



1. Operation Information

Operation ID

P153753

Operation Name

Malawi Agri Supp and Fiscal Mgmt DPO

Country

Malawi

Practice Area (Lead)

Macroeconomics, Trade and Investment

Non-Programmatic DPF
L/C/TF Number(s)

IDA-60030

Closing Date (Original)

31-Mar-2018

Total Financing (USD)

84,267,052.33

Bank Approval Date

04-May-2017

Closing Date (Actual)

31-Mar-2018

IBRD/IDA (USD)
Co-financing (USD)

Original Commitment

80,000,000.00

0.00

Revised Commitment

80,000,000.00

0.00

Actual

84,267,052.33

0.00

Prepared by

Igor Pejovic

Reviewed by

Judyth L. Twigg

ICR Review Coordinator

Jennifer L. Keller

Group

IEGEC

2. Program Objectives and Pillars/Policy Areas

a. Objectives

According to the Letter of Development Policy (LDP, Program Document, p. 40), the program development objective (PDO) was to improve incentives for private sector participation in agricultural markets and to strengthen fiscal management through more effective expenditure controls and greater transparency.



The DPO was initially designed as a two-operation series. Concerns stemming from governance issues and uncertainty linked to approaching elections prompted a decision not to proceed with DPO2.

For the purpose of this ICRR, the PDO for this operation is unpacked into the following objectives:

Objective 1: Improving public expenditure management and transparency

Objective 2: Promoting private sector participation and productivity improvement in agriculture.

b. Pillars/Policy Areas

The pillars of the operation aligned with the objectives above.

Pillar 1: Public expenditure management and transparency

Pillar 2: Private sector participation and agricultural productivity

The prior actions associated with each pillar were as follows:

Table 1: Prior Actions associated with the Malawi Agricultural Support and Fiscal Management DPO

<i>Pillar 1: Public expenditure management and transparency</i>
PA1: The Recipient has, through its Ministry of Agriculture, Irrigation and Water Development (MoAIWD) and the Ministry of Finance, Economic Planning and Development (MoFEPD), made parametric changes to the Farm Input Subsidy Program (FISP) in fiscal year 2016/17, namely: (i) increased the share of fertilizer retailed by private suppliers; (ii) reduced the level of subsidy to beneficiaries by introducing a fixed value coupon with beneficiaries paying the difference between the coupon value and market price; and (iii) piloted improved targeting of beneficiaries. <i>(This PA is expected to contribute to the second objective as well but has been included under the first pillar.)</i>
PA 5: The Recipient has, through its MoFEPD, MoGCDSW, and LDF, agreed on institutional coordination arrangements for the expansion of the Social Cash Transfer Program, all in accordance with the provisions of paragraph 20 of the LDP.[JC1]
PA6: The Recipient has, through its MoFEPD, National Audit Office (NAO), and the Department of Human Resources Management and Development (DHRMD), completed an audit of the civil service payroll system, reconciled the differences between establishment and payroll for both salaries and allowances, and deleted erroneous entries, all in accordance with the provision of paragraph 28 of the LDP.
PA7: The Recipient has, through its NAO, published the audited financial statements for the fiscal years 2011/12, 2012/13, 2013/14, 2014/15.
PA8: The Recipient has, through its MoFEPD, submitted to Parliament the Public Audit (Amendment) Bill 2016 with a view to strengthening the operational independence of the NAO in conformity with International Organization of Supreme Audit Institutions (INTOSAI) standards.
PA9: The Recipient has: (i) through its Office of the President, appointed Controlling Officers (COs) for all ministries, departments and agencies (MDAs) in conformity with the Public Service Management Act (Cap. 1:03 of the laws of the recipient) to perform their functions in conformity with the provisions of the Public Finance Management Act (Cap. 37:02 of the laws of the recipient); and (ii) through said COs, submitted



required monthly returns for their respective Votes for calendar year 2016 in conformity with the provisions of Section 10 of the Public Finance Management Act.

Pillar 2: Private sector participation and agricultural productivity

PA2: The Recipient has, through its MoAIWD, adopted revised guidelines that put in place transparent and objective criteria, as well as technical and financial reporting and accountability mechanisms, for maize draw down for price stabilization from the Strategic Grain Reserve (SGR), all in accordance with the provisions of paragraph 22 of the LDP.

PA3: The Recipient has, through Agriculture Development and Marketing Corporation (ADMARC Limited): (i) published ADMARC Limited's audited financial statements for fiscal years 2013/14 and 2014/15, respectively; and (ii) published monthly reports outlining maize market distribution and purchasing plans throughout the fiscal year 2016/17 lean season, all in accordance with the provisions of paragraph 23 of the LDP.[JC2] [jlt3]

PA4: The Recipient has enacted the: (i) Physical Planning Act, 2016; (ii) Customary Land Act, 2016, (iii) Land Survey Act, 2016; and (iv) Land Act, 2016 improving administration and security of tenure, all in accordance with the provisions of paragraph 24 of the LDP.

c. Comments on Program Cost, Financing and Dates

The DPO was approved by the Board on May 4, 2017, and the IDA-60030 grant in the amount of US\$84.3 million was fully disbursed in a single tranche on September 8, 2017. The DPO closed on March 31, 2018.

3. Relevance of Design

a. Relevance of Objectives

The objectives of the operation were critical to Malawi's development agenda. In 2013, the country had experienced a financial crisis, instigated by the discovery of a misappropriation of public funds through fraudulent transactions carried out through the Government's Integrated Financial Management Information System (IFMIS). The discovery resulted in many donors withdrawing budget support and shaken trust in public financial management. Strengthening public finance accountability was thus recognized as a high priority within the Country Partnership Strategy FY 13-16 adopted in December 2012.

Malawi's Country National Agricultural Policy from 2016 emphasized the importance of improved agricultural productivity as the country had to confront and overcome several challenges in the sector, including low productivity, susceptibility to weather shocks, and poor management of land, water, and soils. All of these posed a threat to food security and nutrition in the face of a growing population, increased land pressure, and climate change (objective 2).

The DPO complemented or built upon efforts under other Bank projects and activities. The reforms to strengthen public financial management were supported by two complementary projects, including the Financial Reporting and Oversight Improvement Project from 2018 (P130878), whose goal was to improve the internal controls, accounting, reports, and oversight of government finances at centralized and decentralized levels in MDAs in Malawi. The agricultural reforms supported by the DPO built upon an Agriculture Sector



Wide Support Program from 2017 (P105256), which aimed to establish an overall sustainable land management system and sustainable productivity. The DPO extended the goals from that project and introduced more specific goals such as the participation of the private sector in agriculture.

b. Relevance of Prior Actions

Rationale

Some of the prior actions were relevant and had clear results chains towards the achievement of the operation's objectives. However, PA 5 was not directly related to either objective, and other PAs addressed only surface issues and did not tackle the underlying causes of inefficiency and mismanagement.

Pillar 1: Public expenditure management and transparency

PA 1: The first PA aimed to increase the efficiency of public expenditure by adjusting the Farm Input Subsidy Program (FISP), which accounted for 11.5% of budget funds and 75% of the MoAIWD's budget in 2014/2015 (Report No. 79865 - MW). The FISP's costs to the government were high and growing, and the subsidy had led to an overspecialization in maize. Through this PA, the FISP was to shift from targeting the extremely poor to targeting more productive farmers who were better positioned to make use of seed and fertilizer subsidies, resulting in higher productivity especially in maize. The changes in how the FISP targeted beneficiaries also meant that the system would move away from a fixed farmer contribution (where farmers had been paying as little as 3% of the market price of fertilizer) to a fixed government contribution (where the government would issue a fixed value coupon, and beneficiaries would pay the difference between the coupon value and the market price), making the system more stable and reliable, and thus contributing to improved public expenditure management. The FISP's role as a safety net and guarantor of food self-sufficiency for the extreme poor was shifted to the Social Cash Transfer (SCT) program (see PA 5). Logistical costs were to be reduced by involving private suppliers in the retail distribution of fertilizer, building on a 2015/2016 pilot that had achieved significant savings through lower-cost sourcing, distribution, and communications. (Relevance of PA1 = HS)

PA 5: This PA was aimed at supporting the scale-up of the SCT program, which prior to the operation covered only 18 out of 28 districts, and establishing the institutional coordination arrangements across implementing sector ministries and agencies that were a precondition to national scale-up. However, the PA had more to do with preserving and strengthening the social safety net for the ultra-poor than with achieving either of the operation's objectives. Although this was an important goal, particularly given the adjustments to the FISP, there was not a credible results chain linking PA5 to either of this operation's stated objectives. (Relevance of PA5 = MU)

PA 6: This PA aimed to strengthen management of the public sector wage bill and increase public expenditure efficiency through internal audits, reconciliations between different establishments, and removal of erroneous entries in the public finance system. By FY 2014/15, public debt had grown rapidly, crowding out resources for other current expenditures and making the government heavily dependent on donor funding for service delivery. The substantial rise in the number of civil servants (from 111,000 to 186,000) and weaknesses in establishment and implementation of personnel controls left room for fraud. In addition, the absence of an interface between the payroll and the IFMIS exposed the system to vulnerabilities. While the reconciliation would identify ghost workers, representing an important incremental reform, the PA was not sufficient to prevent a recurrence of ghost workers in the future. The PA might have been better defined to have a more lasting impact on the



achievement of this objective by focusing on preventing the future appearance of ghost workers through a regular check-up mechanism delegated to one of the government institutions. (Relevance of PA6 = MS)

PA 7: This PA sought to improve accountability through the publishing of audited financial statements. Strengthening the integrity of the public financial management (PFM) cycle was at the core of the reforms supported by the DPO. As per the PFM act, annual financial statements for the previous year had to be submitted to the Auditor General, who needed to complete the audit and submit the audited statements to the Treasury and to the parliament by December 31. The Public Accounts Committee (PAC) of the parliament would then review these audited accounts with the Treasury, and the Treasury would issue Treasury Minutes detailing the actions taken to complete the accounting cycle. In FY 2014/15 these reporting and reviewing requirements were not implemented. In fact, the audited statements for FY 2011/12 through FY 2014/15 were not submitted to the parliament. To address this problem, the PA required clearance of the backlog, a crucial initial step. However, in order for the policy reform to be effective, instructions should be acted upon. The latter requires behavioral change, addressing corruption and governance problems, overcoming bureaucratic inertia and weak capacity. This PA did address the issue of accountability but, analogous to PA6, the publishing of past financial statements does not guarantee future compliance. (Relevance of PA7 = MS)

PA 8: This PA aimed at increasing the accountability of public finances through a Public Audit Bill that granted the NAO more operational independence. Malawi's legal framework for the NAO did not comply with the international standards defined by the INTOSAI. These standards prescribe that the independence of the audit institution needs to be established in the constitution, providing the institution legal protection against interference in the legislative framework. However, the PA required only submission of the bill to Parliament rather than passage of the legislation. (Relevance of PA8 = S).

PA 9: At the time of appraisal, many COs were not formally appointed, statutory reports were filed irregularly, and many heads of MDAs did not clearly delegate financial and personnel responsibilities to subordinate officers and hold them accountable for compliance with rules and regulations. This PA was intended to set up a better system of control of public finances by appointing COs in all public institutions and making it obligatory for them to submit monthly returns. These officers were in charge of making sure that proper records were maintained and that public assets were protected. This PA therefore aimed to improve management of public finances through greater transparency and accountability in the use of public funds. (Relevance of PA9 = S)

Pillar 2: Private sector participation and productivity in agriculture

PA 2: Prior to the operation, there was a lack of clarity with SGR operating modalities and uncertainty with annual purchasing and distribution plans, contributing to volatility of maize prices. The SGR has a significant influence on the maize market because it is responsible for the drawdown and distribution of maize from the grain reserves and maize purchase on the market. Lack of transparent guidelines and mechanisms encouraged speculation by traders and placed a high premium on insider knowledge. As a result, smallholders who produced a marketable surplus were not able to benefit from purchases by the National Food Reserve Agency (that manages the SGR). The PA aimed at establishing transparent and objective criteria for maize drawdown from the SGR and technical and financial reporting and accountability mechanisms, minimizing speculation in the maize market and decreasing volatility in maize prices. However, there were no provisions for ensuring that the guidelines were consistently followed. (Relevance of PA2 = MU)

PA 3: This PA aimed to increase predictability and reduce distortions in agricultural markets by improving transparency in how ADMARC (a parastatal grain marketing board) set prices, purchased quantities, and



distributed them to market. ADMARC operations were unpredictable to market participants, and participants were exposed to the risk of ADMARC selling at a price that was below cost. The prior action entailed ADMARC publishing audited financial statements for FY 2013/14 and FY 2014/15 and monthly reports outlining maize market purchasing and distribution plans throughout the 2016/17 lean season. The Program Document stated that this action would explicitly define ADMARC's roles and operations, providing farmers and traders with an improved investment framework less vulnerable to opportunistic state behavior, and improving productivity by allowing market participants to better plan their involvement in the market. This action was an important incremental institutional strengthening measure, though it did not extend to or guarantee future ADMARC behavior. (Relevance of PA3 = MS)

PA 4: This PA aimed to address the lack of clarity when it came to land boundaries and leases, which created uncertainty for private investment in the sector. By 2014/15 most leases had expired, and some of the boundaries displayed in official records were erroneous. Additionally, large parts of traditional land management areas remained un-demarcated, resulting in tenure insecurity. This PA updated the legal framework. These reforms would strengthen land management through improved security of tenure, critical for promoting private participation. (Relevance of PA4 = HS)

Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

The relevance of the results indicators for capturing the likely impact of the PAs toward the achievement of the objectives was mixed. Some were adequate, but others did not capture what they intended to measure or were subject to influence by factors beyond the scope or control of this operation.

Table 2: Results indicators of the Malawi Agricultural Support and Fiscal Management DPO

RI (number and description)	Associated PA	Baseline/target	Status
Pillar 1: Public expenditure management and transparency			
RI1: Share of FISP fertilizer tonnage retailed by private suppliers (%)	PA1	Baseline in FY14/15: 0 Target: FY16/17: >50% FY17/18: >70%	Actual: 76%
RI2: FISP subsidy (as % of retail price of fertilizer)		Baseline in FY14/15: 97% Target: FY16/17: <70% FY17/18: <60%	Actual: 64% in 2016/17 77% in 2017/18
RI3: Coverage of the SCT program (districts)	PA5	Baseline in FY14/15:	Actual (2017/18):



		18 districts Target: FY17/18: 28 districts	27 districts
RI4: Civil servants on payroll six months after exiting employment (number)	PA6	Baseline in FY14/15: 8004 Target FY17/18: < 500	Actual (2017/18): 166
RI5: Backlog of audited financial statements presented to the Parliament	PA7	Baseline in FY14/15: Five years backlog (2011/12-2014/15) Target FY17/18: Five statements presented to Parliament	Actual (2017/18): Five statements presented, clearing backlog
RI6: Strengthened independence and capacity of the NAO	PA8	Baseline in FY14/15: Independence of NAO not consistent with international standards Target FY17/18: Independence guaranteed through implementing a new legal framework	Actual (2017/18): New Public Audit Act implemented
RI7: COs meeting monthly reporting requirements (%)	PA9	Baseline in FY14/15: No COs meet monthly reporting requirements Target FY17/18: >90% of COs meet monthly reporting requirements	Actual (2017/18): Target met (specific data not provided)
Pillar 2: Private sector participation and productivity in agriculture			
RI8: Coefficient of variation of maize prices	PA2 and PA3	Baseline in FY14/15: 0.51 Target FY17/18: 0.38	Actual (2017/18): 0.27
RI9: Number of expired estates notified	PA4	Baseline in FY14/15: 0 Target FY17/18: >30,000	Actual (2017/18): 34,433
RI10: Number of leases renewed or cancelled		Baseline in FY14/15: 0 Target FY17/18: >10,000	Actual (2017/18): 10,000
RI11: Number of districts starting systematic low-cost adjudication of customary estates		Baseline in FY14/15: 0 Target FY17/18: 3 districts	Actual (2017/18): 6 districts



Pillar 1: Public expenditure management and transparency

RI1: The share of FISP fertilizer directly retailed by the private sector was intended to capture the extent to which fertilizer delivery mechanisms were made more efficient under PA1, decreasing logistical costs and facilitating on-time delivery, and ultimately producing cost savings for the government. The indicator could have measured intended outcomes more precisely by focusing directly on delivery times and/or cost savings, both of which had been measured in the 2015/16 pilot (Program Document, pp. 12-13). (Relevance of RI1= MS)

RI2: The RI measured changes in the level of government subsidy for fertilizer as a percentage of the market price. However, the point of the reform supported by PA1 was to fix the government subsidy at a set level (controlling government expenditures), with the beneficiaries paying the difference between the subsidy (coupon) and market price. The RI as constructed varied with the market price of fertilizer (the denominator), which was not under the operation's control. The RI therefore did not capture what it intended to measure, which was the extent to which government subsidies were kept under control. (Relevance of RI2=U)

There was no RI to measure outcomes resulting from the other element of PA1, the shift to targeting more productive farmers who were thought to be better able to take advantage of seed and fertilizer subsidies.

RI3: Expanding the coverage of the Social Cash Transfer Program measured the impact of PA 5's scale-up of the SCT program adequately, but (as mentioned above) PA 5 could not be logically linked with either of the operation's objectives. In this way, the RI cannot be considered relevant for measuring progress toward the objective, because the PA itself was unrelated. (Relevance of RI3=HU)

RI4: The number of civil servants on payroll six months after exiting employment meant to capture the impact of PA6 towards improved public expenditure management, with a decrease in the number of ghost employees receiving salaries resulting in greater public expenditure efficiency and better public expenditure management. The six-month time frame was a relatively lengthy period for those who had exited public employment to continue receiving salaries. (Relevance of RI4=S).

RI5: The clearance of a five-year long backlog of audited financial statements was intended to measure the impact of PA7 toward greater transparency and accountability. The RI adequately captured the impact of implementing the existing reporting and reviewing requirements to clear the backlog, but there was no provision for continued implementation of requirements and therefore no measure of the impact of policy or institutional changes that would encourage or guarantee future compliance. (Relevance of RI5=MS)

RI6: Strengthened independence of the NAO meant to capture the impact of the passage of the public audit bill under PA8 toward strengthened transparency and accountability. However, the results indicator contained no specific measure of progress, but instead contained vague language about "strengthened independence" with a target of "guaranteed" independence through implementation of a new legal framework. A better RI might have tracked the number of performed audits by the NAO in comparison with the past number of audits, or the publication of a yearly report on budget execution. (Relevance of RI6=U)



RI7: The compliance of COs with monthly reporting requirements meant to capture the impact of appointing Controlling Officers in all public institutions and making it obligatory for them to submit monthly returns (PA9). The indicator adequately captured compliance, contributing to improved transparency and expenditure management. (Relevance of RI7=S)

The relevance of results indicators under pillar 1 is rated **moderately unsatisfactory**.

Pillar 2: Private sector participation and productivity in agriculture

RI8: The coefficient of variation in maize prices meant to capture the impact of PA 2 (improved management of the SGR) and PA3 (improved operations within ADMARC) on progress towards improved private sector participation in agricultural markets and agricultural productivity. However, as noted in the ICR (p. 19), the link between price volatility and the functioning of maize markets depends on many factors outside the operation's control, including climate and informal cross-border trade; the contribution of policy reform and other factors affecting price volatility can only be measured in the medium term after a longer period of consistent and transparent market interventions. Furthermore, neither PA 2 nor PA3 contained measures that guaranteed adherence to established guidelines. (Relevance of RI8 =U)

RI9: The number of expired estate leases notified adequately measured the impact of PA4 on progress toward improved private sector participation, with better management and overview of expired leases leading to improved land administration, investment incentives, and access to land. (Relevance of RI9=HS)

RI10: The number of expired estate leases renewed or cancelled similarly captured the impact of PA4 on improved land administration, incentivizing private sector participation. (Relevance of RI10=HS)

RI11: The number of districts starting systematic low-cost adjudication of customary estates captured improved land tenure security and availability of robust and accessible land dispute resolution mechanisms under PA4, again facilitating private sector participation. (Relevance of RI11=HS)

The relevance of results indicators under pillar 2 is rated **satisfactory**.

With the relevance of results indicators under pillar 1 moderately unsatisfactory and under pillar 2 satisfactory, the **overall relevance of results indicators is judged to be moderately satisfactory**.

Table 3: Relevance of Results Indicators and Efficacy Ratings for Malawi Agricultural Support and Fiscal Management DPO

Results Indicator	Relevance rating	Efficacy rating (from RI or complementary evidence)	Pillar Efficacy Rating	Overall Efficacy Rating
<i>Pillar 1: Public expenditure management and accountability in public finance</i>				
RI1	MS	Substantial		
RI2	U	Negligible		



RI3	HU	Negligible	Moderately Unsatisfactory	Moderately Unsatisfactory
RI4	S	Substantial		
RI5	MS	Modest		
RI6	U	Substantial		
RI7	S	Modest		
Objective 2: promoting private sector participation and productivity improvement in agriculture				
RI8	U	Negligible	Moderately Satisfactory	
RI9	HS	Substantial		
RI10	HS	Substantial		
RI11	HS	Substantial		

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Improving public expenditure management and transparency

Rationale

RI1: The share of FISP fertilizer tonnage retailed by private suppliers was achieved. Furthermore, the FISP reform was continued beyond 2017/18, and the share of fertilizer retailed by the private sector increased to 88% by 2018/19. **Progress toward the objective is rated Substantial.**

RI2: The FISP subsidy as a share of the retail price of fertilizer was achieved in 2016/17, but the trendline reversed and the target was not achieved in 2017/18. In any event, this RI was not an acceptable measure of progress toward the objective. In July 2020, the new government replaced the FISP with an Affordable Inputs Program that retains many elements of the FISP but extends the benefit to all smallholder farmers; the ICR (pp. 17-18) indicates that the new program may not be affordable. **Progress toward the objective is rated Negligible.**

RI3: The Social Cash Transfer program was expanded as planned, but there is no results chain connecting this RA with either objective. **Progress toward the objective is rated Negligible.**

RI4: The number of civil servants on payroll six months after exiting employment was achieved, and the government is actively addressing anomalies such as the use of the same employee number for multiple pensioners and discrepancies between payment records and the human resources management information system. **Progress toward the objective is rated Substantial.**

RI5: The clearance of a five-year long backlog of audited financial statements presented to the Parliament was achieved. However, no evidence is presented that longer-term issues with governance,



bureaucratic inertia, and weak capacity—which produced the backlog that had to be cleared—have been addressed by this measure. **Progress toward the objective is therefore rated Modest.**

RI6: Strengthening the independence of the NAO was a vague and unmeasurable indicator. However, according to the ICR (p. 23), a new Public Audit Act enacted in 2018 is “substantially compliant” with international best practice, and an attempt to appoint an Auditor General in 2018 in a way that was not compliant with the spirit of the Act was overturned. Furthermore, the new Auditor General (appointed in line with the new Act) submitted FY 2017/18 financial statements to Parliament concurrently with its submission to MoFEPD in December 2018. **Progress toward the objective is therefore rated Substantial.**

RI7: Compliance of controlling officers with monthly reports is reported to have been achieved in 2017/18, though exact data are not available. The ICR (p. 23) reports only on a May 2018 letter from the Minister of Finance to the Bank stating that the compliance rate was “more than 90 percent.” The ICR further states, however, that there was “some slippage” in the rate of compliance in 2019, and that some monthly submissions were delayed, indicating backsliding. **Progress toward the objective is rated Modest.**

Rating

Moderately Unsatisfactory

OBJECTIVE 2

Objective

Promoting private sector participation and productivity improvement in agriculture

Rationale

RI8: Coefficient of variation in maize prices was achieved in 2017/18. However, the policy actions were not clearly linked to achievement of the RI, as many factors outside the control of the operation influence price volatility. Price stability is likely to have a positive impact on private sector participation (and therefore achievement of the objective), but this cannot be attributed to the operation. Furthermore, according to the ICR (p. 24), price variation increased in 2018/29 (no exact data are provided). **Progress towards the objective is rated Negligible.**

RI9: The number of expired estate land leases notified was achieved under newly enacted land laws. **Progress toward the objective is rated Substantial.**

RI10: The number of leases renewed or cancelled was also achieved under the new land laws. **Progress toward the objective is rated Substantial.**

RI11: Expansion of low-cost adjudication of customary estates was achieved, with a manual for systematic demarcation and low-cost surveying approved and double the targeted number of districts engaged in implementation. **Progress toward the objective is rated Substantial.**

Rating



Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

While there was demonstrable progress toward enhanced land tenure rights and improved management of the FISP through participation of private retailers in fertilizer distribution, the other elements of the operation experienced significant shortcomings. Many of the Prior Actions did not support policies that would carry results beyond the narrow time frame of the operation, and many of the results indicators were inadequate measures of progress toward achievement of the objectives. One Prior Action was not related to achievement of either objective. Overall, there was limited progress on improved public sector management and transparency, including some backsliding immediately following the operation's closure, and only initial steps were taken toward improved private sector participation through the new land laws.

Overall Efficacy Rating

Moderately Unsatisfactory

6. Outcome

Rationale

With relevance of Prior Actions assessed to be moderately satisfactory and efficacy moderately unsatisfactory, the outcome of the operation is rated **moderately unsatisfactory**.

a. Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

Political, governance, and institutional capacity issues place achieved outcomes at risk. For example, while institutions and regulations were put in place to enhance the transparency of maize market operations, there have been repeated attempts at political interference. In 2018, in response to a sharp fall in maize production, the government overrode established rules to withdraw maize from the SGR. Enacted legislation and regulation cannot achieve its intended purpose if the political will for adherence and enforcement is not present. Similarly, while audit findings are now published, this is done with delay, and Treasury minutes are not regularly issued, making it difficult to judge whether actions have been taken. The same is true for monthly reports submitted by COs; there is no evidence on action taken on these reports.



The ICR (p. 27) notes that the pace and intensity of the government's reform effort has fallen off since the follow-on operation to this one was dropped, and that progress along many reform pathways (unless those reforms are supported by parallel technical assistance or investment lending) has not been closely tracked by the Bank or the government. Progress was further stalled by a year-long political impasse following contested elections in May 2019. New elections were held in June 2020, and the decisive victory of an alliance of the two main opposition parties restored political stability. Malawi's COVID-19 case and mortality numbers have been relatively low to date, but the country's extremely low vaccination rate (2% as of early September 2021) and high levels of vaccine hesitancy raise concerns that the pandemic will create additional risk to development outcomes.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The operation's objectives addressed the key pressures facing Malawi at the time of appraisal – low productivity subsistence farming that was vulnerable to climate shocks, and weak fiscal management – as part of a multi-pronged World Bank Group response. Its policy actions were intended to catalyze parallel investment project financing to support drought recovery and social safety nets, and to promote an emerging government reform agenda that would reduce opportunities for corruption following the 2013 “cashgate” scandal. Design drew from extensive prior analytical work, including technical assistance on agriculture, financial reporting and oversight, and public services modernization.

Risk assessment was thorough, acknowledging the operation's high level of risk across multiple categories, but also weighing the risks of not engaging and therefore leaving emerging reforms isolated and vulnerable to reversals. Some of the PAs increased transparency and accountability of public sector institutions, which in turn was expected to reinforce public demand for reforms and help offset the power of entrenched interests. The project team later stressed that this was a highly scrutinized, high-profile operation both in the country and in the Bank, with preparation involving significant public discussion and debate, and that the Bank played a public role in supporting reform champions.

Key lessons were cited in the Program Document as having been applied to the preparation of this DPO: the need to undertake not just superficial reforms, but also to address the underlying informal arrangements that allowed for collusive behavior to take place; the need for strong focus on timeliness of fiscal information and integrity of systems; and the importance of identifying the most macro-critical areas for structural reform, where progress would be harder to unwind after the completion of the operation. The operation's design incorporated some of these lessons. Several of the PAs did not contain provisions that would incentivize or guarantee future behavior beyond the operation's closure; these PAs were instead ex post measures that cleared past backlogs or filled information gaps. Although these PAs represented important incremental steps, they did not create reliable guard rails against future misappropriation or noncompliance.



The quality of the results indicators was mixed. Some were satisfactory, but several did not capture the changes they were intended to measure or were influenced by factors outside the scope and control of the operation.

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

Monitoring of results indicators was adequate. It took place as part of regular policy dialogue with the authorities. Implementation of major policy reforms was also tracked through the progress of associated investment and technical assistance projects (FISP reforms through an agricultural TA and an agricultural commercialization project, and public finance reforms through a financial sector TA). The ICR (p. 26) acknowledges that the operation “focused too much on creating institutions and policies and not enough on results and outcomes, and that reforms may not stay on track.” Though belatedly, the supervision team recognized these shortcomings and, as a result, the planned second operation was dropped.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

The ICR (pp. 24-25) states that the DPO series was designed to support poverty reduction in four ways. First, the FISP reforms supported by the DPO series were to reduce subsidy levels and increase the efficiency of the program to increase agricultural productivity by targeting more productive farmers instead of the poor who often did not make effective use of the subsidy. Moreover, the expansion of the SCT program was to focus on poor



and vulnerable women. Second, the policies for improved management of the SGR and ADMARC were to reduce agricultural market distortions and maize price volatility thereby enhance the welfare of net food buyers who are mainly poor farmers. Third, land reforms, which improve tenure security, were to benefit small farmers, especially female farmers, as well as improve incentives for commercialization. Fourth, PFM reforms that aimed to help strengthen expenditure management and budget execution, public accountability, and transparency were expected to contribute to improved service delivery and were in principle pro-poor.

However, the ICR does not provide information to demonstrate that these intended social and poverty impacts took place.

b. Environmental

According to the ICR (p. 25), the reforms supported by the DPO series were expected to contribute to improved climate resilience in Malawi. First, in agriculture, reforms to the FISP, which has long crowded out public expenditure in the agriculture sector, would free up fiscal space to enable a more balanced set of agricultural investment activities, including in climate-smart agriculture as set out in the new National Agricultural Policy. Similarly, improved functioning of agricultural markets should lead to the reversal of incentives that have tended to encourage maize mono-cropping and growing on marginal and drought-prone land, resulting in soil erosion and a general lack of agricultural diversification. Second, improved security of land tenure could lead to higher levels of investment in land stewardship, and thus reduce land degradation. The ICR does not provide information to demonstrate that these intended environmental impacts took place.

c. Gender

The ICR (p. 24) states that the expansion of the SCT program was focused on poor and vulnerable women and that land reforms, which lead to improved tenure security, would benefit small land owners, especially female farmers, but the link between these actions and the actual impact on gender is not discussed in detail, and no evidence of impact specifically on women is provided.

d. Other

None identified.

10. Quality of ICR

Rationale

The ICR is clearly written and concise. It is candid and critical. It provides sufficient and convincing evidence related to prior actions, results indicators, and achievement of objectives. The evidence is well sourced and



presented in a parsimonious fashion. The ICR also provides a balanced narrative of the positive and negative sides of preparation as well as implementation, intervening factors, and context. Its lessons cover both general good-practice observations as well as operation-specific lessons, though they are framed as recommendations rather than lessons. More detail could have been included on the operation's gender dimensions and impact, as well as its overall social, poverty, and environmental impacts. The ICR also does not fully address shortcomings with some of the prior actions and results indicators, and in general, the issues that led to the dropping of the second operation are not fully acknowledged in the analysis of this operation's design and efficacy.

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	One of the PAs was not directly related to either objective. Some RIs did not capture the changes they were intended to measure, and others were strongly impacted by factors beyond the scope or control of the operation.
Bank Performance	Satisfactory	Moderately Satisfactory	There were moderate shortcomings in design and implementation.
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

IEG concurs with the general lessons of the ICR (p. 28):

Lesson 1: Careful matching of prior actions and results indicators to the political and institutional context is a prerequisite to successful outcome of a DPO. In this operation, several of the prior actions were designed to create legislative frameworks (SGR law, COGA, WRA, ADMARC) and institutional reforms. However, in Malawi, these kinds of actions are undermined by weak capacity and governance problems. Future operations could consider more strongly linking prior actions and triggers to implementation of reforms. Similarly, when possible, results indicators should be easier to track and more closely linked to outcomes (see the discussion in Section 4).

Lesson 2: Strengthening linkages with Bank TA and investment lending operations can support implementation and supervision of DPOs. One of the strengths of this DPO was that it was linked closely to a set of Bank TA



and investment lending operations. However, an even closer link between the actions tracked in the TA operations and the prior actions and RIs of the DPO would have further supported implementation and supervision of the DPO.

Lesson 3: DPO series need to adequately account for lengthy processes of legislative change. The analysis in the ICR indicates that in Malawi it takes a long time to implement legislative change. Developing and implementing laws is time consuming, unpredictable, and not fully under the control of the executive. In this DPO, there were delays in putting in place laws for ADMARC, the COGA, the WRA and the Audit Reform act, which should be taken into account for future operations.

To these lessons, IEG adds the following:

Lesson 4: It is important for projects with potential impact specifically on women to track carefully and report those impacts. In this case, the ICR states that some prior actions targeted women, but reporting or analysis of any benefits that accrued is missing.

13. Project Performance Assessment Report (PPAR) Recommended?

No