

**Implementation Status & Results**  
**Malawi**  
**Malawi Economic Recovery Development Policy Operation 1 (P133663)**

Project Name: **Malawi Economic Recovery Development Policy Operation 1 (P133663)** Program Stage: Implementation Seq.No: 1 Status: ARCHIVED Archive Date: 11-Jun-2014

Country: Malawi Approval FY: 2013  
 Product Line: IBRD/IDA Region: AFRICA Lending Instrument: Development Policy Lending  
 Implementing Agency(ies):

**Key Dates**

Board Approval Date	28-May-2013	Original Closing Date	31-Dec-2013	Planned Mid Term Review Date	31-Mar-2014	Last Archived ISR Date
Effectiveness Date	10-Jun-2013	Revised Closing Date	31-Dec-2013	Actual Mid Term Review Date	25-Mar-2014	

**Program Development Objectives**

Program Development Objective (from Program Document)

**The development objectives of the DPO series is to support reforms to strengthen macroeconomic and public finance management and lay foundations for stronger growth and protection of the poor.**

Has the Program Development Objective been changed since Board Approval of the Program?

Yes  No

**Overall Ratings**

	Previous Rating	Current Rating
Progress towards achievement of PDO		Moderately Unsatisfactory
Overall Implementation Progress (IP)		Moderately Unsatisfactory

**Implementation Status Overview**

Progress towards the development objectives of this operation: Progress to strengthen macroeconomic and public finance management and lay foundations for stronger growth and protection of the poor has suffered a series setback and places this operation at high risk. This lack of progress can be largely attributed to the negative fiscal impact of the large scale theft of public funds amounting to MWK 13.7 billion (equivalent to about US\$34 million) during the period of April-September 2013, and the emergence of high fiduciary risks associated with a compromised Government payment system and control environment. Whilst remedial emergency control measures have been put in place, there has been a setback on macroeconomic and public finance management and none of the budget support envisioned for 2013/14 has been forthcoming. On the other hand, reforms that will help strengthen growth at the sectoral level have progressed adequately.

Pillar 1: Strengthening macroeconomic and public finance management

Prior to Board approval, all DPO-1 prior actions were fully implemented and the overall reform program was broadly on track. On the fiscal consolidation front, there was encouraging progress towards the clearance of domestic payment arrears and procurement reforms to improve the cost effectiveness of the Farm Input Subsidy Program. The fiscal deficit had narrowed and there was a slight reduction in net domestic debt in 2012/13.

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This progress was reversed at the start of FY2013/14, which was characterized by large overruns in expenditure partly reflecting fraudulent transactions (where total expenditure rose sharply to 49 percent of GDP during the first quarter of FY2013/14, from the program target of 41.8 percent of GDP). The subsequent suspension of budget support in 2013/14 has meant that fiscal consolidation is still taking place in a very difficult environment. Given the low levels of budgetary allocations to Government Ministries, Departments and Agencies, domestic payment arrears have started to build up, which goes against some of the objectives of the reform program supported by the series.

To restore confidence in the public finance system and reduce the possibility of further fraud, the authorities have since late 2013 been implementing an Action Plan of remedial measures covering five areas (i) Investigations and Prosecution; (ii) Auditing; (iii) Accounting; (iv) Administrative measures; and (v) Reforms (governance, public sector and PFEM).

While the immediate fiduciary risks have been mitigated through extraordinary arrangements put in place with support from development partners, these measures are not sustainable and remain a source of a high fiduciary risk over the medium term.

Pillar II: Laying the foundation for stronger growth and protection of the poor:

Progress continues to be made in the implementation of core elements of the government's reform agenda that will help lay the foundation for sustained growth.

Energy Sector. To Government has maintained the monthly reviews of the Automatic Tariff Adjustment Formula since May 2012. This reform has helped the Electricity Supply Corporation of Malawi (ESCOM) improve its financial position to support its activities and the expectation is that the cost reflective tariffs will help attract the operations of independent power producers to expand public access to electricity and improve the reliability of supply.

Seeds Market. Good progress has been made with the drafting of the Seed Bill, which has been prepared in a highly consultative manner with full endorsement from seed companies and producers in particular. In 2013, legumes production increased by about 10 percent from 949,454 metric tons produced in 2012. Once passed and enforced, the proposed Seed Bill will be critical to ensure that farmers can access quality seeds on the market that would effectively contribute to productivity increase.

Statistics. The authorities passed the 2013 National Statistics Act in May 2013, which has enhanced National Statistical Office's authority to coordinate and manage the National Statistical System (NSS). The authorities have also approved 2013-2017 NSS Strategic Plan, which seeks to promote the harmonization of statistics as well as oversee the development and implementation of a comprehensive and well-coordinated system of producing, processing and disseminating official statistics. This will in turn help reduce duplication and overlapping of activities and enhance consistency and comparability of statistical products. To date, only one quarterly MGDS II report has been provided against the end of program target of two reports.

## Results

### Results Indicators

Indicator Name	Core	Unit of Measure		Baseline	Current	End Target
Clearing of outstanding stock of SOE arrears	<input type="checkbox"/>	Percentage	Value	0.00	100.00	100.00
			Date	02-Jul-2012	30-Sep-2013	31-Dec-2014
			Comments		Arrears owed by SOEs were securitized.	
Reduction in variance in primary expenditure between approved and outturn	<input type="checkbox"/>	Percentage	Value	12.00	10.00	10.00
			Date	30-Jun-2012	30-Jun-2013	31-Dec-2014
			Comments			
Reduction in backlog of Treasury Minutes	<input type="checkbox"/>	Months	Value	60.00	40.00	36.00

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			Date	30-Jun-2012	30-Sep-2013	31-Dec-2014
			Comments			
Percentage of all Government transactions complying with internal controls	<input type="checkbox"/>	Percentage	Value	40.00	40.00	60.00
			Date	30-Jun-2013	31-Dec-2013	31-Dec-2014
			Comments			
Reduction in Fertilizer share of Ministry of Agriculture Budget	<input type="checkbox"/>	Percentage	Value	85.00	53.00	65.00
			Date	02-Jul-2012	30-Sep-2013	31-Dec-2014
			Comments			
Percentage of Social Cash Transfer beneficiary households being reached with the Innovative Approaches to Cash Delivery Systems in Mchinji and Machinga Districts	<input type="checkbox"/>	Percentage	Value	0.00	0.00	40.00
			Date	31-Dec-2012	30-Sep-2013	31-Dec-2014
			Comments			
Reduction in backlog of bank reconciliation	<input type="checkbox"/>	Months	Value	15.00	2.00	1.00
			Date	02-Jul-2012	31-Dec-2013	31-Dec-2014
			Comments			
Increase in seeds production	<input type="checkbox"/>	Percentage	Value	0.00	10.00	10.00
			Date	30-Jun-2012	30-Jun-2013	31-Dec-2014
			Comments	Percentage increase is from the base year production levels of 949,454 metric tons (2012).		
Pending audit queries from Treasury Minutes	<input type="checkbox"/>	Percentage	Value	100.00	100.00	75.00
			Date	30-Jun-2012	30-Sep-2013	30-Jun-2016
			Comments			
Number of quarterly MGDS progress reports published	<input type="checkbox"/>	Number	Value	0.00	1.00	2.00
			Date	30-Jun-2012	30-Sep-2013	31-Dec-2014
			Comments			
Percentage of Social Cash Transfer beneficiary households reached with the Innovative Approaches to Cash Delivery Systems in Mchinji and Machinga Districts	<input type="checkbox"/>	Percentage	Value	0.00	0.00	40.00
			Date	30-Jun-2012	30-Sep-2013	31-Dec-2014
			Comments			
Increase in the average electricity tariff to cost recovery levels	<input type="checkbox"/>	Amount(USD)	Value	0.06	0.09	0.10
			Date	30-Sep-2012	30-Sep-2013	31-Dec-2014
			Comments			

**Data on Financial Performance (as of 06-Jan-2014)**

**Financial Agreement(s) Key Dates**

Project	Ln/Cr/Tf	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P133663	IDA-H8490	Closed	28-May-2013	05-Jun-2013	10-Jun-2013	31-Dec-2013	31-Dec-2013

**Disbursements (in Millions)**

Project	Ln/Cr/Tf	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P133663	IDA-H8490	Closed	XDR	33.40	33.40	0.00	33.40	0.00	100.00

**Tranches**

**Tranche 1**

Amount (USD)	Expected Release Date	Actual Release Date	Status
0			<input type="radio"/> Pending <input type="radio"/> Released

**Key Decisions Regarding Implementation**

a) Authorities should continue to secure a robust and strong payment system to reduce fiduciary risks and strengthen transparency and accountability; b) finalize a strategic 'Comprehensive PFEM Strengthening Action Plan', which will be linked to the Public Sector Reform Program to ensure complementary and maximize synergies; c) Accelerate progress of the reforms that have been lagging behind, including those related to the revisions to the energy sector policy, clearance of bank reconciliation backlog and the establishment of the M&E system for Social Protection Program; and, d) Authorities to establish a mechanism to monitor the stock of arrears on regular basis to prevent accumulation of new arrears. As a result of the cash-gate, the management has decided to terminate the DPO series (which was originally conceived as a three single tranche operations), at DPO-2 and the results framework has been adjusted accordingly.

**Restructuring History**

There has been no restructuring to date.

**Related Operations**

P133663-Malawi Economic Recovery Development Policy Operation 1, P145639-MALAWI SECOND ECONOMIC RECOVERY DEVELOPMENT POLICY OPERATION