Development Finance Assessment for Malawi

Towards an Integrated Financing Strategy for the Third Malawi Growth and Development Strategy (MGDS-III)

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Disclaimer: The views expressed in this publication are those of the authors and do not necessarily represent those of the Government of Malawi, the United Nations Development Programme, or other institutions supporting this assessment.

[1] Full list of interviewees, data providers, and oversight team members can be found in the annexes of this report.

Foreword

This Development Finance Assessment (DFA) is a Government led process commissioned by the Ministry of Finance, Economic Planning, and Development (MoFEPD) with technical and financial support from the United Nations Development Programme (UNDP) and the European Union (EU) Strengthening Institutional Capacity for Development Effectiveness and Accountability Programme(DEAP).

The assessment comes at an opportune time when government is striving to identify sources of finance for implementing the recently launched Third Malawi Growth and Development Strategy (MGDS-III). The DFA goes a long way in mapping various finance flows: private and public as well as external and domestic resources.

The DFA is of further value in that, beyond mapping finance flows, it interrogates the domestic planning and budgeting architecture to examine strengths and weaknesses of policy and institutions, so far as they facilitate the linking of finance with results. In this respect, the assessment is illuminating as regards the adjustments needed to make steady strides towards an integrated financing framework. The integrated financing framework will assist government in holistically managing various finance sources for financing national development strategies and indeed the Sustainable Development Goals (SDGs).

Finally, it is pleasing to note that the assessment has already sparked dialogue amongst various stakeholders. This is a critical aspect of the DFA, as open dialogue is the vehicle through which answers to the manifold challenges facing the economy can be brought about. The Government is most grateful for the report and therefore look forward to further engagement across all stakeholders as the the recommendadtions are implemented.

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Abbreviations and Acronyms

AAAA	Addis Ababa Action Agenda
AMP	Aid Management Platform
AP-DEF	Asia Pacific Development Effectiveness Facility
AU	African Union
DAC	Development Assistance Committee of the OECD
DAD	Debt and Aid
DFA	Development Finance Assessment
GoM	Government of Malawi Revenue Authority
GPEDC	Global Partnership for Effective Development Cooperation
HIPC	Highly Indebted Poor Countries
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
MASEDA	Malawi Statistical and Economic Database
MDA	Ministry Department or Agency
MDG	Millennium Development Goal
MGDS	Malawi Growth and Development Strategy
MNADA	Malawi National Archival Database
MoFEPD	Ministry of Finance, Economic Planning, and Development
MoITT	Ministry of Industry Trade and Tourism
MRA	Malawi Revenue Authority
MTEF	Medium Term Expenditure Framework
NSO	National Statistical Office
ODA	Official Development Assistance
ORT	Other Recurrent Transactions
OT	Oversight Team
PEFA	Public Expenditure and Financial Accountability Assessment
PER	Public Expenditure Review
PFM	Public Financial Management
PSIP	Public Sector Investment Plan
RBM	Reserve Bank of Malawi
SADC	Southern Africa Development Community
SDG	Sustainable Development Goal
SWAP	Sector Wide Approach
TORs	Terms of Reference
UNDP	United Nations Development Programme

Executive Summary

The Government of Malawi (GoM) is rolling out the third Malawi Growth and Development Strategy (MGDS-III), aiming at transforming the country into a "productive, competitive and resilient nation". Compelled by the unfinished business of previous national development strategies (NDSs), the Government endeavors to anchor the MGDS-III in a clear financing strategy, to ensure that all priority areas and ancillary flagship projects are successfully implemented over the five-year MGDS-III period: 2017 to 2022.

The imperative to mobilize financial resources for the MGDS-III is among other factors predicated on the need to domesticate the 2030 Agenda for Sustainable Development in general and the Sustainable Development Goals (SDGs) in particular. This is against the backdrop of transformation in the global development landscape, that now presents new and innovative financing opportunities beyond traditional government revenue sources such as taxation, non tax revenue, and foreign aid among others.

Consequently, the Ministry of Finance, Economic Planning, and Development (MoFEPD) decided to conduct this Development Finance Assessment (DFA). The DFA aimed at mapping finance flows available to Malawi and exploring how they can be leveraged and aligned to anchor implementation of the MGDS-III. These finance flows derive from public, private, domestic and 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 assessment further assessed the extent to which Malawi is ready to implement an Integrated National Financing Framework (INFF), as proposed by the third Financing for Development Conference in Addis Ababa. To this end, the DFA examined the readiness and efficiency of Malawi's planning, budgetary, and institutional systems to serve as building blocks of the INFF. Specially spotlighted in the DFA are selected priority areas: energy, agro-processing and tourism; chosen to explore more specific strategies that can be put into place to finance development in these focus sectors.

The major finding of the DFA is that ample resources are available domestically and externally to finance the MGDS-III. However, accessing them is tilted upon an interplay of several factors, key of which are: (1) effective institutional leadership for coordinating and convening diverse state and non-state actors, (2) effective alignment of finance flows to national development plans; and (3) effectiveness of the country's public financial management (PFM) in general and national planning and budgeting systems in particular.

Recommendations for financing the MGDS-III

An effective financing framework for the MGDS-III demands sustainable macro-fiscal stability. Malawi has experienced significant macro-economic instability over the past five to ten years. A rapidly falling currency, double-digit inflation, and surging interest rates have negatively affected fiscal planning and management over the period covered by the DFA. The situation has however significantly improved lately, following measures implemented since the current government came into power in 2014. This momentum needs to be maintained.. It is, therefore, imperative that measures to sustain the stability of the exchange rate, keep interest rates low and further bring down inflation are maintained.

This entails, among other things, restoring the integrity of the public financial management (PFM) system to foster aggregate fiscal discipline, allocative efficiency, operating efficiency and transaction discipline. As a start, public budgeting needs to be carefully looked at to re-align government spending to key development programming. This will reduce inefficient and unproductive spending and curtail the reculcitrant budget deficits.

The non-governmental and philanthropic sector currently manages the lion's share of humanitarian and development finance in Malawi. This necessitates improved dialogue and better cooperation between government 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 CSO/NGO transparency and accountability in line with the CSO Instanbul 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 Board and the Council for Non-Governmental Organizations in Malawi (CONGOMA).

Evidence from the DFA shows that some traditional donors are falling short of accurately and transparently reporting their ODA to the GoM. This calls for greater engagement with donors to emphasize the need for them to report through the Aid Management Platform (AMP).

With a few exceptions, most DAC donors have also not fulfilled their international pledges to provide between 0.15-0.20 percent of their ODA/GNI to Least-Developed Countries, which translates to 0.003-0.004 at a country level for Malawi. Further, aid predictability has tended to be problematic as actual disbursements have in some cases been significantly different from commitments. This needs to be discussed and addressed in upcoming national development cooperation fora. Development partners should particularly ensure that disbursements are in line with commitments.

While NGOs and traditional donors appear to provide the bulk of the grant assistance to the health, education, and social sectors, South-South cooperating partners play a bigger role in the economic sectors, including in infrastructure development. South-South Cooperation (SSC), in the form of concessional finance, trade, investment and knowledge-sharing, needs to be capitalized upon; not only with the large BRICS economies, but also through learning from the experiences of smaller Southern and regional partners

Climate financing presents good prospects for innovative external finance that the Government of Malawi can tap into to finance some of its priority projects in agriculture, water management, energy, and eco-tourism. 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 in this area.

Malawi needs to better market its investment and tourism opportunities domestically, regionally, and globally. A more aggressive strategy should be devised to attract FDI and stimulate the domestic private sector, for broad based economic growth. A balance of tax and non-tax incentives needs to be achieved in order to promote investment, while ensuring continuous public revenue generation from the private sector. Government plans to establish a National Development Bank, capable of providing financial intermediation to small and medium enterprises should be moved forward.

Malawi can also learn from and capitalize on its initial experiences with public-private partnerships (PPP). The 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.

Government needs to exact more discipline in the management of budget deficits, as it continues to draw on debt finance. Debt accumulation by Malawi has been at a pace faster than most HIPC countries. More concerningly, the trend is towards expensive domestic debt. For fiscal sustainability, debt management needs to be tightened to avoid exacerbating the risk of debt default.

Pension funds present an emerging source of finance since the Pensions Act was enacted in 2011. Some of the domestic debt instruments, such as treasury notes, can target pension funds and be transformed into impact investment vehicles that can finance specific infrastructural and MGDS-III flagship projects.

Recommendations for advancing towards the INFF

The DFA is not a once-off exercise but a dynamic tool that government can use to continuously assess the state of the financing architecture. Malawi has some basic elements of an INFF that can be strengthened.

Leadership and ownership of the INFF processis essential to coordinate all relevant institutions constituting the development planning, monitoring and financing ecosystem in Malawi: MRA, RBM, NSO, MITC, PPPC, the NGO Board and key sectoral ministries central to the MGDS-III implementation. 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.

The DFA has highlighted some serious challenges in the country's 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 centralised database managed by the MoFEPD. 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 MoFEPD and development partners should explore technical and financial implications of such AMP upgrade.

The INFF should be used to regularly monitor alignment and effectiveness of finance flows towards Malawi's national development strategy and SDG implementation. In this regard, it would be useful to repeat the DFA half way through the MGDS-III implementation, to assess status and progress. Future DFAs should pay more attention to decentralized governance as development financing filters down to districts and local authorities for implementation of projects.

Malawi has extensive experience in formulating development strategies but implementation has been stymied by political short-termism and financial constraints. It is commendable that the GoM has established the NPC to address this. However, there is need to safeguard the NPC's independence not only on paper but also (more importantly) in practice to ensure that implementation of development strategies is insulated from short-term political expediency.

Despite elaborate planning and budgeting systems, there is ample evidence of limited functionality of the MTEF as evidenced by limited aggregate fiscal discipline, allocative efficiency, technical efficiency, and transaction discipline. There is therefore need to institute measures that curtail over-expenditure.

Planning has tended to be needs based, without adequate consideration of available resources, thus undermining the Public Sector Investment Plan. Project planning should be adequately linked to the budget to ensure that planned development expenditure is commensurate with projected resources.

Support and appreciation for M&E disparately obtains across different sectors and sub-national districts; M&E capacities are varied from one sector or district to another; and emphasis & investment in evaluation has tended to be minimal. There is need to finalize formulation of the National M & E Policy and place M & E at the center of MGDS monitoring.

An enabling environment for accountability and dialogue (A&D) is imperative for building trust among stakeholders. There is need to enhance the dialogue structures. Accountability should be pursued at all levels whilst platforms for dialogue, as provided for in the Development Corporation Strategy (DCS) should be reinvigorated.

Recommendations for priority sectors

Financing Malawi's energy sector 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.

Developing and financing agro-processing faces "ease-of-doing business" bottlenecks affecting the entire private sector; such that actual investment in Agro-processing has been below anticipated MGDS levels. This concretizes the need to urgently and decisively deal with obstacles to doing business in Malawi whilst silmultaneously pursuing allocative efficiency in public spending.

Tourism is significantly underdeveloped and under-invested. There is need for better and clearer market positioning and development of more innovative tourism products to lure tourists. There is also scope for strengthening financing for tourism development by aligning the MTEF with the MGDS-III. Identification of finance sources and development of a realistic financing strategy to increase the tourism budget is imperative. The DFA recommends that government seriously addresses obstacles affecting the business climate to lure private capital.

Chapter 1: Introduction

1.1. Background

The Government of Malawi (GoM) launched the third Malawi Growth and Development Strategy (MGDS-III) in March 2018. This is the fourth and final medium term National Development Strategy (NDS) under the Vision 2020, the country's long-term development plan – that at its centre envisions Malawi attaining middle-income country (MIC) status. The overarching goal of the MGDS-III is to enhance the country's productivity, competitiveness, and resilience to climatic shocks. The strategy, covering the five years from 2017 to 2022, estimates that K8.6 trillion (about USD 11.5 billion) will be needed for it's financing. In USD terms, this represents a 68% nominal increase in financial resources compared to the cumulative revenue budgetary outturn over the five-year MGDS-II period between 2011/12FY and 2015/16FY.

The increase in required resources reflects government's ambition to accelerate development. Crafted within a changing global development finance landscape, the MGDS-III importantly domesticates various international development protocols, including the African Union's Agenda 2063 and the United Nation's 2030 Agenda for Sustainable Development. The 2030 Agenda has particularly set an ambitious and transformational vision, embodied in the Sustainable Development Goals (SDGs), that requires countries to mobilize significantly increased resources – moving "from billions to trillions"[2] of dollars.

Raising these amounts of resources demands that governments look beyond traditional sources of financing, and calls for better coordination and alignment amongst governments, development partners, and non-state actors. Invariably, developing countries will need to strengthen their capacities for resource mobilisation to ensure that they are able to unlock diverse sources of financing: domestic, foreign, public and private. The targeting of private and other non-traditional resources, outside the remit of Governments, has implications on central government mechanisms for development coordination, particularly fiscal planning, budgeting, and monitoring.

Against this background, the Third International Conference on Financing for Development, that Malawi participated in held in Addis Ababa in July 2015, set in train discussions pertaining to how governments might mobilize these unprecedented amounts of financial resources. Among its resolutions, the Addis Ababa Action Agenda (AAAA) specifically calls for the adoption of Integrated

[2] http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf

National Financing Frameworks (INFFs). INFFs entail the development of a coherent national framework, comprising policies, strategies, and institutional structures, for managing the broad set of finance flows available, in actuality and potentially, to governments to finance national development priorities.

To assist countries in this process, the United Nations Development Programme (UNDP) developed the Development Finance Assessment (DFA) methodology. The DFA is a diagnostic toolkit intended to help governments interrogate domestic contexts, in order to establish evidence that can support the establishment of the INFF and its attendant policies, strategies and institutional reforms. The assessment is in this vein essentially a baseline study that avails planning and finance ministries information on trends in development finance flows and their alignment with national priorities and development results. Beyond mapping flows, the DFA assesses the broader context within which a country's development finances are embedded by examining the enabling environment for accessing, allocating, utilizing, leveraging, and monitoring of financial resources for the purpose of development. More importantly, a DFA unveils the inter-linkages that exist or should exist between the planning and financing functions in any economy.

1.2. Rationale for the Malawi DFA

The GoM, through the Ministry of Finance, Economic Planning, and Development (MoFEPD), with technical and financial support from UNDP and the joint UN-EU Institutional Capacity Strengthening for Development Effectiveness and Accountability Programme(DEAP, commissioned this Development Finance Assessment (DFA) to:

- Map the country's financing landscape covering all types of finance;
- Assess government's existing financing strategies, policies and institutional structures;
- Develop a clear financing strategy for the MGDS-III and the various sectoral development plans up to 2022.
- Establish a baseline for the building blocks of an INFF in the country, by evaluating the existence and maturity of each block;
- Propose an implementation roadmap for establishing an INFF, including areas where Integrated Financing Solutions can support DFA follow-up; and

The DFA comes at an opportune time when the Government of Malawi needs to develop a comprehensive plan to anchor the just launched MGDS-III; especially with respect to financing implementation of the key priority development areas and the

flagship projects planned for the next five years.

1.3. Report structure

This report is structured in seven 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 of each of the INFF building blocks.
- Chapter 6 spotlights three sectors: energy, agro-processing, and tourism, as case studies deriving from the five priority areas of the MGDS-III. 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 summarizes the DFA's findings by drawing conclusions, making recommendations, and suggesting a road map to inform both the MGDS-III financing strategy and guide the long-term institutionalization of Malawi's INFF.

Chapter 2: The DFA Methodology and Approach

2.1. Conceptual overview

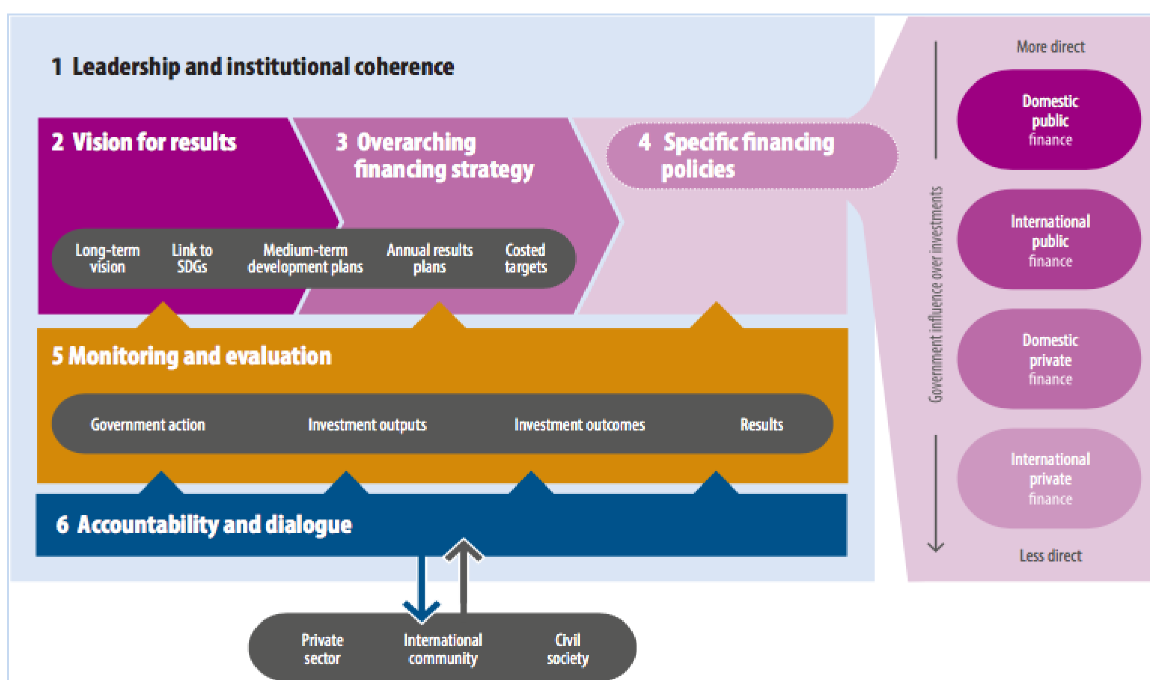
The DFA methodology is based on the INFF conceptual model. The model is designed to assist countries to assess the systems of institutional structures, policies and strategies that are in place to effectively mobilize finance to achieve the Sustainable Development Goals (SDGs)[3].

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.

The DFA operationalises the INFF conceptual model (figure 1) to identify reform measures and actions. The model is structured around six building blocks which are critical to effective mobilization and use of finance. Considered together, the six INFF building blocks offer an analytical framework to identify actions and reforms that are needed to achieve national development objectives and the SDGs.

[3] 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." (2017)

Figure 1: Integr ated National Financing Framework Conceptual Model



Based on a country's policies, strategies and institutional structures, a baseline is established for each of the six INFF building blocks by identifying constraints to effective use and mobilization of finance. The UNDP[4] describes each of the building blocks as follows:

Building block 1: Leadership to facilitate institutional coherence and management capacity at various political, technical, and working levels.

Building block 2: A national development vision with a well-articulated set of priorities and results related to the SDG agenda, including costed targets and indicators.

Building block 3: An overarching finance strategy that takes the long-term vision for results and develops proposals for the types of investments needed to meet the costs.

Building block 4: Specific finance policies are articulated to mobilize different types of finance, in a scale and manner consistent with the overarching finance strategy. They govern a range of policies such as tax revenue strategies and national aid policies.

[4] Ibid

Building block 5: A robust monitoring, evaluation and learning system for monitoring and evaluation of the e ective use of nance for results.

Building block 6: An enabling environment for accountability and dialogue that is necessary to build trust to be able to mobilize nancing from stakeholders outside the government, to make sure policies are being designed and delivered e ectively and to ensure a voice for citizens, civil society, business, and other actors in development.

2.2. The DFA Aproach in Malawi

As far as practicable with respect to data availability, the the DFA analyzed development finance flows according to two main categories: by source (domestic or external) and by nature (public or private), covering the ten years from 2008 to 2017. Table 1 below summarizes the finance flows scoped in the DFA:

Table 1: Summary of Finance Flows Covered in the DFA

	Public	Private
Domestic	• Tax revenue • Non-tax revenue • Government borrowing	• Domestic debt instruments • Private Investment/savings • Domestic NGOs & FBOs
External	• ODA Grants and loans • South-South Cooperation • Global Vertical Funds	• Foreign Direct Investment • International NGOs & FBOs • Global capital markets • Remittances

In respect of each finance flow, the DFA also analysed the institutional and policy context surrounding the flow, to identify possibilities for improvement. Based on the historical trends, the DFA also considered the anticipated trajectory of selected development finance flows in the next 5 years (FY2018 to FY2022); identifying which finance flows present significant potential to contribute towards financing the MGDS-III. The DFA has in this respect proposed strategies, policies, and institutional reforms that might leverage the resources.

The policy and institutional recommendations emanating from the DFA should be fodder for dialogue about how development finance flows might be better aligned with the priorities of the MGDS III. The dialogue should lead to agreeing on a roadmap to support the government to implement the main recommendations of the DFA; visualize the next logical and feasible steps to develop an INFF; and identify the basis for an INFF development support programme as appropriate.

2.3. Data collection and analysis

The Malawi DFA used both primary and secondary data. Based on data requirements for the different finance flows, primacy was given to domestic

statistics. The assumption was that data published by international organizations is generally based on data provided by national institutions. Primary data was mostly collected from MoFEPD, Reserve Bank of Malawi (RBM), National Statistics Office (NSO), Malawi Revenue Authority (MRA), Malawi Investment Trade Centre (MITC), and the NGO Board.

Data from Malawian sources was supplemented by and triangulated with that from international sources, including: The International Monetary Fund (IMF), World Bank, United Nations Conference of Trade and Development (UNCTAD), Organization for Economic Cooperation and Development (OECD), United Nations Economic Commission for Africa (UNECA) and Aid Data.

Other than analysis of primary data from the above sources, the DFA also extensively reviewed published literature, expert reports, institutional evaluations, and other relevant documentation on development finance in Malawi.

2.4. Limitations of the assessment

There were a number of limitations regarding some data used. Specific issues have been discussed in the relevant sections of this report. In summary, some of the key challenges encountered were as follows:

- Although Malawi has rudiments of a good national statistical system, data sources are fragmented, such that there are material inconsistencies amongst different sources. Revenue figures from MRA are for example different in some respects to those from the NSO and the Revenue Policy and Budget Directorates in the MoFEPD. Similarly, there are variations in reports produced by the NSO, RBM, and other national departments.

- There were also significant differences between data provided by national institutions and data published by international institutions such as the OECD and UNCTAD. This is particularly the case for FDI and ODA data.

- Data availability was also a challenge in some areas, notably: actual current FDI flows, private sector investment, and NGO activities.

These limitations call for a review of the national statistical eco-system, as it is the bedrock for effective development planning and budgeting, and thus the foundation of a well-functioning INFF.

Chapter 3: Country Context

3.1. Geo-political overview

Malawi is a small land-locked country situated in the greater Sub-Saharan Africa region with a total geographical area of 118,484km^2. Nestled within the Great African Rift Valley, one third of its geographical area (24,404km^2) comprises lake Malawi, the third largest lake in Africa. The country is bordered by Zambia to the west, Mozambique to the south and southeast, and Tanzania to the north and northeast (figure 2). The country is home to some seventeen million people, as per NSO estimates[5].

Figure 2: Map of Malawi and neighbouring countries

Previously a one party state since independence in 1964, Malawi has been a stable democracy since the on-set of multi-party politics in 1993. Elections are generally

[5] NSO. 2017. "Fourth Integrated Household Survey"

peaceful, with five presidential and parliamentary elections held since the advent of the democratic dispensation. Tri-partite elections, incorporating election of local government councillors have recently been adopted; with the next elections scheduled in 2019. Malawi's political context is expected to remain stable.

3.2. Developmental progress

Despite the country enjoying peace and political stability, human development remains low, poverty widespread and inequality high. This is particularly the case in rural areas where 85 per cent of the population lives. In 2016, the country registered a Human Development score of 0.476 [6] and a per capita GNI of USD320[7] – one of the lowest in Africa and throughout the world.

Based on data from the Fourth Integrated Household Survey (IHS4), ultra poverty levels declined from 24.5% in 2010/11 to 20.1% in 2016/17. The incidence of rural poverty declined from 28.1% in 2010/11 to 23.8% in 2016/17 whilst the poverty incidence in urban areas declined from 4.3% to 4.1% in the same period[8]. The majority of those living in poverty work in low productivity subsistence farming – an area severely impacted by high population densities of up to 250 people/km^2, a single rainy season of four to five months, and climate-induced shocks.

Some progress towards the Millennium Development Goals (MDGs) has nevertheless been made: attaining gender parity in primary education, a reduction in child mortality, a significant increase in antiretroviral therapy coverage and surpassing the target for access to water and sanitation. Appendix 1 summarizes Malawi's MDG progress.

3.3. Economic Performance

Malawi is a small open market economy that is predominantly agrarian, with tobacco constituting the major export at 57.2% and agriculture contributing up to 30% of GDP. Climate-induced shocks: such as floods, dry spells and the late onset and early cessation of rains; have in recent years resulted in a significant reduction in maize production – the country's primary staple food. This has also engendered use of humanitarian assistance as a 'seasonal safety net' for chronically food insecure households. Other than contributing to food insecurity, these shocks have further exacerbated challenges in energy and water delivery, negatively impacting private sector investment and business diversification. Combined with public financial management challenges, typified by the 2013 Cash gate and the 2016, the

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[6] UNDP. 2017. "Briefing note for countries on the 2016 Human Development Report"

[7] International Monetary Fund. 2017. "Country Report No. 17/184"

[8] https://mwnation.com/malawis-ultra-poverty-levels-down-by-4/

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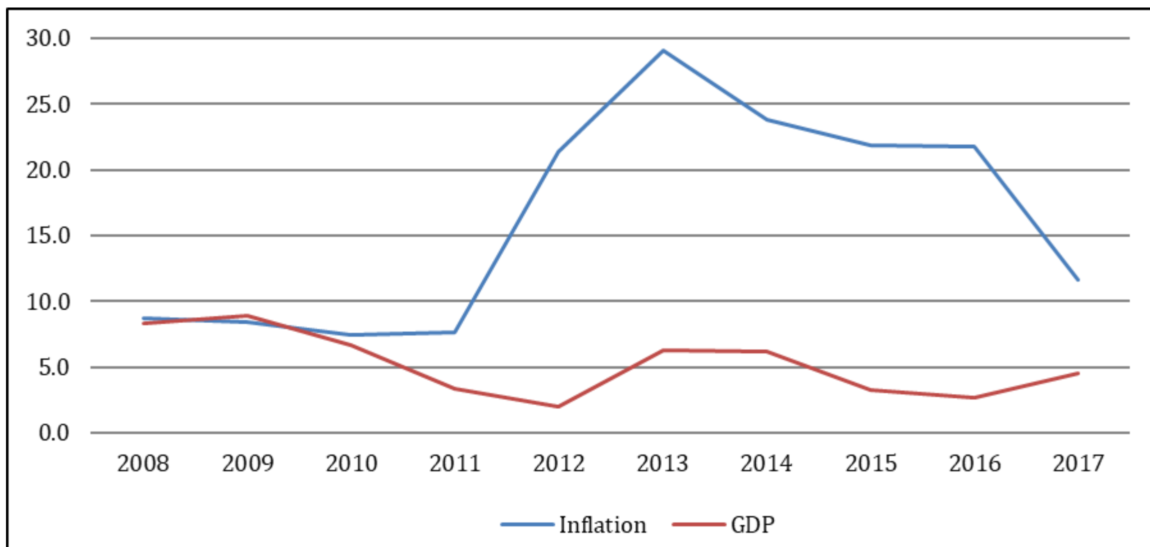
result has been significant macro-economic instability[9] over the last five years. The situation has however improved since 2017, with monthly inflation easing to a single digit (7.1% for December 2017) and the exchange rate stabilising.

As depicted in Figures 3 and 4 below, inflation and the Malawi Kwacha foreign exchange rate have been volatile over the past ten years. While Malawi's GDP reached an all time high of 9.6% during the implementation of the MGDS-I, it slowed down to 5.7% in 2014 before further dropping to 2.8% in 2015 and 2.5% in 2016 as the country reeled from the effects of El Nino drought. The economy rebounded in 2017 following improved fiscal management and better rains, with GDP growing by 4.7% and inflation easing to 11.6% year-on-year (Dec 2017: 7.1%). The Malawi Kwacha has also drastically fallen since 2012 (see Figure 4) when it was significantly devalued and a floating exchange regime adopted. It however gained stability in 2017. These foreign exchange and CPI fluctuations present the country with significant challenges in terms of effectively managing its fiscal affairs.

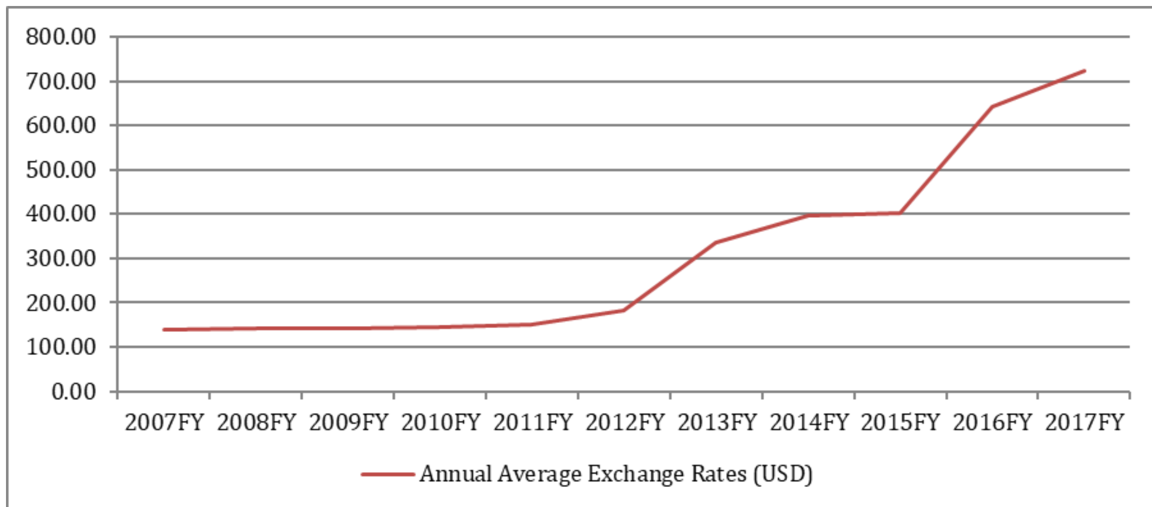
Figure 3: Inflation and GDP Trends (2008 to 2017)



Source: Authors compilation based on data from Reserve Bank of Malawi

[9] Malawi Economic Monitor: Adjusting in Turbulent Times – Fact Sheet. http://www.worldbank.org/en/country/malawi/brief/malawi-economic-monitor-adjusting-to-turbulent-times-fact-sheet.

Figure 4: Evolution of MKW/USD Exchange Rate (2007 to 2017)



Source: Authors compilation based on data from Reserve Bank of Malawi

Accelerating economic growth and advancing the national development strategy will among other factors be contingent upon improved fiscal discipline. The country is perennially fraught with overall deficits, reaching 6.1 per cent of GDP in the 2016 fiscal year[10]. This state of affairs often leaves limited fiscal space to respond to sudden crises, such as the ones caused by recent climatic and economic shocks.

Deficits have been compounded by revenue shortfalls, in part resulting from withholding of direct budget support by donors, following revelations of systemic PFM weaknesses in recent years. In response, the Government has borrowed heavily from domestic sources and now faces high debt servicing, which creates expenditure pressure. This borrowing also creates the risk of driving up lending rates and inflation (headline inflation averaged 23.6 per cent over the period: 2013FY to 2017FY). Further pressure is caused by the high cost of subsidies and a narrow export base.[11] Notwithstanding, there are a number of positive developments in recent times, including resumption of budgetary support by the World Bank. The fiscal deficit declined to 4.7% of GDP during the 2017/18 FY[12].

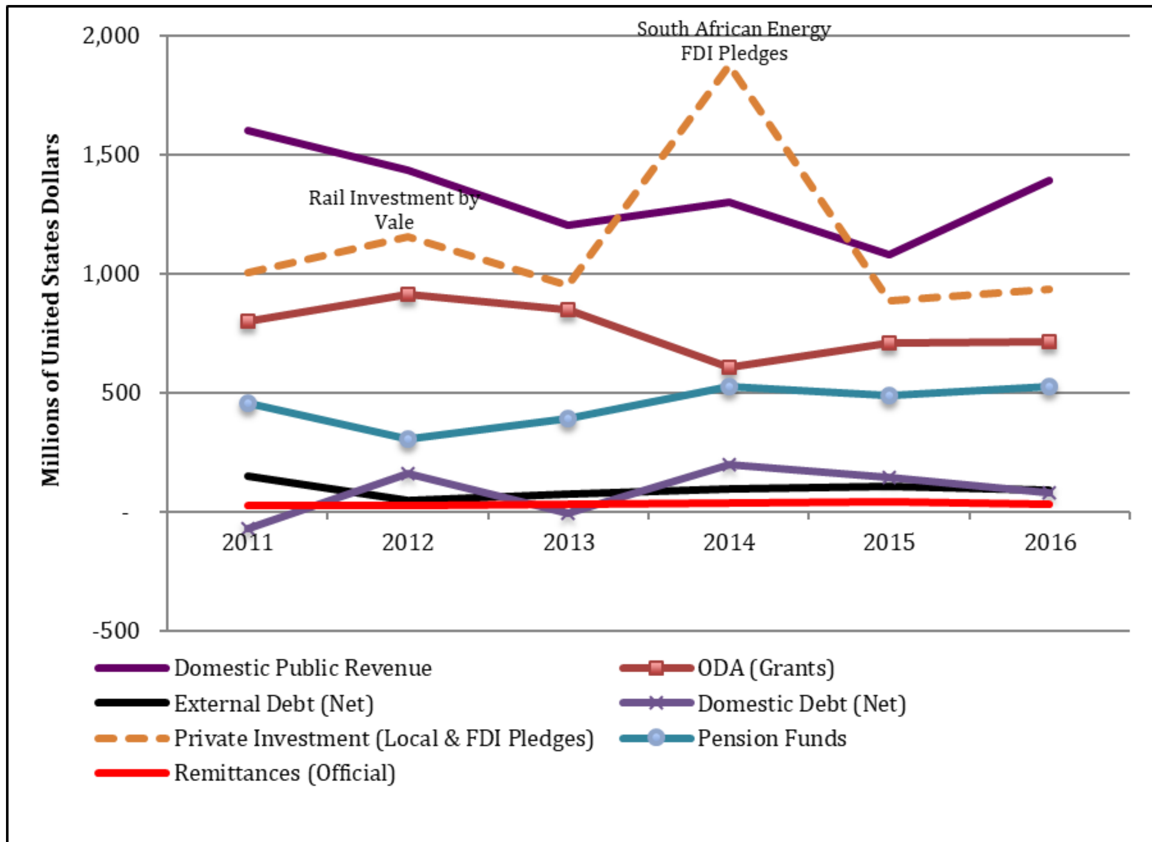
[10] Malawi Economic Monitor, Harnessing Urban Economy, May 2017, World Bank
[11] Ibid
[12] MoFEPD, 2017-18 Annual Economic Report. P.197

Chapter 4: Mapping Malawi's Finance Flows

4.1. Overview of finance flows

Key sources of finance for Malawi have been domestic public revenue (tax and non-tax revenue), private investment (foreign and domestic), official development assistance (ODA) – including grants and concessionary loans, borrowing and non-governmental organization (NGO) investment. Figure 5 below depicts the evolution of these flows.

Figure 5: Evolution of Finance Flows (2011 to 2017)



Source: Authors compilation based on data from MRA, MoFEPD, MITC & NGO Board

The sections that follow analyze in more depth each of these finance flows, highlighting their policy and institutional context; and how they might be leveraged.

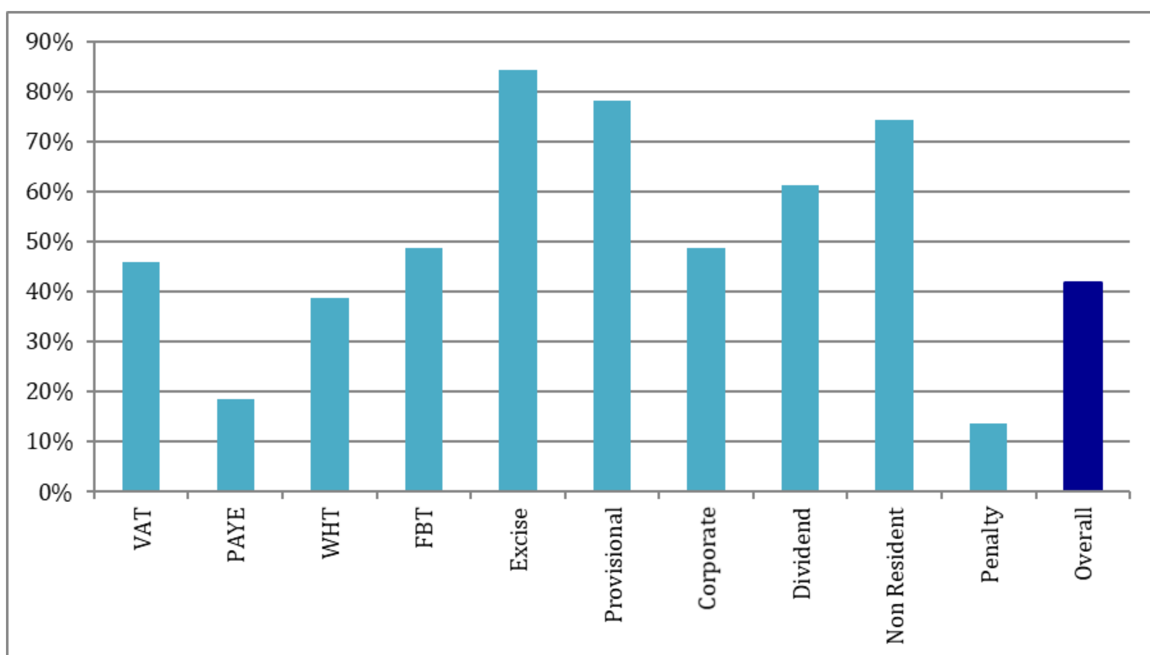
4.2. Domestic Public Finance

4.2.1. 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[13], Malawi's tax to GDP ratio is higher than the SSA average (16%), the Low Income Countries (LIC) average (11.4%), and that for the neighbouring Zambia (14%) and Tanzania (12%). It is however lower than that of the neighbouring Mozambique (19.5%).

The IMF considers a tax to GDP ratio of 15% as the desired threshold for catalyzing investment[14]. Notwithstanding Malawi's tax to GDP ratio registering above this threshold, scope for improvement exists given the narrow tax base and net – principally mediated by the incidence of a large informal sector in the Malawian economy. This is evidenced by the proportion that the top twenty taxpayers contribute; especially in domestic taxes, an average of over 40% over the last three years (Figure 6).

Figure 6: Contribution to Domestic Tax Categories by Top 20 Tax Payers



Source: Author's computation based on MRA data

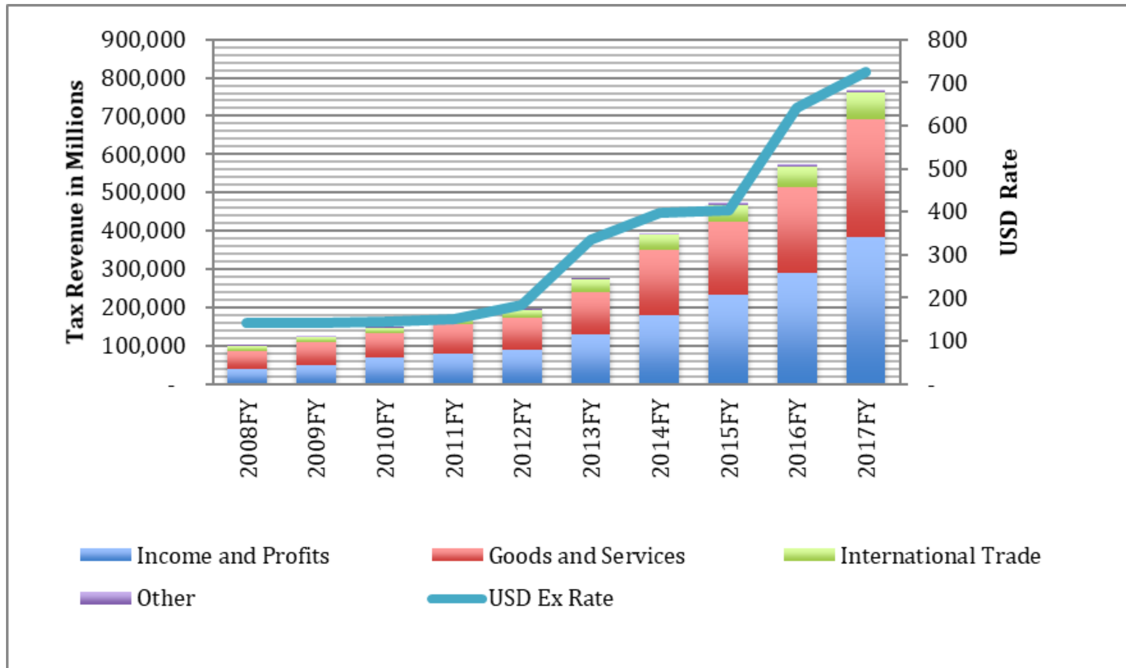
Both the Malawi Revenue Authority and the MoFEPD readily acknowledge the imperative of broadening the tax base and widening the tax net on the back of tax reforms; discussed under section 4.2.2.

[13] This is based on Annual Economic Reports produced by the MoFEPD. There are variations in tax to GDP ratios as reported by IMF, World Bank and MRA

[14] http://www.accaglobal.com/ie/en/member/member/accounting-business/2018/01/insights/tax-gdp.html

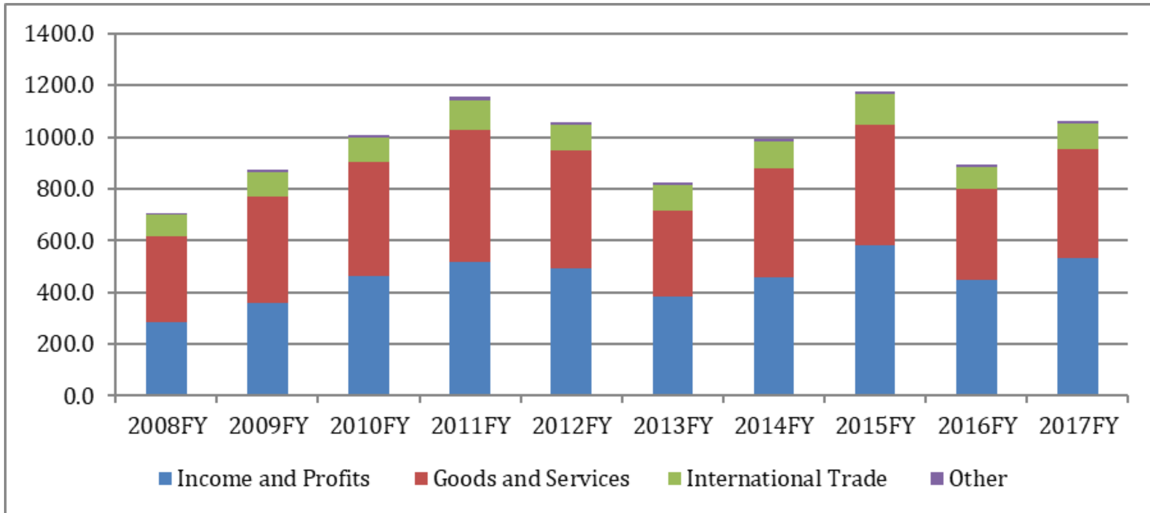
As depicted in figure 7 below, tax revenues have significantly grown in nominal Malawi Kwacha terms over the past ten years. Whilst the contribution of tax administration improvements cannot be discounted, the devaluation of the Malawi Kwacha over the period has been a major driver of growth. This can be clearly noted in figure 8 – depicting the evolution of tax revenues in absolute US Dollars. Whilst total tax revenue has grown by 676% in Kwacha terms since 2008FY, it has only grown 51% in USD terms.

Figure 7: Evolution of Tax Revenues in MK



Source: Author's computation based on MRA data

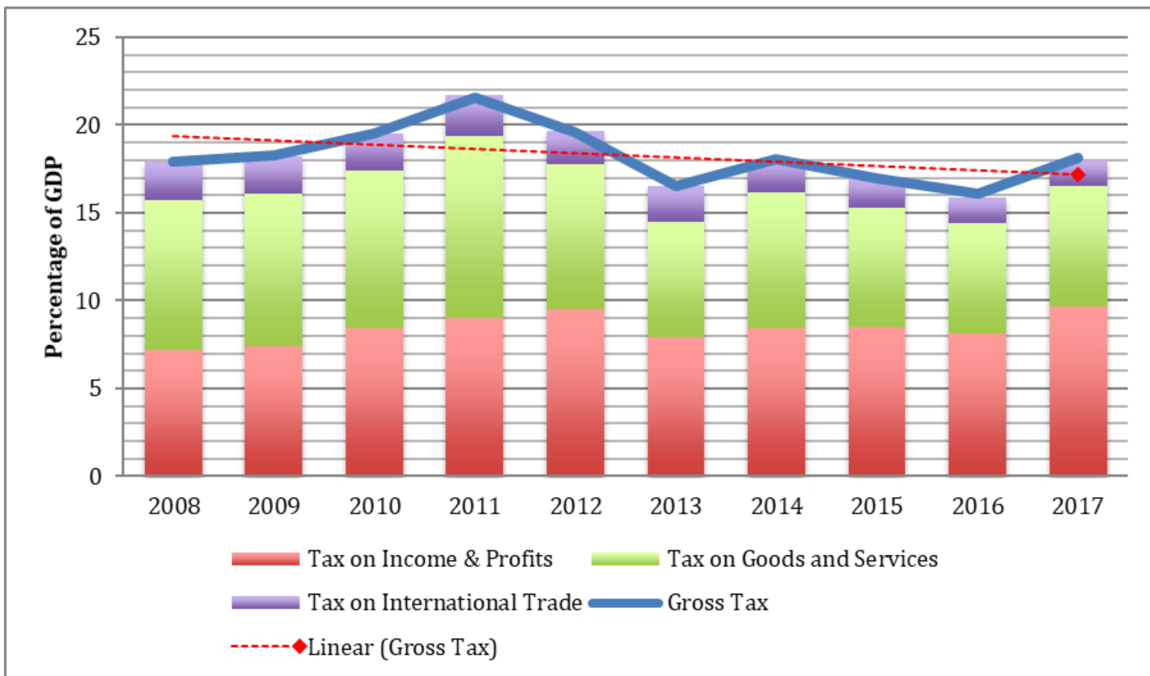
Figure 8: Evolution of Tax Revenues in USD (Millions)



Source: Author's computation based on MRA data

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 as depicted in figure 9. 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.

Figure 9: Tax Revenue Outturn, FY2008 to FY2017

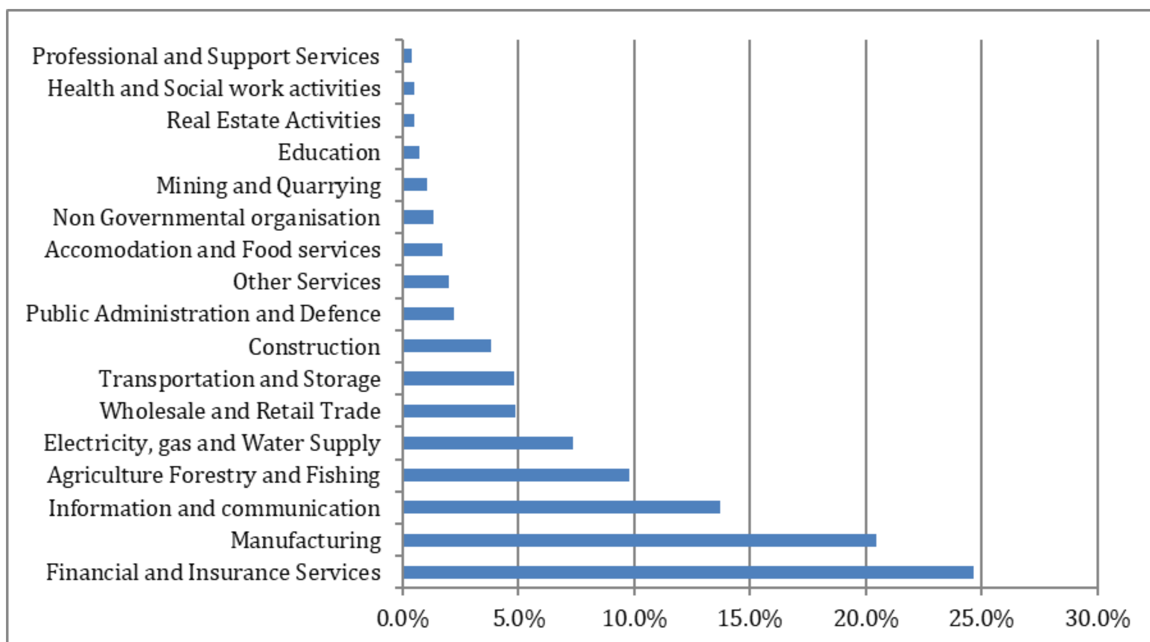


Source: Author's compilation based on MoFEPD data

Analysis of sectoral contribution to tax revenue shows that financial services account for as much as a quarter of all taxes, followed by manufacturing, information & telecommunication, and agriculture in that order (figure 10). Within the context of the MGDS-III, this portends significant scope for improving the priority areas: Agriculture, Energy and Tourism, if they have to assume significant revenue importance, so far as their contribution to taxation is concerned. This is particularly true for agriculture; that despite constituting up to thirty percent of the economy contributes less than ten per cent of tax revenue.

This state of affairs 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.

Figure 10: Economic Sector Contribution to Taxation



Source: Author's computation based on MRA data

4.2.2. 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 Ministry of Finance to form a semi-autonomous revenue collecting agency, the Malawi Revenue Authority (MRA). The MRA, created by the 1998 Malawi Revenue Authority Act, administers various taxation and customs

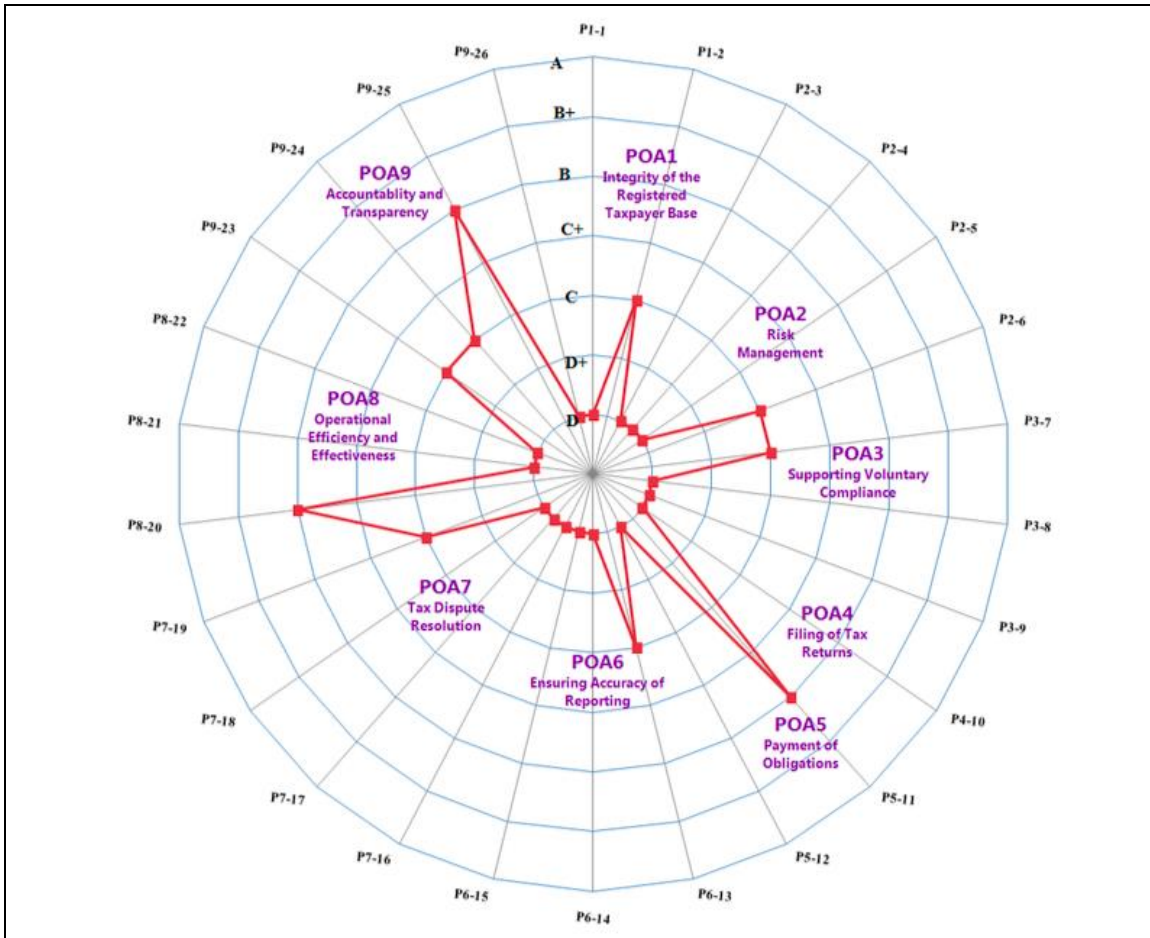
laws, including: the 2006 Taxation Act, the 2005 Value Added Tax Act and the 1969 Customs and Excise Act.

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 tax payer 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 it's first ever comprehensive tax administration assessment using the Tax Administration Diagnostic Assessment Tool (TADAT). As summarized in figure 11 below, significant weaknesses were identified, as most performance outcome areas (POA) registered below recommended benchmarks.

Figure 11: 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), scheduled to go live around 2019 – indications though are that this timeframe is likely to be missed, with December 2019 being more realistic. 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 ITAS Implementation

Malawi's commitment to tax as a key source of financing for development is further echoed in its joining 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 with regard to tax revenue collection and public financial management.

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

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 by the MGDS-III. 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[15].

The MRA receives a lot of technical support form the IMF Fiscal Affairs Division. Recently, the IMF[16] has recommended that the MRA: (1) Strengthens governance

[15] Malawi Growth and Development Strategy III, page 37.

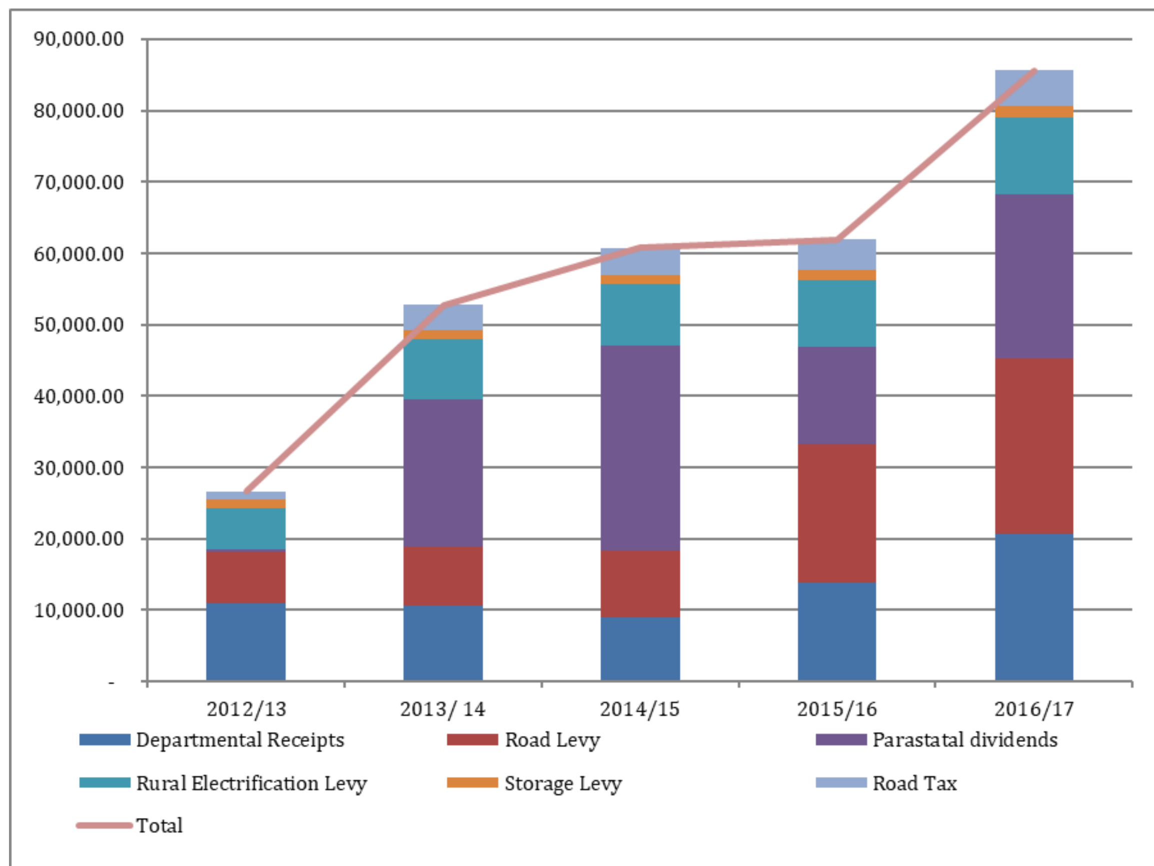
[16] International Monetary Fund (2018). "Progressing Revenue Administration Reforms".

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.

4.2.3. Non Tax Revenue

Non-tax revenue represents about 2% of GDP or 12% of domestic public revenue; mostly driven by receipts from parastatals, other departmental receipts, and various levies as depicted in figure 12 below.[17]

Figure 12: Evolution of Non-Tax Revenues over the past 5 Years (MKW)



Source: Authors compilation based on data from MoFEPD

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

[17] Malawi Annual Economic Report 2017, page 195.

activities of MERA.[18] The Road Levy is used for road infrastructure development and rehabilitation. Most road infrastructure projects in Malawi are financed by a combination of tax and 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.[19]

To enhance non-tax revenues, the MGDS III commits to developing performance management plans for these parastatals and SOEs. There is also scope that enhanced financial controls around the receipting and accounting of non-tax revenues can significantly improve performance. Presently, ***accounting for NTR is fragmented such that data collated by the Revenue Policy Directorate in the MoFEPD is usually not up to date and incomplete.***

4.3. Official Development Assistance (ODA)

As a land-locked least-developed country in Sub-Saharan Africa, Malawi stands out as one of the most aid dependent countries in the world (Table 2).

Table 2: Comparative ODA per capita (USD)

Country/Group	2012	2013	2014	2015	2016
Malawi	72.73	68.31	54.55	59.71	68.72
HIPC Average	63.43	59.23	54.53	51.41	49.12
LDC Average	48.41	52.52	47.04	44.95	43.99
SSA Average	50.40	50.04	47.44	45.51	42.86

Source: Authors compilation based on World Bank development indicators

Being a peaceful and stable democracy, Malawi was for a long time a has consistently been one of the LDC countries with the highest amount of ODA per capita as seen in table 2'[20]. However, as depicted in figure 13 below, ODA has decreased since 2013 due to reduced on-budget support since the Cash-gate. This entails that less development assistance is being channeled into the country through the PFM system, as most ODA is either directly managed by development partners, including NGOs and private foundations (see discussion on NGOs). The proportion

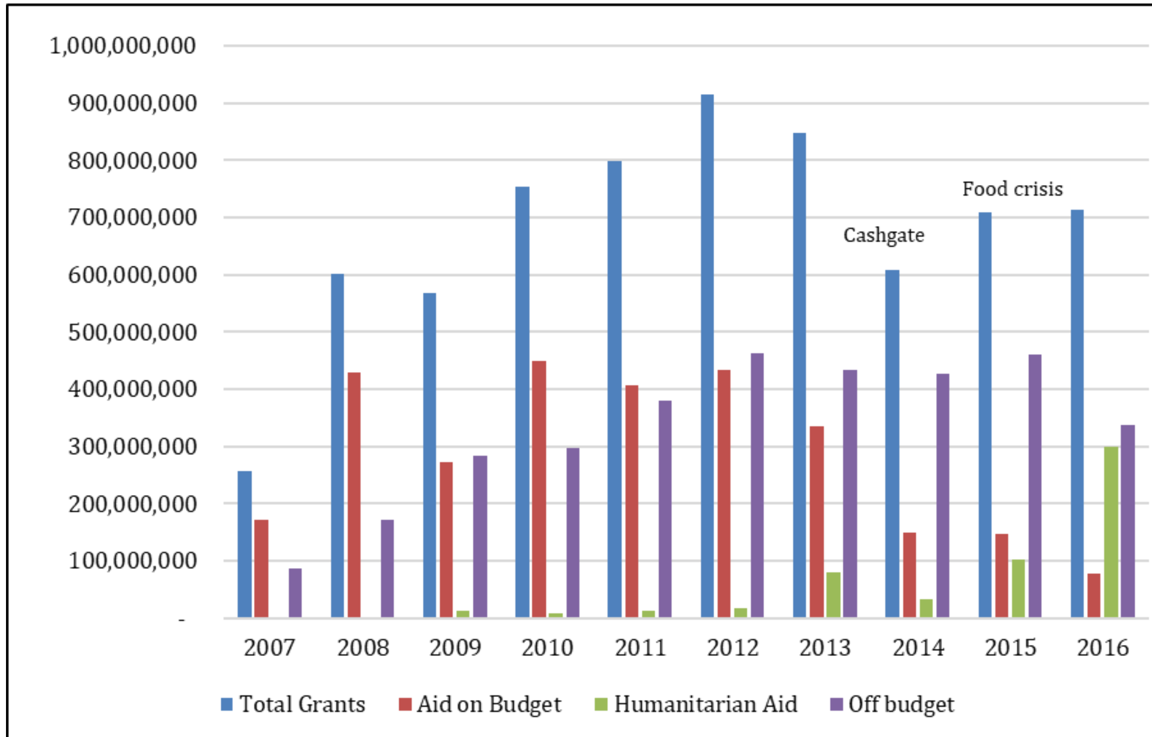
[18] Fuel Levies in Malawi, http://www.meramalawi.mw/index.php/resource-center/fuel-levies-in-malawi/send/10-fuel-levies-in-malawi/27-fuel-levies-in-malawi

[19] Ibid.

[20] https://www.economist.com/news/international/21700323-development-aid-best-spent-poor-well-governed-countries-isnt-where-it

of humanitarian aid has at the same time been on the rise due to food crises caused by recent climatic shocks.

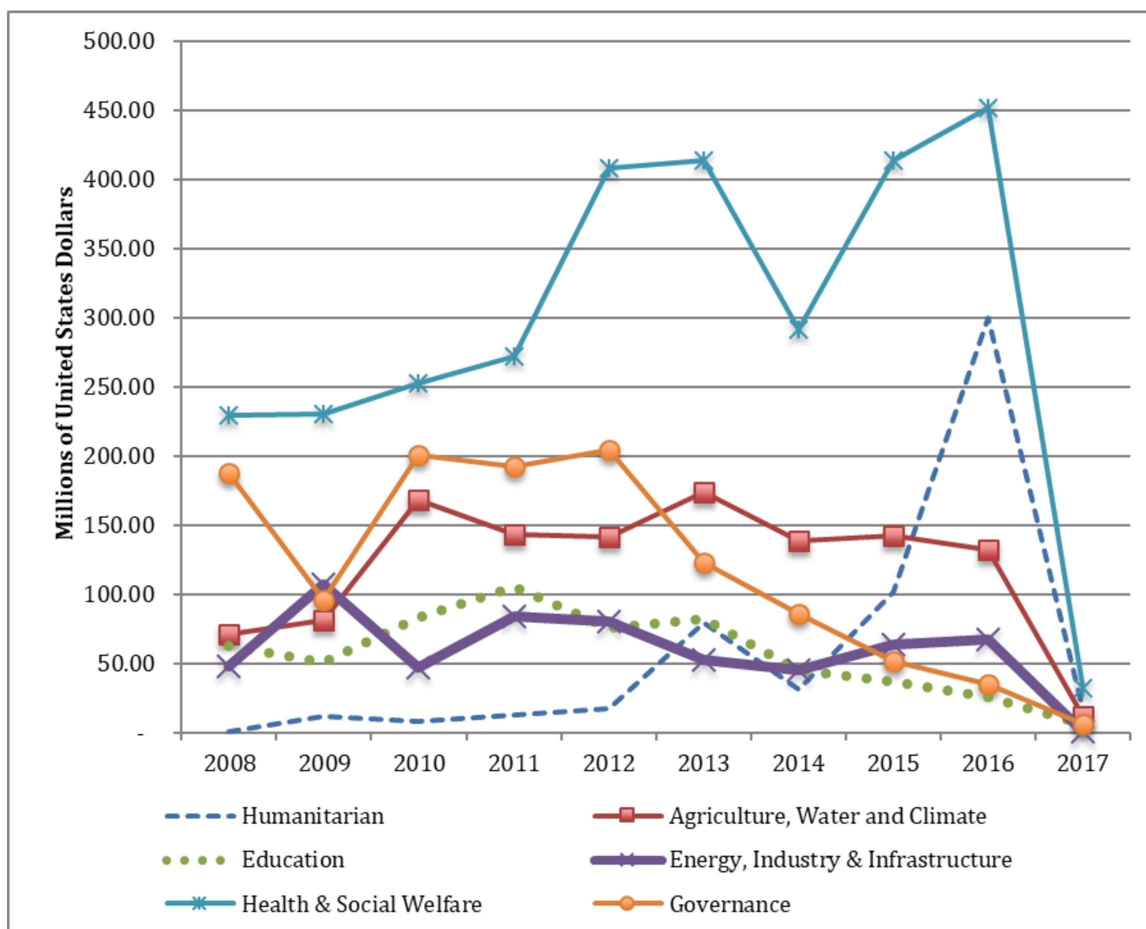
Figure 13: Trends in Budget Support and Humanitarian Aid (USD)



Source: Authors compilation based on data from AMP

Figure 14 below depicts the sectoral evolution of ODA grants over the past decade.

Figure 14: Evolution of ODA Sectoral Allocations



Source: Authors compilation based on data from AMP

As depicted above, the Health sector has dominated grant funding to Malawi over the past decade. This is somewhat expected considering the health focus of the previous MDG 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 constantly high over the years, while funding for energy and disaster preparedness has witnessed a slight increase since 2014/15, probably through the ushering in of 2030 Agenda for Sustainable Development, and its strong focus on climate change.

This has resulted in the Government of Malawi's heightened concern with resilience and disaster preparedness.

4.3.1. 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 MoFEPD. The DCS acts as the GoM's blue print 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 & budget systems, focus on results, inclusive partnerships, transparency & accountability, harmonization, and simplification of donor procedures.[21]

Information on all donor projects in Malawi is uploaded and regularly updated through a web-based Aid Management Platform (AMP) managed by the MoFEPD. Implementation of effective development cooperation is monitored through a number of 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.

4.3.2. 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 accord with the standard aid effectiveness principles of transparency & accountability, national ownership, and alignment to country monitoring systems.

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 analysed under section 4.4 – Government Borrowing. However, for purposes of the current discussion, it is worth noting that the MoFEPD 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 devopment finance institutions. The CS-DRMS and AMP are jointly used to account for and report ODA and are inter-linked to provide consistent information. The DFA has focused on actual grants disbursed in 2016, which is the latest year with comprehensive, accurate and verifiable data

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 on a monthly basis, through the web-based access they have been given, to regularly report through the AMP. The MoFEPD 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.

While donor field offices report regularly to the MoFEPD their projects and development spending within Malawi, the headquarters of the same donor agencies report to the OECD's Development Cooperation Directorate (DCD) their ODA spending in different parts of the world. The DFA found large discrepancies between what donors report through the OECD creditor reporting system (CRS) and the AMP. These discrepancies are as summarized in Table 3 below.

Table 3: Aid Data Inconsistencies (National vs. International Systems)

	Total Net Grants Received by Malawi in 2016	
Country	**AMP Data**	**OECD Data**
Australia	1,405,850	3,020,000
Austria	-	100,000
Canada	5,281,402	15,960,000
France	-	20,000
Germany	12,281,304	50,180,000
Iceland	150,000	4,540,000
Ireland	8,159,396	21,590,000
Korea	-	3,010,000
Luxembourg	-	550,000
New Zealand	-	70,000
Norway	36,727,709	62,750,000
Spain	12,939	50,000
Sweden	1,086,838	3,850,000
Switzerland	332,140	700,000
United States	300,343,628	372,250,000
Total Net ODA: DAC Countries	**365,781,205**	**702,980,000**
Private Foundations (Gates, etc.)	418,027	13,190,000
European Institutions (grants and loans)	44,025,834	82,170,000
World Bank (Grants&Loans)	107,785,437	149,690,000
Other Vertical Funds (CFC, GAVI, GEF, Global Fund)	1,911,161	23,480,000
Total Net ODA (DAC+Non-DAC+Multilaterals)	**841,532,417**	**1,243,000,000**

Source: Authors compilation based on data from AMP and OECD CRS++

Considering that both the AMP and OECD data is supplied by development partners (DPs) themselves, the discrepancies raise concern, as it suggests either

incompleteness of data reported in the AMP or that the DPs use different bases to report to national and international authorities. Whilst there is ample evidence for the first explanation, the second appears to apply most. Research indicates that DAC donors report as part of their official assistance to developing countries in-donor expenses: such as refugees & student costs, marketing & promotion, and other administrative costs incurred by donor agencies themselves[22]. In practice, this entails that part of the funding reported as having been provided to Malawi, is essentially overheads for aid administration and not actual flows into the country. Analysis by the DFA into particular DPs revealed the following specific factors as some of the drivers of the discrepancies:

- There is usually a timing difference between data as reported by the OECD and the AMP. Whilst the AMP is more real time, there is a one year processing cycle for OECD data as it undergoes a rigorous verification process. This might however not hold much in the Malawian scenario given that the data under question relates to 2016, some two years back.

- DPs tend not to report through the AMP some activities that are perceived as small or not material. Cumulatively though, these may lead to material discrepancies.

- Cases of inadvertent omission in reporting abound and call for review in AMP data capturing processes. For example, several UN Agency sponsored projects were discovered not to have been captured in the AMP – e.g. the UNDP Elections project, the Democratic Consolidation project, and the Girls Education project.

- In-country (Malawi) data capturing by DPs excludes activities for non-resident agencies. For instance, United States aid data capturing focuses on three main agencies: USAID, Centre for Disease Control and Millennium Challenge Account. Activities for non-resident agencies such as the US Department of Agriculture and Engender Health are not reported through the AMP despite implementing some significant programmes in the country.

- Some global or regional programmes with a portion in Malawi only report globally and do not allocate resources at a country level – a case in point is Power Africa.

Predictability is another important element of aid effectiveness highlighted in the Paris Declaration[23] and the Accra Agenda for Action[24]. Predictability of ODA allows Government to effectively plan, align, and channel required external financing to

[22] https://www.irinnews.org/investigations/2017/07/21/aid-credibility-stake-donors-haggle-over-reporting-rules

[23] http://www.oecd.org/dac/effectiveness/34428351.pdf

[24] https://www.oecd.org/dac/effectiveness/45827311.pdf

meet funding gaps. When actual disbursements are significantly different from planned commitments, domestic planning and budgeting processes are negatively affected. Table 4 highlights differences between ODA disbursements and commitments for the 2016 financial year.

Table 4: Proportion of Aid Disbursements Vs. Original Commitments

	2016 AMP		
Country	**Committed**	**Disbursed**	**% Disbursed**
Australia	1,405,850	1,405,850	100%
Belgium (Flanders)	8,487,090	5,025,538	59%
Canada	5,221,471	5,281,402	101%
Finland	849,257	849,257	100%
Germany (Embassy, GIZ, KFW)	2,659,933	12,281,304	462%
Iceland	150,000	150,000	100%
Ireland	2,756,957	8,159,396	296%
Italy	-	1,111,111	-
Japan (Embassy & JICA)	9,849,747	26,750,428	272%
Netherlands	561,697	1,540,767	274%
Norway (NORAD & Embassy)	7,035,019	36,727,709	522%
Spain	12,739	12,939	102%
Sweden	1,086,838	1,086,838	100%
Switzerland	332,140	332,140	100%
United Kingdom	137,953,321	159,155,974	115%
United States (CDC, MCC, USAID)	189,864,103	300,343,628	158%
Total Net ODA DAC Countries	**368,226,162**	**560,214,281**	**152%**
Private foundations & NGOs	678,691	418,027	62%
European Union	66,730,327	44,025,834	66%
UN System	35,582,736	47,534,602	134%
Total Grants to Malawi	**471,217,916**	**652,192,744**	**138%**

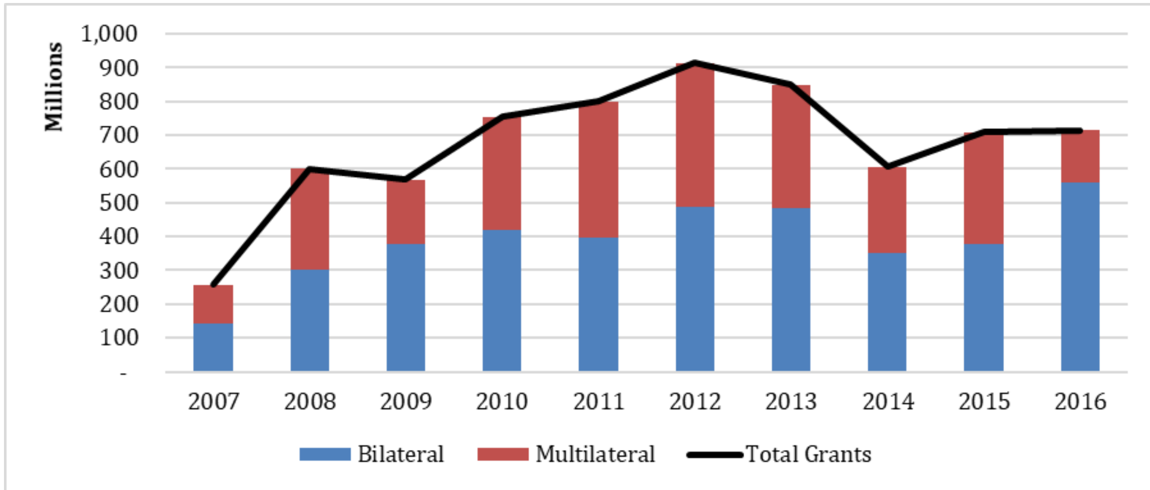
Source: Authors compilation based on data from AMP

Overall, the observed discrepancies call for better coordination and collaboration between Malawian Authorities and DPs, to ensure reporting consistency and more effective aid planning. More importantly, development partners should ensure that disbursements are in line with commitments.

4.3.3. Contribution by traditional development partners

Figure 15 below presents an overview of the evolution of aid flows into Malawi over the last ten years. The distribution of bilateral and multilateral development assistance has been fairly even over the years, except in 2016, when multilateral disbursements declined.

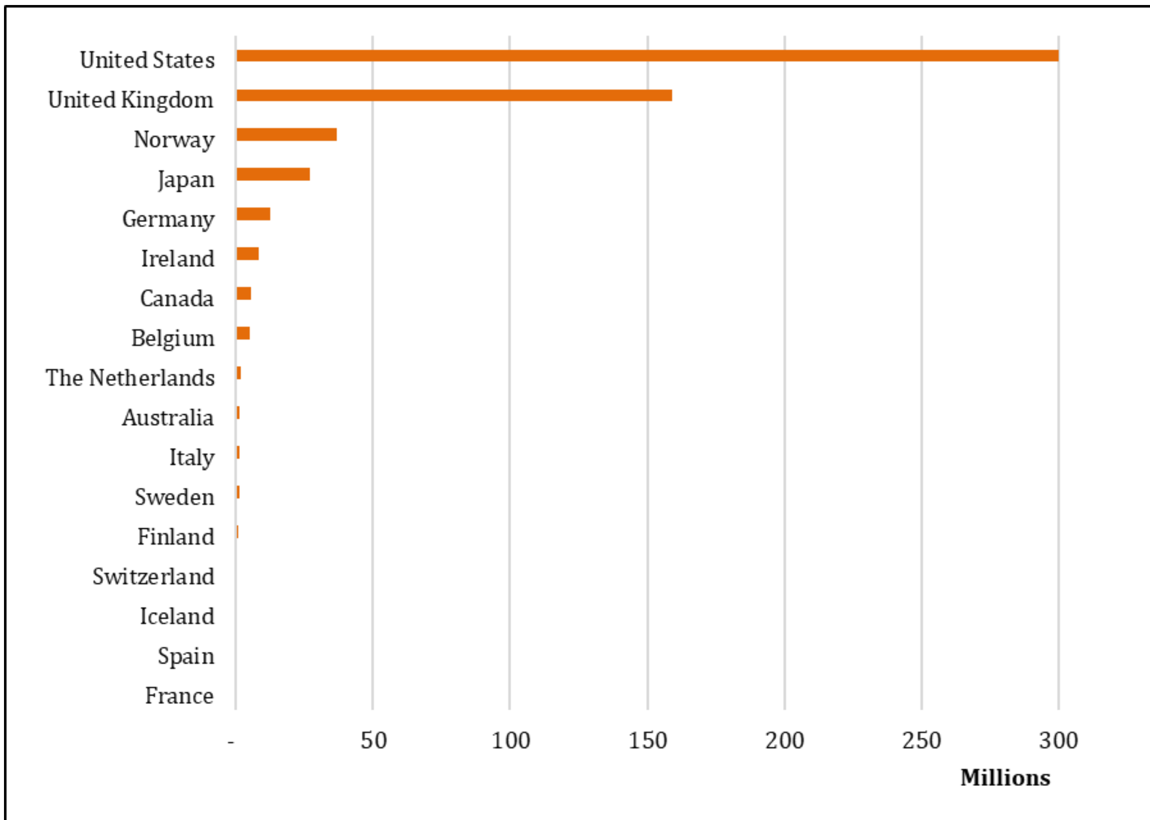
Figure 15: Bilateral and Multilateral Disbursements



Source: Authors compilation based on data from AMP

Figure 16 below 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 16: Top Bilateral Aid Providers to Malawi (USD Disbursed 2016)



Source: Authors compilation based on data from AMP

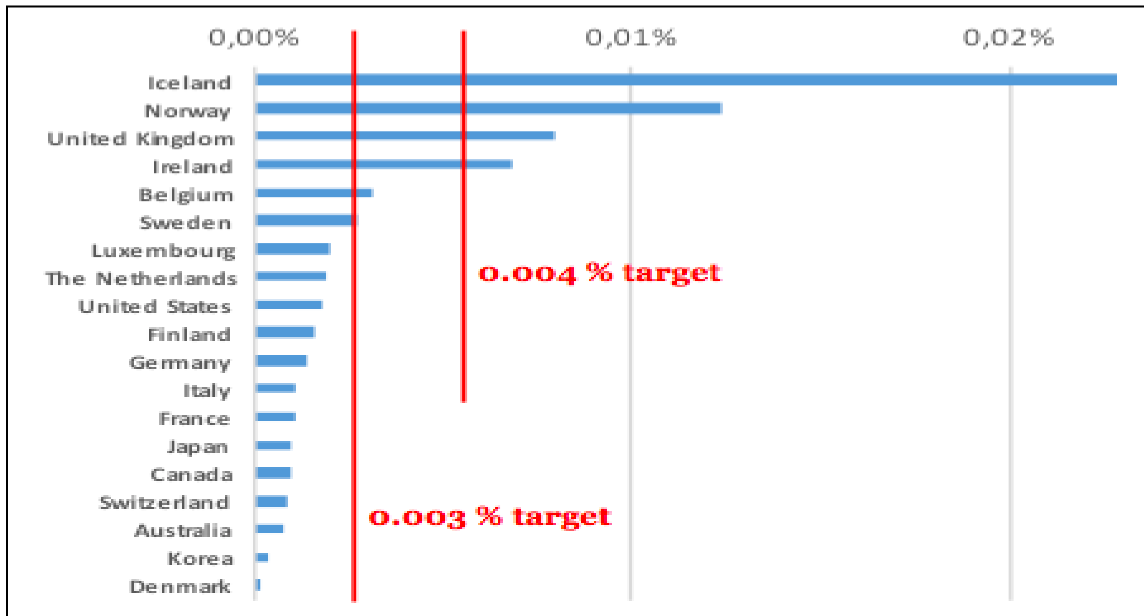
An important measure of 'aid effort' that has been used since the 1970s is donor country's ODA contribution as a proportion of its Gross National Income (GNI). A previous target of MDG 8 has now been re-affirmed under SDG 17.2, which calls all developed countries to provide 0.7 percent of their GNI as ODA to developing countries, and more specifically 0.15-0.20 percent 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.[25]

As Malawi falls under the official UN list of 47 LDCs[26], the DFA analyzed how this international commitment has been fulfilled by each DAC donor in respect of Malawi. Assuming that 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 percent 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 percent 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. Figure 17 summarizes the findings in this regard. 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 the Malawi fell short of the threshold.

[25] AAAA (2015), par. 51 http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

[26] https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf

Figure 17: Aid Effort by Donors based on ODA to GNI Ratio (2016)



Source: Authors compilation based on data from AMP, OECD, and World Bank

4.3.4. South-South cooperation

With some traditional DAC donors becoming inactive in Malawi, South-South Cooperation is assuming more prominence as illustrated in Table 5 below. The GoM has committed to strengthening SSC through implementation of modalities outlined in the 2014-2018 Development Cooperation Strategy. 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.

Table 5: Comparison of Selected SSC and DAC Donors in Malawi (2015/16)

Development Partner	Net ODA	
	Absolute	PPP-Adjusted
	USD	USD
Brazil	214,725	376,161
Switzerland	323,616	249,734
Italy	136,054	168,681
Iceland	150,000	128,547
Denmark	113,645	104,998
Egypt	6,460	20,712
Spain	12,939	17,710
France	1,717,564	1,936,281

Source: Authors compilation based on data from AMP

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 in the AMP. For instance, the MoFEPD does not have clear financial records of in-kind health sector donations from India, or the MK 4 billion (roughly US$ 5.5 million) that India spends 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.[27] 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 economies like Norway. Hence, when comparing South-South cooperation to North-South cooperation, several development scholars[28] have started to adjust development cooperation figures to Purchasing Power Parity (PPP) – as Table 8 reflects. This results in a better comparison of different development partners' contributions based on economic capacity.

4.3.5. Non-governmental and philanthropic sector

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 flows is however fraught 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 start inputting their activities in the AMP. However, only a handful of international NGOs, including the Bill & Melinda Gates Foundation, Rotary International, Sanofi, Unitaid, report in the AMP.

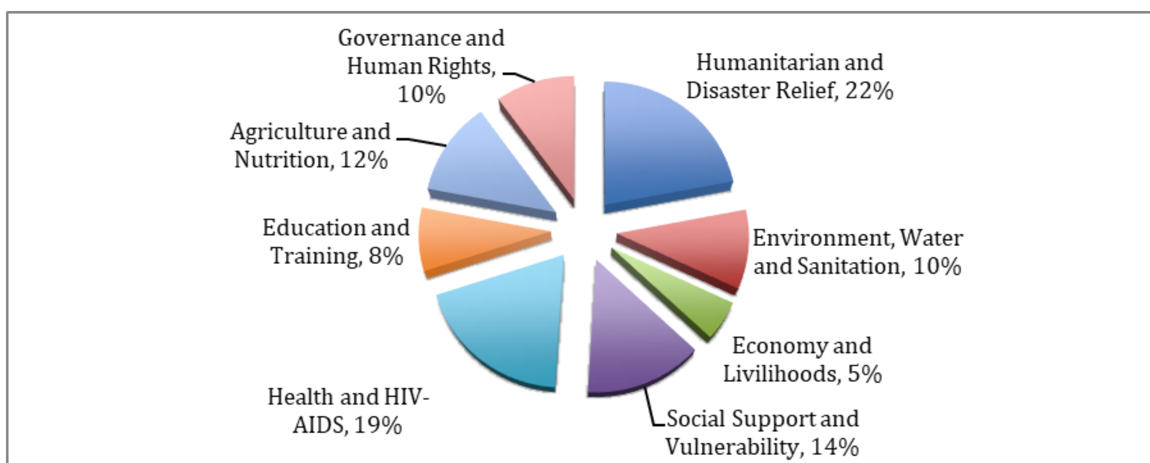
An alternative source of NGO financing data has been the NGO Board, established in 2015 in the Ministry of Gender, Children, Disability, and Social Welfare, as part of the implementation of the 2001 NGO Act and the 2015 NGO Policy Framework. As

[27] https://www.die-gdi.de/uploads/media/DP_26.2013.pdf
[28] Besharati, Rawhani, Sterns & Sucuoglu (2017), Kharas, Prizzon & Rogerson (2014), Mullen (2014)

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. In 2016, 476 national and 25 international NGOs complied with these reporting requirements, whilst in 2017, the numbers rose to 545 and 102 respectively. Nonetheless, only 20% of NGOs provide detailed financial accounts, which are in most cases unclear and difficult to harmonize due the use of different financial years and different currencies (USD, EUR, GBP, MKW) and exchange rates. Some international foundations have also mistakenly reported their global figures without detailing their spending in Malawi.

Notwithstanding the above challenges, a review and analysis of the NGO directory yielded the picture below (figure 28), as far as the sectoral focus for NGO expenditure in Malawi is concerned:

Figure 18: Focus of NGO Activities in Malawi



Source: Author's computation based on NGO Board Data

Most of the external financing to NGOs in Malawi firstly goes through international NGOs, that pass on some of the funding to their national counterparts. **Patchy data makes it difficult to quantify the amount of financing that is handled by the NGO sector. Notwithstanding, available data from the NGO Board indicates that the top 20 International NGOs spent over MK200 billion in 2016, which is 20% of the country's budget. Given that there are about 208 INGOs registered with the NGO Board and many more unregistered, it can be surmised that total INGO investment is significant relative to the national budget**. To put it in perspective, Table 6 below shows that one INGO handles more development assistance to Malawi than what is channeled through the GoM by most bilateral and multilateral development partners.

Table 6: Malawi's Top Development Partners (2015)

Aid provided to Malawi in 2015

Development Partner	Net disbursements (USD)
World Bank	147 687 878
United States	141 542 664
United Kingdom	122 651 873
World Vision	83 606 770
United Nations system	58 593 967
Norway	41 842 249
Japan	25 807 466
Ireland	13 828 726
Belgium	8 564 477
Germany	7 359 539
Iceland	4 612 345
Sweden	4 069 066
Australia	2 293 599
Canada	1 312 419

Source: Authors compilation based on data from AMP and NGO Board

Similar to World Vision, many other large international NGOs such as Concern International, Save the Children, Care International, Medicines Sans Frontier, Catholic Relief Service, Red Cross network, Family Health International, Management Science for Health operate in Malawi, but do not report yet to Government of Malawi their annual development and humanitarian spending. For the successful implementation of the MGDS-III, it is key for the Government of Malawi to reach out to these major non-governmental partners.

As evidence suggests, the NGO sector is apparently the biggest carrier of humanitarian, social, and development finance in Malawi. It is therefore important that the government coordinates more closely with NGOs to ensure that their activities and efforts are aligned to the priorities of the MGDS-III. The need to push for strategic, equitable, and sustainable partnerships, based on mutual trust cannot be overemphasized; as they are a fundamental basis for development cooperation. Further dialogue is recommended between the NGOs and the Government to agree on the best modality for this. The Government and the NGO community should have more platforms for dialogue and engagement in respect of planning, implementation, financing, and monitoring of national development priorities. In this respect, revitalizing Sector Working Groups, most of which have hitherto been dysfunctional, is critical. To this end, the MoFEPD needs to strengthen its leadership role and ensure that adequate funding for SWGs is provided to MDAs. The role of thDirectorGeneral of the National Planning Commission can in the same vein be enhanced by demanding reports from controlling officers, regarding promotion of the functionality of SWGs.

The NGO community is also not immune to corruption and misuse of resources. Whist 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[29] 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 confrontational approach to conducting NGO business, is adversely impacting rapport and frustrating coordination and cooperation.

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[29] World Bank (1997). World Bank Handbook on NGO Laws: http://documents.worldbank.org/curated/en/201351468332690971/pdf/639500WP0WB0Ha00Box0361533B0PUBLIC0.pdf

To sum up, it is evident that the NGO sector has the potential of significantly contributing to development in general and financing the MGDS-III in particular. Requisite to actualizing this though is 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 M&E in general and the NGO statistical ecosystem in particular, at both national and local government levels, including re-invigorating AMP reporting. Within this context, the role of the NGO Board needs to be reviewed to make it a constructive and engaged entity.

4.3.6. 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 shocks 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. These include:

- **National Adaptation Programme of Action** developed in 2006;
- **Climate Change Investment Plan,** 2014-2019, calling for a US$ 1 billion of investments in adaptation, mitigation, capacity development, research and technology transfer;
- **National Climate Change Management Policy**, developed in 2016; and
- The latest **Strategic Programme for Climate Resilience**, produced in 2017, as part of the GoM's US$ 50 million application to Climate Investment Fund.

Text Box 3: South-South Green Fund Exchange

In 2017, the Government of Malawi established a **National Climate Challenge Fund** modelled after the successful experience of Rwanda's National Green Fund, FONERWA, that assisted the country to mobilise 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 similar to 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[30].

A number of development partners and DFIs are already financing some climate-related projects in Malawi. The Millennium Challenge Corporation (MCC) is for instance supporting energy projects. Text box 4 below overviews the major global climate funds, some of which Malawi is already in the process of tapping into.

Text Box 4: Overview of key International Climate Funds

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 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. GFF takes into account the needs of nations that are particularly vulnerable to climate change impacts. It finances also 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 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: Authors compilation based on GEF, GCF, CIF & Adaptation Fund Websites.

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

[30] Nakhooda et al (2013). Mobilising International Climate Financing: Lessons from Fast-start Finance Period. ODI: London

(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. Other than the UNDP, UN-HABITAT, World Bank, AfDB 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 access'[31]. This is mostly due to the capacity constraints and the prevalent PFM systemic weakness. Multilateral organizations thus still 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 MGDS-III.

4.4. Government Borrowing

4.4.1. Overview of public debt

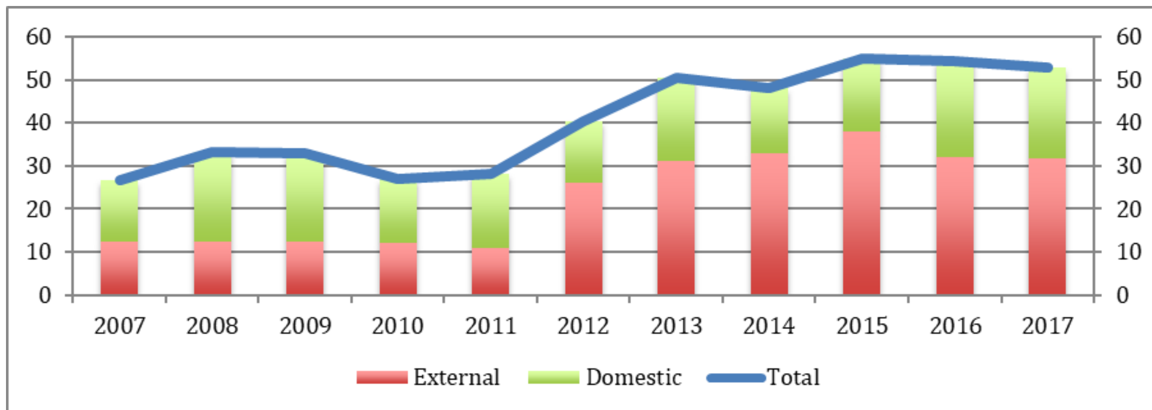
The 2017 IMF Debt Sustainability Analysis (DSA) indicates that Malawi's overall public debt levels are moderate, although surging domestic debt threatens to increase debt stress risk. The DSA further observes that the country's rate of debt accumulation has been one of the fastest amongst countries that 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[32] and significantly above the median debt levels for Poverty Reduction Growth Trust (PRGT) eligible countries. As depicted in figure 19 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 52.8% of GDP in 2017. Total public debt stock at the end of 2017 stood at K2,470.9 billion comprising K1,486.2 billion (USD2,026.8 million) in external debt and K984.7 billion in domestic debt[33].

[31] UNDP Discussion Paper: Direct Access to Climate Finance: expereince and lessons learnt, November 2011

[32] The IMF only includes Poverty Reduction Growth Trust eligible SSA countries for comparison.

[33] RBM (2018), Financial and Economic Review, Fourth Quarter

Figure 19: Evolution of Malawi's Total Public Debts (% of GDP)



Source: IMF, 2017 Debt Sustainability Analysis & RBM, 2017 Q4 F

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, domestic private financing has provided the GoM with more flexible instruments. This, however, has translated in domestic debt rising more rapidly than external debt[34].

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.

4.4.2. 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).

Table 8 below shows that multilateral creditors hold most of Malawi's public external debt (76% as of 2016) whilst bilateral and commercial creditors hold 24% and 1% respectively. The main provider of loans to Malawi is the International Development Association (IDA) (35.9%), followed by the African Development Fund (ADF) (13%) and the IMF (11%). China and India are the main holders among bilateral creditors, with China accounting for about 12% of total debt.

[34] IMF Article 4 Review Report, 2017

Table 7: Composition of External Public Debt

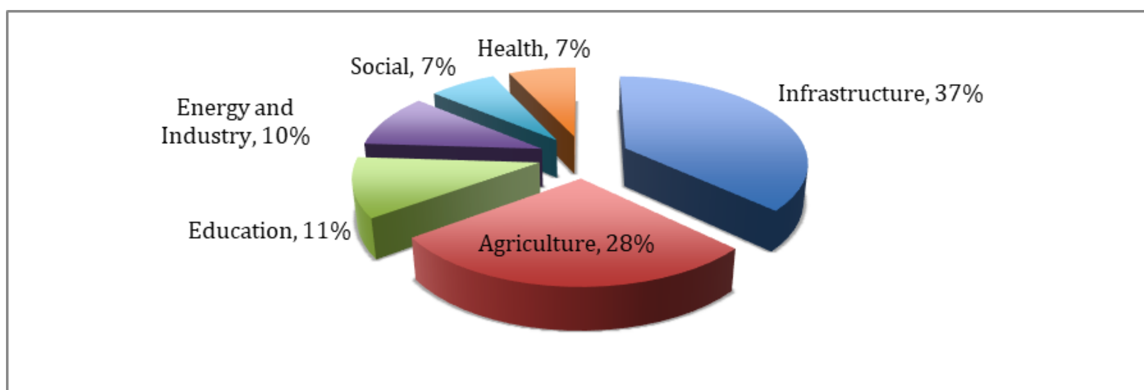
		2014		2015		2016	
Multilaterals		**Actual**	**Share**	**Actual**	**Share**	**Actual**	**Share**
	IMF	176.00	10%	162.81	9%	206.06	12%
	IDA	501.40	28%	589.90	33%	642.21	36%
	ADF	226.00	13%	228.77	13%	247.91	14%
	IFAD	77.40	4%	71.80	4%	72.49	4%
	Other multilaterals & PTA	376.60	21%	289.83	16%	193.66	11%
		1,357.40	**75%**	**1,343.11**	**75%**	**1,362.33**	**76%**
Bilaterals							
	France	3.30	0%	-	0%	-	0%
	Belgium	1.90	0%	1.72	0%	1.65	0%
	China	244.00	14%	242.74	14%	226.90	13%
	India	141.80	8%	151.74	9%	147.29	8%
	Others	41.60	2%	43.28	2%	50.40	3%
		432.60	**24%**	**439.48**	**25%**	**426.24**	**24%**
Commercial		14.49	1%	0.39	0%	-	0%
Total		**1,804.49**	**100%**	**1,782.98**	**100%**	**1,788.57**	**100%**

Source: IMF (2017) 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.

Based on data from the CS-DRMS, analysis of funding commitments by external DFIs over the course of the next five years (that coincides with the MGDS-III period), indicate that most of external development finance will be invested in infrastructure, seconded by agriculture, followed by education and energy, in that order (figure 20). A number of financing arrangements (particularly with China) expected for the MGDS-III flagship projects are not yet reflected in the MoFEPD's CS-DRMS database.

Figure 20: Expected External Development Finance for MGDS-III



Source: Authors compilation based on data from the CS-DRMS (2017)

Based on current projections, debt servicing and repayments, particularly to emerging DFIs, is expected to drastically increase towards the end of the MGDS-III, thus causing further ***strain on the financing and implementation of the national development strategy closer to 2022.***

4.4.3. 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 particular development sectors, projects or conditions compared to foreign concessional financing).

Table 8: Composition of Gross Domestic Debt (% of GDP)

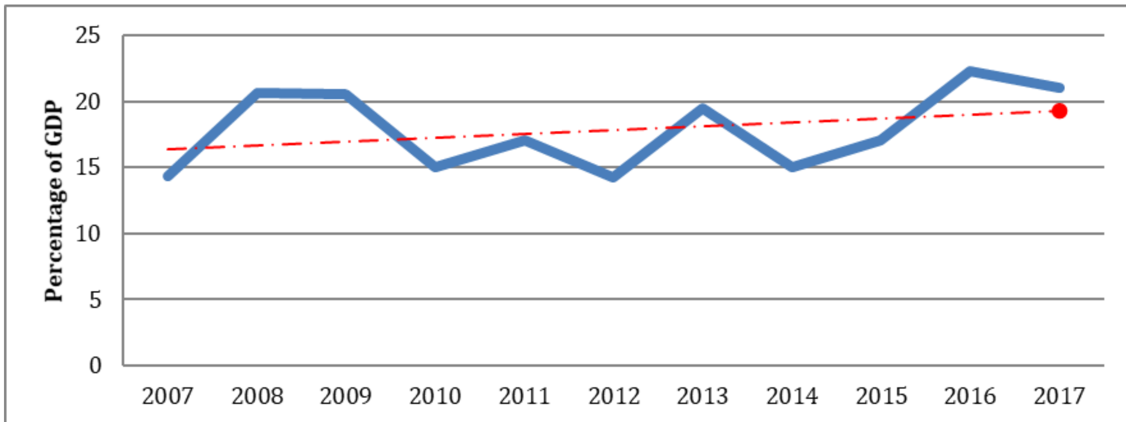
Type of Instrument	2012	2013	2014	2015	2016	2017
Treasury Bills (at cost)	9	9.1	6.9	6.2	5.8	5.4
Treasury Notes	2.7	1.8	1.3	6	11.5	14.6
Local Registered Stocks (LRS)	0.2	0.1	0.1	0	0	0.0
Ways and Means Advances from RBM	1.7	5.2	3	0.9	0.9	0.9
Promissory Notes for recapitalization of banks	0.1	1.5	2.3	2	0.7	0.0
Promissory Notes for clearance of arrears	0	2.2	1.4	2.2	3.1	0.1
Commercial Bank Advances	0.1	0	0	0	0	0.0
Total	**13.8**	**19.8**	**19.8**	**17.3**	**22.1**	**21.0**

Source: IMF, Debt Sustainability Analysis, 2017 & RBM Financial and Economic Review, Q4, 2017

Gross domestic debt increased from K 206.6 billion representing 13.8 per cent of GDP in 2012 to K984.7 billion representing 21 per cent of GDP at the end of 2017

(Figure 21). The IMF notes that the progressive shift from external to domestic borrowing is largely because of sustained large fiscal deficits between 2013 and 2017, as donors withheld budgetary support in the wake of the Cash gate.

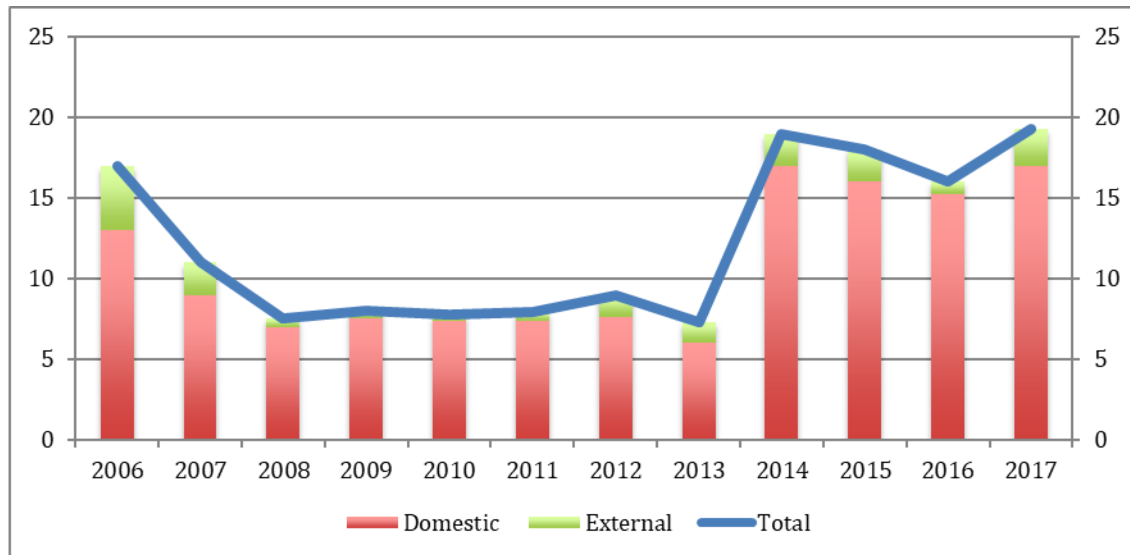
Figure 21: Evolution of Total Domestic Debt (% of GDP)



Source: IMF, Debt Sustainability Analysis, 2017

As depicted in Figure 22 below, interest expense has correspondingly increased to around 20% of government revenues in 2016/2017.

Figure 22: Evolution of Public Debt Interest Expense (% of GoM Revenue)



Source: IMF, 2017 Debt Sustainability Assessment

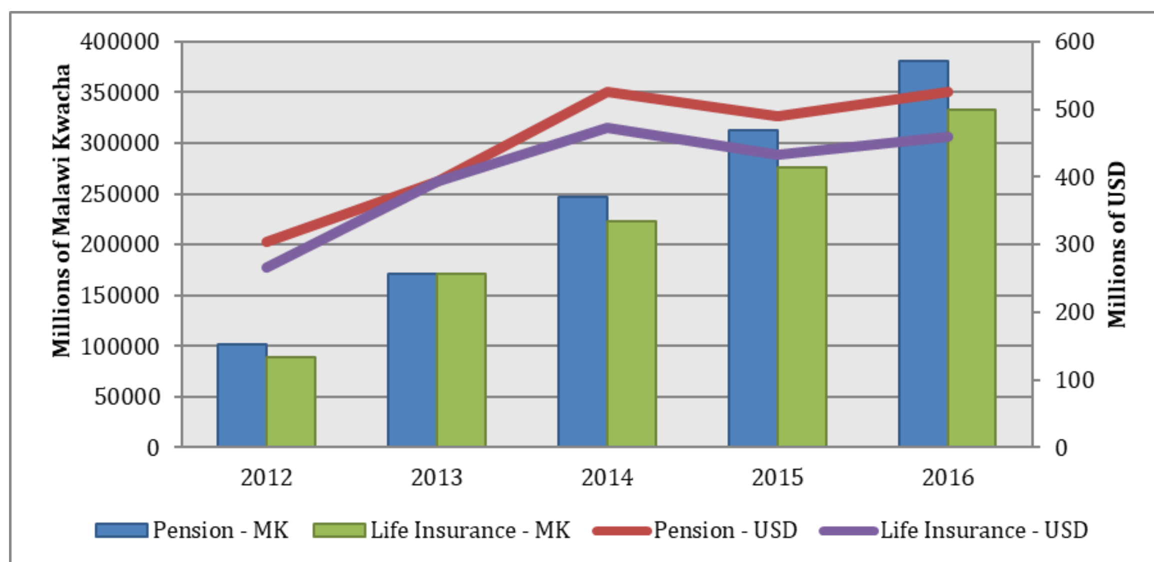
The authorities anticipate that gross domestic debt, as a percentage of GDP will gradually decline over the MGDS period, from 22.1 percent at the end of 2016 to around 12 percent of GDP at the end of 2022. Policy implications of the current

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 MGDS-III commitment of containing domestic borrowing by among other measures, operationalizing the Debt Management Policy, including the conversion of short-term debt instruments into long term instruments. The International Monetary Fund has presented many more recommendations to the GoM on how to curb public debt and reduce the risks of domestic borrowing[35].

4.4.4. Pension and life insurance funds

Pension funds have increased six-fold in absolute Kwacha terms and almost doubled in USD since the Pensions Act came into force in 2011 (figure 23). 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 24).

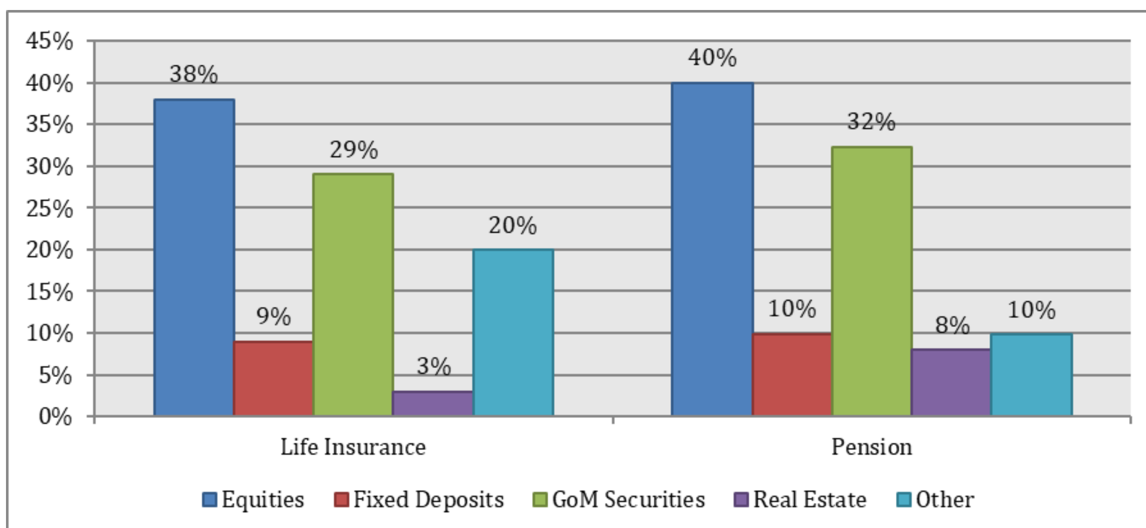
Figure 23: Evolution of Pension & Life Insurance Funds



Source: Reserve Bank of Malawi

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

Figure 24: Pension & Life Insurance Assets Investment Portfolio Mix (2016)



Source: Reserve Bank of Malawi

The growth in pension and life insurance funds presents a hitherto untapped source of development finance for the country, especially in respect of infrastructure. Despite some experts arguing that these type of funds are too 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"[36]. 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)[37].

[36] Sy, A. (2017). Leveraging African Pension Funds For Financing Infrastructure Development, New York: Brookings Institution

[37] From a speech of Dr. Ibrahim Mayaki, CEO of NEPAD Agency, at the Third Financing for Development Conference in Addis Ababa (July 2015)

Text Box 5: Case studies of Pension Funds Infrastructure Investment in Africa

Pension funds can use a number of 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 a number of 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.

Pension fund investment in Africa has taken a number of 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.

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

The broader African experiences (Text Box 4) 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 in the MGDS-III.*** 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 "MGDS-III infrastructure bonds". The Malawi Stock Exchange (MSE) has in fact already submitted proposals to the MOFEPD 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. Text box 6 below is an extract of some examples of infrastructural projects that can be financed in this manner as presented by the MSE.

Text Box 6: 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 proffered by the MSE and summarized in Text Box 6 below:

Text Box 7: Advantages of Bond Issuance

- Long term borrowing is better for government as opposed to short term borrowing as it eases pressure on government cash flows due to the principal repayment being spread over a longer period.
- 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.
- Listing of Government Securities will provide an opportunity for individuals to own

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 bourse will betoken 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.

4.5. Leveraging Private Investment for Development

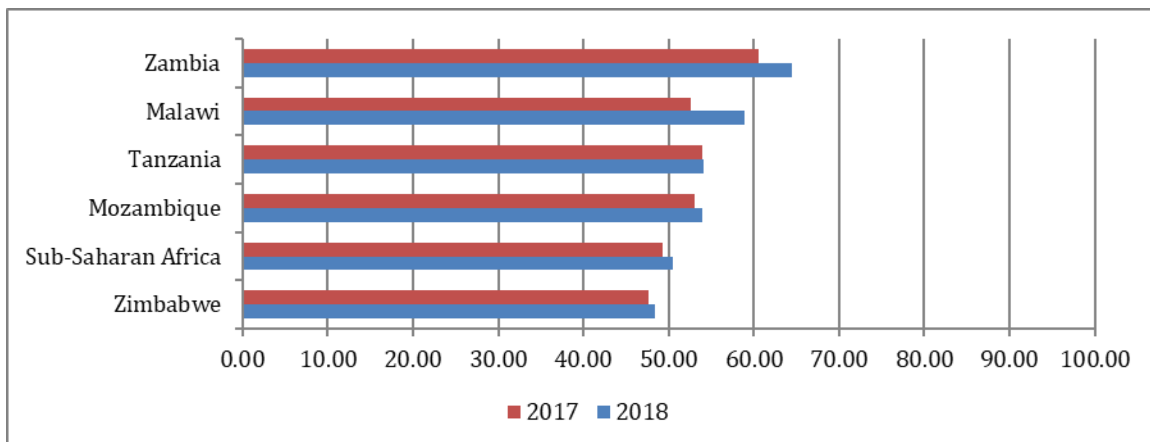
A vibrant private sector is central to growth and the maturation of any developing country to middle-income status. The private sector can play a major role in structurally transforming Malawi from an importing and aid-dependent economy to one that is productive and export-oriented. In this regard, the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

> *The role of private sector is 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 MGDS-III during its implementation. The scope of the private sector participation will be widened to involve them in the provision of other public goods and services through PPPs. MGDS-III, pg 69.*

4.5.1. Business environment

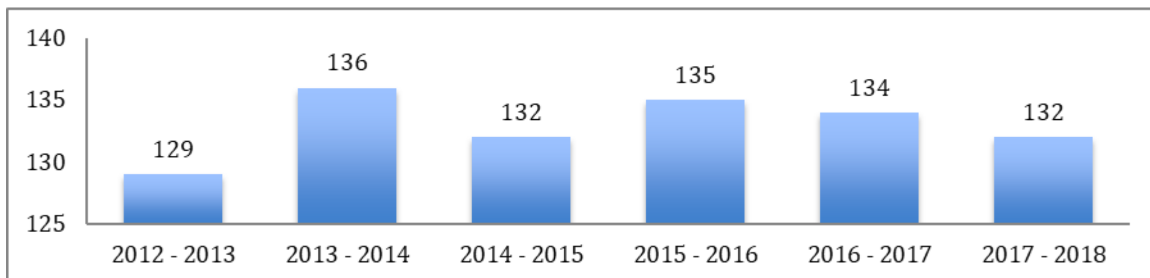
A favourable business environment is critical for attracting and nurturing investment (both foreign and local). Malawi has lagged in creating a conducive environment for business as reflected in various business environment rankings, as presented in Figures 25 and 26 and table 11 below.

Figure 25: Distance to Frontier[38] – Malawi & neighbouring countries



Source: World Bank – Doing Business

Figure 26: Evolution of Malawi's Business Competitiveness Ranking



Source: World Economic Forum

Table 9: Ease of Doing Business in SADC

Country	Ranking
Mauritius	25
South Africa	82
Zambia	85
Malawi	110
Swaziland	112
Tanzania	137
Mozambique	138
Zimbabwe	159
DRC	182

Source: World Bank (2017)

[38] On a scale of 0 to 100, Distance to Frontier measures the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample since 2005

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) (Figures 27 and 28).

Figure 27: WEF Report (2017)

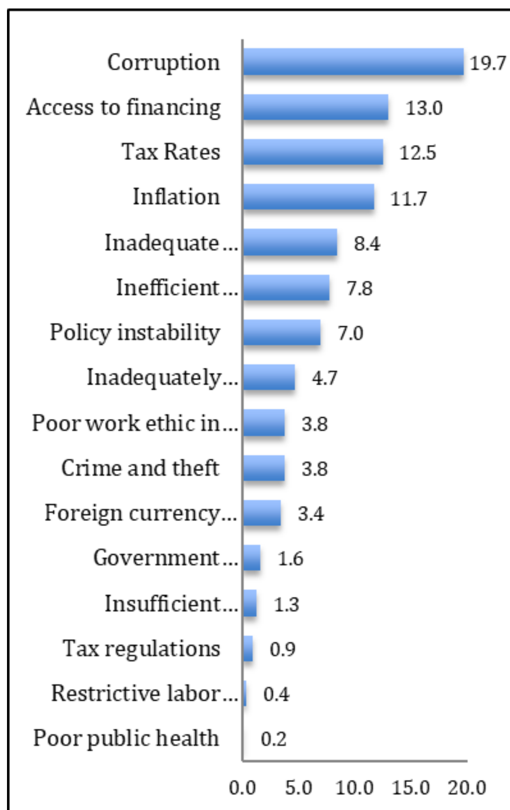
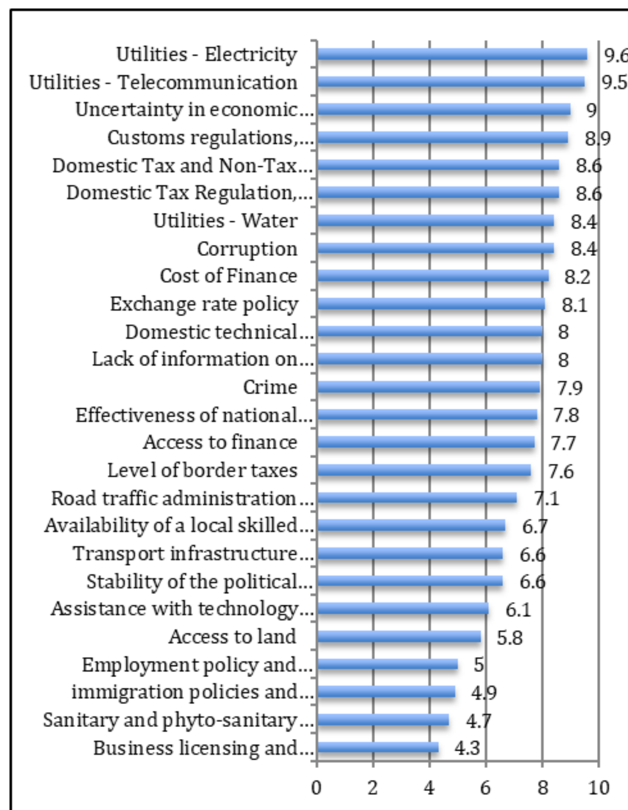


Figure 28: MCCI Survey (2017)



The top ranking constraint highlighted by most businesses operating in Malawi is the endemic infrastructure challenges: shortage of electricity, water supply and transport services - which are essential for the functioning of any industry. The high cost of utilities and services needed to produce and move goods render Malawian products and exports less competitive in the domestic, regional, and global markets.

A weak regulatory framework around corporate tax, duties, and customs has also engendered an inefficient bureaucracy that 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. 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.

To compensate for the deficiencies in the country's business environment, the government offers a number of incentives, including exemptions on taxes and customs duties for companies investing in priority areas in line with the national development strategy.[39] 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.

The Malawi Investment and Trade Centre (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 immediate region: Rwanda, Zambia, Mauritius, and South Africa.

4.5.2. Mapping private investment in Malawi

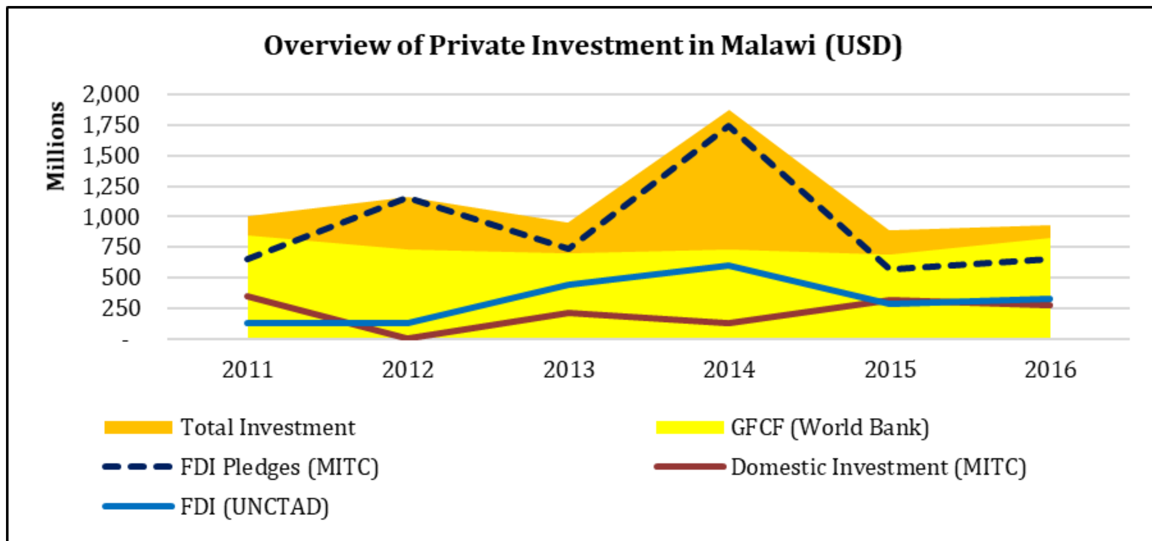
Text Box 8: Private investment data limitations

The latest official national data on actual domestic and FDI inflows dates to 2012 when the RBM and the NSO published the last edition of the Malawi Foreign Private Capital and Investors' Perception Survey. Both the NSO and RBM could thus not provide up to date data on actual FDI and domestic private flows. The DFA has consequently relied upon Gross Fixed Capital Formation (GFCF) data from the World Bank and FDI data from UNCTAD. This data is in some respects inconsistent with estimates by local authorities. There are also discrepancies in different reports published by the same international organization (i.e. UNCTAD). The DFA has therefore had to rely on data compiled by the MITC, which although systematically captured since 2011 (as part of the registration process of domestic and foreign companies that require certifications to operate in Malawi), is not verified and only relates to investment pledges and not actual FDI. Further, the MITC database does not capture investment pledges less than US$ 50,000.

Annual private investment in Malawi is estimated to have averaged $900 million over the past five years. The goal of MGDS-III is to reach $ 1,2 billion of private investments each year. Figure 29 presents a five-year overview of domestic, foreign, and total investment (measured in GFCF terms) using estimates from both domestic and international sources.

[39] Price Waterhouse Coopers (PWC). 2016. A Comprehensive Analysis and Review of Investment, Production and Export Incentives in Malawi. Report prepared for UNDP Malawi

Figure 29: Evolution of Private Investment (2011 to 2016)

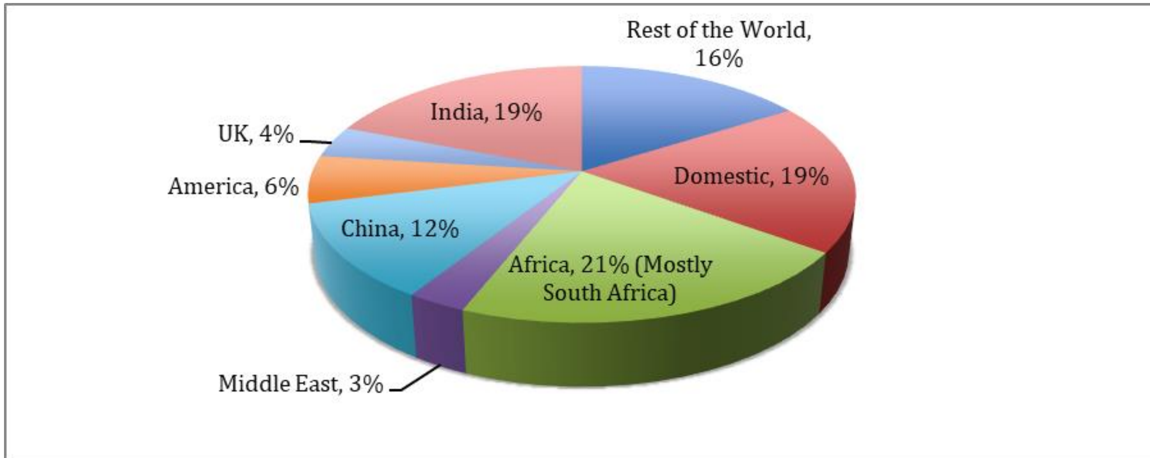


Source: Author's compilation based on data from MITC, UNCTAD, and World Bank

Although FDI figures reported by MITC are higher than those by UNCTAD, there is some similarity in the trend, with a spike registering in 2014 in both cases, on account of commitments made by South African businesses to invest in Malawi's energy sector. A similar spike is notable in 2012, when Brazilian logistics company, Vale, committed US$ 1 billion towards the rehabilitation of the Moatize - Nkaya railway, a large portion of which traverses Southern Malawi, providing coal supplies to the new power station that Chinese investors plan to construct at Kammwamba.

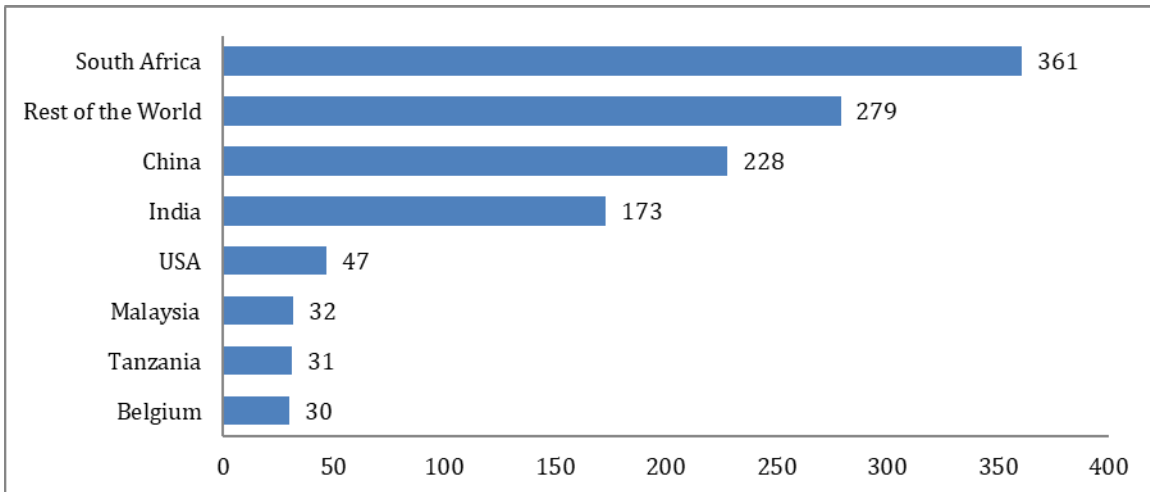
Analysis of the origin of private investment in Malawi indicates that the bulk of FDI to Malawi comes from the global South and from the rest of the continent (Figure 30). Investment from Asian, African and Middle Eastern countries has been on the rise, with the three largest foreign investors being India, China and South Africa – dominating Malawi's agriculture, mining, manufacturing, infrastructure (transport, ICT, energy), and tourism sectors. Figure 31 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.

Figure 30: Origins of Private Capital in Malawi



Source: Author's compilation based on data from MITC

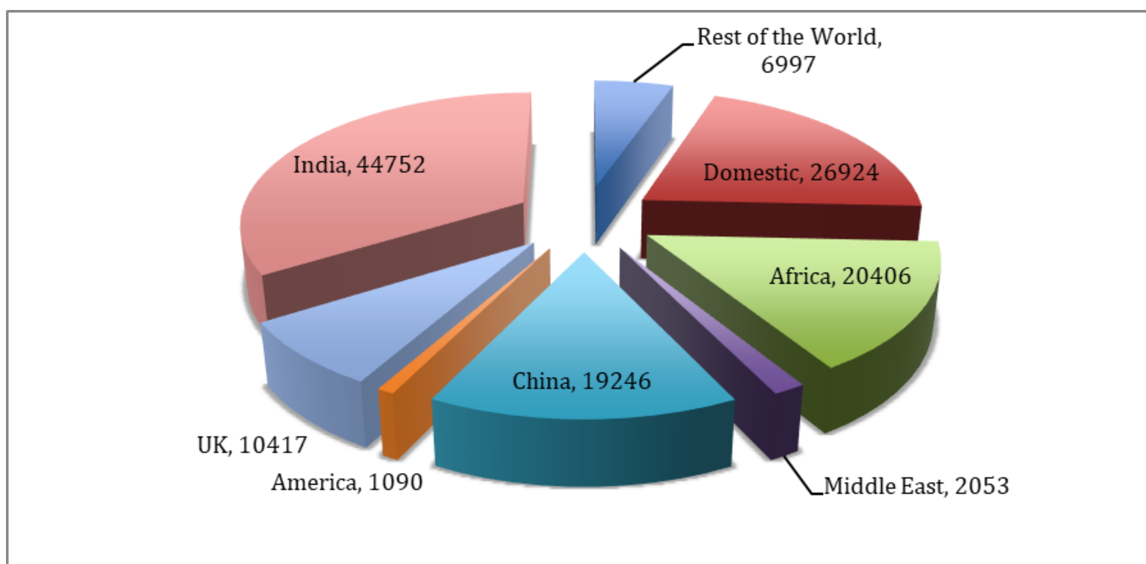
Figure 31: Volume of Imports into Malawi (US$ millions, 2016)



Source: Author's compilation based on data from www.trademap.org

The domestic private sector in Malawi represents on average 20% of job creation. Figure 32 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 32: Origin of Private Capital in respect of jobs created (2007 - 2017)



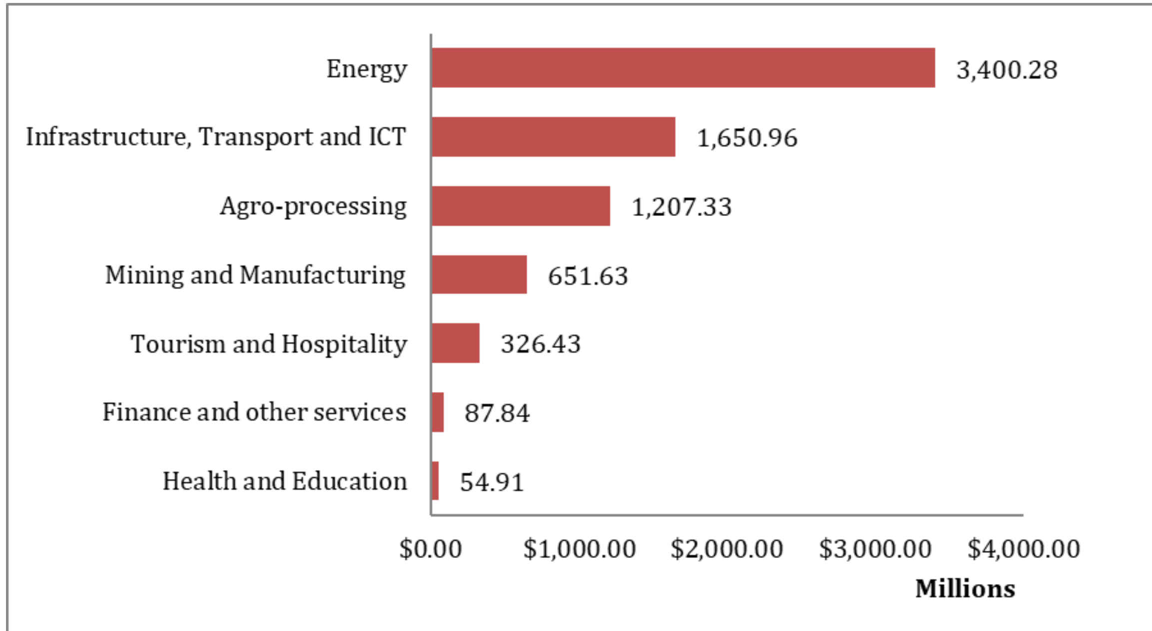
Source: Author's compilation based on data from MITC

While acknowledging the contribution made by some of the Asian investors to local employment, concerns have also been raised on the quality of the jobs and labor standards, pay and treatment of local employees. Similarly, criticism often emerges on environmental and safety standards of Indian and Chinese companies operating in Malawi and the rest of region.

Sectoral analysis indicates that private investors have made more commitments towards energy and infrastructure sectors (Figure 33). Actual investment flows (especially FDI) have however not always eventuated due to a number of factors, including the less favourable 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 actually 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.

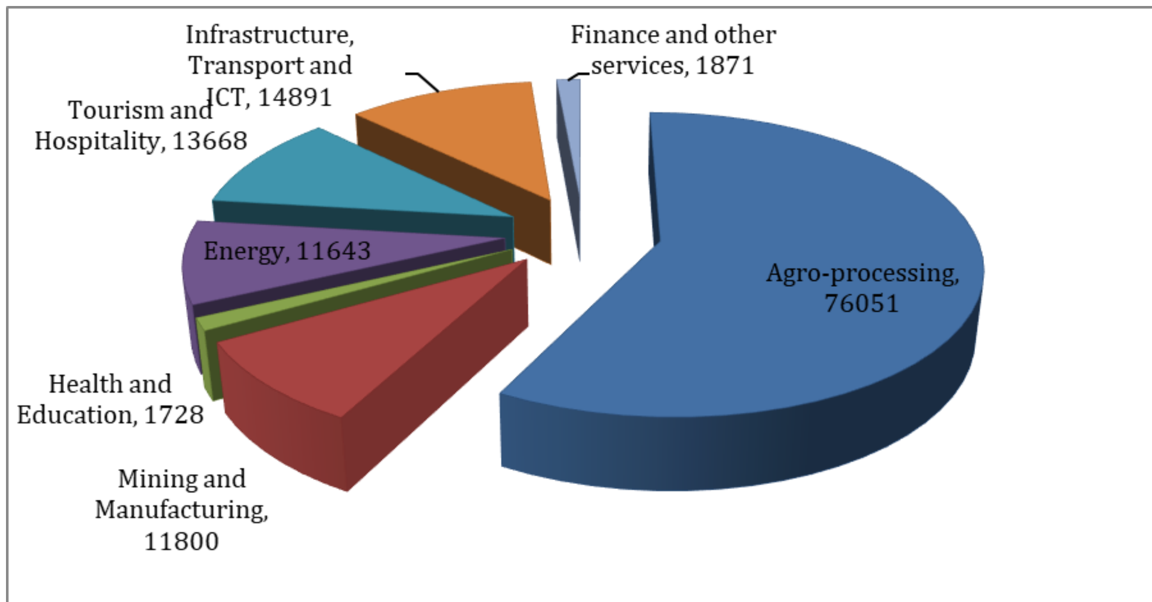
Figure 33: Private Investment Commitments by Sector (2007 - 2017)



Source: Author's compilation based on data from MITC

In terms of job creation, private investment in agriculture, followed by tourism and hospitality appears to generate the most (Figure 34).

Figure 34: Indicative jobs created by different economic sectors



Source: Author's compilation based on data from 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. Tourism development also presents potential for increasing employment and spurring economic growth. These sectors are further explored in chapter 6.

4.5.3. Public-Private Partnerships

The MGDS-III intends to operationalize PPPs for a number of flagship projects to accelerate project delivery and leverage private finance. At least five MGDS-III flagship 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 Privatisation Commission (PC) formed in 1996 to advance the divestiture of government interest in a number of 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[40].

Notwithstanding its nascent state, good progress has since been made, with a number of PPPs concluded and some in the pipeline. Those concluded 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 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 Government of Malawi 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

[40] The Economist Intelligence Unit. 2017. Measuring the enabling environment for public-private partnerships in infrastructure: Malawi country summary. EIU, New York, NY.

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 BOO 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 fees equal to 2,5% of gross revenue and an additional 1% going to support the marine college association of 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 a number of bottlenecks. Projects are hindered by a weak overall macroeconomic investment climate for private investors, high inflation rates, credit costs and funding deficits, which have led to over-reliance on external finance and aid[41]. 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

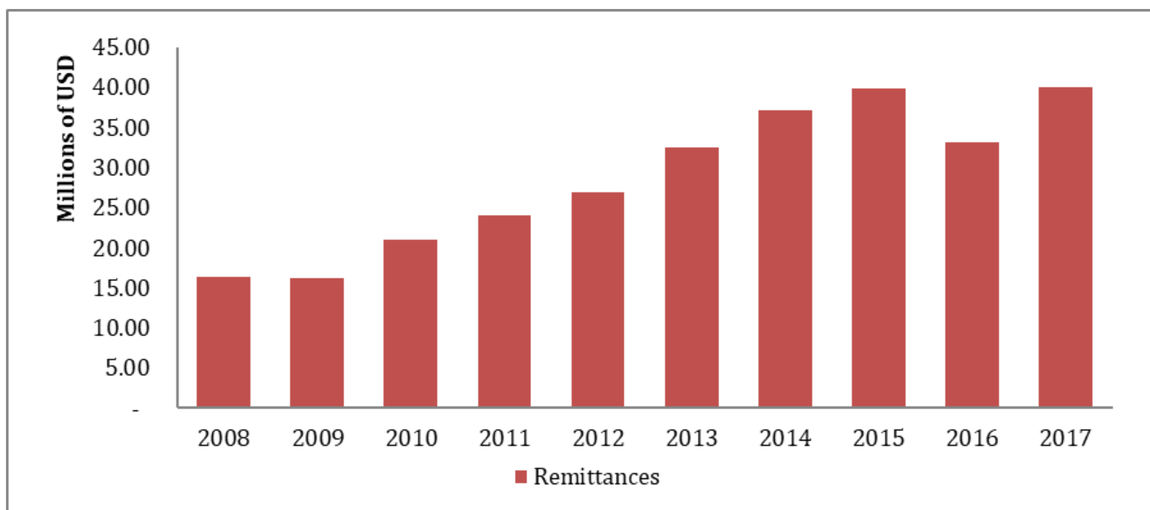
[41] Ibid

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[42].

4.6. 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. In 2017, remittances totaled US$37 million[43] (figure 35). 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: Evolution of Remittances through official channels



Source: Reserve Bank of Malawi

To encourage remittances through official channels, the Ministry of Foreign Affairs and International Cooperation's Diaspora Affairs Unit, in collaboration with the RBM, MoFEPD, 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. This policy could explore how some remittances can be channeled into investment instruments, such as foreign currency denominated accounts, diaspora bonds, treasury bills and bankable projects, as it has been done elsewhere: Ethiopia, Kenya, Nigeria, Rwanda, Ireland, India,

[42] Ibid

[43] World Bank, Bilateral Remittance Matrix

Philippines and other developing countries.[44] Indications from the Reserve Bank are that remittances have started increasing and prospects are that the Malawi Diaspora remittances, especially those in western countries like the USA and UK are capable of uplifting the socio-economic state of the country.

In the context of the foregoing, ensuring that the DEP is effectively implemented is of importance, as remittances stand to contribute towards development financing and poverty reduction, directly through the aforementioned instruments or indirectly through improved incomes for recipient households.

Chapter 5: Institutional Readiness for an INFF

5.1. Leadership and Institutional Coherence

The MoFEPD has hitherto led the development planning, budgeting, and monitoring processes in Malawi. In 2017, an independent National Planning Commission (NPC) was established to guide economic planning and oversee implementation of national development plans (Text Box 8).

Text Box 9: Functions of the National Planning Commission

- Identify Malawi's social-economic development priorities and formulate the national vision and strategy for social economic goals taking into account 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 with regard to the implementation of plans, programmes, and projects; and
- Perform any other functions in relation to national planning, as it may deem appropriate for achieving the purposes of the National Planning Commission Act.

https://www.migrationpolicy.org/research/diaspora-investment-developing-and-emerging-country-capital-markets-patterns-and-prospects ; https://qz.com/1014533/nigeria-has-raised-300-million-from-its-first-ever-diaspora-bond/ ; http://www.rwandandiaspora.gov.rw/diaspora-initiatives/rwanda-diaspora-mutual-fund.html

Source: National Planning Commission Act, 2017

The MoFEPD remains the central institution spearheading the DFA and INFF processes. The MoFEPD is vested with significant authority regarding public financial management, particularly national planning and 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 Minister of Finance highlighted the importance of national ownership, the imperative of strengthening domestic resource mobilization, and the urgent need for better climate financing arrangements[45]. The MoFEPD is thus well poised to provide institutional leadership in building a broader development-financing framework.

Other than the MoFEPD and NPC, other government institutions within the ambit of Malawi's national planning, monitoring and financing framework include the Reserve Bank of Malawi (RBM), the National Statistics Office (NSO), Malawi Revenue Authority (MRA), Malawi Investment Trade Centre (MITC), the Public-Private Partnership Commission (PPPC), and the 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 the MGDS-III priorities should be welcomed in the INFF system. Notwithstanding the fragmentation earlier highlighted, the MoFEPD and these institutions (and many others) constitute a veritable ecosystem that should act as a springboard for the INFF implementation. Success though demands enhanced coordination.

5.2. Vision for Results

5.2.1. Vision 2020

Malawi has since the 1980s formulated and executed a series of medium term national development strategies (NDSs) variously targeting economic growth and development (Appendix 2). Over the last two decades, these NDSs have been developed within the context of the Vision 2020, the country's long-term strategic plan launched in March 1998. Vision 2020 seeks to accelerate economic growth, intent on advancing the country towards Middle Income Country status.

The series of strategies and plans since 1980 demonstrate that Malawi has extensive experience in formulating development strategies. Implementation has however been stymied by several factors, chief amongst which have been political short-

[45] http://www.un.org/esa/ffd/wp-content/uploads/sites/2/2015/07/Malawi.pdf

termism and financial constraints. One of the major bottlenecks in respect of financing relates to the fact that national planning has tended to be needs based, without adequate alignment with available financial resources[46]. The linkage between NDSs and the Vision 2020 has also been weak as evidenced by the disconnect between the MGDS II and the national vision. Political short-termism set in upon the dissolution of the National Economic Council, as implementation of development projects was no longer aligned to the national vision, but tended to privilege politically popular programmes. It is thus commendable that the National Planning Commission has been established, as it will track execution of long and medium term plans.

5.2.2. Malawi Growth & Development Strategy III

Following the first three medium-term plans under the Vision 2020 (PRSP, MGDS-I and MGDS-II), the latest of these NDSs is the third Malawi Growth and Development Strategy (MGDS-III), which was launched in March 2018. The MGDS-III, spanning the years 2017 to 2022, aims at enhancing Malawi's productivity, competitiveness, and resilience to climate-induced shocks that pose a perennial risk.

The MGDS-III has been 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 MGDS-III focuses on the priority areas enumerated in table 12 below.

Table 10: MGDS-III Priority Areas and their linkage to SDGs

#	Priority Area	SDG Alignment
1	Agriculture, Water and Climate Change Management	1, 2,6 and 13
2	Education and Skills Development	4 and 8
3	Energy, Industry and Tourism	7,8,9,12 and 17
4	Transport and ICT Infrastructure	9 and 11
5	Health and Population	1, 2,3,5 and 6

Source: MGDS-III document (2018)

The MGDS-III has been costed at K8.6 trillion for the five year period. Other than the above priority areas, the MGDS-III contains nine other development areas, including a portfolio of flagship projects that the Government plans to implement in the

[46] MGDS-II Comprehensive Review Report, 2016

MGDS-III timeframe. The MGDS-III costing comprises K3.6 trillion for the above five priority areas, K3.4 trillion for the flagship development projects, and K1.6 trillion for other development areas

Lessons from the MGDS-II have been integrated to improve implementation arrangements of the MGDS-III. 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 for the MGDS-III, to be overseen by the newly established National Planning Commission (NPC) and the MoFEPD.

5.3. Overarching Financing Strategy

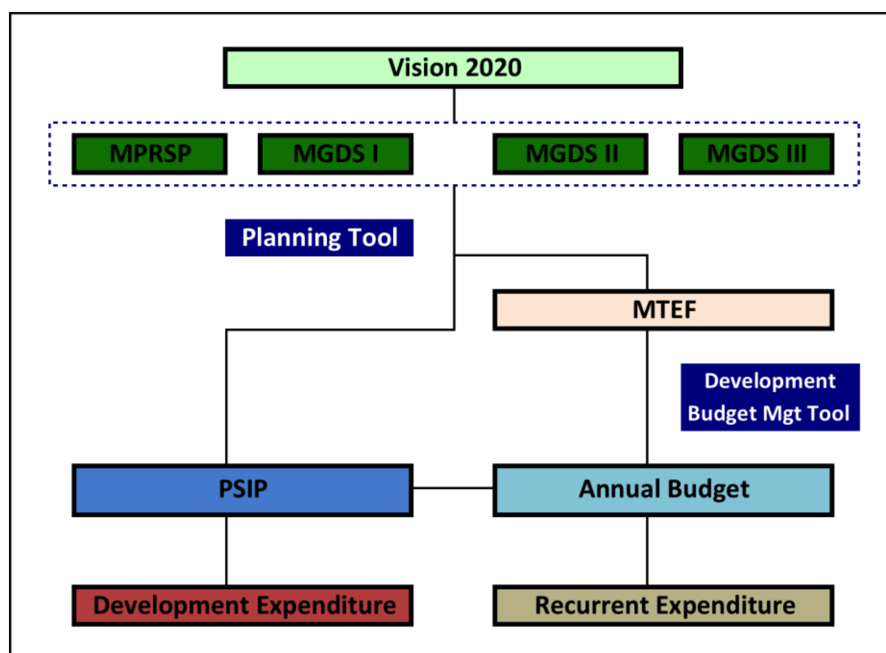
5.3.1. National Budgeting Framework

Central to the execution of NDSs 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"[47].

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 trade offs 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".[48] Besides spanning several years, another important feature of the MTEF is convergence of the recurrent and development budgets. Figure 36 depicts Malawi's National Planning and Budgeting Framework, highlighting the linkage between the long-term vision, the medium-term NDSs, the MTEF, the Public Sector Investment Plan, and the annual budget.

[47] Durevall & Erlandsson, 2005, Evaluation of Public Financial Management in Malawi p. 21
[48] World Bank, 2012 Public Expenditure Review, p. 1

Figure 36: Link between National Planning and Budgeting



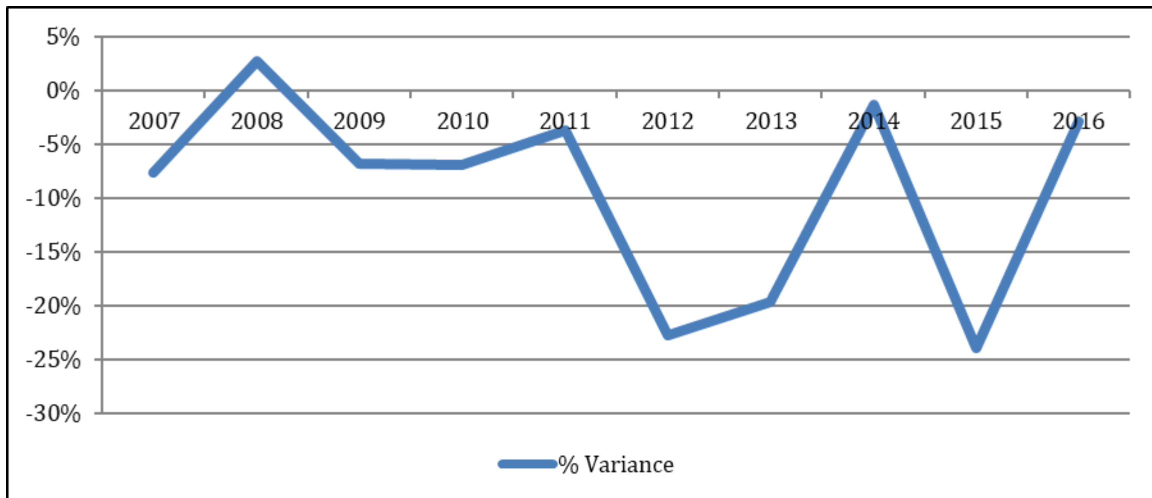
Source: GoM, Importance of Public Sector Investment Plan (2014)

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 particular outcomes. Figure 41 below graphically represents this aggregation and the linkage between policy and allocations.

5.3.2. Fiscal discipline

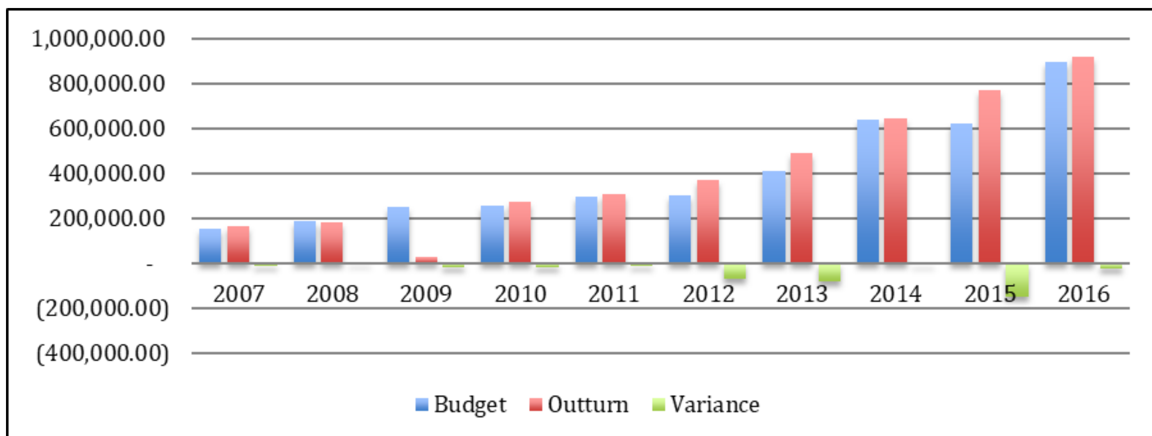
Despite the ostensibly elaborate planning and budgeting systems in Malawi, there is ample evidence of limited functionality of the expenditure framework. Figures 37 and 38 depict the perennial incidence of adverse expenditure variances, pointing to the budgetary overruns.~~system's failure to contain expenditure within approved appropriations.~~ Over the last decade, actual expenditure has averaged 10% above the approved budget and in 2015 it was the highest having registered 24%.

Figure 37: Public Expenditure Variance Trend



Source: Authors compilation based on IMF and MoFEPD data

Figure 38: Actual Expenditure Vs Budget (2007 - 2016)

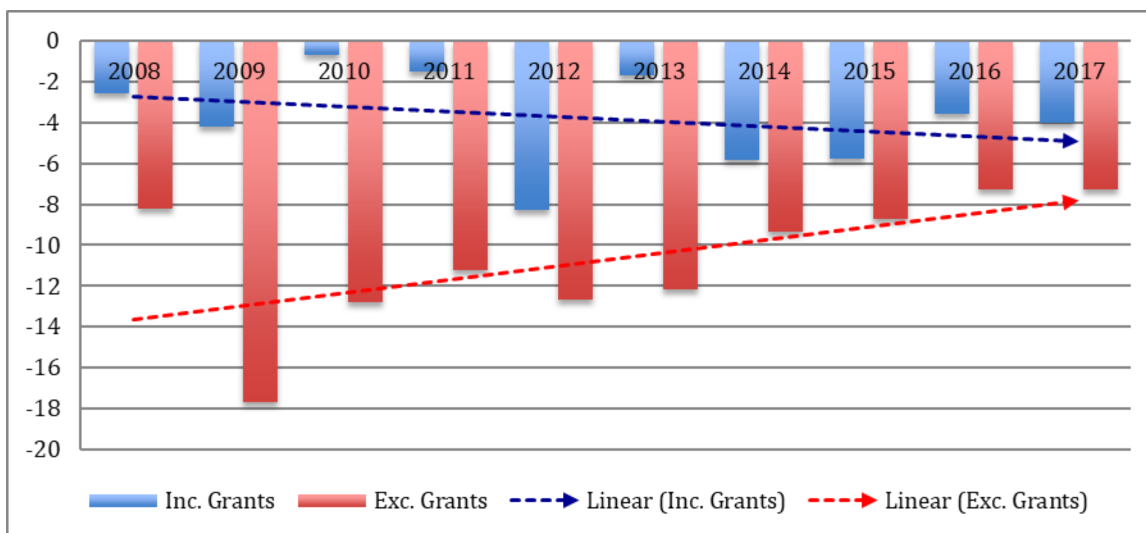


Source: Authors compilation based on IMF and MoFEPD data

As Figure 39 shows, Malawi's fiscal space has been characterized by continuous deficits over the last decade. The overall deficit has averaged 11% and 4% 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 trend-line in 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: Evolution of the Overall Fiscal Balance (2008 - 2017)



Source: Authors compilation based on MoFEPD data

The Open Budget Index (OBI) Survey is a widely acknowledged assessment that can be used to proximate the degree of a country's accountability, especially with regard to the transparency of the budgetary process. The 2017 OBI rated Malawi's budgetary process at 26% on transparency, indicating that very minimal information is provided to the public. In the Open Budget Index, Malawi is number 84 out of 116 countries ranked by their transparency.

The OBI recommends that Malawi should prioritize the following actions to improve budget transparency: a) Publish a Pre-Budget Statement, an Enacted Budget, and a Year-End Report online; b) Ensure that the Executive's Budget Proposal and any supporting documents are consistently published online; c) Consistently publish In-Year Reports online in a timely manner; and d) Continue publishing the Audit Report in a timely manner.

The Public Expenditure and Financial Accountability Assessment (PEFA) assessment is another widely acknowledged international benchmark for assessing public financial management functionality. In Malawi, PEFA assessments have been intermittent, with the last one conducted in 2011. Another PEFA assessment can supplement the DFA by contributing additional baseline evidence, in preparation for the INFF implementation.

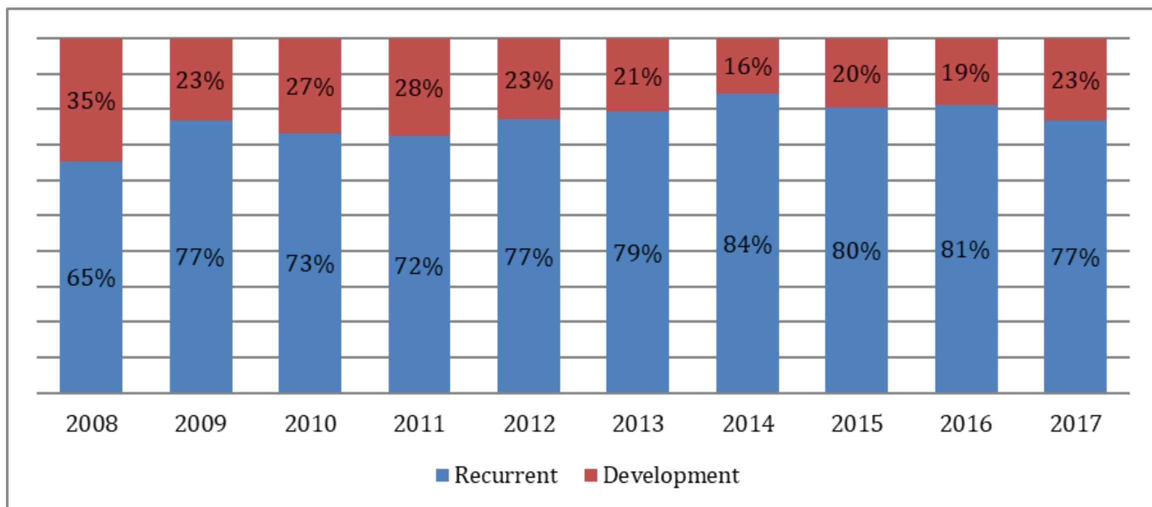
5.3.3. Allocative efficiency

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 – 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 40 and 41 indicate; with allocations skewed towards consumption.

Recurrent expenditure has trended above 70% (over 20% of GDP) of total expenditure, reaching as high as 85% in 2013/14 (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 Minister of Finance[49] 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".

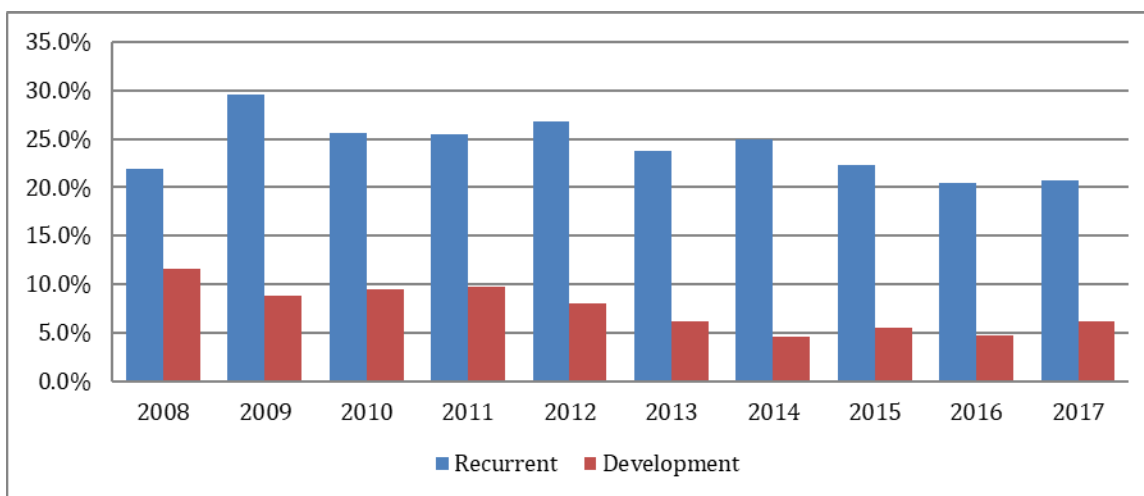
Figure 40: Distribution of Government Expenditure



Source: Author's compilation based on MoFEPD data

[49] 2004/2005 Budget statement by Hon. Goodall Gondwe

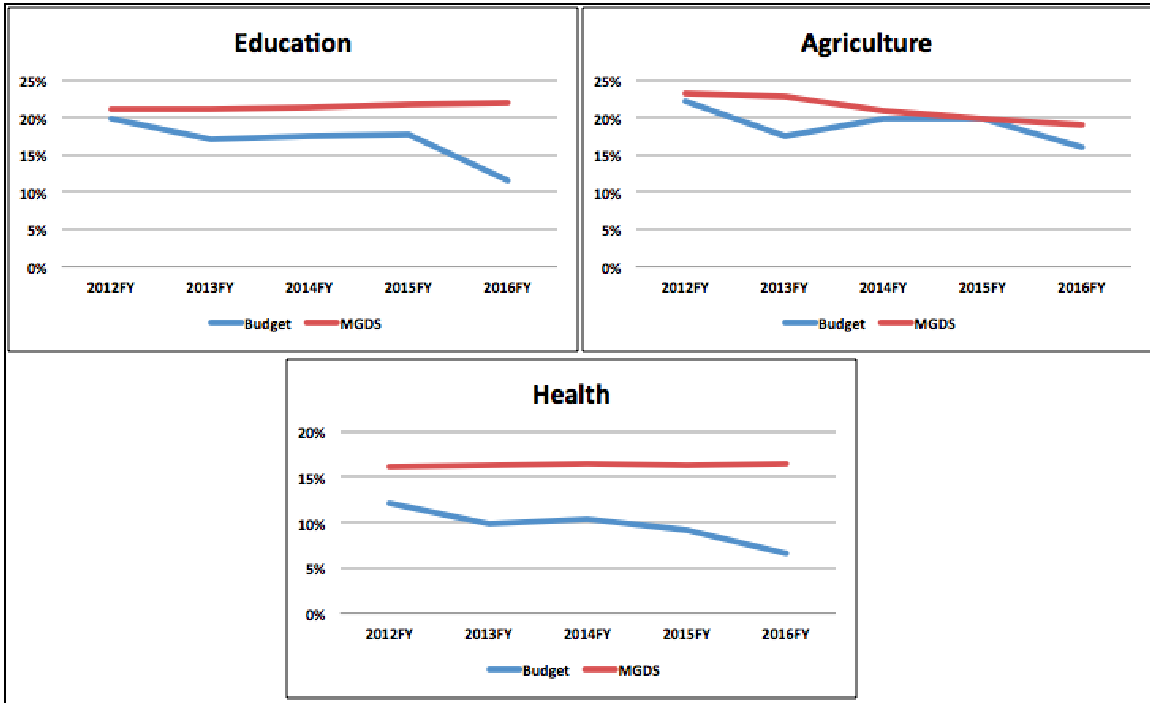
Figure 41: Evolution of Government Expenditure as % of GDP



Source: Authors compilation based on data from MoFEPD

In terms of alignment of budgetary allocations to national development plans, Figure 42 below shows disparities in the three major sectors of Agriculture, Health, and Education. Within the context of the MGDS-II, actual budgetary allocations, in terms of percentage of expenditure, have always been lower than planned. Not surprisingly, the MGDS-II fell short of realizing its intended objectives, including satisfactorily attaining the Millennium Development Goals.

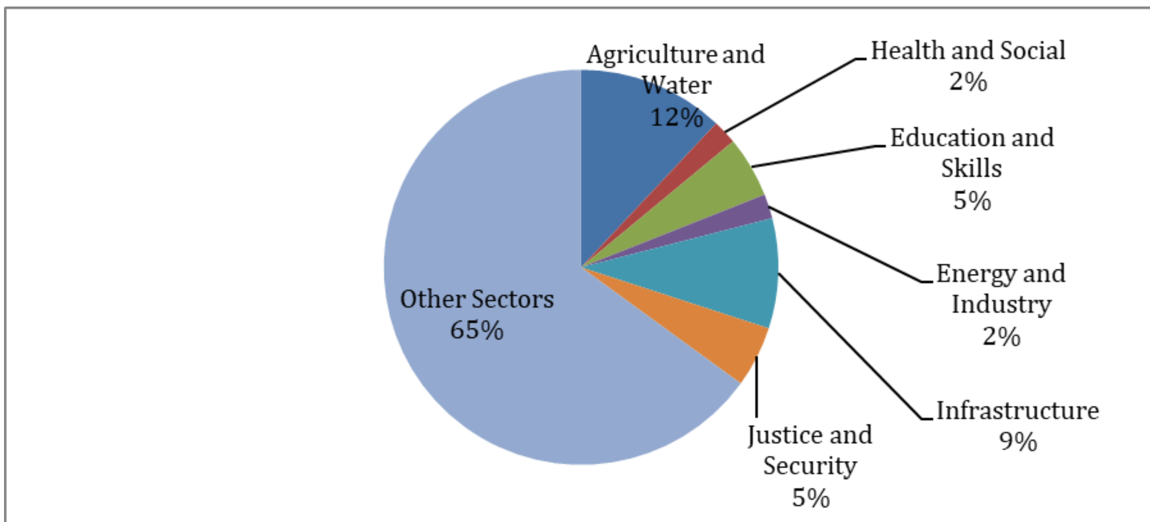
Figure 42: Alignment of Government Expenditure to MGDS-II



Source: Authors compilation based on data from MoFEPD

Analysis of the 2017/18 budget reveals a continuing trend. As depicted in figure 43 below, only 35% of the 2017/18 budget has been allocated to MDAs directly dealing with the development priorities outlined in the MGDS-III. This needs to be reviewed for the MGDS-III to achieve its intended objectives.

Figure 43: Alignment of the 2017/18 Expenditure Allocation to MGDS-III



Source: Authors compilation based on data from MoFEPD

5.4. Specific Financing Policies

Implementation of the MGDS-II failed to yield intended results principally due to financing constraints. The Comprehensive Review of the MGDS-II revealed that up to 90% of Public Sector Investment Projects (PSIPs) were not implemented over the strategy's life, mainly because of inadequate financial resources[50]. 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 needs based, without adequate consideration of available resources.

In terms of the specific financing policy hitherto pursued by the GoM, the bulk of finance has historically come from tax revenues. As discussed later, 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.

As the MGDS-III evidences, 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. As the MGDS-III acknowledges, not only a significant increase in productive investment is needed, but also more effective ways of bridging increasingly diverse sources of financing and channelling them towards its objectives.

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 MGDS-III.

> *"The MGDS-III will largely be financed through three sources, namely: domestic revenues, external grants, and borrowing (both internally and externally). Additionally, PPPs for infrastructure programmes shall be encouraged. Other likely sources of financing are regional and international financing initiatives".*
>
> *MGDS-III (2018) p. 69*

In practice, the GoM has different degrees of control and influence over each of these flows as illustrated in table 13 below.

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

Table 11: Degree of Government control over Finance Flows

Ease of mobilisation	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 / MoFEPD
2	Domestic Loans	Can be more easily mobilized and negotiated, and provides relative flexibility to government in planning	Partial	MoFEPD / RBM
3	External Loans (traditional & emerging DFIs)	Dependent on negotiations with external partners, but once secured there is a clear schedule of future disbursements and repayments	Partial	MOFEPD 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	MOFEPD/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 / MoFA

Source: Authors compilation based on adjusted DFA standard framework

5.5. Monitoring and Evaluation

Supported by various partners, the GoM has over the years endeavored 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 MoFEPD 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 institutionalised 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.

The National Statistical Office (NSO) is the government agency tasked with providing high quality, timely and independent statistical information**.** The NSO is implementing 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.

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.

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 MGDS implementation 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 Table 14, 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 finalise, strengthen and operationalize the M&E policy currently being developed.

Table 12: Malawi Public Sector M&E SWOT Analysis

Strengths	Weaknesses
• M&E structure linked to	• Limited

MoFEPD • Statistical System structure in place • Statistics generation based on Act (Statistics Act 2013) • District M&E Officers deployed and District M&E coordination committees • Established and respected OPA system • Existence of an M&E Master Plan and MGDS results framework	structures for utilization • Understaffing • No M&E policy • Absence of sector M&E frameworks in some ministries • Lack of agreed manageable set of core indicators – MGDS results framework has too many and too little focus on results • Absence of consolidated databases • Limited mechanisms for community feedback on service delivery • Lack of clear leadership from a decision-making body with mandate to enforce M&E compliance across sectors in line with MGDS
Opportunities	**Threats**
• Fresh Government interest on accountability • Revealed Public Finance Management weaknesses • Willing development partners to improve M&E • Existence of Sector Working Groups	• Weak legal framework for access to information • Patronage system of relationships • Low demand for accountability and quality performance information • Unfunded mandates

Source: ACTS Consultancy (2015)

5.6. Accountability and Dialogue

An enabling environment for accountability and dialogue (A&D) is imperative for building trust among stakeholders in order 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.

*For analytical purposes, **domestic accountability** can be characterized as either:*

- ***Horizontal or intra-state accountability:** refers to the inner system of checks and balances between state institutions and the capacities of these institutions to assume oversight, control or audit functions that render the actions of the state more accountable and transparent.*
- ***Vertical accountability:** refers to the answerability of the state to its citizens as well as mechanisms that are used by citizens and non-state actors to hold institutions of the state accountable.*

European Centre for Development Policy Management (2011)

5.6.1. 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 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 Ministry of Finance, and internal audit units in Ministries and Departments[51]. The internal audit function is presently considered weak according to a Public Finance and Economic Management (PFEM) situational analysis report[52].

To inculcate a results and accountability culture, 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

[51] http://www.finance.gov.mw/index.php?option=com_content&view=article&id=104&Itemid=115

[52] https://www.nyasatimes.com/malawi-parliament-gives-treasury-21-day-ultimatum-find-solutions-financial-mess/

evaluators. Spot checks in districts and at MDAs are conducted through an exercise called "groundtruthing". 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.

5.6.2. Institutions of public accountability

The Constitution and legislative Acts above have spawned a number of governance entities tasked to champion accountability and transparency. Apart from the Ministry of Finance, notable are 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.[53]

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[54].

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

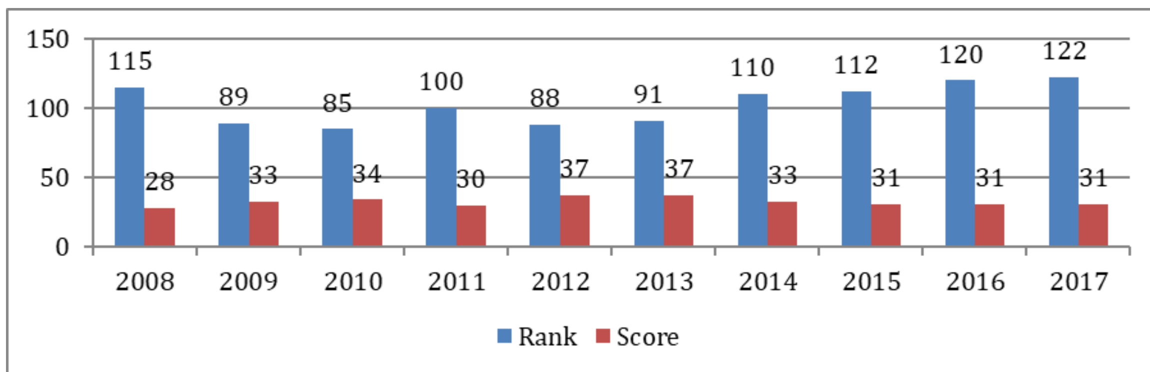
[53] Malawi National Audit Office Mandate, http://www.nao.gov.mw

[54] Malawi National Audit Office (2015). "2015 – 2019 Strategic Plan".

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 regularity 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 44 below depicts trends in corruption perception as reported by Transparency International.

Figure 44: Evolution of Corruption Perception



Source: Transparency International

This state of affairs 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 authorities 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. 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 assemblies 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.[55]

Media and Civil Society: Media and civil society organizations (CSOs) are important players in the accountability of public spending and development results in Malawi. They have been instrumental in exposing corruption and holding public leaders to account. The case of the Cash gate was for example popularized by the media. The recently passed Access to Information Act has given the media and CSOs added impetus.

5.6.3. Platforms for multi-stakeholder dialogue

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 public-private partnerships. 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 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 policy-makers and investors. Besides its watchdog function, the media too needs to be engaged as a channel for dialogue between the state and the citizenry.

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) Intra-government Coordinating Group; (5) Development Partners Dialogue Groups, (6) PFEM Dialogue Structures, (7) Non-state Actors 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.

The most active and functional structures for multi-stakeholder dialogue in Malawi

[55] National Audit Office (2015). “Report of the Auditor General on the Accounts of the City and District Councils for the Years Ended 30th June, 2011 and 2012”.

are those around the effective development cooperation agenda, as these attract the interest of important international partners. Some concerted efforts have been made to also include private sector, academia, and civil society in the process of formulation of the MGDS-III. Nonetheless, more regular and intensified dialogue and coordination is continuously required between different government organs and non-state actors in order to effectively finance, implement, and achieve the ambitious goals and projects of the national development strategy.

Chapter 6: Review of selected MGDS-III priority sectors

This chapter spotlights three of the five MGDS-III priority sectors to assess their financing requirements, review the effectiveness of financing strategies and explore potential finance sources. The sectors: Energy, Agro-processing and Tourism, were selected as focus sectors for the DFA to exemplify how financing strategies can be developed around each of the five priority areas of the MGDS-III discussed in 5.2.2.

6.1. Energy

6.1.1. 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. Malawi's energy sector is one of the most constrained in sub-Saharan Africa (SSA); with electrification at only around 11% according to both the World Bank[56] and the Fourth Integrated Household Survey[57]. This is way below that for SSA (42.8%) and the country's neighbours: Zimbabwe (38.1%), Tanzania (32.8%), Zambia (27.2%), and Mozambique (24.2%)(Figure 52).

A 2017 study commissioned by the Ministry of Natural Resources, Energy and Mining (MoNREM), which culminated in the development of Malawi's energy sector Integrated Resource Plan (IRP) [58] 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 % p.a.) and requirements for economic growth and electrification (IRP – Final Report, Vol. 1 p. 29)*

[56] World Bank: https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?name_desc=false

[57] Malawi National Statistical Office (2017), Fourth Integrated Household Survey

[58] 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 state of affairs 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.

6.1.2. 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 labour 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 time-span of the former (2003) NEP include: (1) 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 – 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.

6.1.3. Developments to improve power generation and supply

The IRP assessed and spells out a number of flagship energy projects either being implemented or planned to be implemented in the short term (by 2020) and medium term (2035) to progress Malawi towards power sufficiency.

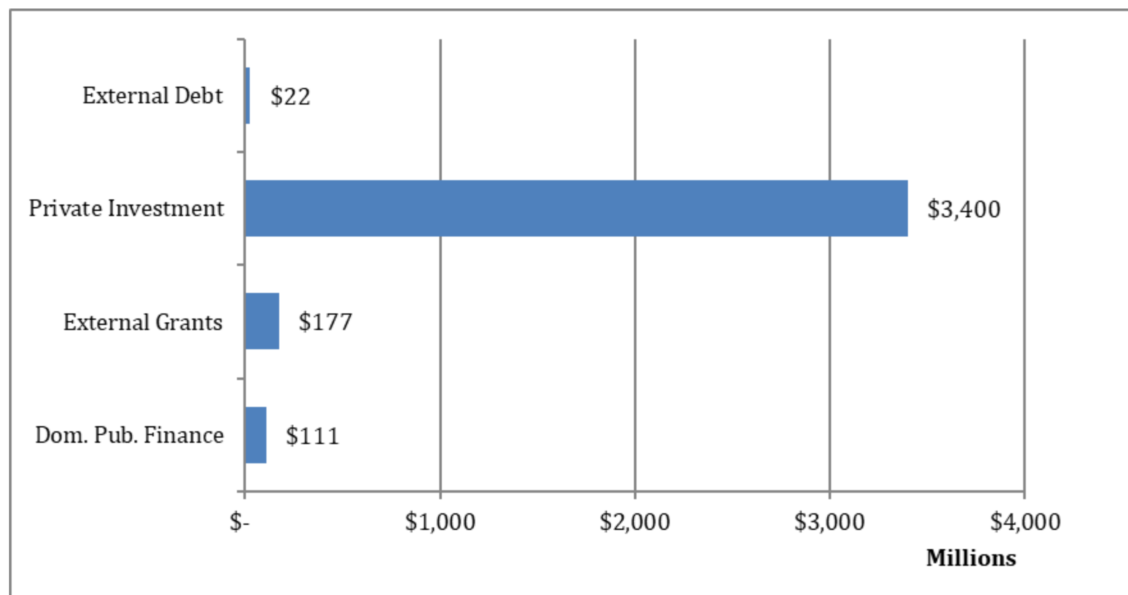
Other than the power generation expansion projects listed above, other interventions involve upgrading of the transmission grid. The IRP observes that the grid has suffered from many years of under-investment and the system is, as a result, in need of upgrades to replace old and outdated equipment. Projects are ongoing to address these issues.

6.1.4. Financing Strategies

Overview of energy sector finance flows

Figure 45 below depicts the distribution of available resources towards the energy sector over the period under review: 2008 to 2017.

Figure 45: Distribution of energy resources: 2008 to 20017



Source: Authors based on data from MoFEPD & MITC

Private Investment

As depicted in figure 45 above, evidence indicates that the energy sector has attracted a lot interest from private investment, predominantly in form of FDI. However, as earlier discussed, most of this has not actually flowed into the country, as FDI pledges have tended not to materially actualize due to a less than favourable business environment, characterized by numerous obstacles to doing business, including a weak macro-economic environment and corruption.

Considering that the MGDS-III 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 are able to yield reasonable returns. Central to this is the a cost-reflective tariff structure that will incentivize investors.

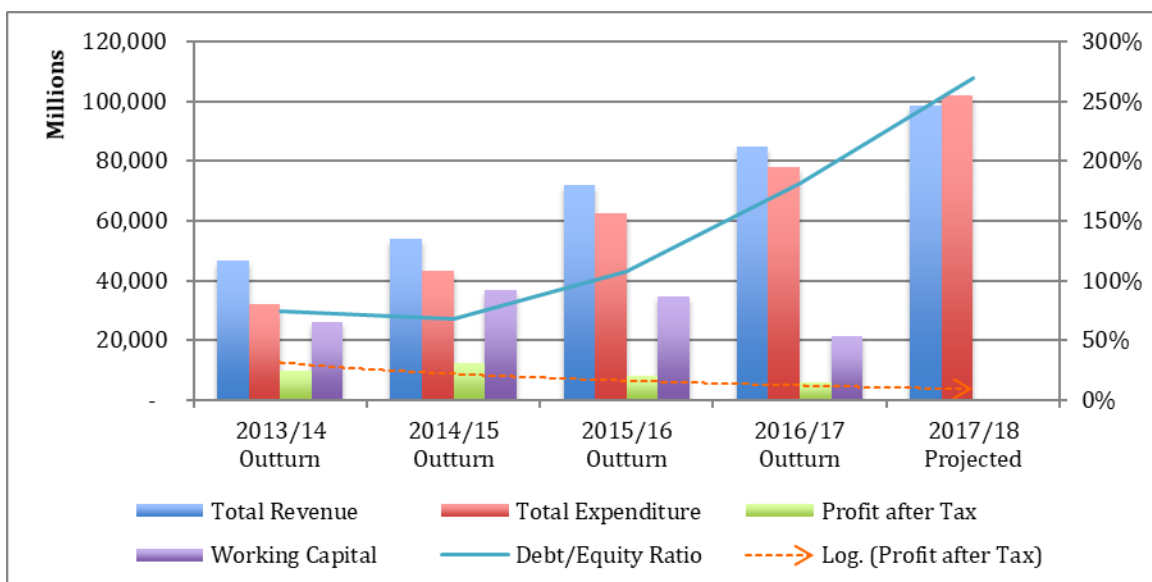
Allied to this, the financial viability and credit worthiness of ESCOM as the PPA counterparty will in the end bear on the bankability of new power generation investments. This is in the sense that IPPs are predicated on the ability of ESCOM (being Single Buyer and Transmission licensee) to sufficiently 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.

MERA adopted a new multi-year tariff regime in 2009 that cumulatively increased the tariff to 61% by 2011. A subsequent tariff order was implemented in 2014 spanning the years 2014 to 2017. This order included an Automatic Tariff Adjustment Formula (ATAF) and provided for a 37% upward adjustment in the base tariff[59] phased over the four-year period. The ATAF initially significantly improved ESCOM's financial performance, allowing the company to meet its debt repayment obligations to development banks – with early settlement made in some cases.

ESCOM's performance has however recently deteriorated, registering a loss after tax of K6.3 billion for the half year to 31 December 2017, although prospects to end of the financial year indicate a marginal after-tax profit of K149.1 million (Figure 54). This poor performance is largely attributed to the deferred 6.72% tariff adjustment which was supposed to be effected in November 2016, the increase in tariff by EGENCO (itself an IPP) from K19/Kwh to K25/KWh and the cost of hiring of diesel gensets from Aggreko Projects International Limited, which were purchased at an average K191.88 million.

[59] Before adjustments for inflation and exchange rate movements

Figure 46: ESCOM Five-Year Financial Performance (MK)



Source: Author's computation based on 2018 & 2017 Annual Economic Report

ESCOM's financial distress is further manifested in a worsening debt to equity ratio (288% as of June 2018) and accumulation of arrears, including difficulties in paying EGENCO for electricity units transmitted – up to K28 billion. Not surprisingly, the corporation recently sought a K58bn financial bailout from the MoFEPD, which was not granted[60]. Against this backcloth, ***it is imperative that, apart from addressing financial malfeasance[61], a tariff structure that allows for cost recovery with a reasonable margin is explored***. As the IRP (2017) asserts:

> *"Reasonable cost recovery, including a reasonable return on capital should, by definition, allow an efficient electricity industry backed by substantial assets, to be able to attract investment in generation and transmission whether they are state-owned or privately owned" (p.36).*

[61] Ibid

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 belabouring 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 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.

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[62]. 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 start up 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.***

International climate finance

Whilst hydro-power will remain the key source of energy for Malawi for the foreseeable future, renewable energy presents good propects going forward as the

[62] http://mwnation.com/malawi-misses-new-mcc-compact/

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[63], championed by India, particularly presents opportunities for countries like Malawi to address their energy infrastructure requirements (see Text Box 11 below). Malawi already being a member, should develop credible investment renewable energy projects and actively engage the Alliance to solicit finance.

Text Box 10: 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 nuclear plant – without generating massive environmental and health damages. Modular decentralised generation with solar is a way to increase access to energy while still 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.

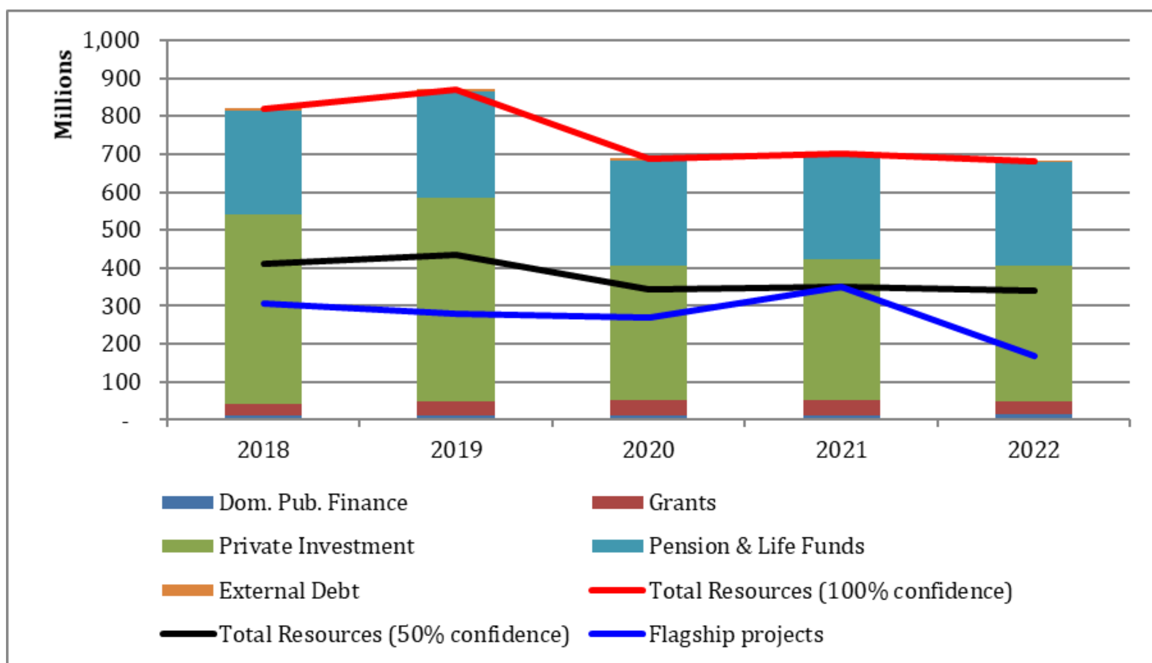
Future Finance Flows towards the Energy Sector

Financing Malawi's energy sector improvement plans evidently demands mobilization of resources from a broad range of sources. Figure 47 below illustrates that all factors being equal, resources abound to finance the flagship projects planned to be implemented over the MGDS-III period.

[63] Malawi is a full member of the ISA having signed and ratified the ISA Framework Agreement

Source: http://www.iflscience.com/environment/how-global-solar-alliance-can-help-developing-countries/

Figure 47: Projected resources vs MGDS-III requirements (USD)



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

6.2.1. 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[64]. The sector is dominated by smallholder subsistence farmers who contribute about 80% of production. Investment in the sector is very limited, productivity characteristically low, and climatic shocks a high risk due to reliance on rains.

Agriculture, water development and climate change management constitute key priority area (KPA) number one of the MGDS III. The major goal of this KPA is to attain sustainable agricultural transformation and water development 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 MGDS III KPA 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.

6.2.2. Institutional and policy context

To guide the design of agricultural subsector policies, strategies, and other actions, the 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, (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 prioritising 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

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

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.

6.2.3. 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.

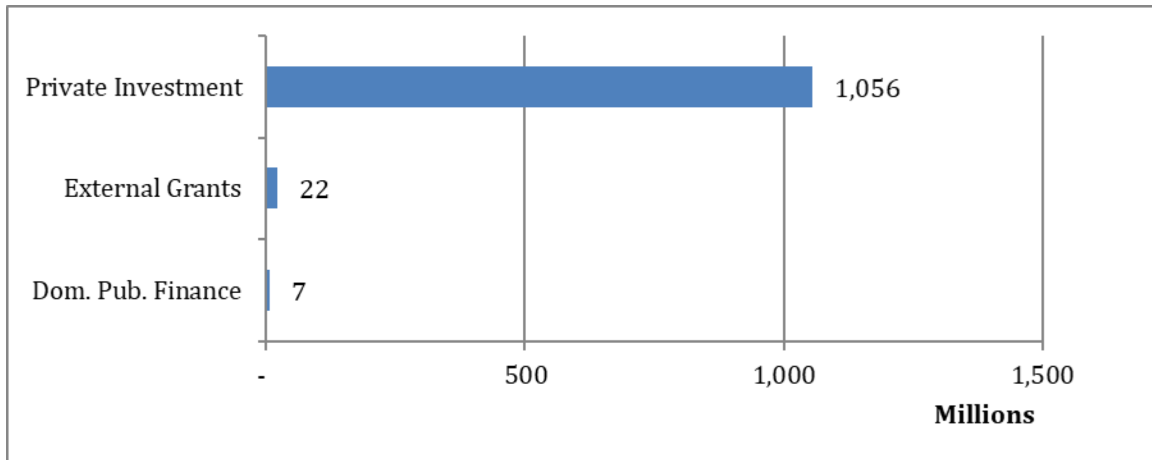
The NAIP embodies the essence of an integrated financing framework. Whilst focusing on public investment, it recognises that broad-based agricultural growth must be driven by private investment: ranging from smallholder farmers to companies engaged in input supply, production, and value addition. Importantly, the NAIP recognises 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.

6.2.4. Financing strategies

Overview of agro-processing financing

As depicted in figure 48 above, available data over the past five 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.

Figure 48: Evolution of key development finance flows towards agro-processing - 2013 to 2017 (USD)



Source: Authors based on data from MoFEPD & MITC

Private Investment

As highlighted above, private investment has been critical for agro-processing development in Malawi and is the principal finance source targeted by the NAIP. 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 it 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.

Public Private Partnerships

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 1), a joint undertaking between the GoM through the Green Belt Authority and private capital.

Case Study 1: 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. 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 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 amounts 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. A notable beneficiary of the MICF, plying within the agro-processing industry, is Sunseed Oil Company (Case Study 2).

Case Study 2: Sunseed Oil Ltd

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 MICF grant has expanded the company's operations, producing 300 tonnes of fridge free sunflower margarine per day. 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.

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. Other than offering employment to locals, the company undertakes various CSR initiatives within its catchment area. Notable 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.

Source: Authors

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, 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 (NASFAM) as summarized in Case Study 3 below.

Case Study 3: NASFAM

NASFAM is the largest smallholder owned membership organisation 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 organise 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 organised 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.

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 fertiliser) 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.

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

National export strategy

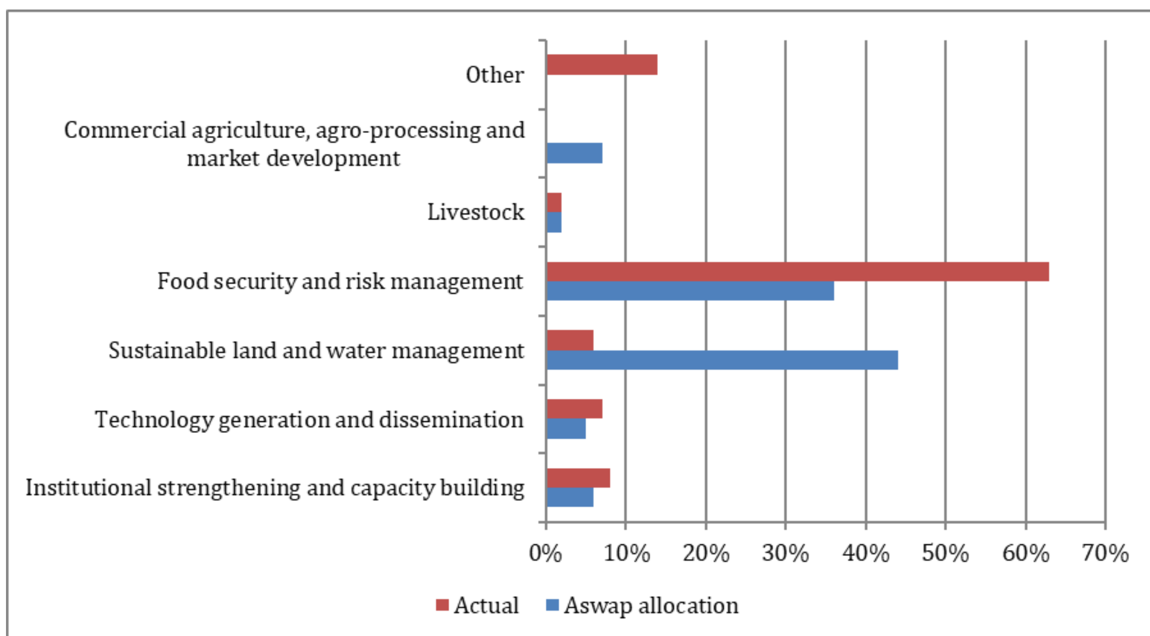
Efforts to develop agro-processing and value adding are further supported by the National Export Strategy (NES), operative from 2013 to 2018. The NES endeavors to expand the country's productive capacity and export base by providing a framework for strengthening the enabling environment for business 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 potential to equate to over 50% of exports by 2027. These clusters are targeted to complement tobacco, which is exported raw or semi-raw.

Disquietingly, the NES has evidently not succeeded in increasing exports in general and the targeted clusters in particular. 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.

Domestic public finance

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. Figure 49 below depicts the ASwap share of each of these focus areas versus share of actual expenditure.

Figure 49: ASwap Focus Areas as share of total



Whilst agro-processing has been a clear priority for the GoM as expressed in the ASwap, actual investment has been below anticipated levels. As depicted above, 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. This is consistent with other previous evaluations. 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.

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[65] 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 proffered by the NAIP include those depicted in Text Box 12 below.

Text Box 11: 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 in order to free resources for sustainable agriculture investment by the GOM.

The re-orientation of the FISP requires the harmonisation 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 harmonised. 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 fertiliser and provision of varied fertilisers 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

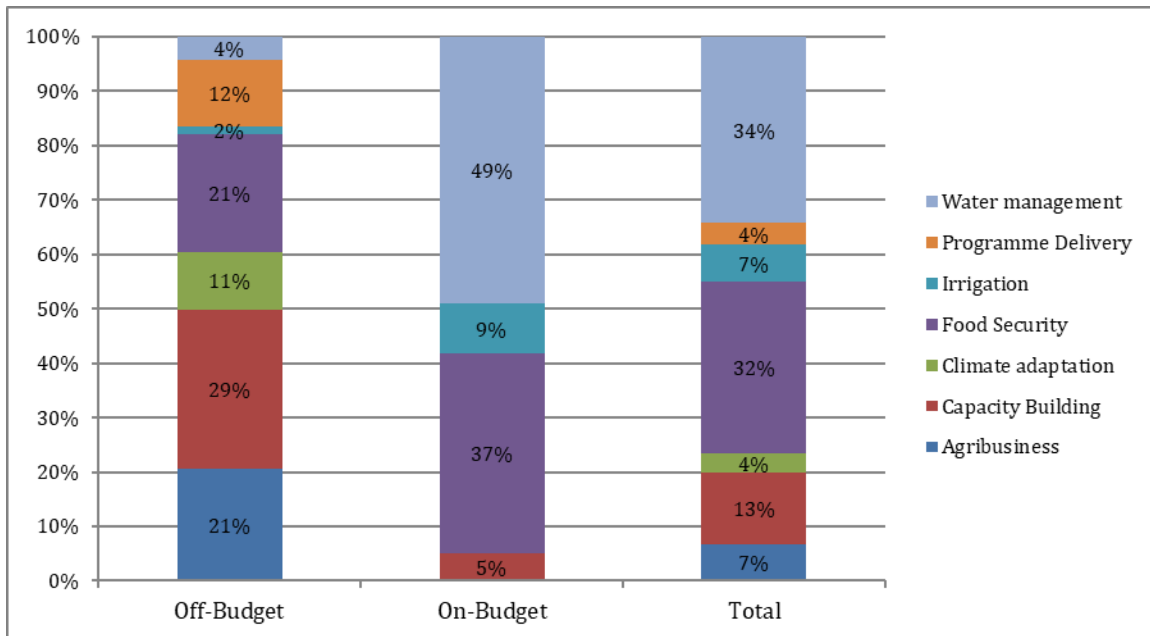
External Grants

Agricultural spending has a significant component of foreign financing in form of grants and loans (figure 52). Analysis of the 2016/2017 budget indicates that up to 58% of total agricultural spending (both on budget and off- budget) was financed by foreign grants and loans. This points to an increasing trend considering that the 2014 Agricultural Expenditure Public Review established that external resources towards agriculture averaged 55% over the 2007/08- 2011/12 period.

[65] World Bank (2014), Public Expenditure Review

Strengthening agribusiness has attracted some external funding, albeit insignificant relative to other focus areas. The 2016/17 budget for example evidences that the largest share (34%) of external resources towards agricultural spending went to Water Management, seconded by food security at 32%. Agribusiness received around 7% (figure 50).

Figure 50: Distribution of External Resources Towards Agricultural Spending



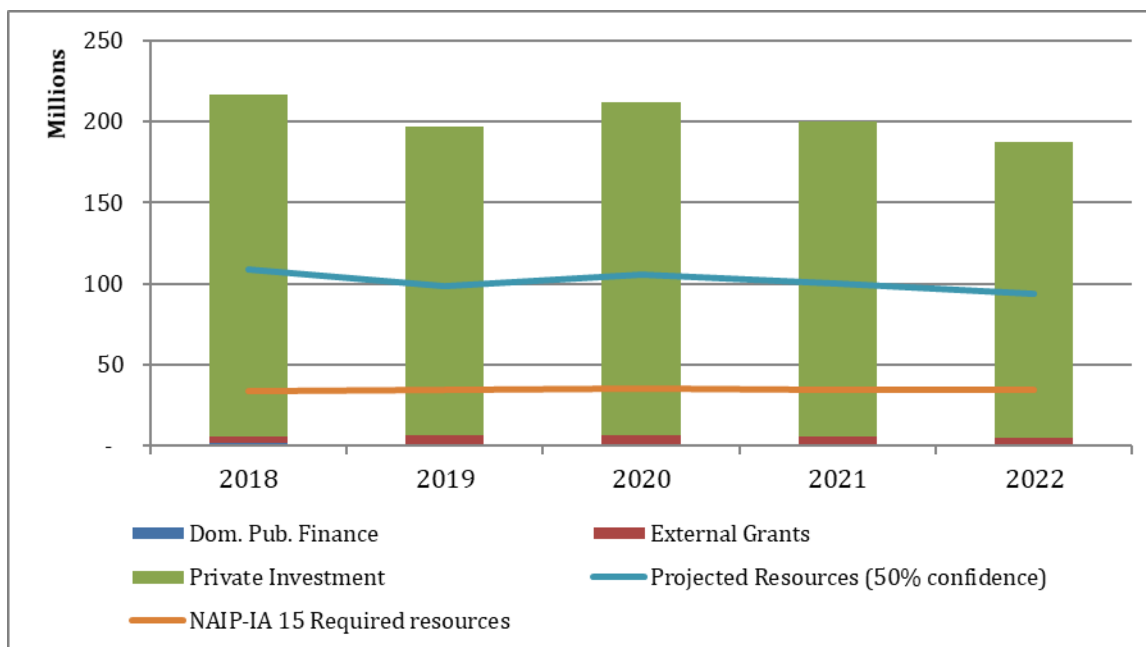
Source: Authors based on 2016/17 Financial Statement

Future finance flows towards agro-processing development

Evidence from the DFA, as discussed above, indicates that there are ample resources to finance agro-processing development in Malawi. As depicted in figure 51 below, assuming prevailing trends in private investment, external grants and domestic public finance continue, financing Intervention Area fifteen[66] of the NAIP, costed at USD172mn over the five year MGDS-III period, can be easily financed.

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

Figure 51: Projected vs required resources towards agro-processing



Source: Authors based on data from MoFEPD, MITC & MOAIW

Notwithstanding the above picture, 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 MGDS-III intentions. ***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 MoFEPD, to coordinate development spending beyond government, needs to be carefully reviewed***.

6.3. Tourism

6.3.1. Background and setting

Global Travel & Tourism (T&T) continues to exhibit 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 3.1% and created 6 million net additional jobs in

2016[67]. In total, T&T generated US$7.6 trillion (10.2% of global GDP) and 292 million jobs in 2016, equivalent to 1 in 10 jobs in the global economy. T&T also accounted for 6.6% of total global exports and 30% of total global service exports.

In Malawi, Tourism is billed as one of the MGDS-III priority sectors with widely regarded potential to catalyze sustainable economic growth. According to the WTTC, T&T directly contributed MWK138,039.0mn (USD194.9mn) to Malawi's GDP in 2016, representing 3.4% of total GDP. Inclusive of indirect contribution, total T&T accounted for MWK289,738.0mn (USD409.0mn), representing 7.2% of the country's GDP. It directly supported 217,500 jobs (2.9% of total employment) and 471,000 inclusive of indirect jobs. Visitor exports generated MWK23,268.1mn (USD32.8mn), representing 1.6% of total exports in 2016; 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.

6.3.2. 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 MGDS-III, it is however imperative that the NTM is revised and a focused national tourism investment plan developed.***

[67] https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2017/malawi2017.pdf

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) Increase number of qualified personnel working in the tourism sector; and (4) Increase number of both local and international tourists.

In order 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 Government is implementing the Tourism Marketing Strategy, which is a five-year strategy (2016 – 2021) for marketing Malawi locally, regionally, and internationally. 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 percent to 5.0 percent by 2021.

A National Tourism Policy has also been developed and submitted to Cabinet for approval. The Policy is expected to create an enabling environment for the development of the tourism sector, thereby enhancing tourist experiences and satisfaction.

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.

6.3.3. Challenges affecting tourism development

Notwithstanding efforts, the sector has grown only marginally, thus overshadowing any successes. According to the MOITT and a recent study by the World Bank[68], the slow growth rate can be attributed to a number of 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;
- Outdated legal framework;
- Weak destination positioning;
- Insufficient product innovation;
- A limited multiplier;
- Limited supply of well-trained staff;
- Tax treatment of investments;
- Weak institutional arrangements;
- Limited effect of destination marketing;
- Insufficient attention to cultural sites and events;
- Natural assets that are facing degradation;
- High cost of air transport and poor air access;
- A number of poor access roads and international access roads;
- Poor quality utility supply;
- Poor zoning of land for T&T;
- High operating costs; and

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 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

[68] World Bank (2011), Malawi Travel & Tourism Sector ESW Realizing The Potential by Jason Agar

a continued flow of supply of new accommodation and facilities, particularly in the urban areas where demand is highest.

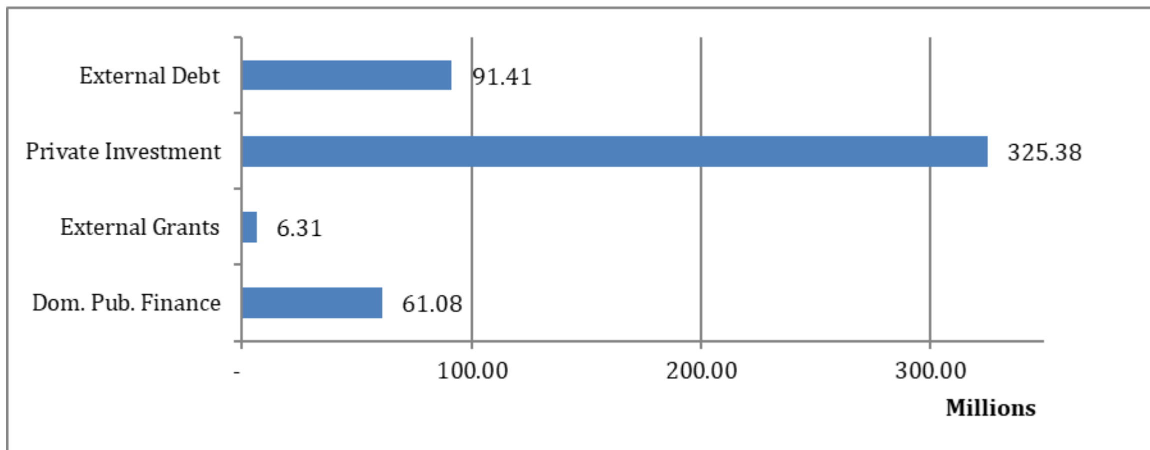
To maximize the economic value of the T&T sector to the Malawi economy there is a need to improve the multiplier effects through improved supply chain responses. The tax yield is already high and recent changes in taxation of new investment have made investment more expensive. Getting the right balance 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.

6.3.4. Financing strategies

Overview of Tourism finance flows

Figure 52 below depicts the composition and distribution of finance flows towards the tourism sector in Malawi. Similar to 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.

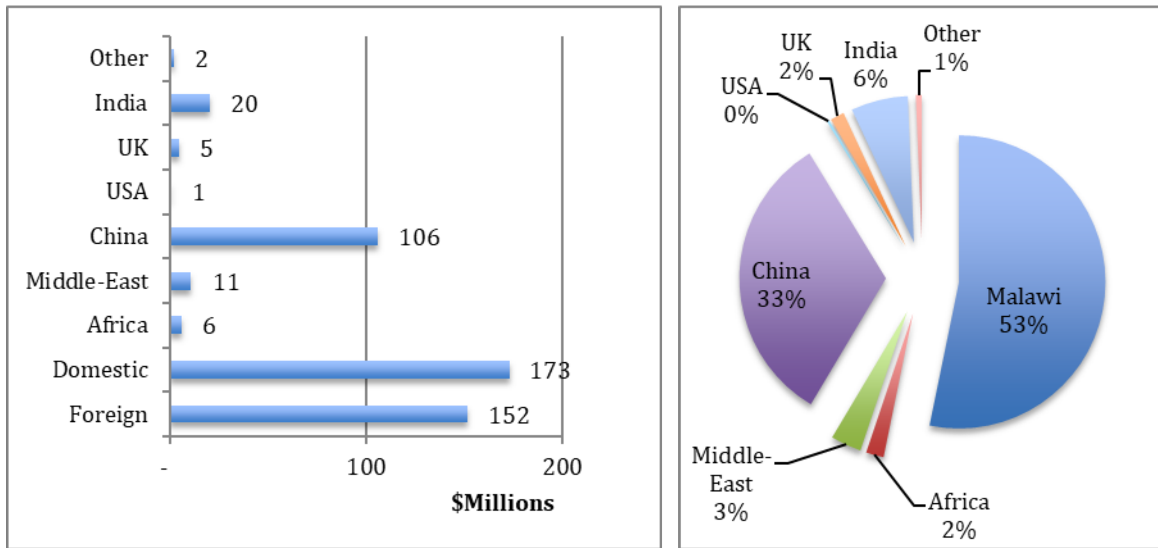
Figure 52: Tourism Finance Flows - 2008 to 2017 (USD)



Private investment

As depicted above, over $300mn was pledged towards the tourism sector over the period under review. This was supposed to create between 13000 and 14000 jobs. Figure 53 depicts the distribution of this investment in terms of origin of capital.

Figure 53: Origin of Tourism private investment



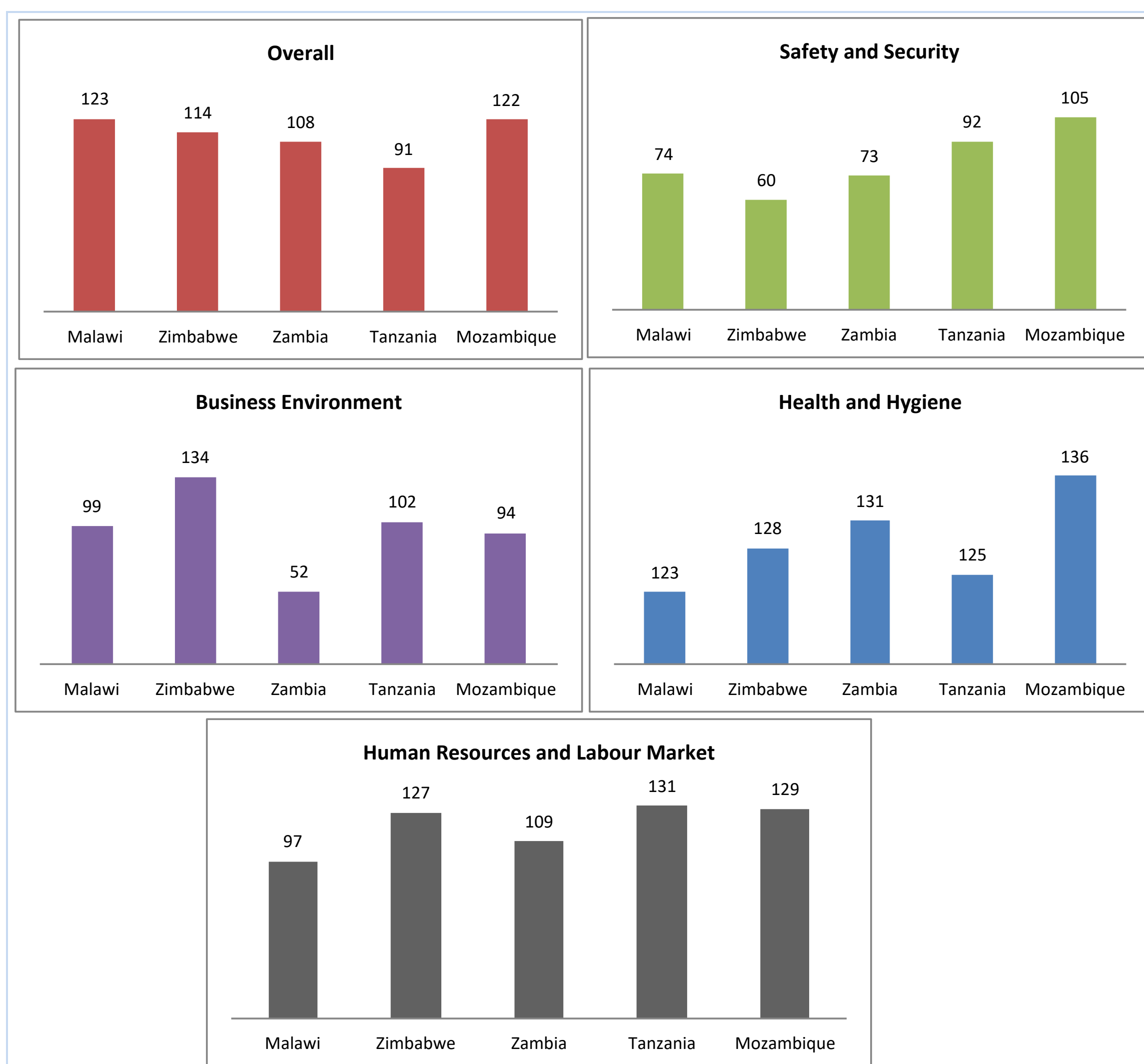
Source: Authors based on MITC data

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 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 54). The WEF TCI measures tourism competitiveness in four areas: safety and security, business environment, health and hygiene and human resources and labour 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 54: 2017 Tourism Competitiveness Rankings (out of 136 countries)



Source: 2017 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 more sustainably achieve philanthropic objectives 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 developmentin. 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 & 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.

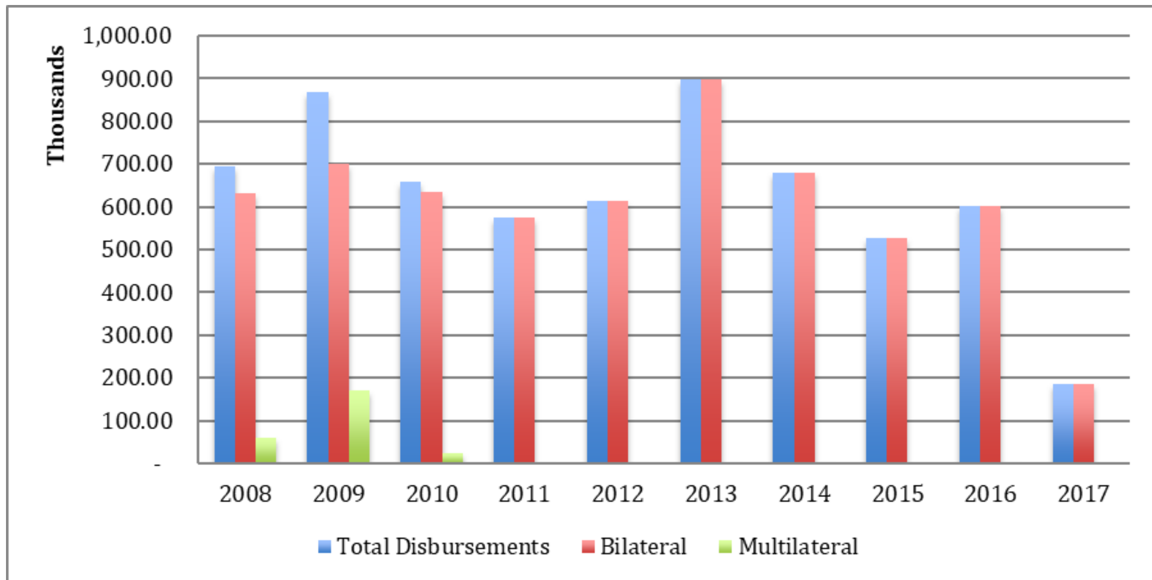
The Umodzi Park precinct in the heart of Malawi's capital of Lilongwe officially opened on 1 May 2015. The Umodzi Park complex includes the world-class Bingu Wa Mutharika International Conference Centre (BICC), the Presidential Villas and the 5 star President Walmont hotel, which is Malawi's first and 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 in October 2014. 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 as depicted in figure 55 below.

Figure 55: Tourism External Grants

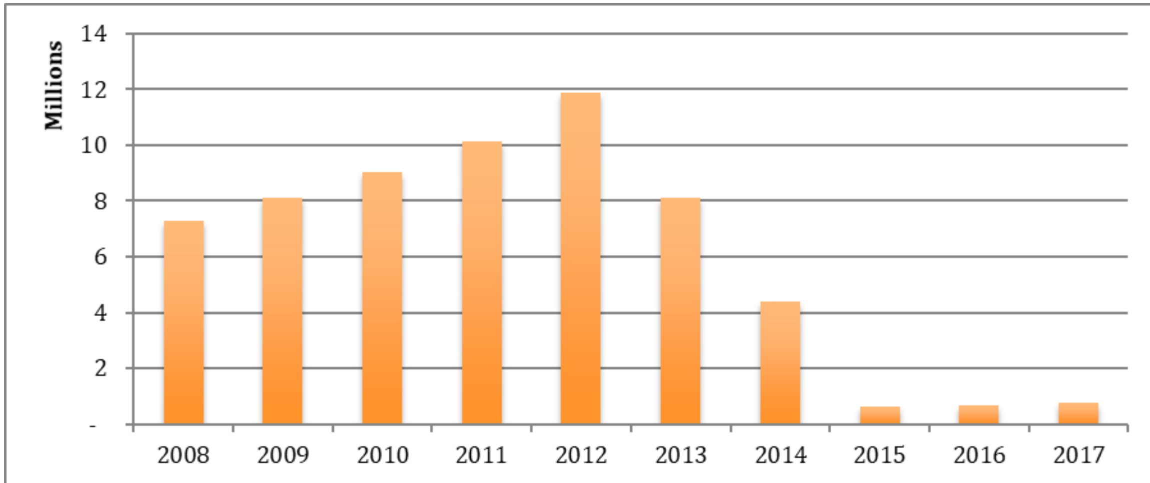


As depicted above, most grant funding has been bilateral, exclusively from the Norwegian government. Multilateral grants have predominantly come from UNESCO. One of the most notable programmes that has benefited from grant funding is the Malawi Cultural Heritage programme. The trend shows a decline in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

Domestic Public Finance

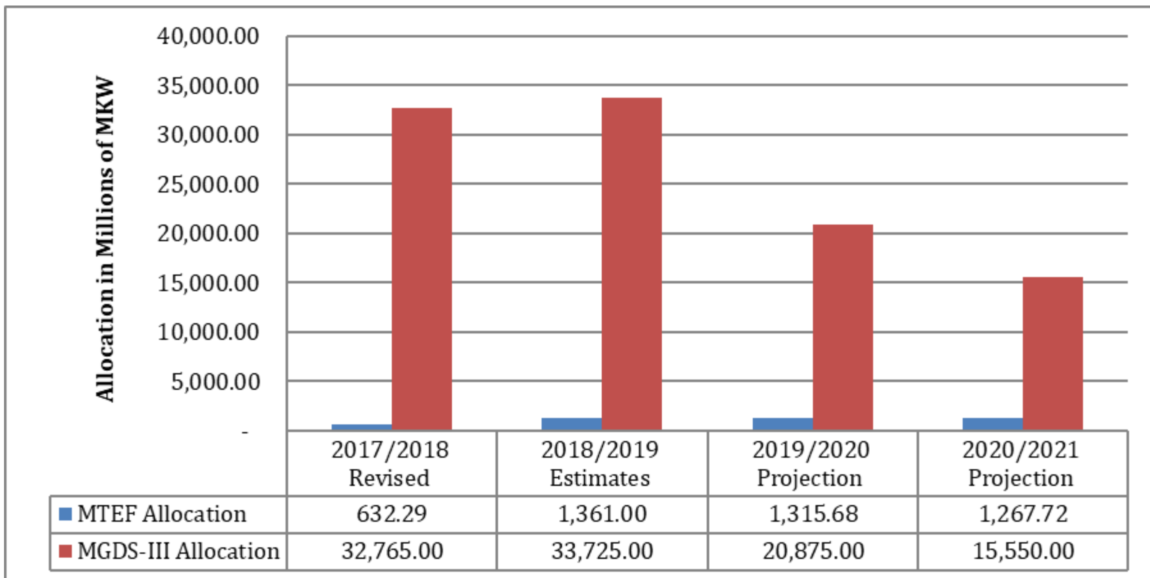
Governmment funding towards tourism has significantly reduced in dollar terms over the period under review (figure 56). This is despite the sector being identified as a priority sector.

Figure 56: Evolution of Government funding towards tourism



Analysis of current and forward budgetary estimates as per the MTEF indicates significant disjunction with MGDS-III projections. For the four years 2017/18 to 2020/21, the MGSD-III projects a total of K136bn as required towards tourism development whilst the MTEF estimates a total of only K6bn (Figure 57). This represents 4% of required resources to implement the MGDS-III.

Figure 57: MTEF Vs. MGDS-III Tourism Development Expenditure Allocations



	2017/2018 Revised	2018/2019 Estimates	2019/2020 Projection	2020/2021 Projection
MTEF Allocation	632.29	1,361.00	1,315.68	1,267.72
MGDS-III Allocation	32,765.00	33,725.00	20,875.00	15,550.00

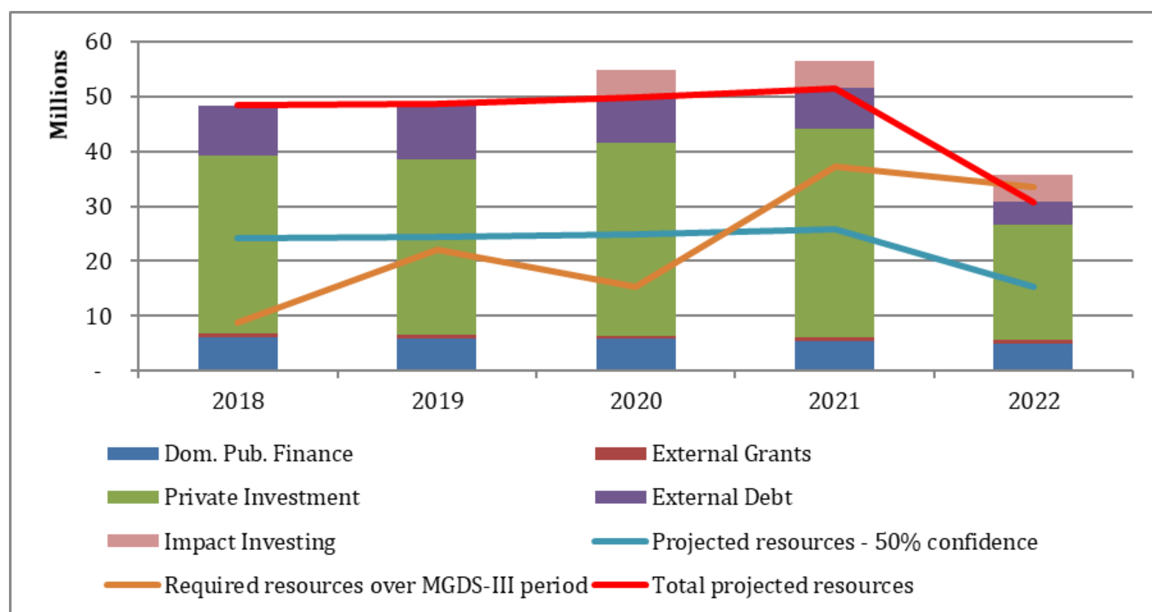
Source: MoFEPD, 2018/19 Programme Budget & MGDS-III

Given the above, government should seriously review budgetary allocations towards tourim to reflect its relative importance in the MGDS-III.

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 mobilise adequate resources to sufficiently finance the sector. As figure 58 depicts, current trajectories in these finance flows can cover projected required resources to grow the sector.

Figure 58: Projected vs required resources towards tourism development (USD)



Source: Authors based on data from MoFEPD & MITC

Chapter 7: Conclusions and Recommendations

Two decades have elapsed since the launch of the Vision 2020. Despite the Vision's good intentions, poverty endures and human development remains low; such that Malawi still ranks as one of the least developed countries in the world. Climate induced shocks, such as droughts and flooding have ravaged the country in recent years, further straining the agrarian-based economy. Food insecurity, loss of livelihoods and internal displacements have ensued.

In order to address these challenges, the Government of Malawi is rolling out the MGDS-III, aiming at transforming the country into a "productive, competitive and resilient nation". Compelled by shortcomings of previous national development strategies, the government endeavors to anchor the MGDS-III in a clear financing

strategy, that ensures all the priority areas and flagship projects are successfully implemented over the five-year period.

The need to mobilize resources for the MGDS-III 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 MoFEPD to conduct this DFA, to map sources of finance (public, private, domestic and external) that can be leveraged and aligned to the MGDS-III.

This report has presented detailed analyses and findings of the DFA, drawing upon the Integrated National Financing Framework, conceptualized by the Addis Ababa Action Agenda. Specifically, the report has covered a thorough assessment of various financial flows currently and potentially available to Malawi: tax and non-tax 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 importantly discussed how these finance sources can be tapped to support implementation of the MGDS-III. 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 National Development Strategies.. Aligning the resources and coordinating state and non-state actors presents the major bottleneck that needs to be addressed through strong leadership by the MoFEPD and 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 Malawi.

Table 18 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.

Table 13: Summary of Findings and Recommendations

Finding	Recommendation	Level	Timeline	Responsible
1. Data sources and back-end systems are fragmented despite rudiments of a good national statistical system. This has led to material inconsistencies amongst different data sources. Further, data availability is a challenge in some areas: actual FDI flows, private investment and NGO finance	1.1. Review the national statistical system to ensure data consistency across national reporting entities. The IFMIS should be leveraged to implement a government-wide automated platform for reporting GoM finances.	Institutional	Short to medium term	MoFEPD
	1.2. Establish a task force comprising RBM, MITC, and NSO to review how best to capture actual FDI statistics.	Institutional	Short term	MoFEPD
2. Agriculture presents scope for broadening the tax base. Despite accounting for up to 30% of the economy, agriculture contributes less than ten per cent towards taxation, due to the dominance of subsistence farming	2.1. Restructure agriculture from subsistence to commercial farming, with a focus of agribusiness in general and agro-processing in particular as envisioned in the NAIP	Policy	Medium to long term	MoAIW
	2.2. Create room for pursuing allocative efficiency in agriculture by reforming allocatively inefficient subsidy programs such as the FISP.	Policy	Short term	MoAIW
3. Significant scope for improving the performance of Non-tax revenue exists. NTRs currently represent about 2% of GDP or 12% of domestic public revenue.	3.1. Develop performance management plans for parastatals and SOEs.	Operational	Short term	DSC
	3.2. Enhance financial controls around the receipting and accounting of NTR.	Operational	Short term	MoFEPD
4. ODA is more inclined towards off-budgetary support	4.1. Follow through with reforms to strengthen PFM and improve	Institutional/Operational	Short to medium term	MoFEPD

	confidence in national systems: e.g. Business process review and improvement and implementation of more reliable IFMIS			
5. There are material discrepancies between what donors report through the OECD creditor reporting system (CRS) and the GoM Aid Management Platform (AMP).	5.1. Engage development partners to endeavor to timely capture all of their activities in the AMP.	Operational	Short term	MoFEPD
6. There are material differences between ODA disbursements and commitments for some specific development partners	6.1. Need for better coordination and collaboration between Malawian Authorities and DPs to ensure reporting consistency and effective aid planning. DPs should ensure that disbursements are in line with commitments.	Operational	Short term	MoFEPD
7. There is significant under-reporting of South-South Cooperation (SSC) in the AMP.	7.1. Engage SSC countries active in Malawi to ensure they report their aid in the AMP.	Operational	Short term	MoFEPD
8. Enforcement of NGO accountability is weak. Despite the existence of a big NGO population, few NGOs submit reports to regulatory authorities, and some big NGOs are not registered with the NGO Board.	8.1. Revitalize the GoM-CSO dialogue platform within the context of the Development Cooperation Strategy to strengthen mutual trust between the GoM and NGOs.	Institutional	Short term	MoFEPD
	8.2. Review the NGO legal framework and finalize the NGO Policy in collaboration with stakeholders, to demand financial reports from all NGOs: To be submitted to the NGO Board or reported through the	Policy	Medium term	MoJ

	AMP.			
	8.3. Provide a budgetary allocation to MDAs to support and resuscitate the coordination functions of sector working groups to align NGO financing with MGDSIII priorities.	Operational	Short tern	MoFEPD
	8.4. The office of the Chief Secretary should start demanding reports from Controlling Officers on promoting the functionality of their respective SWGs.	Operational	Short term	OPC
	8.5. The NGO Board should publish reports on the accomplishments of NGOs in Malawi on an annual basis	Operational	Short term	NGO Board
9. Malawi is yet to meaningfully access international climate finance through various global funds	9.1. Work towards having a nationally accredited institution by the GCF and the CIFs.	Institutional	Medium term	MoE
10. Debt accumulation has been one of the fastest amongst countries that benefited from the HIPC and Multilateral Debt Relief Initiative (MDRI).	10.1. Pursue aggregate fiscal discipline to ease borrowing pressure. Cautiously contract new debt, especially domestic. Debt should only be contracted for investment and not consumption. Introduce fiscal responsibility laws	Policy/Operational	Short term	MoFEPD

11. Growth in pension funds presents opportunity for supporting infrastructure development; particularly the flagship projects proposed in the MGDS-III.	11.1. Engage the Malawi Stock Exchange to implement proposals for infrastructure bond issuance	Policy	Medium term	MoFEPD
12. FDI pledge actualization not monitored	12.1. Build MITC capacity to follow up FDI pledges. Government should silmultaneously address concerns of the private sector on business climate	Institutional	Short to medium term	MoITT
13. Malawi has lagged in creating a favorable climate for private sector deepening and business-led economic growth.	13.1. Address structural "ease-of-doing business" impediments (such as utilities) in the short to medium term and diversify the economy from agriculture to manufacturing in the medium to long term to mediate an exporting economy.	Policy/Institutional/Operational	Short/medium & long term	MoITT
14. Strides have been made to leverage PPPs for development financing but bottlenecks persist.	14.1. The PPP Commission needs to enhance raising awareness about PPPs, especially to MDAs and rigorously market PPP opportunities to prospective foreign investors.	Operational	Short term	PPPC
	14.2. Seriously consider proposal to set up a development finance institution to address the lack of financial intermediation.	Policy	Medium term	MoFEPD
15. Remittances represent an under-exploited source of development finance, with most being routed through unofficial channels.	15.1. Explore how remittances can be channeled into investment instruments such as foreign currency denominated accounts,	Policy/Institutional	Medium to long term	MoFEPD

	diaspora bonds, treasury bills and bankable projects.			
16. Malawi has extensive experience in formulating development strategies but implementation has been stymied by political short-termism and financial constraints.	16.1. The NPC's independence should be promoted in practice to ensure strong linkage between the long-term vision and National Development Strategies. Implementation of programs should not be undermined by a political narrative that privileges electoral populism.	Operational/Policy	Short to medium term	NPC
17. Planning has tended to be needs based, without adequate consideration of available resources, thus undermining the Public Sector Investment Plan.	17.1. Design projects in line with projected resources.	Operational	Short term	MoFEPD
18. Support and appreciation for M&E disparately obtains across different sectors and sub-national districts; M&E capacities are varied from one sector or district to another; and emphasis & investment in evaluation has tended to be minimal.	18.1. Place M&E at the centre of MGDS implementation.	Institutional	Short term	NPC
	18.2. Finalize development of the substantive M&E Policy	Policy	Short term	NPC
19. There is limited functionality of accountability and dialogu despite strong legal framework,	19.1. Strengthen platforms for A & D as provisioned in the DCS, ensuring mutual trust between government and stakeholders. Government should also be more accommodative of differing views.	Institutional	Short term	MoFEPD
	19.2. Promote Performance Contracting across government to institutionalize groundtruthing and evidence based policy.	Institutional	Short term	DHRM

	19.3. Strengthen the technical capacity of the National Audit Office to undertake complex audits (e.g. forensic audits) and increase the frequency & number of regularity audits, and follow up on audit recommendations.	Institutional	Short to medium term	NAO
	19.4. Strengthen the anti-corruption drive by capacitating and de-politicizing the Anti-corruption Bureau (ACB).	Institutional	Short term	ACB
	19.5. Strengthen Local Government accountability by enhancing the control environment and ensuring regular audits.	Institutional	Short to medium term	MoLGRD
	19.6. Operationalize Access to Information Act.	Operational	Short term	MoI & MoJ
20. Financing Malawi's energy sector improvement plans demands mobilization of resources from a broad range of sources	20.1. Address indicator shortfalls in the MCC Compact and vie for a new compact once the current infrastructure projects are fully implemented.	Institutional	Medium term	MoFEPD & ESCOM
	20.2. Address the business environmental factors as a pre-requisite for PPPs & IPPs earmarked for financing and implementing energy flagship projects.	Operationl/Institutional	Short to medium term	MoITT

	20.3. 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.	Policy	Short to medium term	MERA/ESCOM
	20.4. Seriously consider financing of energy infrastructure projects through bond issuance, targeting pension funds, and remittances.	Policy	Medium to long term	MoFEPD
	20.5. Undertake necessary steps to engage the International Solar Alliance for financing Renewable Energy projects	Institutional	Medium term	MoE
21. Developing agro-processing faces the "ease-of-doing business" bottlenecks affecting the entire private sector growth.	21.1. Implement measures to improve the business climate.	Operational/Institutional/Policy	Short, medium & long term	MoITT
22. Actual investment in Agro-processing has been below anticipated MGDS levels	22.1. Review the FISP to orchestrate allocative efficiency.	Policy	Short to medium term	MoFEPD & MOAIW
23. Tourism is significantly underdeveloped and under-invested.	23.1. Promote private capital participation and modalities such as Impact Investing and PPPs.	Operational/Institutional/Policy	Short, medium & long term	MoITT
	23.2. Review the MTEF in light of MGDS-III tourism investment thresholds.	Operational	Short term	MoFEPD
	23.3. Develop more ground-breaking tourism investment projects along the lines of the Umodzi Park, utilizing concessional debt	Policy	Medium term	MoITT

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Appendix 1: Malawi's progress towards the MGDs

Goal	Indicator	Baseline	Target	End line	Status
		2000	2015	2015	
1. Eradicate Extreme Poverty and Hunger	Proportion of population living below US$1.00 per person per day (%)	53.9	27	50.7	Not Met
	Poverty Gap Ratio (%)	18.6	8	18.9	
	Proportion of Ultra Poor (%)	10	20	5.5	
	Prevalence of Underweight Children (%)	25.4	14	16.7	
	Proportion of population below minimum level of dietary energy consumption (%)	23.6	100	25.7	
2. Achieve Universal Primary Education	Net Enrolment in Primary (%)	78	100	85	Partial Progress
	Proportion of pupils Starting Grade 1 reaching Grade 5 (%)	69	100	87.8	
	Literacy Rate (15-24yrs)	68.1	100	75.2	
3. Promote Gender Equity and Empower Women	Ratio of boys to girls in primary education	0.91	1	1.001	Partial Progress
	Ratio of boys to girls in secondary education	0.6	1	0.88	
	Ration of literate women to men 15-24yrs old	0.82	1	0.92	
	Share of women in wage employment in non-agriculture sector (%)	13.1	50	30.1	
	Proportion of seats held by women in parliament (%)	9.3	50	16.6	
4. Reduce Child Mortality	Under five mortality rate (per 1000)	189	78	85	Partial Progress
	Infant mortality rate (per 1000)	103	44.7	53	
	Proportion of 1-year children immunized against measles (%)	83.2	95.3	85	
5. Improve maternal health	Maternal mortality ratio (per 1000)	1120	155	574	Partial Progress
	Proportion of births attended to by skilled health personnel (%)	55.6	100	87.4	
6. Combat HIV and AIDS, Malaria and other diseases	HIV prevalence among 15-24 year old pregnant women (%)	24.1	0	10.6	Positive Progress
	Ratio of orphans to non-orphans in school	0.121	-	0.09	
	Prevalence and deaths rates associated with Malaria (%)	3.6	0	3.3	

	Access to Malaria treatment	8	-	31	
	Proportion of Households with at least one ITN	31	-	71	
	Death rates associated with Tuberculosis	22	-	8	
	Proportion of TB Cases under DOTS (%)	57	100	84	
7. Ensure Environmental Sustainability reverse loss of environmental resources	Proportion of land covered by forest (%)	37.9	50	36.2	Positive Progress
	Proportion of area protected to maintain biological diversity (%)	0.16	0.18	0.16	
	Proportion of population using solid fuel (%)	97.9	0	98.3	
	Proportion of population with sustainable access to an improved water source	47	74	86.2	
	Proportion of population with access to improved sanitation (%)	81.4	86.2	95.1	
	Slum population as a percentage of urban population	92	-	65.1	
8. Develop Global Partnership for Development	Net ODA as a percentage of Real Gross Domestic Product	12	-	21.34	Positive Progress
	Unemployment of 15-24 year old (Urban)	9	-	27.5	
	Telephone lines subscribers per 100 population	1.18	0.8	1.9	
	Cellular subscribers per 100 population	0.57	4	39.8	
	Internet users per 1000 population	0.07	-	6.8	

Source: Authors compilation based on Malawi MDG end line survey (2015)

Appendix 2: Summary of Malawi's National Development Strategies since 1980

#	Development Strategy	Operative Period	Strategic Thrust
1	Structural Adjustment Program	1981 to 1994	Sought to address structural weaknesses and adjust the economy to attain sustainable growth
2	Poverty Alleviation Programme	1994 to 2001	Emphasized the need to raise national productivity through sustainable broad-based economic growth and socio-cultural development
3	Malawi Poverty Reduction Strategy	2001 to 2006	Sought to achieve sustainable poverty reduction through empowerment of the poor.
4	Malawi Growth and Development Strategy I	2006 to 2011	Sought to create wealth through sustainable economic growth and infrastructure development as a means of achieving poverty reduction. Focused on six key priority areas: Agriculture and food security; Irrigation and Water Development;

			Transport Infrastructure Development; Energy Generation and Supply; Integrated Rural Development; and Prevention and Management of Nutrition Disorders and HIV/AIDS
5	Malawi Growth and Development Strategy II	2011 to 2016	Sought to continue to create wealth through sustainable economic growth and infrastructure. Focused on nine priority areas: Agriculture and Food Security; Transport Infrastructure and Nyanja World Inland Port; Energy; Industrial Development, Mining and Tourism; Education, Science and Technology; Public Health, Sanitation, Malaria, and HIV/AIDS Management; Integrated Rural Development; Green Built Irrigation, and Water Development; Child Development, Youth Development and Empowerment; and Climate Change, Natural Resources and Environmental Management
6	Malawi Growth and Development Strategy III	2017 to 2022	Aims at enhancing the country's productivity, competitiveness, and resilience to climate-induced shocks: Focuses on five priorities: Agriculture, Water and Climate Change Management; Education and Skills Development; Energy, Industry and Tourism; Transport and ICT Infrastructure; and Health and Population

Source: Authors compilation

Appendix 3: Glossary of key terms

TERM	DEFINITIONS
CLIMATE FINANCE	The lack of an internationally-acknowledged definition of what qualifies as climate finance, or even more narrowly what quail as a climate project, presents a major challenge to understanding the scale of financial flows; there is no established basis for a methodology or measurement system for tracking climate finance flows. Discussions with many experts in the area have indicated that the meaning of climate finance is continually evolving, and captures the following aspects: Financial support for mitigation and adaptation activities, including capacity building and research and development, as well as broader e orts to enable the transition towards low-carbon, climate- resilient development Public, private, and public-private flows Source: CPI (2012) The Landscape of Climate Finance
CONCESSIONALITY LEVEL	A measure of the "softness" of a credit reflecting the benefits to the borrower compared to a loan at market rate. (Cf. Grant Element). Technically, it is calculated as the difference between the nominal value of a tied aid credit and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.

CORPORATE SOCIAL RESPONSIBILITY	Is a form of corporate self-regulation integrated into a business model. The CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms. With some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law. The rationale is to increase long-term profits through positive public relations, high ethical standards to reduce business and legal risk, and shareholder trust by taking responsibility for corporate actions. The CSR strategies encourage the company to make a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others.
DEVELOPMENT EFFECTIVENESS	Aid is only part of the solution to development. It is now time to broaden our focus and attention from aid effectiveness to the challenges of *e active developmen*t. This calls for a framework within which: a) Development is driven by strong, sustainable, and inclusive growth. b) Governments' own revenues play a greater role in financing their development needs. In turn, governments are more accountable to their citizens for the development results they achieve. c) Effective state and non-state institutions design and implement their own reforms and hold each other to account. d) Developing countries increasingly integrate, both regionally and globally; creating economies of scale that will help them better compete in the global economy. Source: Busan Partnership for Effective Development Co-Operation, Outcome Document p. 9. Development effectiveness is the achievement of sustainable development results related to MDGs that have country-level impacts that have discernible effects on the lives of the poor and the capability of States and other development actors to transform societies in order to achieve positive and sustainable development outcomes for its citizens. (Source: The Paris Declaration, Aid Effectiveness, and Development Effectiveness – Evaluation of the Paris Declaration).
DEVELOPMENT FINANCE INSTITUTIONS	Development finance institutions (DFIs) are investment funds (some of which are state-owned) that invest financial resources in a variety of sectors in developing countries – from the financial sector to agri-businesses. The DFIs can also provide project-specific technical assistance and promote standards in the funds or companies in which they invest. The DFIs have a number of targets to guide portfolio distribution over countries, sectors, and instruments. They use different investment instruments, such as equity, loans, and guarantees.
FOREIGN DIRECT INVESTMENT	Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of in influence on the management of an enterprise that is resident in another economy. As well as the equity that gives rise to control or influence, direct investment also includes investment associated with that relationship, including investment in indirectly in influenced or controlled enterprises, investment in fellow enterprises, debt. (a) *Immediate direct investment* relationships arise when a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise.

	Control is determined to exist if the direct investor owns more than 50 present of the voting power in the direct investment enterprise. A significant degree of influence is determined to exist if the direct investor owns from 10 to 50 percent of the voting power in the direct investment enterprise. (b) *Indirect direct investment* relationships arise through the ownership of voting power in one direct investment enterprise that owns voting power in another enterprise or enterprises, that is, an entity is able to exercise indirect control or influence through a chain of direct investment relationships. For example, an enterprise may have an immediate direct investment relationship with a second enterprise that has an immediate direct investment relationship with a third enterprise.
INCLUSIVE BUSINESS FINANCE	Refers to capital that supports the creation, growth, and sustainability of entrepreneurs, small holders, and small- and micro-enterprises that were previously excluded from the financial markets. The instruments used in inclusive business finance include (but are not necessarily limited to) debt, equity, quasi-equity, grants, insurance, guarantees, development finance and various shared risk instruments and mechanisms. The definition of inclusive business finance also goes beyond exclusively referring to the funding activities of regulated and non-regulated, formal and informal, financial services providers. It also includes the provision of a variety of financial resources (guarantees, loans, equity, leasing) by corporations to small holders and MSMEs as distributors and suppliers within their value chains.
INTERNATIONAL NON-GOVERNMENTAL ORGANIZATIONS	An international non-governmental organization (INGO) has the same mission as a non- governmental organization (NGO), but it is international in scope and has outposts around the world to deal with specific issues in many countries. Both terms, NGO and INGO, should be differentiated from intergovernmental organizations (IGOs), which describes groups such as the United Nations or the International Labour Organization. An INGO may be founded by private philanthropy, such as the Carnegie, Rockefeller, Bill and Melinda Gates and Ford Foundations, or as an adjunct to existing entities, such as the Catholic or Lutheran churches. INGOs can further be defined by their primary purpose. Some INGOs are operational, meaning that their primary purpose is to foster the community-based organizations within each country via different projects and operations. Some INGOs are advocacy-based, meaning that their primary purpose is to influence the policy-making of different countries' governments regarding certain issues or promote the awareness of a certain issue. Many of the large INGOs have components of both operational projects and advocacy initiatives working together within individual countries.
ODA LOANS (ALSO CREDITS)	Transfers for which repayment is required. Only loans with maturities of over one year are included in OECD Development Assistance Committee (DAC) statistics. Data on net loans include deductions for repayments of principal (but not payment of interest) on earlier loans. This means that when a loan has been fully repaid, its effect on total net ODA over the life of the loan is zero.
OTHER OFFICIAL FLOWS	Transactions by the o cial sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development, or because they have a grant element of less than 25 percent.

PUBLIC/PRIVATE BORROWING FROM CAPITAL MARKETS	Governments in developing countries face signi cant constraints on raising revenue as the set of policy instruments available is limited given the structure of the economy and low level of income. Facing such constraints, governments have strong incentives to nance government expenditure through domestic and international borrowing. The access to international credit market may, however, be limited for most of the developing countries. The governments in many developing countries in recent years thus nd themselves borrowing more from the domestic sources. Fiscal de cit results when tax revenue of a government does not fully cover its expenditures and public debt is an accumulation of yearly de cits. There are various sources of budget de cit nancing and domestic and foreign borrowings are the major sources. The borrowings from any sources may have their own positive and negative macroeconomic implications in an economy. A signi cant increase in government's domestic borrowing in developing countries may have undesired e ects on private credit and thus on private investment. A signi cant change in the government borrowing may crowd out private borrowing and investment that must be also researched.
PUBLIC-PRIVATE PARTNERSHIPS (PPPs)	The PPPs are a collaborative arrangement between a government authority or public corporation and a private entity regarding the provision of public infrastructure or services. These partnerships are de ned and mediated by legally-binding contracts, which clearly establish and allocate responsibilities, risks and rewards between the di erent parties. The PPPs are increasingly seen as a new development nance model, and several countries have used them to scale up investments in economic infrastructure. The PPPs frontload nance enabling large-scale public projects to take place. However, PPPs are complex and require appropriate legislation, regulatory frameworks and technical skills. Finally, a key concern is that scal accounting rules tend to keep most PPPs o -budget. Since PPPs usually involve a future obligation by the government (contingent debt) this should be appropriately captured.
SOUTH-SOUTH AND TRIANGULAR COOPERATION	South-South cooperation (SSC) is a broad framework for collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains. Involving two or more developing countries, it can take place on a bilateral, regional, subregional or interregional basis. Developing countries share knowledge, skills, expertise and resources to meet their development goals through concerted e orts. Recent developments in SSC have taken the form of increased volume of South-South trade, South-South ows of FDI, movements towards regional integration, technology transfers, sharing of solutions and experts, and other forms of exchanges. Collaboration in which traditional donor countries and multilateral organizations facilitate South- South initiatives through the provision of funding, training, and management and technological systems as well as other forms of support is referred to as triangular cooperation.
REMITTANCES	Remittances represent household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and noncash items that ow through formal channels, such as via electronic wire, or through informal channels, such as money or goods carried across borders. They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident.

Appendix 4: List of Oversight Team Members

#	Name	Organisation
1	Ms. Betty Ngoma	Debt and Aid Division
2	Mr. Adwell Zembele	Economic Planning Department
3	Mr. Kenneth Matupa	Revenue Policy Directorate
4	Mr. Winston Nyasulu	Budget Directorate
5		PFSP
6		Ministry of Trade Industry and Tourism – Trade Department
7	Dr Austin Chiumia	Reserve Bank of Malawi
8	Dr Chiuwawula	Chancellor College (University of Malawi)
9		UNDP
10		World Bank
11	Mr Chancellor Kaferapanjira	Malawi Confederation of Chambers of Commerce and Industry (MCCCI)
12		Malawi Economic Justice Network

Appendix 5: List of interviewees

#	Organization	Name	Designation	Tel.	E-mail
1	Department of Energy	Saidi Banda	Chief Energy Officer	0999747503	saibanda@hotmail.com
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7	Indian Embassy	His Excellency Suresh Kumar Menon	High Commissioner	0994655446	hc.malawi@mea.gov.in
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13	MITC	Joshua Nthakomwa	Director	0888858374	
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23	UNDP (MICF)	Cinzia Tecce	Portfolio Manager, Malawi Innovation Challenge Fund		cinzia.tecce@undp.org

Appendix 6: List of participants to stakeholder consultative & validation workorkshops

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