



# Joint Programme 2021 Annual Progress Report

## SDG Financing Portfolio - Component 1

### Cover page

**UNCT/MCO:** Malawi

**Reporting Period:** 1 January - 31 December 2021

**JP title:** Strengthening Malawi's Financing Architecture at National and Local Level

**PUNOs:** UNDP, UNICEF

**Government partner:** Ministry of Finance, Economic Planning and Development

**Target SDGs:** SDGs 3, 5, 10, 16, 17

**Gender Marker:** 2

**Approved budget:** USD 995,100

**Co-funding:** USD 40,000

**Total Disbursement by 2021:** USD 995,100

**Total estimated expenditures:** USD NA (est. Delivery rate: NA%)

**Total estimated commitments** (including expenditures): USD 459,475 (est. Committed rate: 46.2%)

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### Executive Summary

1. The completion of the Development Finance Assessment/Local Level Finance Assessment (DFA/LLFA) provided the Government of Malawi (GoM) with an encompassing and exhaustive assessment of the financing flows coming into Malawi at national and local level, as well as of the key bottlenecks to address to unlock higher chances for the country to develop. The endorsement by GoM of the DFA/LLFA (the first document of its kind to also look at the sub-national level of Government for development financing) allowed the PUNOs to start working on the SDG Financing Strategy, or the pivot of the whole INFF system (as of the JP).
2. The drafting of the SDG Financing Strategy, started in Q3 2021, allowed the PUNOs to begin the preparations for establishing an INFF in Malawi, especially after GoM's finalization of the new Malawi Vision 2063 and its implementation plan MIP-1 in Q2 2021. These will be the guiding documents in terms of GoM's development aspirations, which the INFF will help fund. They also established the relevant institutions in charge of the implementation (and thus of leading the INFF coordination structure).

3. The finalization of the stock-take of the functioning of the fiscal decentralization systems and of the mapping of the devolved functions (with gaps and recommendations for updating the devolution guidelines). These two twin pieces of work are the bedrock for the drafting of Malawi's fiscal decentralization strategy (which will be done by the World Bank, as part of the collaboration on decentralized matters that the JP helped trigger) as well as for the review of the system, with the planned work on the devolution plans and the service delivery frameworks.

## Annual Progress

### Overall JP self-assessment of 2021 progress:

On track (expected results achieved)

**Comments on self-assessment:** The JP is progressing well and meeting the milestones according to the workplan and despite the waves of COVID-19 that hit the country in January, July and December 2021. The rapid worsening of the macro-fiscal situation has also had little negative impact on the project, with the development financing agenda and the strengthening of the subnational PFM framework being seen by Government as potential tools to leverage to improve the situation. This year (2022) will be key for the rollout of the INFF as well as the completion of an ambitious evidence-based fiscal decentralization strategy, both concurrently aiming at supporting the implementation of the MIP-1 and Malawi Vision 2063.

### Overall progress and key developments to date (3 key JP milestones)

1. The completion of the DFA/LLFA provided the Government of Malawi (GoM) with an encompassing and exhaustive assessment of the financing flows coming into Malawi at national and local level, as well as of the key bottlenecks to address to unlock higher chances for the country to develop. The endorsement by GoM of the DFA/LLFA (the first document of his kind to also look at the sub-national level of Government for development financing) allowed the PUNOs to start working on the SDG Financing Strategy, or the pivot of the whole INFF system (as of the JP).
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3. The finalization of the stock-take of the functioning of the fiscal decentralization systems and of the mapping of the devolved functions (with gaps and recommendations for updating the devolution guidelines). These two twin pieces of work are the bedrock for the drafting of Malawi's fiscal decentralization strategy (which will be done by the World Bank, as part of the collaboration on decentralized matters that the JP helped trigger) as well as for the review of the system, with the planned work on the devolution plans and the service delivery frameworks.

**Changes made to JP:** The changes that were made to the JP are relative to the increase in the JP's budget (additional USD531,086) as well as to the proposed extension until 31st December 2022. The PUNOs have added activities particularly under Output 2 on sub-national fiscal decentralization, with the support to the review of the National Decentralization Policy, the update of the devolution guidelines and the move from the review of the intergovernmental fiscal transfer system to the overall reform of the fiscal decentralization system. This has meant a strengthening of the JP's intended objectives as well as a deepening of the PUNOs involvement in decentralization issues. Under Outcome 1, UNDP has added the "Digital Finance Ecosystem Assessment under output 1. This is intended to support the Government of Malawi to develop and harness its digital finance ecosystem to deliver financing for its national priorities and support socio-economic recovery from COVID-19 that builds back better. The final product is to create a Digital Financing Strategy, that serves as a subset of the overall INFF-defined SDG

Financing Strategy, which specifies a set of pathways to enable the domestic digital finance ecosystem to catalyze financing for national priorities. The requested extension will contribute not just to seeing the additional work finalized, but also to test the viability of the INFF solutions.

**Main Challenges:** The JP did not face any major challenges over the period concerned, in terms of implementation and results. However, the production of communication materials is lagging behind as the bulk of the documents produced are technical and serve the purpose of evidence-based policy making rather than awareness raising. Even products such as the Citizens Budgets focus on communicating public finance issues rather than the project’s achievements. However, the PUNOs are planning to engage additionally in communicating the projects results to the various stakeholders, as indicated by the SDG Fund.

## Updates on SDG financing framework

Inception phase	Assessment Diagnostics	Financing Strategy	Monitoring Review	Governance Coordination
Previously Completed	Previously Completed	Advancing (50-99%)	Planned (0%)	Advancing (50-99%)

## Descriptions on progress by INFF building blocks

**Inception Phase:** The INFF roadmap was endorsed by Government, based on the recommendations provided by the DFA/LLFA. These are: Tax revenue: • The Government must utilise and enhance the usage of Electronic Fiscal Devices (EFD) for monitoring and improving tax compliance. • The VAT system must be made more progressive by exempting essential items and putting a higher rate on luxury items. • Reducing large tax exemptions and deductions offered to corporations and individuals. • Stimulate Malawi’s informal sector to bring them into the formal sector for tax purposes, through incentivising business registration and formalization, increasing financial inclusion, increase connectivity, and better access to markets and price discovery. Non-Tax Revenue •• Implement long-term holistic integrated financing strategy that sets out the types and scale of investments is in need. •• Develop performance management plans for parastatals and State-Owned Enterprises (SOEs). •• Standardize the fiscal system and create an integrated financing dashboard for improving non-tax revenue collection. Local Government Development Finance •• Enforce office holders to account for development results and closely monitor their performance. •• Accelerate planned reforms, introduce legally backed and more executive management-oriented structures with capacity to develop and implement district development plans (DDP) and their financing mechanisms. •• Revise DDP investment budgets by using competent technical experts to assist with scenario building. •• Provide adequate funding for both development and operations and support public accountability institutions to deal with problems of misuse of public resources. •• Institute a well-capacitated monitoring function, capable of setting up and maintaining integrated financing dashboards to track financing data flows to the district from all stakeholders. •• Revise the intergovernmental fiscal transfers formula for allocation of funds to a district and provide detailed and enforceable guidance on sectoral allocations and accounting. •• Review laws that limit district councils to collect charges reserved for central ministries; build technical capacity in revenue collection as separate from the accounting function; and invest into income generating activities Private Investment •• Diversifying the economy from agriculture to other sectors to mediate an exporting economy and undertake measures to formalize the informal economy to provide them access to the credit. •• Conduct a mapping of investment opportunities in sectors aligned with the key Malawi 2063 priority areas to attract domestic and international private sector investment in sector areas and businesses that have high productive growth and export potential. •• Promote mobilization of private investment in diversified blended finance modalities, such as through guarantee and insurance schemes Civil Society Organizations (CSO) •• Review NGO legal framework and finalize NGO Policy in collaboration with stakeholders, to demand yearly financial reports from all NGOs to be submitted to the NGO Board and Ministry of Finance. •• Enact law to ensure NGO Board collates and publish reports on the accomplishments of NGOs in Malawi on an annual basis.

**Assessment & Diagnostics:** The JP has finalized the DFA/LLFA which was endorsed by GoM at the INFF Steering Committee of 27th October 2021. The document constitutes the base of the financing strategy, having taken stock and integrated all the information on development finance at national and sub-national level which helped identifying the key steps of the INFF roadmap.

**Financing Strategy:** The Financing Strategy work is still in process, with the contract having been awarded and the kick-off meeting held.

**Monitoring & Review:** NA

**Governance & Coordination:** Following the launch of Malawi Vision 2063 and the restructuring of GoM's priorities and leads around it, the decision was made that the High-level Steering Committee that approved the DFA/LLFA should morph to Governance coordination framework. UNDP is currently work on the TORs for the same. The Core Technical Committee under the leadership of the Ministry of Finance which has helped piloting the DFA/LLFA and the other pieces of work has also acted so far as a technical Governance and Coordination mechanism and will be included in the new structure.

## Priority Cross-cutting Issues

### How did the JP adapt to the COVID-19 context

The JP, particularly through the DFA/LLFA work at draft stage, has provided the bedrock information to guide the decisions on the key areas of intervention under the SERP. In terms of the COVID-19 response, that was designed before the start of the JP and also mostly focused on health and education interventions, fully funded by donors.

### How did the JP apply the Gender Marker

The gender marker was used during the design of the project to ensure that gender considerations are mainstreamed in all of the work done under the JP and the activities follow such design. One key example is the DFA/LLFA, but also the work on fiscal decentralization, focusing on the social sectors, has a particular attention to service delivery benefitting women and children.

*Estimated % of overall disbursed funds spend on gender: 70%*

### Alignment with cross-cutting UN issues (e.g. human rights, decent work, inclusion, LNOB)

The JP's focus on development financing and PFM ensures an indirect alignment to cross-cutting UN issues, to the extent that it strives to improve the capacity of the state to finance its policies and development strategies which are in turn sensitive to said cross-cutting issues being aligned to the SDGs.

### How did the JP work to build ownership and buy-in of key stakeholders

The JP is actively co-opting GoM counterparts, development partners and CSOs in its activities, with the aim of ensuring wide buy-in through joint programming and implementation, particularly on Output 2 on sub-national finance. The organization of planning discussions on upcoming work as well as on the extension of the workplan thanks to additional PUNOs own resources helped shape the activities around the needs emerging from the on-going JP work, starting a cycle of evidence production and evidence-based interventions that the JP is helping to fund but that are Government led. The Governance and Coordination mechanism of the INFF, made up of the Steering Committee and Core Technical Committee, which are GoM-led, are also another way through which the JP built national ownership.

# Annual Reporting on Results

## Results achieved in promoting the priority thematic SDG agendas

The JP has contributed to: SDG 17 (17.1 - Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection and 17.3 - Mobilize additional financial resources for developing countries from multiple sources) through the work on the DFA/LLFA and the on the review of the national decentralization policy (Revenue Mobilization for Local Governments) as well as the stock-take on fiscal decentralization. SDG 16 (16.6 - Develop effective, accountable, and transparent institutions at all levels) with the work on improving sub-national budgeting and reporting.

## JP contributions to the Joint SDG Fund's global results (especially around Outcome 2 & Output 4)

The JP did not plan to contribute to Outcome 2 but just to Output 4 , by testing a financing strategy by end 2022, implementing a financing strategy led by a partner by end 2022 and having a functioning partnership framework for integrated financing strategies to accelerate SDG progress by end 2022. The work is in progress and the strategy will be finalized and tested only in the course of this year.

## Progress against JP-specific outcomes

Outcome 1: An Integrated National Financing Framework is being implemented to finance the SDG-aligned First 10-year Implementation Plan (MIP1). The JP has advanced on this outcome by finalizing the DFA/LLFA, developing the SDG investor map Excel Sheet of investment opportunity areas and business models, starting the Financing Strategy, and Digital Finance Ecosystem Assessment, as well as the preparations for the setup of the Governance structures of the INFF.

Outcome 2 The local government financing architecture and expenditure systems are strengthened to accelerate implementation of the SDGs The JP has advanced on this outcome by finalizing the mapping of devolved expenditure assignments at local level, the stock-take on the functioning of the fiscal decentralization system and the review of the national decentralization policy. The finalization of the two citizens budgets (2020 and 2021) and the training on Program-based Budgeting for Local Governments also contributed.

## Progress against JP-specific outputs

Output 1.1 A comprehensive Financing Strategy for the MIP-1 and the SDGs is developed in a participatory manner (INFF Block I and II) The JP has contributed to this output by finalizing the DFA/LLFA, developing the SDG investor map, starting the Financing Strategy and Digital Finance Ecosystem Assessment, thus getting closer to the completion of Block I and II.

Output 1.2 A framework for monitoring and evaluating the implementation of the Financing Strategy is operationalized (INFF Block III and IV) The JP has contributed to this output by working on a setup of the Governance and Coordination structures as well as starting the preparations for the setup of the M&E structures of the INFF (planned for 2022), getting closer to the completion of Block III and IV.

Output 2.1 Evidence on the costs and funding gaps of delivering essential social services at local government level is generated The JP has contributed to this output through the finalization of the mapping of devolved expenditure assignments at local level.

Output 2.2 The Intergovernmental Fiscal Transfer System is revised and contributing toward greater, more equitable and more efficient spending at local government level The JP has contributed to this output through the finalization of the stock-take on the functioning of the fiscal decentralization system and the review of the national decentralization policy

Output 2.3 The quality of budget execution at national and local level is improved to deliver better value for money. The JP has contributed to this output through the finalization of the two citizens budgets (2020 and 2021) and the trainings on Program-based Budgeting for Local Governments.

**JP contributions to strengthening UN coherence, partnerships and reducing duplications of efforts**

The JP has a lean coordination structure based on staff from the two PUNOs, with a clear division of labour between the two, based on the focus of the interventions (national and sub-national), but with a coordination/communication flow that allows a swift joint implementation. The design and implementation of the INFF, which is in the making, has brought together the two main agencies working on development financing and public finance management in their efforts to support Malawi’s ambitious Vision 2063. The INFF will contribute to enhance coordination within the wider UNCT, Development partners, and government, functioning as a informed decision-making platform on development financing. Already now, the Programme has allowed for joint programming on fiscal decentralization reforms between Government, the UN and the World Bank. Additionally, the Programme has benefitted from the guidelines produced by UNDP and UNICEF’s HQ, Regional Offices and Finance Hub both in phase of design and implementation, particularly in terms of DFA and INFF design and rollout. The inter-agency collaboration has also provided occasions for peer learning between countries as well as questions and answers webinars on relevant subjects.

**Strategic Partnerships, Documents and Communications**

**How did the JP facilitate collaboration with diverse stakeholders in the SDG financing space**

The JP has allowed the PUNOs to create a strong partnership with the World Bank in area of sub-national fiscal decentralization and PFM, with UNICEF and the WB being the two main actors in the space and engaging with Government (Ministry of Finance, National Local Government Finance Committee, Ministry of Local Government and National Planning Commission) in joint planning sessions as well as coordination events (Technical Working Group on Fiscal Decentralization) to further the joint Roadmap on Fiscal Decentralization UNICEF is implementing through the JP.

**Did the JP secured additional financing (co-funding/co-financing) from the following stakeholders:**

Government	Donors & IFIs	Private Sector	PUNOs	Other Partners
No	No	No	Yes	No

**Comments on additional financing secured:** The JP has allowed the PUNOs to create a strong partnership with the World Bank in area of sub-national fiscal decentralization and PFM, with UNICEF and the WB being the two main actors in the space and engaging with Government (Ministry of Finance, National Local Government Finance Committee, Ministry of Local Government and National Planning Commission) in joint planning sessions as well as coordination events (Technical Working Group on Fiscal Decentralization) to further the joint Roadmap on Fiscal Decentralization UNICEF is implementing through the JP.

**JP organized events in 2021**

JP Launch Event	Annual Donor Event	Partners Event
No	No	Yes in 2021

Number of strategic documents produced by the JP: 3

Number of strategic documents contributed by the JP: 1

Number of communication materials produced: 0

## 2022 Plans & Way Forward

### JP priority activities & expected results for 2022

- Finalization of the Financing Strategy, the SDG Investor Mapping and the Digital Finance Ecosystem Assessment
- Test run of the INFF coordination and M&E mechanism.
- Finalization of the Costing of Expenditure Assignments, the Reform Papers on Fiscal Decentralization, of the Review of the Devolution Guidelines and of the review of the Program-Based Budget reporting structures.

### 3 major transformative results that will be achieved by the end of the JP

- Malawi has a functioning INFF that actively supports the financing and implementation of the country's ambitious MIP-1. MIP-1 covers the first ten years of Malawi Vision 2063, which aims at transforming Malawi into a wealthy and self-reliant industrialized upper-middle-income country as well as the last ten years of Agenda 2030.
- Malawi follows a comprehensive Development Financing Strategy to fund its ambitious development agenda and achieve the SDGs. This is built on a national and sub-national level Development Finance Assessment, an SDG Investor Mapping and a Digital Finance Ecosystem Assessment that together provide a complete overview of Malawi's strengths, weaknesses, challenges and opportunities in the area of development financing.
- Malawi has a reviewed decentralization architecture, with a new decentralization policy, an updated legal framework for decentralization and sub-national public finance and a roadmap for an evidence-based reform of the fiscal decentralization systems. This will maximize the capacity of the country to deliver quality services to its population and achieve the SDGs.

### Estimated rate of completion for each result as of 31 Dec 2021

Result.1	Result.2	Result.3
Emerging (1-49%)	Advancing (50-99%)	Advancing (50-99%)