



# Joint Programme 2022 Annual Progress Report

## SDG Financing Portfolio - Component 1

### Cover page

**UNCT/MCO:** Malawi

**Reporting Period:** 1 January - 31 December 2022

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

**Stakeholder partner:** National Government; Sub-national Governments; Civil Society Organizations; IFIs/DFIs

**Thematic SDG Areas:** Other

**PUNOs:** UNDP, UNICEF

**Top- up received as part of DEM:** No

**Total estimated expenditures:** US\$ \$ 739,558.4

**Total estimated commitments** (including expenditures): US\$ \$ 872,167.7

**Gender Marker:** Gender-sensitive (for example, the JP acknowledged and aimed to address gender to enhance the policy/programme, such as undertaking gender analysis to ensure policies/programmes do no harm)

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### Executive Summary

The JP has significantly advanced towards the achievement of its two outcomes, the establishment of an INFF and the strengthening of the local government financing architecture.

Development of the Malawi Integrated National Financing Strategy (INFS) has advanced significantly. The first draft was presented to national stakeholders in December 2022. Preliminary findings were presented at the National Development Conference end January 2023. The final Digital Finance Ecosystem Assessment and Strategy (DFEAS) was submitted and expected to be validated in February 2023. The SDGs investor mapping is at an advanced stage following the engagement of a new consultant to complete the report. The SDG audit of the national budget is at data collection stage after approval of the inception report. The INFS, DFEAS, SDGs investor map, and SDGs audit are all expected to be completed by end June 2023 following the extension of the Joint SDG Fund Program in Malawi to June 2023.

The latter advanced significantly, with the joint technical validation of the reviewed National Decentralization Policy and Local Government amendment Bill on 16 June 2022, followed by the Committee of PS validation on November 17th, 2022, and the validation of the Reform Discussion Notes on Fiscal Decentralization on 23 June 2022. The Discussion Notes, based on the JP-supported Fiscal Decentralization Stock-take results, fed into the

World Bank's Malawi Economic Monitor launched on 28 June, 2022 and their validation was the starting point of a series of breakfast meetings between donors and government started on 30 June , 2022 with a discussion on the Own Source Revenues and Urban Financing Discussion Notes, a clear first step towards the selection of concrete measures to strengthen local government financing architecture. Furthermore, the costing model for local-level service delivery was finalized and data validation workshops were held on 16 June and 30 June 2022. The results of the costing exercise will be available in July and, together with the Reform Notes on fiscal transfers, will inform the review of the devolution plans and the establishment of cost-based service delivery frameworks.

## **Annual Progress**

### **Overall JP self-assessment of 2022 progress:**

Satisfactory (majority of expected annual results achieved; 1 to 3 months delay in implementation)

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

The JP has significantly advanced towards the achievement of its two outcomes, the establishment of an INFF and the strengthening of the local government financing architecture.

Following the DFA/LLFA, Government has coordinated the production of the Integrated National Financing Strategy (INFS) for Malawi. The first draft INFS report was reviewed at a stakeholder meeting in December 2022. Key messaging from the INFS was presented at a National Development Conference in January to foster Government ownership and leadership. Complementary to INFS, the final draft Digital Finance Ecosystem Assessment and Strategy (DFEAS) has been produced and is due for validation in February 2023. The work on the SDG audit of the national budget to assess the extent to which the national budget is linked and aligned to the SDGs is at data collection stage. Following the engagement of a new consultant to finalize the SDG Investor Map and approval of its inception report, work has progressed at is at the stage of report writing. The INFS, DFEAS, SDG audit, and the SDGs investor map are all expected to be completed by end June 2023 following the extension of the Joint SDG Fund Program in Malawi.

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### **Main Challenges, adjustments and lessons:**

Like several other countries in the region, Malawi suffers from combined effects of COVID-19, disruptions in global value chains, the indirect ramifications the Russian invasion of Ukraine had on the country economically, and the ensuing inflation and devaluation of the Malawian currency. In addition, Malawi is suffering from the aftermath of a dry spell followed by a tropical storm and a cyclone that damaged crops and power plants. Lastly, Malawi had to depreciate its national currency, the Kwacha, by about 25% to respond to the continuous deterioration of its terms of trade. This negative evolution of the macro-fiscal situation over the past year has been accompanied by so far unsuccessful efforts to renegotiate an Extended Credit Facility with the IMF, with a focus on the preparation of a debt restructuring plan. This has reduced the capacity of parts of the Government to support the implementation

of the INFF, but these delays did not affect the overall progress of the JP which is still on track. The situation is likely to continue to be challenging, but the current JP working arrangements should not be disrupted.

## SDG Acceleration

The JP contributed to accelerating progress towards the SDGs in its main areas of focus, i.e. development financing and national and subnational public finance, despite the extensive challenges connected to COVID-19, the cholera and polio epidemics, the macro-fiscal crisis and the several natural disasters that occurred since its inception.

More specifically, the JP contributed to the Government’s efforts to attract additional funding (SDG17.3) to support its efforts towards macro-fiscal consolidation in a bid to meet the IMF’s Extended Credit Facility (ECF) minimum criteria and respect the Rapid Credit Facility (RCF) Staff Monitoring requirements. Of these, many relate to areas in which the JP has supported Government. For instance:

- “Socially conscious fiscal consolidation efforts to contain domestic borrowing while protecting vulnerable households from the impact of the necessary adjustment amid rising prices for food” will be more achievable owing to the results of the costing of service delivery in the social sectors that pinpointed there were human capital investments gaps are present and were government investment needs to be directed. Similarly, the work on the financing bottlenecks for drugs and rehabilitation funds is supporting spending efficiency gains for primary healthcare.
- “Achieving price stability and maintaining financial soundness to support private-sector led growth” will be supported by the implementation of the Financing Strategy which will focus on improving the country’s capacity to address its outstanding financing gap in a holistic manner, overseeing and supporting the implementation of many sub-strategies such as the domestic resource mobilization strategy and the debt management strategy the Government has finalized.
- “Addressing longstanding governance weaknesses to reduce corruption and improve efficient and effective use of limited public resources” will benefit from the review of the Programme Based Budget performance framework the JP supported. This new framework strengthens the link between budgets, policies and results, fostering the use of a value-for-money logic in budgeting and spending.

The JP also worked to strengthen Malawi’s capacity to mobilize domestic resources (SDG17.1), at national and local level. The review of the legal and policy framework of decentralization in the country and the reform options proposed to increase locally generated revenues in rural and urban districts are underpinning the current drive towards improving the districts’ capacity to fund themselves and their own development plans. Furthermore, the JP has received additional UNICEF funding to further the work on the digitization of locally generated revenue collection and start working on the implementation of the recommendations from the Reform Notes.

## Updates on SDG financing framework

	Assessment Diagnostics	Financing Strategy	Monitoring Review	Governance Coordination
Inception phase				
Previously Completed	Completed	Advancing (50-99%)	Emerging (1-49%)	Emerging (1-49%)
Completed				

## 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 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 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 is currently still being drafted.

The information and data gathered from the DFA/LLFA, the SDG Investor Map, and the Digital Finance Ecosystem Assessment and Strategy as well as other assessments undertaken by other bilateral and multilateral organizations are informing the development of the Financing Strategy.

This Financing Strategy, once finalized, is expected to strategically position the Government of Malawi using an integrated approach to mobilize and leverage development finance resources from domestic and international public and private sources through the necessary policy reforms and legislation.

The Financing Strategy will contribute to the implementation of Malawi Vision 2063 and of its 10-years implementation plan (MIP-1).

**Monitoring & Review:** NA

**Governance & Coordination:** NA

## **Annual Reporting on Results**

### **JP contributions to the Joint SDG Fund's global cost of living crisis**

#### **Next steps, scaling and sustainability [400 words]**

The JP plans to complete the Integrated National Financing Strategy, the Digital Finance Ecosystem Assessment and Strategy, the SDGs audit of the National Budget and the SDG investor map, and to ensure full functionality of the INFF Governance structure to approve and roll out the fully constituted INFF by June 2023. Through the INFS, the Government will also establish a Monitoring and Reporting Structure to foster and facilitate the implementation and enforce accountability of the INFF. The Government through technical support from UNDP will work with the Ministry of Finance and Economic Affairs to establish an INFF dashboard to facilitate rolling out the INFF including supporting the implementation of key policy reforms that would have been defined in the INFS.

Furthermore, the JP plans on launching the results of the service delivery costing exercise that will inform the review of the devolution plans and the establishment of cost-based service delivery frameworks. The roll-out of the National Decentralization Policy, the drafting of a Decentralization Strategy and the definition of the perimeter of a Financing Strategy for Local Government will also see active participation of the JP. This is part of the joint work plan between the JP and the World Bank.

Lastly, building on the joint work on financing at the national (INFS) and local level (Reform Discussion Notes), the PUNOs will continue their engagement to mobilize donors and stakeholders around key local government financing issues, as part of the broad national effort to achieve the First 10-year implementation plan of the Malawi 2063. A first step in this direction was the successful bid for seed funding (USD50,000) that will be provided by UNICEF HQ to MCO to continue the work under the JP. The funding will be used to start the implementation of some recommendations for improving local revenue collection through digitization. These recommendations were produced by the JP-funded activities on sub-national finance.

## **Priority Cross-cutting Issues**

### **Cross-cutting results/issues**

The JP is mostly focused on improving Malawi's capacity to finance its own development through the establishment of an INFF and the concurrent implementation of extensive reforms regarding decentralization and sub-national service delivery. Despite this focus, the JP remains strongly gender sensitive, particularly in its focus on sub-national service delivery which, in Malawi, includes key sectors impacting the lives and livelihoods of women and girls, such as primary healthcare, primary education, agricultural extension services, social cash transfers, etc. In this respect, the costing of service delivery at local level, with the estimation of the financing gaps and the mapping of the devolution plans underpinning the different social sectors helped in identifying those key areas in which lack of financing or clear devolution guidelines hamper the provision of services to children and mothers. Examples of these new areas of focus are nutrition services (amongst which the provision of micronutrient supplementation),

which are being currently being devolved following the JP engagement. In a similar fashion, the JP has accelerated the preparations for the Disability Trust Fund which are currently being supported through mixed JP-UNICEF funding.

### How did the JP apply the Gender Marker

The JP is Gender-sensitive (for example, the JP acknowledged and aimed to address gender to enhance the policy/programme, such as undertaking gender analysis to ensure policies/programmes do no harm). Evidence, data collection and analysis (e.g. gender assessments of programmes; policy briefs, costing for scale-up of social services);

### Focus on LNOB cross cutting principles

Human Rights	Persons with disabilities	Youth	Environmental and social standards
No	No	No	No

## 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.

### Donor and Strategic events attended by JP in 2022

JP steering committee/ programme board meeting	Strategic partners/ donors event	Closing meeting/ event
Yes	No	No

### JP contribution to SDG Financing

Drafted a bill, strategy, and/or approved a law increasing the fiscal space for the policy focus	Produced financing, costing, diagnostic and feasibility analyses as a basis to invest or increase spending on the SDGs	Improved efficiency (cost savings) in management programmes/schemes	Improved effectiveness of (value for money; social impact of \$1 spent) sector investment on the SDGs	Drafted policies/regulatory frameworks or developed tools to leverage (public, private or blended) additional funding	Structured financial instruments (public, private or blended) to leverage additional funding
No	Yes	Yes	No	No	No

### Main capacity building activities supported by the JP that allowed people to expand their knowledge on SDG Financing and INFFs

NA

