investment plan that would form a strong basis for its resource mobilization agenda. Inadequate knowledge on GESI mainstreaming, planning and budgeting.
  - Local revenue growth: even though this is relatively high compared to many district councils, there is great potential to increase this even more through investments into revenue collection, especially electronic payment systems and improved debt collection.
  - Private sector finance: there is need to invest in better capacity to be mobilizing private finance especially through PPPs, and this would have positive implications for improving basic revenue collection.
  - Poor coordination and overlap between the City Assembly and the District Council in implementing gender and social welfare interventions in city residential areas
  - Gender and social welfare are mainstreamed activities, not a strategic area of focus, thereby creating challenges in isolating financing in GESI.

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LIST OF STAKEHOLDERS INTERACTED

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Name	Organization	Meeting Date
1. Moses Chirwa 2. Chimvano Thawani 3. Nganasko Mwenifumbo	Ministry of Finance	15th Dec 2020
4. Readwell Musopole	Ministry of Agriculture	14th Jan 2021
5. Walusungu Kayira	Ministry of Local Government	13th Jan 2021
6. Audrey Mwala 7. Patrick Kabambe	Public-Private Partnership Commission	4th Feb 2021
8. Voice Mhone 9. Linda Njikho	NGO Board	2nd Feb, 2021
10. Dr. W. Ligomeka	Malawi Revenue Authority	Feb 2021
11. Dr. K. Simwaka	Reserve Bank of Malawi	Feb 2021
12. Dr. Gerald Manthalu	Ministry Of Health	1st Feb 2021
13. Adwell Zembere	Ministry of Finance, Economic Planning and Development	2nd Feb 2021
14. Eyerusalem Fasika 15. John Ng'ambi 16. Lucia Mandengenda	African Development Bank	10th Feb 2021
17. Lillian Prestegard	Royal Norwegian Embassy	9th Feb 2021
18. Odran Hayes 19. Janet Mortoo 20. Matilda Palamuleni	European Union	28th Jan 2021
21. Sipho Billiat 22. Linly Kefeyani 23. Tayani Banda	National Planning Commission	14th Jan 2021
24. James Changadeya 25. C. Chizonga	Ministry of Education	11th Feb 2021
26. Anderson Chikomola	Ministry of Agriculture	22nd Jan 2021
27. Mr Tamanya Harawa	Blantyre District Assembly	20th Jan 2021
28. Ms Agnes Napwanga	Blantyre District Assembly	02nd Feb 2021
29. Mr Willard Chirwa	Lilongwe District Assembly	21st Jan 2021
30. Ms Gertrude Simwaka	Lilongwe District Assembly	10th Feb 2021
31. Mr Isaac Mkandawire	Nkhata bay District Assembly	26th Jan 2021
32. Mr Wyson Bonongwe	Nkhata bay District Assembly	12th Feb 2021
33. Mr Walter Chikuni	Zomba District Assembly	28th Jan 2021
34. Ms Felistus Kumfunda	Zomba District Assembly	19th Feb 2021
35. Mr Richard Chakhala	Blantyre City Assembly	09th Feb 2021
36. Dr Emmanuel Kanjunjunju	Blantyre City Assembly	19th Feb 2021
37. Ms Rose Namate	Blantyre City Assembly	15th Feb 2021
38. Mr Innocent Hauya	Christian Aid - Breaking Barriers	23rd Feb 2021
39. Ms Edith Chinyumba	Ministry of Gender, Children, Disability and Social Welfare	02nd Feb 2021
40. Patricia Banda 41. Yohane Nyanja	National Local Government Finance Committee	18th Jan 2021

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