

AFRICAN DEVELOPMENT FUND



MALAWI

SECOND GOVERNANCE AND POVERTY SUPPORT GRANT II (GPRSG II) PROJECT COMPLETION REPORT (PCR)

OSGE DEPARTMENT

December 2013

A. PROGRAMME DATA AND KEY DATES

I. BASIC INFORMATION

| Project Number | Project Name | Country (ies) | |
|--|---|------------------|------------------------------|
| P-MW-KZO-005 | SECOND GOVERNANCE AND POVERTY REDUCTION SUPPORT GRANT II (GPRSG II) | MALAWI | |
| ID Number of all Lending Instrument(s): 2100155017666 | | Department | Environmental Classification |
| | | MULTI-SECTOR | CATEGORY 1 |
| Original Commitment Amount | Amount Cancelled | Amount Disbursed | Percent Disbursed |
| UA 11,546,000 IN TWO TRANCHES | 0 | UA 11,546,000 | 100% |
| Borrower | | | |
| MALAWI GOVERNMENT | | | |
| Executing Agency(ies) [List the main Ministries, Project Implementation Units, Agencies and civil society organizations responsible for implementing project activities.] | | | |
| MINISTRY OF FINANCE | | | |
| Co-financers and other External Partners [List all other sources and amounts of financing, technical assistance or other resources used in this project] | | | |
| FY 2009/10- AfDB: UA 8.2 mn; DfID: £19 mn; EU: €68.9 mn; Germany: €10 mn; Norway: NOK 70 mn; World Bank: US\$ 52.5 mn FY 2010/11-AfDB: UA 3.4; DfID: £19 mn ; EU : € 42.625 mn ; Germany: €10 mn (€2.5 Mn disbursed) ; Norway: NOK 70 mn (NOK 35 mn disbursed) ; World Bank: US\$ 30 mn (yet to be confirmed) | | | |

II. KEY DATES

| Project Concept Note Cleared by Ops. Com. | Appraisal Report Cleared | Board Approval | |
|---|-----------------------------|---------------------------|---|
| oct-09 | mars-10 | avr-10 | |
| Restructuring(s) | | | |
| | Original Date (MM/DD/YY) | Actual Date (MM/DD/YY) | Difference in months (auto-calculated) |
| EFFECTIVENESS | 04/01/10 | 05/07/10 | 1,2 |
| MID-TERM REVIEW | 08/01/10 | 08/11/10 | 0,3 |

| | | | |
|--------------------------|---|--|----------------|
| CLOSING | 06/30/11 | Please enter currently expected closing date 12/22/10 | -6,3 |
| | Expected Disbursement Date (MM/DD/YY) | Actual Disbursement Date (MM/DD/YY) | Waivers |
| TRANCHE 1: UA 8, 082,200 | 1-May-10 | 8-Jun-10 | NONE |
| TRANCHE 2: UA 3, 463,800 | 1-Aug-10 | 22-Dec-10 | |
| TRANCHE 3 | | | |

III. RATINGS SUMMARY

All summary ratings are auto-generated by the computer from the relevant section

| CRITERIA | SUB-CRITERIA | RATING |
|----------------------|-------------------------------------|--------|
| PROGRAMME OUTCOME | Achievement of Outputs | 3 |
| | Achievement of Outcomes | 3 |
| | Timeliness | 4 |
| | OVERALL PROGRAMME OUTCOME | |
| BANK PERFORMANCE | Design and Readiness | 4 |
| | Supervision | 4 |
| | OVERALL BANK PERFORMANCE | 4 |
| BORROWER PERFORMANCE | Design and Readiness | 4 |
| | Implementation | 3 |
| | OVERALL BORROWER PERFORMANCE | 4 |

IV. RESPONSIBLE BANK STAFF

| POSITIONS | AT APPROVAL | AT COMPLETION |
|-------------------|----------------------|--------------------|
| Regional Director | Frank Black, ORSB | E. FAAL, SARC |
| Sector Director | Gabriel Negatu, OSGE | Ndoumbe Lobe, OSGE |

| | | |
|------------------|------------------------|--|
| Sector Manager | Carlos Santiso, OSGE 1 | A. COULIBALY (OIC) |
| Task Manager | Kate Kench, OSGE | Fenwick Kamanga, MWFO/OSGE |
| PCR Team Leader | | Fenwick Kamanga, MWFO/OSGE |
| PCR Team Members | | Tonaina Ngororano (OSGE.1); Zinopa Soko (Consultant) |

B. PROGRAMME CONTEXT

Summarize the Bank-supported programme of which this project forms a part. State:

- the macroeconomic rationale for fast -disbursing assistance to the country,
- the policy or reform focus of the programme and its relationship to the PRSP or other relevant government strategies,
- the outcomes of earlier PBLs, in particular earlier operations within the same programme, if any,
- any technical assistance or institutional support project intended to complement this operation.

Please cite relevant sources. Comment on the strength and coherence of the rationale for Bank assistance. Highlight any changes in the programme context that have favourably or unfavorably affected results.

Any additional narrative about the programme's origin, if needed, must be placed in Annex 5: Programme Narrative]

Macroeconomic rationale: Structural challenges make Malawi vulnerable to external shocks. In 2008, the country's fiscal expansionary stance, volatile export earnings and emerging supply side challenges to growth led to pressure on international reserves and jeopardized growth. In 2009/10, Government embarked on a three year Extended Credit Facility arrangement with the IMF to support the Malawi Growth and Development Strategy (MGDS) and restore internal and external equilibrium. The Bank's support of UA 11.5 million was thus aimed at augmenting the resources provided by IMF and other DPs.

Policy/Reform Focus: The Program goal was to contribute to poverty reduction and macroeconomic stability with an objective of enhancing efficiency, transparency and accountability in use of public resources. By improving financial governance, the fifth pillar of MGDS and second pillar of the Bank's 2005-10 Results Based Country Strategy Paper, the program would contribute to better provision and greater delivery of social services, especially to the poor.

Outcome of Earlier PBLs: The outcomes of earlier interventions included sustained expenditure on essential public services ; improved credibility of the budget ; improved external audit coverage and scrutiny of the national budget, and reduced time lag in submitting audit reports to Parliament ; and enhanced public procurement system.

TA: A separate though complementary TA project was supposed to be designed by the Bank to stimulate capacity building constrains implementation of Public Finance Management (PFM) activities. However, this was not possible due to resource constraints. Due to CPIA rating reduction from 3.6 in 2008 to 3.5 in 2009 as a result of slippages on the IMF Extended Credit Facility (ESF), the grant resources meant for budget support and capacity development went down from UA 20.3 million to UA 11.5 million. Other donors however provided technical assistance to PFM institutions.

C PROGRAMME OBJECTIVES AND LOGICAL FRAMEWORK

| | | | |
|--|--|---|------------|
| 1. State the specific Development Objective(s) of this operation (as set out in the appraisal report) | | | |
| To contribute to poverty reduction by enhancing the efficiency, transparency and accountability in the use of public resources (improve financial governance) while helping increase public service delivery. | | | |
| 2. State how each policy action and/or tranche release condition contributes to achieving the Programme Development Objectives. | | | |
| <p>GPRSG II was designed to improve financial governance through greater efficiency, transparency, and accountability in the use of public resources in order to enable more and better provision of social services to the poor. The three pillars of the GPRSG II cover and support three of the major themes of the Public Finance and Economic Management Priorities Action Plan (PFEM PAP): PFM reforms, external audits, and public procurement reinforcement. The PFEM PAP is the Government's umbrella program for strengthening PFM systems. Two of the substantive triggers for each disbursement were linked to the implementation of the PAP. For the first tranche disbursement, the conditions for disbursement were that (i) GOM would provide evidence that the 2007/2008 external audit report had been submitted to Parliament, (ii) that GOM would provide evidence that at least 50% (5 out of 10) of the largest spending procurement entities had procurement plans linked to their annual budget as of FY 2009/10. For the disbursement of tranche II, the conditions were (i) that GOM would provide evidence that a revised Public Finance and Economic Management (PFEM) Priority Action Plan, validated by the Group on Financial and Economic Management (GFEM), had been adopted by the Ministry of Finance, and (ii) that the GOM would have provided evidence that the 2008/09 external annual audit report had been submitted to Parliament. Applicable to both tranches was the condition that the IMF Extended Credit Facility (ECF) was on track.</p> | | | |
| 3. Provide a brief assessment (up to two sentences) of the programme objectives along the following 3 dimensions. Insert a working score, using the scoring scale provided in Appendix 1. | | | |
| PROGRAMME OBJECTIVES DIMENSIONS | | | ASSESSMENT |
| WORKING SCORE | | | |
| RELEVANT | a) Relevant to the country's development priorities | Very relevant. Malawi needed to restore internal and external equilibrium and support objectives of MGDS. | 4 |
| ACHIEVABLE | b) Objectives could in principle be achieved with the programme inputs and in the expected timeframe | The audit and procurement targets had enough time to be realized. However, the objectives were undermined by insufficient capacity (both financial and human) in implementing institutions. | 3 |
| CONSISTENT | c) Consistent with the Bank's country strategy paper | The programme objective was consistent with the second pillar of the CSP for 2005-10 endorsed by the Bank. | 4 |
| 4. Lay out the programme logical framework. State the expected outputs and outcomes for each action, and the indicators for measuring progress. Add additional rows if needed. | | | |

| COMPONENTS | OUTPUTS | OUTCOMES | INDICATORS TO BE MEASURED |
|--|--|--|---|
| Policy Area 1: Strengthen PFM reforms | Output 1: Strengthened leadership and better implementation of PFEM reform; PFEM secretariat active and fully staffed; Capacity building programme for PFEM staff in implemented | Outcome 1: Improved capacity and implementation of PFEM reform | Activities in Prioritized Action Plan by PFM secretariat |
| | Output 2: Improved budget allocation, implementation and monitoring | Outcome 2: Greater transparency in the public budget | IFMIS roll out to districts. Also, budget presented to parliament at least 33 days before the beginning of the FY 2011/12. This is a Core Sector Indicator (CSI) agreed during the August 2010 supervision. |
| Policy Area 2: Enhance external audits | Output 1: Increased independence of external audit and reduced delay in submission of reports to Parliament | Outcome 1: Greater accountability in the use of public resources | Timely submission of FYs 2007/8, 2008/9 and 2009/10 audit reports to Parliament. 2009/10 Report is a CSI agreed during the August 2010 supervision. |
| Policy Area 3: Reinforce public procurement | Output 1: More efficient use of resources and reduced opportunities for corruption | Outcome 1: Increased pro-poor spending and delivery of social services | Share of pro-poor spending in budget |
| | | | Amendments to PPA, increased internal audit |

5. For each of the programme matrix's dimensions, provide a brief assessment (up to two sentences) of the extent to which programme matrix's design met the following criteria. Insert a working score, using the scoring scale provided in Appendix 1. If no log. frame exists, score this section as a 1 (one)

| PROGRAMME LOG. FRAME DIMENSIONS | | ASSESSMENT | WORKING SCORE |
|---------------------------------|---|--|---------------|
| LOGICAL | a) Presents a logical causal chain for achieving the development objectives | The Programme objective of improving financial governance and increased pro-poor expenditures was linked in a coherent manner to the broad goal of the Programme to reduce poverty, and the activities required to achieve the expected outputs and outcomes. | 4 |
| MEASURABLE | b) Expresses objectives and outcomes in a way that is measurable and quantifiable | The objectives and outcomes were expressed in measurable and quantifiable terms. However, some benchmarks and targets could not be fully verified due to timing challenges of undertaking the PCR (eg. outcomes measured by 2011 PEFA report) | 3 |
| THOROUGH | c) States the risks and key assumptions | The key assumptions and risks related to (i) external economic and financial shocks; (ii) weather shocks; (iii) limited and internal weak technical implementation capacity; (iv) fiduciary risks which could lead to weak accountability; and (v) inability to attain disbursement triggers | 4 |

C. OUTPUTS AND OUTCOMES

I. ACHIEVEMENT OF OUTPUTS

In the table below, assess the achievement of actual VS. expected outputs for each major action. Import the expected outputs from the log. frame in Section C. Score the extent to which the expected outputs were achieved. The overall score will be auto-calculated as the average of working scores. Override the auto-calculated score, if desired, and provide justification.

| MAJOR POLICY REFORMS | | Working Score |
|---|---|---------------|
| Expected Outputs | Actual Outputs | |
| 1. Strengthened leadership and better implementation of PFEM reform | PFEM Secretariat formalized but not fully staffed; a revised PFEM PAP with 33 activities was adopted in consultation with Development Partners for the period September 2010- June 2011; GFEM Sub-Committee comprising DPs and PFEM Secretariat created to assist in fast tracking implementation of PAP. | 3 |
| 2. Improved budget allocation, implementation and monitoring | IFMIS has been rolled out to a total of 18 sites, increasing from the 6 districts targeted in 2009/10. 5 are targeted in 2011. | 3 |

| | | |
|--|--|---|
| 3. Increased independence of external audit and reduced delay in submission of reports to Parliament | 2007/8 and 2008/9 audit reports were submitted to parliament by December 2010; 2009/10 audit report submitted to Parliament in March 2011 and the coverage expanded to include assemblies . The National Audit Office (NAO) has audited the accounts of 40 local authorities covering FYs 2004/5 to 2007/8. Plans are in place to audit local authorities for FYs 2008/9 and 2009/10. Approval of NAO's Functional Review report will lead to review and amendment of the Malawi's Constitution and the Public Audit Act, thus enhancing NAO's independence. | 4 |
| 4. More efficient use of resources and reduced opportunities for corruption | Procurement plans for 8 out of a target of 10 largest public spending entities were linked to the national budget and submitted to ODPP and MoF; capacity building programs for ODPP staff in place; amendments to Public Procurement Act (PPA) not completed . | 3 |
| OVERALL OUTPUT SCORE [Score is calculated as the average of working scores] | | 3 |
| | | Check here to override the calculated score |
| Provide justification for over-riding the auto-calculated score | | |
| Insert the new score or re-enter the auto calculated score | | 3 |

II. ACHIEVEMENT OF OUTCOMES

| | | |
|---|---|---------------|
| 1. Using available monitoring data, assess the achievement of <u>expected outcomes</u> . Import the expected outcomes from the log. frame in Section C. Score the extent to which the expected outcomes were achieved or are likely to be achieved. The overall outcome score will be auto-calculated as an average of the working scores. Override the auto-calculated score, if desired, and provide justification. | | |
| OUTCOMES | | Working Score |
| Expected | Actual | |
| 1. Improved capacity and pace (implementation) of PFM reform | i) CPIA governance rating unchanged- 3.6 in 2009 and in 2010;(ii) Corruption Perception Index ranking improved from 89 in 2009 to 85 in 2010; (iii) In year expenditure reallocation variance among 25 primary votes for 2009/10 was 6.8 % against a target of less than 10% in the 2010/11 budget; (iv) Improvement in PEFA indicator PI-2 from D to C+. | 3 |
| 2. Greater accountability in the use of public resources | 18 districts are on-line with IFMIS and 5 targeted in 2010/11. Remaining 6 to be covered in 2011/12. The aim was to have the 29 assemblies on-line. IFMIS has led to timely preparation of GoM Consolidated Accounts within the statutory provision that allows the Auditor General to prepare his report in time. | 3 |

| | | |
|---|---|---|
| 3. Greater transparency in the public budget | Internal review of Public Procurement Act (PPA) finalized and proposed amendments submitted to Justice for vetting and publication before close of the financial year. Quarterly budget expenditure reports published including those for local assemblies; | 3 |
| 4. Increased pro-poor spending | Positive pro-poor spending has increased. Top five spending sectors in 2010/11 which are pro-poor averaged 9.3% of the budget [transport and public works(13.1%); agriculture (10.8%); education (10.2%); health (8.4%) and nutrition(4%)]. In 2009/10, the key sector having impact on poverty received an average of 8.7% [agriculture and food security (13%), transport and roads (12%), education (10%), health (9%), HIV and AIDS and nutrition (5%), and irrigation and water (2%)]. The target for pro-poor spending was 6.5% in 2010/11. | 4 |
| OVERALL OUTCOME SCORE [Score is calculated as the average of working scores] | | 3 |

Check here to override the calculated score

Provide justification for over-riding the auto-calculated score

| | |
|--|---|
| Insert the new score or re-enter the auto calculated score | 3 |
|--|---|

2. Poverty and social impact. Comment on the programme's actual or expected effect on poverty, gender, access to public service, inclusion of vulnerable groups and other key social dimensions.

The increased pro-poor expenditures and more effective and accountable government are expected to sustain a stable macroeconomic environment. This would strengthen budget management and therefore credibility, improving confidence in government policies. The GPRSG II will also benefit MoF and other public institutions by allowing them to speed up reform processes that promote transparency and accountability in the management of public resources. This should lead to an improvement in Malawi's ranking in key governance indicators, particularly the CPIA. GPRSG II impacts gender equity as a cross cutting issue affecting the six MDGS pillars. It addresses gender inequalities by promoting access to productive resources, development opportunities and overcoming the marginalization of women in social and economic spheres so that they can effectively contribute to the social, economic and political development of Malawi. The PAF includes gender specific indicators in several areas: education, the HIV/AIDS and gender based violence indicators as a proxy for human rights. Education is a key factor for women empowerment. Increasing access to water has helped free time for women to engage in other productive activities and for girls to attend school. The Bank has also helped to improve the health of rural communities' welfare and food security by providing sanitation and health facilities. This has empowered women to control population growth and the spreading of HIV/AIDS. In Malawi, women and girls constitute most of the smallholder producers and the majority of the agricultural labour force. They are the major beneficiaries of the fertilizer subsidy programme which the GPRSG II indirectly supported through provision of finance and foreign exchange. In trading activities, women and girls dominate the informal trade sector in rural and urban areas. As the women spend a higher proportion of their income than men on food and education, the grant will have positive effects on families. Above all, poverty is going down and stood at 39% in 2010 from about 41% in 2008.

3. Risks to sustained achievement of outcomes. State the factors that affect, or could affect, the long-run or sustained achievement of programme outcomes. Summarize the current macroeconomic framework, which should be described in more detail in Annex 3. Indicate if any new action or follow-up operation is recommended to help sustain outcomes.

The foreign exchange policy (MWK pegged to US\$) is a major risk as this has created a disequilibrium between supply and demand of forex. This has led to fuel and commodity shortages in recent times and is a major disincentive to doing business in Malawi, therefore a threat to the maintenance of current high economic growth rates. In the short-term, the viability of the programme can further be affected by a weak global economic recovery and policy reform slippages. Being a land locked agriculturally based economy; Malawi is vulnerable to weather shock and external economic and financial shocks. With a low foreign reserves base, any weak macroeconomic policies and terms of trade shocks would derail economic growth and the objectives of the MGDS. In 2009, Malawi went off track the IMF Exogenous Shock Facility (ECF) by missing all key targets including Net International Reserves, Net Domestic Assets, Net Foreign Assets and Net Domestic Borrowing. This led to reduction in the Bank's budget support grant resources under ADF XI from UA 20.3 million to UA 11.5 million as a result of reduced CPIA ratings. The Bank could thus not provide technical assistance as previously planned to support capacity building activities. It is critical that macroeconomic stability and a strong balance of payments be maintained for some time to come. In this regard, budget support which constitutes about 40% of budget funding be predictable and provided timely. The Bank and other CABS group members should be encouraged to consider both budget Support and Balance of Payments Support to Malawi. Structurally, the economy needs to be diversified as propagated in the MGDS and Public Sector Investment Plan (PSIP). The internal risk of weak implementation capacity regarding PFEM reforms in MoF and other central ministries and agencies deserves urgent attention if the intended outcomes are to be achieved. In this respect, a coordinated institutional support programme should be formulated, costed and implemented.

D. PROGRAMME DESIGN AND READINESS FOR IMPLEMENTATION

1. State the extent to which the Bank and the Borrower ensured the programme was commensurate with the Borrower's capacity to implement by designing it appropriately and by putting in place the necessary implementation arrangements. Consider all major design aspects, such as:

- extent to which lessons learned from previous policy-based lending operations in the country were taken into account (please cite key PCRs),
- the extent to which the project was informed by robust analytical work (please cite key documents),
- rationale for the selection of conditionalities (number, theme, prior or post approval conditions),
- how well Bank and Borrower assessed the capacity of the implementing agencies,
- scope of consultations and partnerships, and
- provisions made for technical assistance.

Any additional narrative about implementation should be included at Annex 5: Programme Narrative]

Lessons: The program design and appraisal benefited from lessons of previous PBLs like the 1998 SAL of UA 15 million ; 2007 PRSL of UA14.9 million ; and 2009 PRSG of UA 10 million. The major lessons were that (i) use of national systems simplified the design, implementation, supervision and monitoring of budget support operations; (ii) weak alignment with the national budget cycle resulted in disbursements not being received as desired; (iii) budget support alone was insufficient to ensure progress and should be complemented by coordinated technical assistance; (iv) the need for specificity in the selection, definition and evidence of disbursement conditions. These lessons resulted into an improved design of the program.

Analytical work: Analytical work underpinning the design of GPRSG II included the 2008 PEFA, the 2009 Country Economic Memorandum, 2007 Public Procurement Audit Review, 2007-09 AfDB-WEF African Competitiveness reports, the 2009 African Economic Outlook, and the 2009 DFID/AfDB Fiduciary Risk and Country Governance Assessments.

Conditionalities: The triggers for disbursements were simple, reasonable and related to the objectives of GPRSG II. Except for an indicator on PFEM Action Plan, the triggers for the two disbursements were synchronized with CABS partners and extracted from the PAF. The CABS framework provides an avenue for budget support financing and for discussing criteria for providing budget support.

Consultation: The program design benefited from the CABS Group DPs including the IMF and public institutions like the Malawi Revenue Authority. Inputs from CSOs dealing with economic governance, agriculture and health sector issues, and the private sector like the Chamber of Commerce, Eastern Produce (tea sector) and La Farge Cement were also considered.

TA: A separate but coordinated TA project was planned to mitigate against capacity challenges facing sector. However, the project could not be designed and implemented due to resource constraints.

2. For each dimension of programme design and readiness for implementation, provide a brief assessment (up to two sentences). Insert a working score, using the scoring scale provided in Appendix 1.

| PROGRAMME DESIGN AND READINESS FOR IMPLEMENTATION DIMENSIONS | | ASSESSMENT | WORKING SCORE |
|--|--|---|---------------|
| REALISM | a) Programme conditionality is matched with country capacity and political commitment. | The prior conditionalities used by the Bank were relevant to the program, few and simple, and did not hinder the Borrowers' implementation of the Programme except for the delay in the completion of the ECF first review in submitting acceptable evidence for the PFEM Action Plan trigger. Political commitment to the ECF target on exchange rate flexibility was a challenge. | 3 |
| RISK ASSESSMENT AND MITIGATION | b) Programme design includes adequate risk analysis and mitigation measures. | There was adequate analysis of risks and mitigation measures in the project design. Failure to implement a TA programme due to resource limitations affected implementation of the programme. | 4 |
| USE OF COUNTRY SYSTEMS | c) Financial management, procurement, monitoring and/or other systems are based on those already in use by government and/or other partners. | The Bank's use of country systems was very good. The existence of the CABS group which uses a common framework for budget support facilitated the design and implementation of the programme. | 4 |

| For the following dimensions, provide separate working scores for Bank performance and Borrower performance: | | | WORKING SCORE | |
|--|--|---|---------------|----------|
| | | | Bank | Borrower |
| CLARITY | d) Responsibilities for programme implementation were clearly defined. | The role of the MoF as the focal implementing agency was clearly defined. Other institutions such as NAO, ODPP, and CIAU were mentioned in the appraisal document as being responsible for their own programmes and respective performance indicators. The role of the Bank was adéquate définie. | 4 | 3 |
| MONITORING READINESS | e) Monitoring indicators and monitoring plan were agreed upon before project launch. | The PAF indicators used by the CABS group were agreed upon as the basis for disbursement decisions. It was agreed that country monitoring and evaluation systems would be used for monitoring semi-annually progress in meeting the PAF indicators. | 4 | 4 |
| BASELINE DATA | f) Baseline data were available or were collected during project design. | Baseline data were available and collected during project design. The PAF, MGDS, PEFA and IMF documents were the main source of the baseline data. | 4 | 4 |

E. IMPLEMENTATION

1. State the major characteristics of programme implementation with reference to:

- timing of tranche releases,
- waivers of conditions or triggers, if any,
- effectiveness of Bank supervision,
- participation of field office in continuous supervision/ in donor coordination arrangements/ and in ensuring effective policy dialogue, and
- effectiveness of Borrower oversight.

Comment on the rationale for any waivers of tranche release conditions [Any additional narrative about implementation should be included at Annex 5: Project Narrative.]

Timing: The GPRSG II was disbursed in two tranches of UA 8.2 million (70%) and UA 3.4 million (30%) to support the 2009/10 and 2010/11 budgets. The first tranche disbursed on 8 June 2010 was front loaded to help address foreign exchange shortage and reduce budget deficits. The second disbursement was delayed by four months due to the prolonged finalization of the ECF first review (a disbursement trigger) and delays in submission of acceptable evidence for the PFEM Action Plan trigger.

Waivers: No waivers were applied. However, under the ECF, net domestic borrowing target was missed mainly as a result of a temporary shortfall in foreign grants for the health sector. IMF and GoM thus agreed on a waiver in this target since it was outside government's control.

Supervision Effectiveness and FO Participation: The Bank's supervision missions were conducted in March and October 2010 (CABS Reviews) and August 2010 (mid-year review) during which implementation issues were assessed. The Mission found that considerable progress had been made in meeting the agreed targets relating to the implementation of PFM reforms and the ECF. MWFO coordinated the review missions, and chaired the March 2010 CABS Review, and participated in the October 2010 CABS review together with Tunis based OSGE staff. The Bank with CABS Group asked Government to strengthen its leadership role in steering PFM reforms forward and requested GoM to respect the core principles underlying budget support and finalize MGDS II before July 2011 to enable it design its new programme in good time.

Oversight: The oversight role of government was generally satisfactory. GoM showed weaknesses in monitoring the fulfillment of agreed disbursement conditions, thus some delays were experienced in submission of evidence on PFEM PAP and ECF.

2. Comment on the role of other partners (e.g. other International Financial Institutions, donors, UN agencies, etc.). Assess the effectiveness of co-financing arrangements and of donor coordination, if applicable.

GPRSP II was co-financed by six co-operating partners (Annex 1) within the CABS framework. The DPs including IMF were consulted at an early stage during appraisal. Officials from DfID and IMF also made contributions by peer reviewing the Appraisal Report and PCR. The disbursement triggers were drawn from CABS PAF. The CABS bi-annual reviews were used as sources of information for monitoring the implementation of the programme. The appraisal and supervision missions coincided with CABS bi-annual reviews. The CABS is guided by a Joint Framework which the Bank signed in 2007.

| | | |
|---|--|---------------|
| 3. <u>Harmonization and Alignment</u> . State whether the Bank made explicit efforts to adhere to the following Paris Declaration Principles: | | |
| Aid flows were aligned to national priorities | Budget support was sufficiently aligned to the MDGS I and common budget support framework. | |
| Capacity was strengthened by coordinated support | There was no specific coordinated support to enhance capacity because there existed no framework or modality for doing this. DP's provided distinct capacity building support in several PFM areas. Through joint reviews, GoM's capacities to manage and monitor activities were however enhanced. | |
| Parallel PIU was avoided | Not applicable. | |
| Aid was more predictable | The support was predictable save for reduced support from UA 20.3 million to UA 11.5 million and delays in disbursement of the second tranche. Reduced funding was communicated during negotiations. The disbursement of the second tranche delayed by four months due late conclusion of IMF's ECF review. All the pledged support amounting to UA 11.5 million were disbursed. | |
| Common aid arrangements were used | GPRSP II was a joint budget support operation under the CABS arrangements. Disbursement triggers were taken from the PAF with the exception of the PFEM Action Plan condition. The Action Plan was aimed at facilitating and speeding up implementation of the PFEM reform programme, and enable GoM to be more focused on areas of critical importance and impact in view of budgetary constraints for undertaking the reforms. | |
| Missions were conducted jointly with other partners | The Bank prepared, implemented and supervised GPRSP II within the context of CABS framework. Through joint CABS Reviews and participation in MGDS annual reviews, the Bank reinforced the principle of managing for results. However, the August mid-term supervision and the PCR completion were outside the CABS review calendar and were seen as unnecessary by CABS DPs and GoM. | |
| Analytic work was undertaken jointly with other partners. | Yes, the Bank works closely with other development partners on two major areas of harmonization: joint analytical work and the use of program-based approaches. The Bank has collaborated with the World Bank, DFID and Millennium Challenge Cooperation of Malawi (MCCM) in undertaking the 2009 Country Economic Memorandum for Malawi. The Bank also worked with other CABS partners in carrying out a PER on travel and the 2011 PEFA. | |
| 4. For each dimension of programme implementation, assess the extent to which the following criteria were met. Provide a brief assessment (up to two sentences) and insert a working score, using the scoring scale provided in Appendix 1. | | |
| PROGRAMME IMPLEMENTATION DIMENSIONS | ASSESSMENT | WORKING SCORE |

| | | | | |
|------------------|--|--|--|---|
| TIMELINESS | a) Extent of project adherence to the original closing date. If the number on the right is: below 12, 4 is cored; between 12.1 to 24, 3 is scored; between 24.1 to 36, 2 is scored; beyond 36.1, 1 is scored. This working score will be autocalculated. | Difference in months between original closing date and currently expected closing date (auto-calculated) | Fully disbursed within original schedule | 4 |
| | | 4 | | |
| BANK PERFORMANCE | b) Bank enforced: | | | |
| | Environmental Safeguards (if applicable) | | n/a | |
| | Fiduciary Requirements | 2008 PEFA, Fiduciary Risk Assessment and PFM reviews showed improved trends in fiduciary requirements | 4 | |
| | Conditions and Triggers | Few conditions and clear triggers facilitated processing and implementation of the programme. However, the triggers on PFEM Action Plan taken from outside the PAF delayed fulfillment of second tranche disbursement conditions-though it was an easy condition to achieve. | 3 | |
| | c) Bank provided quality supervision in the form of skills mix and practicality of solutions | Bank staff based at MWFO and Tunis, and other CABS DPs participated in programme supervision and CABS review missions | 4 | |
| | d) Bank provided quality management oversight | Yes, the Bank was the Chair of the CABS Group (January to June 2010). In this regard, the Bank led development partners in the joint review of the CABS Performance Assessment Framework (PAF) in March 2010 and coordinated dialogue between the government and development partners. | 4 | |

| | | | |
|-------------------------|---|---|-----|
| BORROWER PERFORMANCE | d) Borrower complied with: | | |
| | Environmental Safeguards (if applicable) | N/A | n/a |
| | Fiduciary Requirements | The PFEM Action Plan in place and being implemented and GoM now up-to-date in submission of audit reports. However, limited capacity delayed roll out of IFMIS and implementation of some PFEM promised activities. There is also slow progress in making follow-ups on audits. | 3 |
| | Conditions and Triggers | GoM met the conditions with ease. However, GoM delayed to meet the PFEM Action Plan trigger because of limited monitoring and loose wording on the evidence required for meeting the condition. | 3 |
| | e) Borrower was responsive to Bank supervision findings and recommendations | Satisfactory response to findings and recommendations. CSIs were discussed and agreed during supervision. However, GoM was slow in providing evidence on the PFEM Action Plan because laxity in supervision and follow-up with the PFEM Secretariat. | 3 |
| | f) Borrower collected and used monitoring information for decision making | Conditions for disbursement met using monitoring information. However, GoM lacked continuous monitoring of agreed conditions for disbursement which contributed to delays in disbursement of the second tranche. | 3 |

F. COMPLETION

| 1. IS THE PCR DELIVERED ON A TIMELY BASIS, IN COMPLIANCE WITH BANK POLICY? | | | |
|---|--|---|--|
| Date project reached 98% disb. Rate (or closing date if applicable) (auto-generated) | Date PCR was sent to pcr@afdb.org MM/DD/YY | Difference in months (auto-calculated) | WORKING SCORE if the difference is 6 months or less, a 4 is scored. If the difference is 6.1 or more, a 1 is scored (auto-calculated) |
| 12/22/10 | 03/31/11 | 3,3 | 4 |
| <p>2. Briefly describe the PCR Process. Describe the Borrower's and co-financers' involvement in producing the document. Highlight any major differences of opinion concerning the assessments made in this PCR. Describe the team composition and confirm whether a site visit was undertaken. Mention any major collaboration from other development partners. State the extent of field office involvement in producing the report. Indicate whether comments from Peer Reviewers were received on time (provide names and positions of Peer Reviewers).</p> <p>The PCR was led by the MWFO with the support of a locally recruited consultant. The Borrower participated fully in all fact finding meetings. The process kick-started with a meeting with Move. Other key holders such as CABS partners, central ministries and civil society provided information on GPRSG II. The major concern was the delay in disbursements of budget support due to delays in the conclusion of the first ECF review. The field office provided sufficient information and facilitated the mission in an effective manner. The PCR was prepared in a timely manner after disbursement. The PCR was peer review by Shirley Chine (OSGE.1), Mothobi Manila (OSGE.2), Ashie Mukungwa (ZAFO) and Kelvin Banda (EU-Malawi). Chigomezgo Mtegha (COO) and Joel Muzima (MZFO) were not able to submit their comments.</p> | | | |

G. LESSONS LEARNED

Summarize key lessons for the Bank and the Borrower suggested by the programme's outcomes.
Any additional narrative about lessons learned, if needed, must be placed in Annex 5: Project Narrative]

The lessons learnt include: (i) The need for consistency by GoM in implementing policy and institutional reforms with a view to promote predictability of aid-the IMF ESF non-completion and the exchange rate policy stand do affect budget support operations ; (ii) The use of national systems simplified the design, implementation, supervision and monitoring of GPRSG II and that aligning disbursement triggers to the CABS PAF reduces transaction costs and enhances government's achievement of conditions; (iii) There is need to disburse budget support during the first quarter of the GoM's fiscal year . Delays in providing pledged commitments affected GoM's cash flow and led to increased domestic debt and interest payments. A multi-year operation reduces transaction costs for both the Bank and GoM, and enabled the Bank to align its second tranche disbursement to Malawi's fiscal year ; (iv) Capacity to implement PFM reforms is constrained by limited human and financial capacity in targetted institution, thus the need to complement budget support with a specific capacity building support program; (v) The in-year re-allocation of ADF resources based on CPIA ratings does affect the predictability of the Bank's resources. The Bank reduced its planned support due to in-year reduction of resources to Malawi; and (vi) While aligning disbursement of budget support to IMF programmes strengthens country dialogue and enhances reforms; the Bank and other DPs get constrained in making disbursement decisions in situations where there are prolonged discussions between the IMF and GoM.

H. RATINGS SUMMARY

All working scores and ratings are auto-generated by the computer from the relevant section in the PCR.

| CRITERIA | SUB-CRITERIA | WORKING SCORE |
|-------------------|---|---------------|
| PROGRAMME OUTCOME | Achievement of outputs | 3 |
| | Achievement of Outcomes | 3 |
| | Timeliness | 4 |
| | OVERALL OUTCOME SCORE | 3 |
| BANK PERFORMANCE | Design and Readiness | |
| | Programme Objectives are relevant to country development priorities. | 4 |
| | Programme Objectives could in principle be achieved with the project inputs and in the expected time frame. | 3 |
| | Programme Objectives are consistent with the Bank's country strategy paper | 4 |
| | The log. Frame presents a logical causal chain for achieving the programme development objectives. | 4 |
| | The log. frame expresses objectives and outcomes in a way that is measurable and quantifiable. | 3 |
| | The log. frame states the risks and key assumptions. | 4 |
| | Conditionality is matched with country capacity and political commitment. | 3 |
| | Programme design includes adequate risk analysis and mitigation measures. | 4 |

| | | |
|----------------------|--|-----|
| | Financial management, monitoring and/or other systems are based on those already in use by government and/or other partners. | 4 |
| | Responsibilities for programme implementation were clearly defined. | 4 |
| | Monitoring indicators and monitoring plan were agreed upon. | 4 |
| | Baseline data were available or collected during programme design. | 4 |
| | DESIGN AND READINESS SUB-SCORE | 4 |
| | Supervision | |
| | Bank enforced: | |
| | Environmental Safeguards (if applicable) | n/a |
| | Fiduciary Requirements | 4 |
| | Covenants and Triggers | 3 |
| | Bank provided quality supervision in the form of skills mix and practicality of solutions. | 4 |
| | Bank provided quality management oversight. | 4 |
| | PCR was delivered on a timely basis | 4 |
| | SUPERVISION SUB-SCORE | 4 |
| | OVERALL BANK PERFORMANCE SCORE | 4 |
| BORROWER PERFORMANCE | Design and Readiness | |
| | Responsibilities for programme implementation were clearly defined. | 3 |
| | Monitoring indicators and monitoring plan were agreed upon before project launch. | 4 |
| | Baseline data were available or collected during programme design. | 4 |
| | DESIGN AND READINESS SUB-SCORE | 4 |
| | Implementation | |
| | Borrower complied with: | |
| | Environmental Safeguards (if applicable) | n/a |
| | Fiduciary Requirements | 3 |
| | Conditions and Triggers | 3 |
| | Borrower was responsive to Bank supervision findings and recommendations. | 3 |
| | Borrower collected and used monitoring information for decision-making. | 3 |
| | IMPLEMENTATION SUB-SCORE | 3 |
| | OVERALL BORROWER PERFORMANCE SCORE | 4 |

I. PROCESSING

| STEP | SIGNATURE AND COMMENTS | DATE |
|-----------------------------|------------------------|------|
| Sector Manager Clearance | | |
| Regional Director Clearance | | |
| Sector Director Approval | | |

APPENDIX 1

| SCORE | EXPLANATION |
|-------|--|
| 4 | Very Good- Fully achieved with no shortcomings |
| 3 | Good- Mostly achieved despite a few shortcomings |
| 2 | Fair- Partially achieved. Shortcomings and achievements are roughly balanced |
| 1 | Poor- Very limited achievement with extensive shortcomings |
| NA | Non Applicable |

Note: The formulas round up or down for decimal points. Only entire numbers are computed.

A1-Project Cost and Financing

| | 2009/10 | | | | | | 2010/11 | | | | | |
|--------------------------|---|---------------------------|---|-----------------------------|---|--|---|---------------------------|---|-----------------------------|---|--|
| Source and Currency Unit | Pledged Amount (in original currency, Mn) | Pledged Amount in UA (Mn) | Disbursed Amount (in original currency, mn) | Disbursed Amount (in UA mn) | Donor's Share of Total Disbursed Budget Support | Remarks | Pledged Amount (in original currency, mn) | Pledged Amount in UA (mn) | Disbursed Amount (in original currency, mn) | Disbursed Amount (in UA mn) | Donor's Share of Total Disbursed Budget Support | Remarks |
| AfDB (UA) | 10,00 | 10,00 | 8,19 | 8,19 | 6% | Resources went down due to reduced CPIA rating | 3,36 | 3,36 | 3,36 | 3,36 | 4% | Resources went down due to reduced CPIA rating |

A1-Project Cost and Financing

| | | | | | | | | | | | | |
|----------|-------|-------|-------|-------|-----|---|-------|-------|-------|-------|-----|--|
| DfID(£) | 22,00 | 22,70 | 19,00 | 19,61 | 13% | Reduced by £3 m due to GoM's purchase of Presidential Jet | 19,00 | 19,61 | 19,00 | 19,61 | 22% | Fully Disbursed |
| EU (€) | 71,40 | 62,79 | 80,61 | 70,89 | 48% | Normal GBS reduced by 2.5 million Euros (from 30.5 million Euros to 28 million Euros) due missing some targets under the variable tranche. However, disbursed more due to V-Flex and Food Price Crisis allocations. | 49,50 | 43,53 | 42,63 | 37,49 | 42% | Disbursed less due to variable tranche slippages |

A1-Project Cost and Financing

| | | | | | | | | | | | | |
|--|-------|---------------|-------|---------------|-------------|--|-------|---------------|-------|--------------|-------------|---|
| Germany (€) | 10,00 | 8,79 | 10,00 | 8,79 | 6% | Fully Disbursed | 10,00 | 8,79 | 2,50 | 2,20 | 2% | Reduced the Support |
| Norway (NOK) | 70,00 | 7,99 | 70,00 | 7,99 | 5% | Fully Disbursed | 70,00 | 7,99 | 70,00 | 7,99 | 9% | Only disbursed 50% |
| World Bank (US\$) | 40,00 | 25,43 | 52,50 | 33,37 | 22% | Disbursed more due to resources from a Crisis Window | 30,00 | 19,07 | 30,00 | 19,07 | 21% | Not yet disbursed |
| Total | | 137,70 | | 148,84 | 100% | | | 102,35 | | 89,71 | 100% | |
| Variance (Disbursed less Pledged) (UA, mn) | | | | 11,14 | | | | | | -12,64 | | The main reason is because of the Germany's reduction. However, it should be noted that other DPs are yet to disburse the pledged resources |
| Variance (Pledged less Disbursed) | | | | 8% | | | | | | -12% | | |

Annex 2: Bank Inputs

| Order | Type of Mission | Date of Mission | Key Members and their specialties |
|-------|---------------------------|-----------------------------|---|
| 1 | Preparation and appraisal | 27 October-13 November 2009 | Kate Tench (Task Manager); Fenwick Kamanga (Alternate Task Manager); Martha Phiri (Country Economist); Joachim Harnack (Consultant) |
| 2 | Supervision | 11-16 August 2010 | Fenwick Kamanga (Alternate Task Manager); Eyerusalem Fasika (CPO) |
| 3 | Supervision | 27 October-4 November 2010 | Tonaina Ngororano (Task Manager); Fenwick Kamanga (Alternate Task Manager) |
| 4 | Completion | 21 February-18 March 2010 | Fenwick Kamanga (Task Manager); Zinopa Zoko (Consultant); Nations Msowoya (Assistant Director-Ministry of Finance) |

Annex 3: Assessment of Macroeconomic Developments

The Malawian economy has performed well in recent years, anchored on sound and prudent macroeconomic policies and generally good weather. Despite a global recession, the Malawi economy achieved a growth of 7.6% in 2009.

In 2010, GDP growth is projected to moderate to about 7.1 per cent while growth for 2011 is projected at 6.8 per cent.

Inflationary pressures have continued to abate, reflecting prudent fiscal and monetary policies implemented by government and moderation in food and fuel price changes. The average inflation rate for 2009 stood at 8.4 per cent, down from 8.7 per cent in 2008.

In 2010 and 2011, the annual average inflation is projected to decline to 7.6 per cent and 6.9 per cent respectively.

The Malawi kwacha has remained stable for a considerable period against major currencies. In 2009 it depreciated by 0.5 % to trade at an average of K141.16 to the U.S. dollar from K140.52 in 2008.

The ECF program exchange rate for 2010/11 is set at K151 to the U.S. dollar.

The overall current account balance improved from MK130 billion in 2008 to MK79.9 billion in 2009 and is projected to be at MK79.7 billion in 2010. However, international foreign exchange reserves remain at little over one month of import cover.

Capital inflows including foreign direct investment remain anemic.

At a little over one month of prospective imports, international foreign exchange reserves are low, especially considering Malawi's vulnerabilities.

Under the ECF program, Malawi is accumulating reserves from very low levels.

Low, especially considering Malawi's vulnerabilities. Under the ECF program, Malawi is accumulating reserves from very low levels.

Malawi will continue to rely on external support through grants and concessional financing.

Table 1 Malawi: Medium-Term Macroeconomic Framework

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------------------------|---------|---------|---------|---------|---------|---------|
| Goth (percent change) | 7,6 | 7,1 | 6,8 | 6,9 | 7 | 7,1 |
| Inflation (eop, percent change) | 7,6 | 7,6 | 6,9 | 6,8 | 6,5 | 6,2 |
| Current account (percent of GDP) | -2,2 | -0,7 | -1,2 | -2,5 | -3,5 | -2,8 |
| Reserves (US\$ millions) | 140,5 | 304,5 | 506,7 | 638,4 | 689,2 | 751 |
| Reserves (months of prospective | | | | | | |
| imports) | 0,8 | 1,7 | 2,6 | 3,1 | 3,1 | 3 |
| Fiscal year basis | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 |
| Government revenue and grants | 33,9 | 35,8 | 35,8 | 35,4 | 35,6 | 35,2 |
| Expenditure and net lending | 39,9 | 35,8 | 35,7 | 35,7 | 36,1 | 35,6 |
| Overall balance | -6 | 0,1 | 0,2 | -0,3 | -0,5 | -0,5 |
| Foreign financing | 2,2 | 0,9 | 1,3 | 1,6 | 1,7 | 1,4 |
| Domestic financing | 3,9 | -0,9 | -1,5 | -1,3 | -1,1 | -0,9 |

Sources: Malawian authorities and IMF staff estimates.

Fiscal performance in 2009/10 was generally sound. The overall fiscal deficit improved from -6 per cent to a surplus of 0.1 per cent of GDP in 2009./10 mainly owing to the improved tax and revenue administration and the impact of the kwacha's depreciation on import-related revenues. Expenditures declined by 4.1 percent of GDP from 2008/9 levels. . The fiscal 2010/11 budget aims at accelerating the achievement of the MGDS in social and capital investments, improving revenue performance in education and health care ,and repaying domestic debt. The timing of some donor inflows remains uncertain. Although budget management has been disciplined recently, the budget's high

Dependence on foreign donors still poses a longer-term threat to fiscal sustainability.

The ECF arrangement was largely on track through end-June, with key end-June quantitative performance criteria for net domestic assets (NDA) and net International

Reserves (NIR) met. The net domestic borrowing target was missed mainly as a result Of a temporary shortfall in foreign grants for health. The authorities met, with a delay, the structural benchmark of developing a substantive plan for liberalizing the foreign Exchange market. A fiscal year 2010/11 budget meeting the program conditionality is in place and the end-December performance criteria, which have been modified for Technical reasons are within reach.

Annex 4: List of Supporting Documents

1. African Development Fund-Malawi: Poverty Reduction Support Grant (PRSG) Completion Report, December 2009
2. African Development Fund-Malawi: Support to Good Governance Loan (SGGL) Completion Report, February 2007
3. African Development Fund- Malawi: Appraisal Report for Governance and Poverty Reduction Support Grant (GPRSG II), March 2010
4. African Development Fund-Malawi: 2005- 2010 Results Based Country Strategic Paper (RBCSP) Completion Report
5. Common Approach to Budget Support: March 2010 Review Aide Memoire, Lilongwe, May 2010
6. Common Approach to Budget Support: October 2010 Review Aide Memoire November 2010
7. Common Approach to Budget Support: Performance Assessment Framework (PAF)- Lilongwe, May 2010
8. IMF: ESF Review, Staff Report November 2010
9. Malawi Government: 2010 Economic Report - Lilongwe

LIST OF ANNEXES

Mandatory

1. Project Costs and Financing by sources of funds
2. Bank Inputs. List the key team members, and their specialties, during preparation and supervision. Provide a consolidated list of Preparation, Supervision and Completion Missions in chronological order. Provide the date and ratings of the last supervision report.
- 3 Assessments of Macroeconomic Developments. Outline key characteristics of the macroeconomic before, during and after the operation, with specific reference to BOP and fiscal balances. State the extent to which the country is on track with any IMF program.
4. List of Supporting Documents

Optional

5. Project Narrative. Key factors not covered in the main template that affected the design and implementation of the project. Such factors, both positive and negative, could include: global economic and financial conditions, climate and weather, political changes, contractual or personnel matters, technical or legal issues, and interactions with other partners. If any of these factors is significant enough to affect the evaluation ratings, it should be noted in the template with a reference to this annex.