

AFRICAN DEVELOPMENT FUND



PROJECT: MALAWI AGRICULTURE EMERGENCY FOOD PRODUCTION FACILITY

COUNTRY: MALAWI

APPRAISAL REPORT

Date: July 2022

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AFRICAN DEVELOPMENT FUND



REPUBLIC OF MALAWI

AGRICULTURE EMERGENCY FOOD PRODUCTION FACILITY

RDGS/AHAI/COWM DEPARTMENTS

July 2022

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CURRENCY EQUIVALENTS

As of June

1 UA	=	1.39 USD
1 UA	=	1378.37 MWK
1 USD	=	1021.24 MWK

FISCAL YEAR

1st April to 31st March

WEIGHTS AND MEASURES (If relevant)

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

LOAN INFORMATION

Client's Information

BORROWER: Republic of Malawi

EXECUTING AGENCY: Ministry of Agriculture (MoA)

Financing Plan

Source	Amount (UA million)	%age	Instrument
ADF	15	100%	ADF Loan
Government	0.%	Counterpart funding
Beneficiaries	0.%	Counterpart funding
Total Cost	0.	100.0%	

Important Financial Information

Loan Currency	UA
Interest Rate	N/A
Commitment Charge	0.5% per annum
Service Charge	0.75% per annum
Tenor	40 years including the Grace Period
Grace Period	10 years
FIRR, NPV (base case)	
EIRR (base case)	

Timeframe - Main Milestones (expected)

Concept Note Approval (Regional Director)	June 2022
Board Approval	July 2022

Effectiveness	August 2022
Physical Completion	July 2023
Closing Date	December 2023
Last Disbursement Date	April 2024
Last Repayment	January 2052

Project ID/SAP Code:

P-MW-AA0-038

ACRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AFAP	African Fertilizer and Agribusiness Partnership
AIP	Affordable Input Programme
AEFPF	Africa Food Crisis Response Emergency Facility
AFFM	Africa Fertilizer Financing Mechanism
AUC	African Union Commission
CRF	COVID-19 Rapid Response Facility
DAO	District Agricultural Office
DCAFS	Donor Committee on Agriculture and Food Security
E&S	Environmental and Social
ESAP	Environmental Social Assessment Procedures
FAO	Food and Agriculture Organisation of the United Nations
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GoM	Government of Malawi
ID	Identity Card
IFAD	International Fund for Agricultural Development
MDBs	Multilateral Development Banks
MoA	Ministry of Agriculture
MoF	Ministry of Finance
NAP	National Agricultural Policy
PBOs	Policy-Based Operations
RDGs	Regional Director Generals
RMCs	Regional Member Countries
SFRF	Smallholder Fertilizer Revolving Fund Scheme
SME	Small and Medium Enterprise
TAAT	Technologies for African Agricultural Transformation
TSF	Transition Support Facility
UA	Unit of Account
USAID	United States Agency for International Development
WFP	World Food Program
WB	World Bank

Results Framework

RESULTS FRAMEWORK FOR FOOD CRISIS RESPONSE AND EMERGENCY SUPPORT OPERATION

A		PROJECT INFORMATION				
PROJECT NAME AND SAP CODE: MALAWI AGRICULTURE EMERGENCY FOOD PRODUCTION FACILITY [P-MW-AA0-038]						
COUNTRY: MALAWI						
PROJECT GOAL: Increase cereal production and input services to avert food crises and build the resilience of value chain actors for future shocks						
PROJECT ALIGNMENT WITH THE COUNTRY, ADF 15 OBJECTIVES AND AEFPP		a) Country ambition: Support the replenishment of the National Food Reserve Agency and the delivery of the Agriculture Input Program in the next growing seasons to avert food crises				
		b) Malawi AEFPP: leverage financing and technical support to repurpose existing investments towards reducing vulnerability to the growing season and food price increase through input supply of seeds and fertilizers as well as policy reforms to aid bottlenecks in production				
		c) Alignment indicators: Cereal yield per/ha, increase in production, number of farmers benefiting from inputs (disaggregated by sex), number of policies harmonized for the supply of and accessibility to seeds and fertilizers, number of private sector actors and agro-dealer networks strengthened.				
		d) ADF 15 objectives of providing agriculture infrastructure and inputs for 90 million people—including 43 million women				
B		RESULTS MATRIX				
RESULTS CHAIN AND INDICATOR DESCRIPTION		UNIT	BASELINE	TARGET AT COMPLETION	MEANS OF VERIFICATION	FREQUENCY OF REPORTING
			[2021/2022]	[Q1 2023]		
OUTCOME 1: Reducing vulnerability and building food systems resilience						
OUTCOME INDICATOR 1.1 Increased yield in cereal and legume production		Mt	Cereal 3.2 tons/ha, legumes 1.8 tons/ha	4.8 tons/ha 2.5tons/ha	Project reports	Annual
OUTCOME INDICATOR 1.2: Volume of quality and certified seeds delivered to farmers 50% being women		Mt	Legumes - 0	2,500 tons of – cereal and legumes	Project reports	Annual
OUTCOME INDICATOR 1.3: Volume of fertilizers delivered to farmers 50% being women		Mt	0	50,000tons	Project reports	Annual
OUTCOME INDICATOR 1.4: Enhancing food system Green House Gas (GHG) mitigation potential		Tons of CO2eq	0	1357853	Project reports	Annual
OUTPUT 1: Scaled up food production						
OUTPUT INDICATOR 1.1: Improved climate smart Cereal and legume seed provision to farmers 50% being women		Mt	0	2,500	Project reports	Quarterly
OUTPUT INDICATOR 1.1.1: Deliver climate smart certified improved assorted seeds of groundnuts, beans, soybeans, cow peas and pigeon peas for 0.5 million beneficiaries (50% being women) registered on AIP Database for 125,00 ha of cropland		Mt	0	2,500	Project reports	Quarterly
OUTPUT INDICATOR 1.2: Fertilizer provision to farmers ensuring that 50% are		Mt	0	20000	Project reports	Quarterly

women farmers					
OUTPUT INDICATOR 1.2.1: Deliver fertilizer for 0.5 million beneficiaries registered on AIP Database for acreage of 200,000 ha of cropland	Mt	0	20,000	Project reports	Quarterly
OUTPUT INDICATOR 1.3: AFFM and Govt Partial Credit Guarantee Payment scheme	Mt	0	30,000	Project reports	
OUTPUT INDICATOR 1.3.1: Deliver fertilizer through the Partial Credit Guarantee Scheme through AFFM for risk sharing for 300,00 ha of cropland	Mt	0	30,000	Project reports	
OUTPUT 2: Enhanced farmer registration and farmer organization towards receipt of inputs					
OUTPUT INDICATOR 2.1: Support to AIP for Farmer data collection and management	Yes/no		yes	Project reports	Quarterly
OUTPUT INDICATOR 2.1.2: AIP – purchase of e-tablets extension data and other extension services	Number	0	300	Project reports	Quarterly
OUTPUT INDICATOR 2.1.3: AIP – Capture and entry of new beneficiaries onto AIP data bank	Number	0	700,000	Project reports	Quarterly
OUTPUT INDICATOR 2.2: Support to Extension Services	Number			Project reports	quarterly
OUTPUT INDICATOR 2.2.1: Training of Extension staff (50% being women) in Climate Smart Agriculture and farm data collection methodologies using new technology	Number	0	500	Project reports	Quarterly
OUTPUT INDICATOR 2.2.2: Purchases of motorized transport - motorbikes for extension staff for farmer group formation, organization, training and provision of extension messages	Number	0	300	Project reports	Quarterly
OUTPUT INDICATOR 2.3 Farmers training	Number			Project reports	Quarterly
OUTPUT INDICATOR 2.3.2: Farmers, training in climate smart approaches to promote use of organic fertilizer and agricultural lime and other technologies that enhance the uptake of soil nutrients from granular fertilizers in partnership with TAAT with 50% participants being women	Number	0	2,000,000	Project reports	Quarterly
OUTPUT INDICATOR 2.4: Agro-dealer training for the up-take of the Partial Credit Risk Guarantee Scheme – 50% of participants being women	Number			Project reports	quarterly
OUTPUT INDICATOR 2.4.1: Facilitate market linkages between farmers and traders and agro-processors through the out-grower arrangements in partnership with TAAT, ensuring equal gender participation and benefit	Number		10 agro-dealers established	Project reports	Quarterly
OUTPUT INDICATOR 2.4.2: Enroll, register, accredit and train last mile agro-dealers on the new national ID Farmer Registration system by AIP and TAAT, (50% being women)	Number		100	Project reports	Quarterly
OUTPUT INDICATOR 2.4.3: Train institutions that regulate the registration, certification and sale of seeds, quality fertilizer and agro-chemicals to farmers- 50% of the participants being women	Number		6	Project reports	Quarterly
OUTPUT 3: Agriculture Policy Dialogue and Project Coordination and management					
OUTPUT INDICATOR 3.1: Strengthen capacity of private sector suppliers, at least 40% being women	yes/no			Project reports	Quarterly

OUTPUT INDICATOR 3.1.1: Create incentives for private sector off-takers (40% being women led) to enhance use of existing rural storage infrastructure for harvest and inputs	Study		1	Project reports	Quarterly
OUTPUT INDICATOR 3.1.2: Support policy creation/incentives to encourage private sector investment in the seed sector and local production of fertilizer from local materials	Study		1	Project reports	Quarterly
OUTPUT INDICATOR 3.1.2: Study to set up a sustainable agriculture finance institution for small and emergent farmers beyond AIP subsidies	Study		1	Project reports	Quarterly
OUTPUT INDICATOR 3.2.1: Vehicles- 4WD Double Cabin pickup trucks	Number	0	2	Project reports	Quarterly
OUTPUT INDICATOR 3.2.2: Project Accountants (secondees)	Number	0	2	Project reports	Quarterly
OUTPUT INDICATOR 3.2.5: Environment and Social Safeguard Reporting plus gender mainstreaming reporting	Number		1	Project reports	Quarterly
OUTPUT INDICATOR 3.3: Project monitoring and evaluation ensuring gender disaggregated data	Number		2	Project reports	Quarterly
OUTPUT INDICATOR 3.3.1: Monitoring and evaluation and Project Completion Report	Number		1	Project reports	Quarterly
OUTPUT INDICATOR 3.3.2: Project Steering and Technical Committee meetings	Number		3	Project reports	Quarterly

I. INTRODUCTION

1.1 Management submits the following project appraisal report and recommendation on a proposed loan to the Government of Malawi for UA 15 million (\$20.2 million) to finance the Malawi Agriculture Emergency Food Production Facility. It is an African Development Fund loan instrument and will be applied over one year period from 31st July 2022 to 30th June 2023. The project was appraised on 15th June 2022. This proposal results from a request by the Government of Malawi dated 6th June 2022, to re-purpose the resources earlier committed for the Malawi Agriculture Commercial Value Addition and Youth in Agribusiness Project. The project is premised on the existing seed and fertilizer distribution systems in Malawi. The objective of the project is to support smallholder farmers and the Government to raise food production in the short term to mitigate the impact of the Russia-Ukraine induced food crisis. The project targets half a million (0.5) farm households of which 50% will be female beneficiaries through: (i) Provision of certified cereal and legume seeds, and fertilizer, (ii) Support to extension services and Government farmers databank, and (iii) Policy-based studies to inform the debate on sustainable subsidy delivery in the country including building the resilience of value chain actors from future shocks.

II. STRATEGIC THRUST & RATIONALE

2.1 Main Development Constraints

2.1.1 Malawi has been significantly impacted negatively by the Russia-Ukraine crisis, triggering escalation in fuel and food prices, increased interest rates, forex shortage, spiked inflation, subdued manufacturing, and dampened exports. The balance of payment financing gap already high at \$1.6 billion in March 2022 is expected to worsen. The disruption of international trade has impacted both import and export market prices of various commodities including fertilizer whose prices per bag have tripled to Kwacha 90,000 (\$75) by May 2022, from Kwacha 30,000 (\$25) a year ago. Other imports affected are wheat, fuel (pump prices have increased by 40%), machinery, and other intermediate goods.

2.2 Macroeconomic and fiscal impact analysis

2.2.1 The African Economic Outlook projects a growth of 2.7% in real GDP in 2022, from 3.9% in 2021, before recovering to 4.0% in 2023. However, according to the latest IMF Debt Sustainability Assessment DSA (Debt Sustainability Analysis of December 2021), the overall high risk of debt distress for Malawi is high with unsustainable public debt-to-GDP ratio estimated at 64.3% in 2022, up from 59.2% in 2021. Although the government is implementing a Domestic Revenue Mobilization Strategy (2021-2026) intended to raise Tax: GDP ratio by 5%, during FY 2021/2022, the country registered a lower revenue outturn, which dropped to 12.1% of GDP in FY 2021/2022, from 16.4% in FY 2020/21, and 21.1% (2019/20). The fiscal deficit

stabilized at 7% of GDP in 2021, down from 9% of GDP in 2020 driven by the lower expenditure outturn of 20.1% of GDP, and COVID-19 spending.

Table 1: Macroeconomic Indicators

	2017	2018	2019	2020	2021(e)	2022(p)	2023 (p)
Real GDP growth (%)	5.2	4.4	5.7	0.9	3.9	2.7	4.0
Real GDP growth per capita	2.5	1.7	3.0	-1.8	1.2	0.0	1.3
CPI inflation (%)	11.6	9.2	9.4	8.6	9.3	11.0	9.1
Budget balance % GDP	-5.6	-4.7	-6.7	-9.0	-7.0	-6.9	-6.2
Current account % GDP	-16.4	-17.6	-15.1	-12.2	-13.1	-13.9	-9.3

Source: Data from AfDB estimates (e) and prediction (p) based on authors' calculations. AfDB Statistics Department, April 2022

2.3 Agricultural, food, and nutrition security impact analysis

2.3.1 Agriculture plays a key role in Malawi's economy, contributing about 30% of the GDP and 75% of the total export earnings. The sector employs most of the population, with tobacco being the main foreign exchange earner. Any volatility in the agriculture sector impacts growth and worsens poverty levels in the country. Given that 90% of crops are cultivated by smallholder farmers who rely on fertilizer. A fertilizer shortage in the coming planting season due in November 2022, combined with fuel shortage driven by the Russia-Ukraine crisis, will threaten food and nutrition security.

2.4 Social Impact Analysis and Mitigation

2.4.1 Poverty in Malawi has remained persistent. Extreme poverty in the country increased slightly by about 0.8 percentage points between 2016 and 2019/20 to reach 20.5 percent. The Social Cash Transfer Program (SCTP) has a high proportion of beneficiaries who are extremely poor at 38.4 percent, with almost 70 percent of beneficiaries considered poor. Recent innovations in data collection under the Unified Beneficiary Registry (UBR) are being leveraged for more effective targeting to support efficient delivery of additional benefits and services.

2.5 Impact on Gender equality and the vulnerable groups

2.5.1 Gender inequality in the agriculture sector in Malawi remains persistent and pervasive. Plots managed by men produce an average of 25% higher yields compared to plots managed by women. This is due to inequality in use of land, lower access to farm labour, inferior access to improved agricultural inputs and technology, and lower participation in the cash crop value chains by women. The country ranks 111 out of 151 countries in the Economic Participation and

Opportunity index, lagging behind other countries in sub-Saharan Africa¹. This is a category 2 project according to the Bank's gender maker system. The project will have a positive impact on reducing poverty rates and related gender inequality among the farming populations especially women and youth.

2.6 Project linkages with country strategy and objectives

2.6.1 In 2016, the government developed the National Agriculture Policy (NAP) to guide the agricultural sector development. This was subsequently followed by the National Agriculture Investment Plan (NAIP) to operationalize the NAP for the period (2017/18-2022/23). The NAP aims to increase household incomes, improve food security, nutrition, commercialization of agriculture, agro-processing, value addition, weather monitoring, enhanced risk management, market development, increase export of agricultural products, and empower women and youth. The Project is also aligned to the ADF 15 objectives of providing agriculture infrastructure and inputs for 90 million people—including 43 million women.

2.7 Rationale for Bank Intervention

2.7.1 Malawi is experiencing several development challenges as espoused in the Malawi 2063 First Implementation Plan (MIP-1) 2021-2030. The CSP (2018 – 2022) set out the objective to build resilience to reduce poverty and inequality has been confirmed in the Bank AEFPPF framework. In addition, AEFPPF is consistent with the Bank's Feed Africa Strategy, Climate Change, and Green Growth Action Plan (2021-2025).

2.8. Coordination of Cooperation with Technical and Financial Partners

2.8.1 In the agriculture sector, there is a Donor Committee on Agriculture and Food Security (DCAFS) with USAID as the current chair, Norway as the outgoing chair, and EU as the incoming chair, forming what is called the Troika. The Troika holds regular meetings with the Principal Secretary for Agriculture on key policy issues. Other members of DCAFS consists of the African Development Bank (AfDB), the World Bank, DFID, EU, USAID, Norway, Irish AID, JICA, IFAD, FAO, GIZ, UNDP, and WFP. The DCAFS plays an important role in providing advisory support to the Ministry of Agriculture and assists in aid coordination and harmonization. The DCAFS is supporting the National Agricultural Policy (NAP) and its National Investment Plan (NAIP).

III. PROJECT DESCRIPTION

3.1. Project objectives and components

3.1.1 The main goal of the Project is to support smallholder farmers and the government to raise food production to mitigate the impact of the Russia-Ukraine food crisis in the short-term period. It will be achieved through the provision of fertilizer and certified climate smart seeds. The

¹ 2021 World Economic Forum Gender Gap Report.

Ministry of Agriculture will also be supported to enhance the capacity of its database of registered beneficiary smallholder farmers.

3.1.2 The Project has three components, namely:

Component 1: Scaling up Food Production – This component targets the delivery of fertilizer (70,000 tons) and climate-smart/certified seeds (2,500 tons) to half a million smallholder farm families.

Component 2: Enhanced registration of smallholder farmers and farmer organizations towards receipt of inputs, extension, and market services. This component will entail enhancing the capacity of the AIP farmer database, increasing database enrollment, provision of extension services, re-organization of farmers into farmer groups, deepening and widening value chains, and trainings in climate smart agriculture.

Component 3: Agriculture Policy Dialogue and Project Coordination – this component is to support the Ministry of Agriculture that's overseeing AIP - the AEFPPF implementing entity and the office of the Principal Secretary in undertaking policy-based studies.

3.1.3 Detailed Component Description

3.1.4 Component 1: Scale up Food Production

3.1.4.1 This component will involve the provision of climate smart certified cereal seeds such as maize, rice, sorghum, and legumes (groundnuts, beans, cow peas, soy and pigeon peas), and fertilizer to smallholder farmers using existing AIP and SFFRFM procurement, contracting, and distribution channels. The AFFM will also work with certified fertilizer suppliers, blenders, and distributors in partnership with Government of Malawi under the Revolving Partial Credit Guarantee Scheme. Annex 3 details the AFFM mode of partial credit guarantee.

3.1.4.2 Each registered farming household within the farmer groups will be provided with 2 bags of 50 kg fertilizer for basal dressing and top dressing respectively and 5kgs of hybrid and fast maturing maize, rice, and sorghum seeds to choose. For legumes, the smallholder farmers will have the option to choose either 2kg bag of groundnuts and beans or 3kg bags of soybean, cowpeas, and pigeon peas.

3.1.4.3 The Technologies for Africa Agricultural Transformation (TAAT) will provide advisory services to support improving provision of extension services for the deployment of proven production and post-harvest management technologies. TAAT will provide technical assistance to the National Agricultural Research Institutes (NARES) and private seed companies to produce early generation seed and certified climate smart varieties.

Component 2: Enhanced farmer registration and farmer organization towards receipt of inputs.

3.1.4.4 This component is to: (i) enhance, refine/update the AIP database of farmers to avoid mix up of names and localities and to include enhanced features such as farmers' photos, finger prints and a link to the National Identity Card. The Component will also help AIP organize farmers into self-forming farmer clubs that are inclusive (women and youth) to enhance transparency and accountability of inputs and fertilizer. (ii) support AIP organize farmers into self-forming farmer clubs in order to migrate them in the near future to farmer cooperatives and contract, (iii) support extension services at the field in terms of motorized transport and data collection e-tablets in partnership with Technologies for African Agricultural Transformation (TAAT).

3.1.4.5 The AIP unit will work closely with the District Agricultural Office to: (i) organize the farmers to create self-forming farmer clubs and (ii) deliver digital extension services to the farmer groups, including the provision of agricultural market information.

Component 3: Project coordination and Policy Reforms

3.1.4.6 The aim of this component is to support the Ministry of Agriculture in overseeing the AIP. The first sub-component under this component is to support the Office of the Principal Secretary to undertake policy-based studies. Three (3) policy-based studies will be conducted, namely: (i) policy-based studies to inform the future of AIP; (ii) widening and deepening the role and participation of agro-dealers in the AFFM Partial Credit Guarantee by establishing an accreditation process and training of a network of agro-dealers for last-mile delivery of inputs to farmers. This study will be extended to assess options to set up an Area Yield Insurance Index (AYII) to enhance of willingness farmers to adopt conservation practices and mitigate climate risks, (iii) The final study is to develop policy options to strengthen the Government's Strategic Grain Reserves from running low and failing to meet the national and localized food needs.

3.1.4.7 The second subcomponent of component 3 is program management. This project will be managed by AIP Unit in the Ministry of Agriculture.

3.2 Activities and Cost (UA million and percentage) refer to Annex 3

3.3 Theory Change - See Annex 8

3.4 Technical solution retained, and other alternatives explored

3.4.1 The existing national AIP input distribution system lays a good foundation for the extension of agriculture input services as opposed to creating a new PIU. Other alternatives such as cash-based transfers will not allow a sustainable operation, let alone meet the long-term goal to foster the national capacity to cope with the future shocks, and conduct necessary policy reforms.

3.5 Project type

3.5.1 This project is designed as a stand-alone Investment Project.

3.6. Project cost estimates and financing arrangements

3.6.1 Project Cost: The project cost is UA15 (\$20.2) million, including physical and price contingencies, which will be financed 100% from ADF resources. Government co-funding is through AIP staffing and staff salaries. The summary of project cost by components and sources of financing are presented in Tables below, with detailed cost tables in Annex 3.

Table 3: Summary of Project Cost Estimates by Components (\$'000 and UA '000)

Component	Cost (\$ '000,000)			Cost (UA '000,000)			Foreign Cost (%)
	Local	Foreign	Total	Local	Foreign	Total	
1 Scale up food production	0	15.6	15.60	0	11.40	11.40	76%
2 Enhance farmer registration and farmer re-organization	0	4.25	4.25	0	3.16	3.16	21%
3 Agriculture policy dialogue and coordination	0	0.9	0.9	0	0.44	0.44	3%
Total Baseline Costs	0	20.2	20.2	0	15	15	100

Table 4: Summary of Project Cost Estimates by Components (\$ '000 and UA '000)

Category of Expenditure		Amount (\$ '000,000)		
		\$	UA	Percent
A	Goods	15.6	11.14	76%
B	Works	0	0	0
C	Services	4.4	3.16	21%
D	Operating Costs	0.50	0.44	3%
Total Project Cost		20.2	15	100.00

3.7. Project's target area and population

3.7.1 The target population is 0.5 million smallholder farm households spread across the entire country.

3.8 Participatory Approach for Project Identification, Design, and Implementation

3.8.1 This project was discussed with the Ministries of Finance, Agriculture, Local Government, Lands, Youth and Education, and Gender of the government of Malawi. The following institutions were also consulted: National Food Reserve Agency the Office of the Accountant General and the Public Procurement and Disposal of Assets. Detailed discussions were held with the staff of the

Affordable Input Program and Smallholder Farmers Fertiliser Revolving Fund of Malawi (SFFRFM).

3.9 Bank Group Experience and Lessons reflected in Project Design

3.9.1 The overall assessment of the portfolio was rated as satisfactory. The experiences, challenges, and lessons learned in the implementation of the Bank's past and current agricultural projects in Malawi have been considered in the design of the current project. These include the need for proper project orientation, emphasis on farmer group approach, strong M&E, and capacity building for the project staff of the emergency program (See Annex 4 for portfolio details). The lessons learned from implementing similar emergency operations such as the COVID-19 Crisis Response Budget support operation in 2020 and the post Cyclone IDAI project in 2019 include: the quick disbursement of the Covid-19 PBO significant and delays in recruiting PMU staff for the post Cyclone IDAI project which delayed disbursement currently at 33%, In the AEFPP, an existing AIP unit in the Ministry of Agriculture with experience in input and fertilizer procurement and delivery will be used.

3.10 Key performance indicators

3.10.1 The following are the core project indicators: (i) Cereal yield (mt/ha), (ii) Increase in production (mt); (iii) Number of people benefitting from improvements in agriculture (percentage of women); (iv) Provision of inputs (mt); (v) Number of farmers in receipt of agricultural inputs (of which women); (vi) Prices of targeted food staple(s) for consumers; (vii) required policy actions for enabling environment for private sector investments. Annex 6 shows the monitoring matrix.

IV. PROJECT FEASIBILITY

4.1. Economic and financial performance

4.1.1 The project will improve the availability and affordability of agricultural inputs to smallholder farmers, i.e., 2,500MT of climate smart certified and 70,000 MT of fertilizer, to be used in cropland of between 2.5million ha to 5million ha. The expected farm yields are 3.8mt/ha for legumes and 4.8mt/ha for cereals. The project through the revolving partial credit fund is expected to normalize the price of fertilizer in the medium-term due to assured availability.

4.2. Environmental and Social impacts

4.2.1 The project is assigned Category 3 according to the Bank's Integrated Safeguard System (ISS) requirements and Environmental Social Assessment Procedures (ESAP) for emergency funding. This is because it has minimal environmental and social impacts and can easily be managed using country systems and no ESA documents are to be prepared and disclosed before taking the project to Board. The major environmental and social risks related to the facility include the risk of labour conditions, health, and safety due to the workforce of fertilizer suppliers and distributors, risk of pollution from the use of agrochemicals and improper disposal of packaging materials, possible risk of sexual exploitation, abuse and harassment (SEAH) as well as gender-based violence (GBV) among the workforce of suppliers and during distribution of farm inputs to

farmers. To address these E & S risks/impacts on the project, E & S covenants will require the Executing Agency, to ensure compliance with the applicable Bank ISS Operational safeguards and applicable national environmental regulations, labour and employment laws, occupational health and safety laws, and social and gender policies and laws. Bidding documents and service providers contracts will include the requirement of zero tolerance for SEAH and Workers sign codes of conduct prohibiting SEAH and development of response plans. The project cost has included Post Board approval of E & S Audit to assess the E & S risks and impacts during implementation and to ensure adequate prevention and mitigation.

4.3 Climate Change and Green Growth

4.3.1 The Project is classified as a **category 2** project. By targeting 750,000ha of cropland will avoid deforestation and promote the restoration of grassland into cropland. This will have a mitigation potential of 1,357,853 tons of CO₂eq. This will enhance alignment to GoM updated Nationally Determined Contribution (NDC,2021) and the Bank Climate Change and Green Growth Policy and Strategy 2021-2030.

4.4. Fragility and resilience (Details in Annex 10 B)

4.4.1 The most recent Country Resilience and Fragility Assessment (CRFA) has pointed out the need to focus on capacity building and development of the national institutions responsible for spurring development and reduction of poverty. This project provides linkages to all three priority areas through working at national, local, and community levels to build institutional capacity to respond to the looming global food crisis. This is aligned with the Bank's Strategy for Addressing Fragility and Building Resilience in Africa.

V. IMPLEMENTATION

5.1. Implementation arrangements

5.1.1 The Project will be implemented by the Ministry of Agriculture through its AIP Unit. The AIP unit is responsible for managing the entire project, including identifying the farm input suppliers in consultation with the Ministry's procurement section, SFFRFM, and other government. The AIP consists of a coordinator/project manager, a deputy coordinator, an agricultural extension methodology specialist, a monitoring and evaluation specialist, animal health and livestock development specialist, an ICT specialist, and data management clerks. For purposes of procurement, financial management, and environment and social impact reporting, the AIP will be supported with dedicated financing to hire short-term consultants to support the unit in respective reporting.

5.2 Financial management and disbursement

5.2.1 The country's fiduciary risk rating is substantial and the initial financial management risk for the project is assessed as moderate. The overall conclusion of the assessment is that the Ministry of Agriculture's capacity to handle all the FM aspects of the project satisfies the minimum requirements as laid out in the Bank's FM guidelines subject to the designation of a project accountant and an assistant accountant on secondment from the Accountant General's Office to

perform the financial management roles. The project accountant will be the focal person for the FM and will report to the AIP coordinator and the Director of Finance at the Ministry of Agriculture. Annex 6 details the financial management due diligence while Annex 10 provides a summary of Country Fiduciary Risk Assessment.

5.2.2 An additional risk mitigation mechanism is internal audit reviews every six months by the Ministry of Agriculture's Internal Audit Unit. The project coordinator will ensure that all internal audit recommendations are implemented in a timely manner. The Bank will review the status of implementation of the internal audit recommendations on a regular basis. The project will be required to prepare and submit an interim financial report to the Bank not later than forty-five (45) days after the end of each calendar quarter. The project will also prepare and submit annual financial statements, audited by the National Audit Office, together with the auditor's opinion and management letter to the Bank not later than six (6) months after the end of the financial year.

5.3 Disbursement Arrangements

5.3.1 The project would make use of the Bank's various disbursement methods including (i) Direct Payment, (ii) Special Account (SA), (iii) Reimbursement and (iv) Reimbursement Guarantee methods in accordance with Bank rules and procedures as laid out in the Disbursement handbook as applicable. The Bank will issue a Disbursement Letter of which the content will be discussed and agreed with the Government of Malawi (GoM) during negotiations. The government will open a special account which will be denominated in foreign currency, at a bank acceptable to the Bank for the Project's use. A related local currency account will also be opened for eligible local currency operating costs.

5.4 Procurement

5.4.1 **Procurement Arrangements:** all procurement of goods (including non-consultancy services), works and the acquisition of consulting services, financed by the Bank for the project, will be carried out in accordance with the "Procurement Policy for Bank Group Funded Operations", dated October 2015 and following the provisions stated in the Financing Agreement.

5.4.2 Procurement Risks and Capacity Assessment (PRCA)

Malawi's Procurement System has been evaluated in accordance with the Methodology for Assessing Procurement Systems (MAPS). The assessment of the procurement risks for Malawi's sectors at project levels and of procurement capacity at the implementing agencies were undertaken for the project and the output has informed the decisions on the procurement regimes (Borrower's Procurement System and Bank Procurement Methodology) being used for specific transactions or groups of similar transactions under the project. A preliminary assessment indicates the risk for use of the BPS for this operation to be rated 'moderate', with the appropriate risks mitigation measures in the procurement PRCA action plan proposed in Annex 7.

5.4.3 Procurement Audit

Procurement activities under Borrower Procurement System (BPS) will be subjected to a Procurement Audit by the office of the Auditor General (AG) and the Public Procurement and

Disposal of Assets (PPDA). Thus, the Ministry of Agriculture will recruit a qualified Individual Procurement Auditor to carry out the audit and send copies of the audit reports to PPDA, the Auditor General and to the Bank.

5.4.4 Review Procedures: All procurements under Bank Procurement Methods and Procedures (PMPs) shall be subject to prior review by the Bank.

5.5. Monitoring

5.5.1 The Ministry of Agriculture M&E system, which is managed by the Department of Planning and the AIP's own M&E system will be used in this project. The MoA has an established project M&E system that is used by on-going Bank funded Projects in the Ministry. **Appendix 12** shows the project implementation timeframes.

5.6. Governance

5.6.1 The project team in the AIP unit will, as designated by government structures, report to the Principal Secretary in the Ministry of Agriculture. The existing reporting arrangement will remain, and the Principal Secretary will be responsible for and accountable for the overall project implementation.

5.7 Sustainability

5.7.1 The activities to ensure sustainability include the formation of farmer groups, extension support to be provided by the TAAT team in the application of alternative organic fertilizer and manure, and the three dedicated policy-based studies.

5.8 Risk management (Annex 10 C)

5.9 Knowledge building

5.9.1 The knowledge generated through implementation of this project will be synergized with other projects to achieve maximum results. At the project level, quarterly progress reports, audit, sector M&E, and completion reports will also provide information that will be shared within the Bank and with other development partners and RMCs.

VI. LEGAL INSTRUMENTS AND AUTHORITY

6.1. Legal instrument

The legal instrument for financing the project will be a loan agreement signed between the Republic of Malawi (the "Borrower") and the African Development Fund (the "Fund").

6.2. Conditions associated with the Fund's intervention

6.2.1 Conditions Precedent to Entry into Force of the Loan Agreement:

The entry into force of the Loan Agreement shall be subject to the fulfilment by the Borrower of

the provisions of Section 12.01 of the General Conditions Applicable to the Fund Loans and Guarantee Agreements (*Sovereign Entities*).

6.2.2 Condition Precedent to First Disbursement of the Loan:

The obligation of the Fund to make the first disbursement of the loan shall be conditional upon entry into force of the Loan Agreement.

6.3 Undertakings: The Borrower shall:

- (i) Maintain the existence and functioning of the Affordable Input Programme (AIP) Unit located within the Ministry of Agriculture, in a form and with a composition and Terms of Reference acceptable to the Fund, throughout the duration of the project implementation period;
- (ii) Recruit short-term consultants to support the AIP, for purposes of procurement, financial management, and environment and social impact reporting;
- (iii) Implement the project in compliance with the Bank Group Integrated Safeguards System (ISS) Policy requirements, Anti-Corruption Policies, and applicable national legislation, in a manner and in substance satisfactory to the Fund. Any Category 2 activities shall comply with development of ESMP and disclosure requirement before commencement;
- (iv) comply with applicable national environmental regulations, labour and employment laws, occupational health and safety (OHS) laws and obtain the necessary permits, licenses and certificates required for affected project operations and activities, and put in place risk prevention, mitigation and response measures for gender-based violence (GBV), and sexual exploitation abuse and harassment (SEAH);
- (v) Ensure that handling fertilizer in storage and use by farmers follows appropriate guidelines and procedures as required by national laws and regulations including good agricultural practices;
- (vi) Report as part of Project Quarterly Report, the monitoring of the environmental and social risks, and mitigation measures in place to prevent and mitigate such risks;
- (vii) Conduct an independent E&S compliance audit during implementation to assess compliance with the applicable requirements;
- (viii) Provide, and/or cause beneficiaries to provide, as promptly as needed, funds, facilities, services and other resources required for implementation of the project, and/or necessary or appropriate to ensure that the goals of the project and the purpose of the loan are accomplished; and
- (ix) For disbursement through a special account, submit to the Fund a withdrawal request with a special account denominated in US dollars, opened at a bank acceptable to the Fund, in the name of the project, for deposit of the proceeds of the loan, and a corresponding local currency operating account at a bank acceptable to the Fund.

6.4 Compliance with Bank Group Policies: This project complies with applicable Bank Group policies.

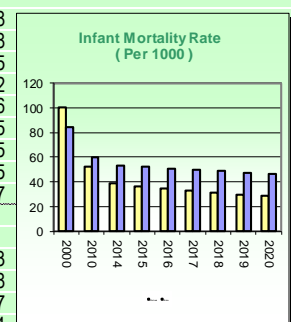
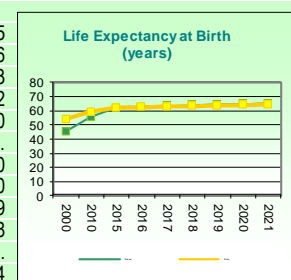
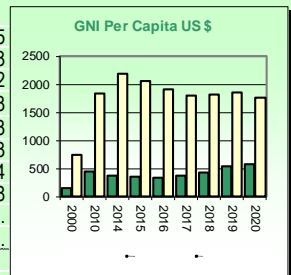
VII - RECOMMENDATION

Management recommends that the Board of Directors approve the award of the proposed African Development Fund (ADF) Loan of Fifteen Million Units of Account (UA 15,000,000) to the Republic of Malawi, to finance implementation of the project under the terms and conditions

stipulated in this report, within the framework of the African Emergency Food Production Facility (AEFPF).

Annex 1 – Comparative Social Economic Indicators

	Year	Malawi	Southern Africa	Africa	Developing Countries
Basic Indicators					
Surface Area ('000 Km²)	2021	118	6,571	30,064	96,535
Total Population (millions)	2021	19.6	218.0	1,371.7	6,518.3
Urban Population (% of Total)	2021	18.8	50.4	44.3	51.2
Population Density (per Km²)	2021	208.4	33.6	46.7	69.3
GNI per Capita (US \$)	2020	580	2 582	1 767	4 843
Labor Force Participation *- Total (%)	2021	75.6	69.6	61.9	58.3
Labor Force Participation **- Female (%)	2021	71.6	65.6	53.3	44.4
Sex Ratio (per 100 female)	2021	97.3	96.8	99.9	106.8
Human Develop. Index (Rank among 189 countries)	2019	174
Popul. Living Below \$ 1.90 a Day (% of Population)	2007-19	69.2	47.0	34.1	...
Demographic Indicators					
Population Growth Rate - Total (%)	2021	2.7	2.3	2.5	1.2
Population Growth Rate - Urban (%)	2021	4.4	3.2	3.6	2.2
Population < 15 years (%)	2021	42.5	38.6	40.1	27.2
Population 15-24 years (%)	2021	21.1	19.3	19.3	16.2
Population >= 65 years (%)	2021	2.7	3.6	3.6	7.6
Dependency Ratio (%)	2021	82.3	73.1	77.6	54.6
Female Population 15-49 years (% of total population)	2021	24.8	25.3	24.3	25.0
Life Expectancy at Birth - Total (years)	2021	65.1	64.0	64.1	71.2
Life Expectancy at Birth - Female (years)	2021	68.3	66.9	65.9	73.4
Crude Birth Rate (per 1,000)	2021	33.2	30.1	32.2	19.4
Crude Death Rate (per 1,000)	2021	6.1	7.7	7.7	7.3
Infant Mortality Rate (per 1,000)	2020	29.0	39.7	46.6	29.7
Child Mortality Rate (per 1,000)	2020	38.9	36.1	47.5	39.8
Total Fertility Rate (per woman)	2021	4.0	3.7	4.2	2.5
Maternal Mortality Rate (per 100,000)	2017	349.0	264.0	475.7	231.0
Women Using Contraception (%)	2021	64.4	47.9	38.3	59.1
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2010-19	15.2	35.4	38.1	138.5
Nurses and midwives (per 100,000 people)	2010-19	43.9	87.3	106.5	254.6
Births attended by Trained Health Personnel (%)	2010-20	89.8	73.2	64.4	79.3
Peop. Using at least basic drinking water services (% of Pop.)	2020	70.0	71.3	69.3	88.2
Peop. Using at least basic sanitation services (% of Population)	2020	26.6	46.9	41.9	74.0
Percent of Adults (aged 15-49) Living with HIV/AIDS	2020	8.1	10.9	3.0	...
Incidence of Tuberculosis (per 100,000)	2020	141.0	363.1	193.2	149.0
Child Immunization Against Tuberculosis (%)	2019	91.0	83.8	81.0	88.0
Child Immunization Against Measles (%)	2019	92.0	75.6	71.9	84.9
Underweight Children (% of children under 5 years)	2010-20	26.4	13.4	16.8	13.8
Prevalence of stunting	2010-20	41.6	31.6	31.9	...
Prevalence of undernourishment (% of pop.)	2019	17.3	20.2	17.7	10.4
Current health expenditure (% of GDP)	2019	7.4	7.6	5.1	5.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2011-21	144.8	114.2	103.0	101.8
Primary School - Female	2011-21	147.0	112.4	101.0	100.8
Secondary School - Total	2011-21	37.1	60.5	52.7	72.5
Secondary School - Female	2011-21	33.6	58.8	50.8	72.2
Primary School Female Teaching Staff (% of Total)	2010-21	45.0	59.7	50.5	63.6
Adult literacy Rate - Total (%)	2010-20	62.1	80.3	68.2	84.5
Adult literacy Rate - Male (%)	2010-20	78.4	82.9	72.4	88.5
Adult literacy Rate - Female (%)	2010-20	55.2	76.0	61.4	80.5
Government expenditure on Education (% of GDP)	2010-20	2.9	5.6	4.8	3.7
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2018	38.2	6.0	8.2	11.3
Agricultural Land (as % of land area)	2018	59.9	53.9	37.8	37.8
Forest (As % of Land Area)	2020	23.8	33.9	22.6	31.7
Per Capita CO2 Emissions (metric tons)	2018	0.1	2.5	1.1	3.4



Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;

last update :

April 2022

UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)

** Labor force participation rate, female (% of female population ages 15+)

Annex 2: Unfunded Partial Trade Credit Guarantee by the Africa Fertilizer Financing Mechanism (AFFM).

African Emergency Food Production Facility (AEFPF)

Component 2: Provide financing for the large-scale supply of fertilizers

Unfunded Partial Trade Credit Guarantee by the Africa Fertilizer Financing Mechanism (AFFM).

About the AFFM

African leaders established the Africa Fertilizer Financing Mechanism (AFFM) during the 2006 African Green Revolution Summit in Abuja. In the Abuja Declaration, African Union Member States committed to an initiative to improve agricultural productivity by providing financing required to accelerate the use of fertilizers in Africa. The Summit charged the African Development Bank with the responsibility to establish and manage the AFFM. The Declaration enjoined the African Union Member States to work together to boost fertilizer use in Africa to reach the target of at least 50 kg of nutrients per hectare.

The overall objective of the AFFM is to assist African countries in increasing agricultural productivity within the context of the Comprehensive Africa Agriculture Development Program (CAADP) and the Sustainable Development Goals (SDGs). One of AFFM's primary functions is creating an enabling environment for the mobilization of investments needed to achieve the target mandated by the Abuja Declaration.

The Bank's Board of Governors approved the creation of the AFFM as a special fund in April 2008. The AFFM became operational in 2015 after receiving the pledges that allowed it to reach the financial threshold requirement of \$10 million. AFFM became fully functional in 2018

Rationale

The funds allocated for fertilizer under the AEFPF will not allow to achieve the targeted volumes of fertilizer to farmers if private sector financing is not leveraged. The leverage is possible through Partial Trade Credit Guarantee to suppliers for distribution of inputs to farmers via aggregators, Hub agro-dealers and retailers.

AFFM will support Government of Malawi in providing \$ 5Million Unfunded Partial Trade Credit Guarantees for the large-scale supply of fertilizers to wholesalers, aggregators and Hub agro-dealers to ensure additional fertilizer volumes are available in the country for small holder farmers.

Benefits for the Credit Guarantee for Building the Nascent Fertilizer Market

- Preservation of cash, sustainable model reducing government burden on the budget. The

Guarantee is a contingent instrument and unfunded.

- More efficient use of funding noting the current pool of funds
- Revolving: Should the government opt to procure inputs; the funds will be utilized right away and might cover one season. Unlike straight procurement on open market prices, the AFFM credit guarantee facility will allow the funds to be utilized/leveraged several times under agreement with selected suppliers. In the case of Tanzania, the USD 2.4M was leveraged fifteen-fold to facilitate access to fertilizer worth USD 30M in 3 years. AFFM is now reinvesting the same amount in Tanzania.
- Credit guarantee facilitates the development of innovative structures to effectively partner with the private sector while mitigating transactional risk; it will provide comfort to private sector in sharing the risk.
- With the trade credit guarantees, governments will have the opportunity to continue using the same guarantee for fertilizer distribution for consequent years.
- Governments would also have the option to either consider the funds as their contribution into the AFFM, later discuss with the Bank the repurposing of the funds into other required support such as technical assistance for fertilizer sector development or retrieve any unused funds after a minimum period of 3 years. As such trade credit guarantees are the best option for government.
- The target is to ensure additional volumes are availed on credit basis and leverage the guarantee for at least 2-3 times each season. Without a guarantee, \$5 million will allow distribution of at least Mt 4,300 of fertilizer, while with a partial guarantee, the same funds will allow distribution of at least Mt 10,800.
- Hands on risk management and credit monitoring of the use and efficacy of the guarantee

How will the credit Guarantee work

- The funds allocated for the unfunded partial credit guarantee financing will be retained by the Bank, managed by AFFM and utilized for credit guarantee to suppliers in Malawi. AFFM will contribute by covering the cost related to the management of the credit guarantee.
- Under the trade credit guarantee model, a fertilizer importer, manufacturer, blender or supplier will avail fertilizer to hub agro dealers on credit and AFFM will share the credit risk involved in the transaction with the supplier at an agreed pari-passu (50-50) percentage. The hub agro-dealer will then distribute the product on credit either to retailers or directly to the smallholder farmers.
- AFFM has selected the African Fertilizer and Agribusiness Partnership (AFAP) which is already based in Malawi has experience in the trade credit guarantee model as the implementing partner for the trade credit guarantee. As such AFFM will work with AFAP to do the due diligence on suppliers and agrodealers to take part in the program, create linkages to retailers and smallholder farmers and provide capacity building as may be required to the

beneficiaries. The AFFM will on its side provide a grant to AFAP for the management of the guarantee and implementation of the program.

- Once the funding for trade credit guarantee is confirmed, the AFFM will liaise with AFAP to initiate the preparations for the coming season, starting by soliciting the interest of companies, which are already operating in the fertilizer value chain in Malawi. Those companies must fulfil the criteria set by AFFM and adhere to the requirements set by either the AFFM/AFAP and/or in conjunction with the government to qualify for access to finance.
- On behalf of the AFFM, AFAP will work with major suppliers operating in the country and sign guarantee agreements with them. Selected suppliers will also be requested to include subsidized inputs under the program.

Finally, AFFM will supervise AFAP, monitor the program through monthly updates and quarterly reporting and virtual supervision meetings and provide necessary reports to the Banks and the Government.

Expected results of the credit guarantee / 2 seasons

- 300,000 smallholder farmers to be reached
- 30Mt of fertilizer to be distributed
- +/- US\$ 28M of sales ---- 5+ leverage

Annex 3: Malawi Africa Emergency Food Production Facility: Component and Output Budget

No	Component	Outputs	Cost (m)		
			USD	UA	% Allocation
1	Component 1 Scale up Food Production				
	1.1	Improved Cereal and legume seed provision to farmers	1.1.1 2,500 tons of cereals and legumes provided to one (1) million registered (50% women) beneficiaries receive seed subsidy through the new National ID registration system for 0.5 - 1ha value of inputs (USD XX)		
	1.2	Fertilizer provision to farmers	1.2.1 20,000 tons of fertilizer provided to 1 million farm families provided with XX total tonnage of fertilizer		
	1.3	AFFM and Govt Partial Credit Guarantee Payment scheme	1.3.1 Collaborating banks, input suppliers and agro-dealers registered on AFFM/AIP and Smallholder Farmer Fertilizer Data Bank platform to participate on AFFM Partial Credit Guarantee Scheme (USD 5 M) million farm families provided with 30,000 total tonnage of fertilizer	15.6	11.14
2	Component 2 Enhanced farmer registration and famer organization towards receipt of inputs				
	2.1	Support to AIP for Farmer data collection and management	2.1.1 AIP/Smallholder Farmer Registration systems up graded with new enhanced ICT and Database management computers and systems		
			2.1.2 AIP - 300 e-tablets procured and distributed equitably to both male and female extension data extension services that collect farmer clubs’ data		
			2.1.3 AIP - 0.7 million new beneficiaries (50% women) registered on AIP data bank and data from earlier beneficiaries enhanced with more security features		

3	2.2	Support to Extension Services	2.2.1 One thousand (1000) extension staff (50% women) trained in Climate Smart Agriculture and farm data collection methodologies using new technology	4.25	2.93	21%			
	2		2.2.2 Purchases of motorized transport - 300 motorbikes procured and distributed equally to both male and female extension staff to help with farmer group formation, organization, training and provision of extension messages, done in partnership with TAAT						
	2.3	Farmer Training	2.3.1 In partnership with TAATs, identify and disseminate value chain technologies to farmer groups						
			2.3.2. 2.7 million farmers (50% women) trained climate smart approaches to promote use of organic fertilizer and agricultural lime and other technologies that enhance the uptake of soil nutrients from granular fertilizers in partnership with TAAT						
			2.4.1 Facilitate market linkages between farmers and traders and agro-processors throughout grower arrangements in partnership with TAAT						
	2.4	Agro-dealer training for the up-take of the Partial Credit Risk Guarantee Scheme	2.4.2 Enroll, register, accredit and train last mile agro-dealers on the new national ID Farmer Registration system by AIP and TAAT						
			2.4.3 Train institutions that regulate the registration, certification and sale of seeds, quality fertilizer and agro-chemicals to farmers						
	Component 3. Agriculture Policy Dialogue and Project Coordination								
	3.1	Strengthen capacity of private sector suppliers	Create incentives for private sector off-takers to enhance use of existing rural infrastructure of storage for the harvest and inputs						
Support policy creation and or incentives that encourage private sector investment in the seed sector and local production of fertilizer from local materials									
Set up a sustainable agriculture finance institution for small and emergent farmers beyond AIP subsidies									
	Project Management	Procurement Audit	0.9	0.64					
Financial Management Audit									
Environment and Social Management Audit									

O&M of office equipment	4%		
Project Evaluation – On-going and Terminal			
Publicity and Communication			
O & M of Project vehicles and Extension services Motorcycles			
Project total Cost	20.2	15	100%

DETAILED BUDGET PER ACTIVITY

							UA (million)	MKW (billion)	Category
#	Component/Subcomponent		Outputs	USD (million)			1 UA =1.4USD	1USD= 1021.24	
Component 1 - Scale up Food Production				YR 1	YR 2	TOTAL			
Sub-component 1.1	Improved Cereal and legume seed provision to farmers		1.1.1 Deliver 2,500[1] tons of certified improved assorted seeds of groundnuts, beans, soybeans, cow peas and pigeon peas for 0.5 million beneficiaries registered on AIP Database for 125,00 ha of cropland	5.8	0	5.8	4.14	5.92	Goods
			1.1.2 Deliver 2,500[2] tons of certified improved assorted cereal seeds of maize, rice and sorghum for 0.5 million beneficiaries registered on AIP Database for 125,00 ha of cropland	2.9	0	2.8	2.9	3	Goods
			Sub-Total Sub-Component 1.1			8.7	0	8.7	7.04
Sub-Component 1.2	Fertilizer provision to farmers		1.2.1 Deliver 20,000[3] tons of fertilizer for 0.5 million beneficiaries registered on AIP Database for acreage of 200,000 ha of cropland	1.36		1.36	0.97	1.39	Goods
			Sub-total Sub-Component 1.2			1.36	0	1.36	0.97
Sub-	AFFM and Govt		1.3.1 Deliver 30,000 tons of fertilizer through the	5		5	3.57	5.11	Goods

Component 1.3:	Partial Credit Guarantee Payment scheme	Partial Credit Guarantee Scheme through AFFM for risk sharing for 300,00 ha of cropland						(through the Revolving fund)
		Sub-total Sub-Component 1.33	5		5	3.57	5.11	
Sub-Total Component 1			15.06	0	15.06	11.44	15.42	75%
Component 2 Enhanced farmer registration and famer organization towards receipt of inputs								
Sub-Component 2	2.1. Support to AIP for Farmer data collection and management	2.1.1 AIP/Smallholder Farmer Registration systems – purchase of two (2) ICT main server and database computers	1	0	1	0.71	1.02	Goods
		2.1.2 AIP – purchase of 300 e-tablets extension data and other extension services	0.6	0	0.6	0.429	0.61	Goods
		2.1.3 AIP – Capture and entry of 0.7 million new beneficiaries onto AIP data bank						Operating Costs (Govt)
		Sub-total Total Subcomponent 2.1	1.6		1.6	1.039	1.63	
Sub-component 2.2	2.2 Support to Extension Services	2.2.1 Training of 500 Extension staff in Climate Smart Agriculture and farm data collection methodologies using new technology	0.1	0	0.1	0.0714	0.102	Training
		2.2.2 Purchases of motorized transport - 300 motorbikes for extension staff for farmer group formation, organization, training and provision of extension messages	1.8	0	1.8	1.29	1.84	Goods
		Sub-total Total Subcomponent 2.2	1.9	0	1.9	1.36	1.942	
Subcomponent 2.3	2.3 Farmer Trainig	2.3.1 In partnership with TAATs, identify and disseminate value chain technologies to farmer groups	0.1	0	0.1	0.071	0.102	Training
		2.3.2. 2.0 million farmers training in climate smart approaches to promote use of organic fertilizer and agricultural lime and other technologies that enhance the uptake of soil nutrients from granular fertilizers in partnership with TAAT	0.15	0	0.15	0.107	0.153	Training
		Sub-total Total Subcomponent 2.3	0.25	0	0.25	0.178	0.255	
Subcompo	2.4 Agro-dealer	2.4.1 Facilitate market linkages between farmers	0.2	0	0.2	0.142	0.204	Training

nent 2.4	training for the up-take of the Partial Credit Risk Guarantee Scheme	and traders and agro-processors through the out-grower arrangements in partnership with TAAT						
		2.4.2 Enroll, register, accredit and train last mile agro-dealers on the new national ID Farmer Registration system by AIP and TAAT	0.2	0	0.2	0.142	0.204	Training
		2.4.3 Train institutions that regulate the registration, certification and sale of seeds, quality fertilizer and agro-chemicals to farmers	0.1	0	0.1	0.071	0.102	Training
		Sub-total Total Subcomponent 2.4	0.5	0	0.5	0.355	0.51	
Sub-Total Component 2			4.25	0	4.25	2.932	4.34	21%
Component 3 – Agriculture Policy Dialogue, programme coordination and management								
Sub-Componen t 3.1	3.1 Strengthen capacity of private sector suppliers	3.1.1 Create incentives for private sector off-takers to enhance use of existing rural storage infrastructure for harvest and inputs	0.1	0	0.1	0.0714	0.102	Consultancy/ Services
		3.1.2 Support policy creation/incentives to encourage private sector investment in the seed sector and local production of fertilizer from local materials	0.1	0	0.1	0.0714	0.102	Consultancy Services
		3.1.3 Study to set up a sustainable agriculture finance institution for small and emergent farmers beyond AIP subsidies	0.1	0	0.1	0.0714	0.102	Consultancy Services
		Total Subcomponent 3.1	0.3	0	0.3	0.2142	0.306	
Sub-Componen t 3.1	3.2 Program Management	3.2.1 #2 Vehicles- 4WD Double Cabin pickup trucks	0.16	0	0.16	0.114	0.163	Goods
		3.2.2 #2 Project Accountants (secondees)	0.04	0	0.04	0.028	0.0408	Operating Costs
		3.2.3 Financial Management Audit	0.02	0	0.02	0.014	0.0204	Consultancy
		3.2.4 Procurement Audit	0.02	0	0.02	0.014	0.0204	Consultancy
		3.2.5 Environment and Social Safeguard Reporting	0.02	0	0.02	0.014	0.0204	Operating Costs
		3.2.6 Support Staff (lumpsum)	0.08	0	0.08	0.057	0.08167	Operating Cost
		3.2.7 O & M – vehicles, Motorcycles, and office equipment	0.2	0	0.2	0.142	0.2042	Operating Cost
		3.2.8 Procurement processing, publicity, and Communications	0.02	0	0.001	0.014	0.0204	Operating Cost
		Total Subcomponent 3.2	0.56	0	0.541	0.397	0.57127	Operating Cost

Subcomponent 3.3	3.3 Monitoring and Evaluation and Supervision	3.3.1 Monitoring and evaluation and Project Completion Report	0.02	0	0.02	0.014	0.0204	Operating Cost
		3.3.2 Project Steering and Technical Committee meetings	0.02	0	0.02	0.014	0.0204	Operating Cost
		Total Subcomponent 3.3	0.04	0	0.04	0.028	0.0408	
Sub-Component 3			0.9	0	0.881	0.6392	0.91807	4%
GRAND PROJECT TOTAL			20.2		20.2	15	20.7	100

Table 4 Sources of Financing, Amount (USD and UA ‘000) and %age Contribution (%)

Source of Financing	Total (USD ‘000,000)	Total (UA ‘000,000)	%	Other
ADF loan	20.2	15	100	
Government ²	0	0	0	
Beneficiaries	0	0	0	
Total	20.2	15	100	

² Government will contribute through the existing AIP staffing, continue to pay for their salaries, provide office space, & pay for sundries

Annex 4: Bank Group's On-going Project Portfolio in Malawi

	Sector	Long Name	Age	Amount UA Mil.	Balance UA Millions	% Disbursed
1	Agriculture & Afro-Industry	SHIRE VALLEY TRANSFORMATION PROJECT	3.5	35.6	28.0	78.7%
2		SUSTAINABLE FISHERIES, AQUACULTURE DEVELOPMENT & WATERSHED M	2.7	9.6	9.5	99.0%
3		AGRICULTURAL INFRASTRUCTURE AND YOUTH AGRIBUSINESS PROJECT (5.7	16.0	1.8	11.1%
4	Water & Sanitation	SUSTAINABLE RURAL WATER AND SANITATION INFRASTRUCTURE FOR IM	8.1	22.8	22.8	100.0%
5		ADDITIONAL FINANCING TO SUSTAINABLE RURAL WATER AND SANITATI	3.1	2.0	0.6	29.0%
6		NKHATA BAY TOWN WATER SUPPLY AND SANITATION PROJECT	3.6	19.4	14.3	73.9%
7		TA CATCHMENT BASED CLIMATE RESILIENT WATER SECURITY FOR NORT	1.0	0.6	0.4	70.6%
8	Human Capital, Skills & Youth Development	JOBS FOR YOUTH MALAWI	5.5	8.8	0.6	7.3%
9	Governance & Economic Reforms	PROMOTING INVESTMENT AND COMPETITIVNESS IN TOURISM SECTOR	4.4	7.0	1.8	25.7%
10		SUPPLEMENTARY FINANCING FOR PROMOTING INVESTMENT AND COMPET	2.1	0.7	0.3	38.3%
11	Financial Inclusion & Intermediation	SUPPORT FOR DIGITIZATION, FINANCIAL INCLUSION AND COMPETITIV	0.5	10.0	10.0	0.0%

12	Multinational	NACALA ROAD CORRIDOR PROJECT PHASE IV (LIWONDE-MANGOCHI) MA	8.5	43.0	2.0	4.7%
13		MULTINATIONAL ROAD DEVELOPMENT PHASE NACALA CORRIDOR PROJECT	3.0	41.0	41.0	100.0%
14		STRENGTHENING TRANSBOUNDARY COOPERATION AND NATURAL RESOURCE	3.0	4.7	3.5	74.6%
15		EMERGENCY HUMANITARIAN RELIEF ASSISTANCE RELATED TO THE 2019	3.1	0.2	0.2	100.0%
16		POST CYCLONE IDAI EMERGENCY RECOVERY AND RESILIENCE PROGRAMM	3.0	17.7	8.8	50.0%
17		MULTINATIONAL-POST CYCLONE IDAI EMERGENCY RECOVERY AND RESIL	3.0	16.3	12.0	73.2%
				255.4	157.7	61.7%

Annex 5: M&E arrangements

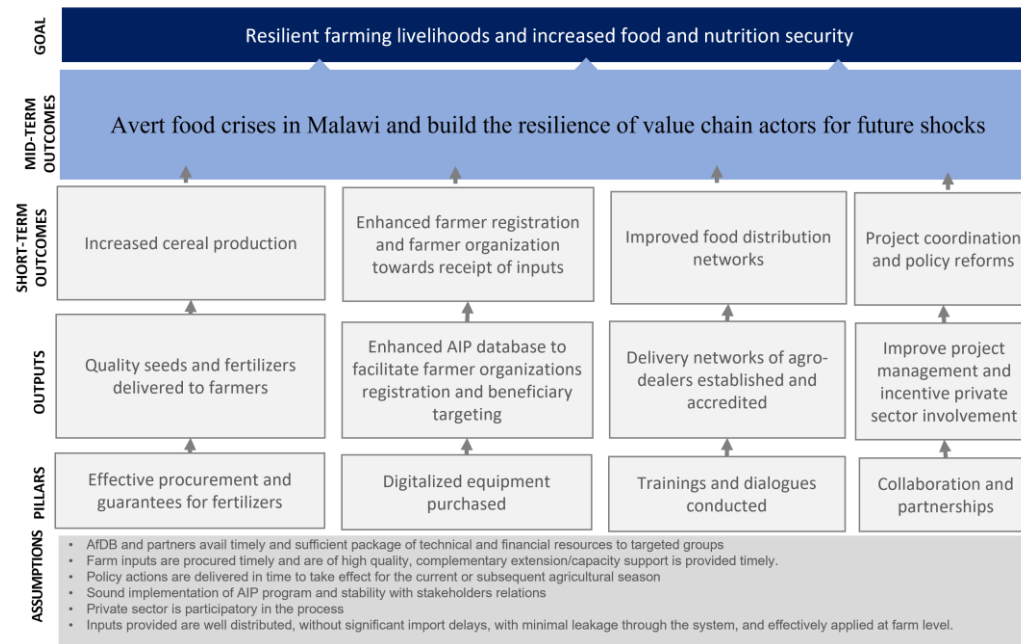
A. Alignment indicators					
Indicator name	Definition/description	Methodology for collection	Source/Responsibility for collection	Frequency of reporting	Baseline and targets (where possible)
vulnerability to food and nutrition insecurity and resilience	(i) Production yield	Project monitoring reports/Survey	Min. of Agriculture and AIP		30%
	(ii) 5000 tons of seeds provided to 1 million farm families	Project monitoring reports/Survey	Min. of Agriculture and AIP		
	(ii) 20000 tons of fertilizer provided to 1 million farm families	Project monitoring reports/Survey	Min. of Agriculture and AIP		
			Min. of Agriculture and AIP		Results planning
B. Outcome and output indicators (performance indicators)		Project monitoring reports/Survey	Min. of Agriculture and AIP		Target
OUTCOME INDICATOR 1.1: Increased yield	Volume of food production supplied	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	
OUTCOME INDICATOR 1.2: Volume and quality and certified seeds delivered	Volume and quality seeds supplied	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	
OUTCOME INDICATOR 1.3: Volume of fertilizers delivered	Volume of fertilizers delivered	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	
OUTCOME INDICATOR 1.4 Change in Intra-household distribution	Availability of food for consumption	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	
OUTPUT INDICATOR 1 Scaled up food production and nutritional staples	Increase in the volume of cereal and legumes seeds, fertilizers and establishment of the AFFM scheme	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	
OUTPUT INDICATOR 1.1.1: Deliver certified improved assorted seeds of groundnuts, beans, soybeans, cow peas and pigeon peas for 0.5 million beneficiaries	Deliver certified improved assorted seeds of groundnuts, beans, soybeans, cow peas and pigeon peas	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	2500

registered on AIP Database for 125,00 ha of cropland					
OUTPUT INDICATOR 1.1.2: Deliver certified improved assorted cereal seeds of maize, rice and sorghum for 0.5 million beneficiaries registered on AIP Database for 125,00 ha of cropland	Deliver certified improved assorted cereal seeds of maize, rice and sorghum	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	2500
OUTPUT INDICATOR 1.2.1: Deliver fertilizer for 0.5 million beneficiaries registered on AIP Database for acreage of 200,000 ha of cropland	Deliver fertilizer	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	20000
OUTPUT INDICATOR 1.3.1: Deliver fertilizer through the Partial Credit Guarantee Scheme through AFFM for risk sharing for 300,00 ha of cropland	Deliver fertilizer through the Partial Credit Guarantee Scheme through AFFM for risk sharing	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	3,000
OUTPUT INDICATOR 2.1.1: AIP/Smallholder Farmer Registration systems – purchase of main server and database computers	AIP/Smallholder Farmer Registration systems – purchase of main server and database computers	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	2
OUTPUT INDICATOR 2.1.2: AIP – purchase of e-tablets extension data and other extension services	purchase of e-tablets extension data and other extension services	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	300
OUTPUT INDICATOR 2.1.3: AIP – Capture and entry of new beneficiaries onto AIP data bank	Capture and entry of new beneficiaries onto AIP data bank	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	700000
OUTPUT INDICATOR 2.2.1: Training of Extension staff in Climate Smart Agriculture and farm data collection methodologies using new technology	Training of Extension staff in Climate Smart Agriculture and farm data collection methodologies using new technology	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	500
OUTPUT INDICATOR 2.2.2: Purchases of motorized transport - motorbikes for extension staff for farmer group formation,	Purchases of motorized transport - motorbikes	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	300

organization, training and provision of extension messages					
OUTPUT INDICATOR 2.3.1: In partnership with TAATs, identify and disseminate value chain technologies to farmer groups	In partnership with TAATs, identify and disseminate value chain technologies to farmer groups	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	
OUTPUT INDICATOR 2.3.2: farmers training in climate smart approaches to promote use of organic fertilizer and agricultural lime and other technologies that enhance the uptake of soil nutrients from granular fertilizers in partnership with TAAT	farmers training in climate smart approaches to promote use of organic fertilizer and agricultural lime and other technologies that enhance the uptake of soil nutrients from granular fertilizers in partnership with TAAT	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	2,000,000
OUTPUT INDICATOR 2.4.1: Facilitate market linkages between farmers and traders and agro-processors through the out-grower arrangements in partnership with TAAT	Facilitate market linkages between farmers and traders and agro-processors through the out-grower arrangements in partnership with TAAT	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	yes
OUTPUT INDICATOR 2.4.2: Enroll, register, accredit and train last mile agro-dealers on the new national ID Farmer Registration system by AIP and TAAT	Enroll, register, accredit and train last mile agro-dealers on the new national ID Farmer Registration system by AIP and TAAT	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	yes
OUTPUT INDICATOR 2.4.3: Train institutions that regulate the registration, certification and sale of seeds, quality fertilizer and agro-chemicals to farmers	Train institutions that regulate the registration, certification and sale of seeds, quality fertilizer and agro-chemicals to farmers	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	yes
OUTPUT INDICATOR 3.1.1: Create incentives for private sector off-takers to enhance use of existing rural storage infrastructure for harvest and inputs	Create incentives for private sector off-takers to enhance use of existing rural storage infrastructure for harvest and inputs	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	
OUTPUT INDICATOR 3.1.2: Support policy creation/incentives to encourage	Support policy creation/incentives to encourage private sector investment in	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	Yes

private sector investment in the seed sector and local production of fertilizer from local materials	the seed sector and local production of fertilizer from local materials				
OUTPUT INDICATOR 3.1.3: Study to set up a sustainable agriculture finance institution for small and emergent farmers beyond AIP subsidies	Study to set up a sustainable agriculture finance institution for small and emergent farmers beyond AIP subsidies	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	yes
OUTPUT INDICATOR 3.2.1: Vehicles-4WD Double Cabin pickup trucks	Vehicles- 4WD Double Cabin pickup trucks	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	2
OUTPUT INDICATOR 3.2.2: Project Accountants (secondees)	Project Accountants (secondees)	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	2
OUTPUT INDICATOR 3.2.3: Financial Management Audit	Financial Management Audit	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	Yes
OUTPUT INDICATOR 3.2.4: Procurement Audit	Procurement Audit	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	Yes
OUTPUT INDICATOR 3.2.5: Environment and Social Safeguard Reporting	Environment and Social Safeguard Reporting	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	Yes
OUTPUT INDICATOR 3.2.6: Support Staff (lumpsum)	Support Staff (lumpsum)	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	
OUTPUT INDICATOR 3.2.7: O & M – vehicles, Motorcycles, and office equipment	O & M – vehicles, Motorcycles, and office equipment	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	Yes
OUTPUT INDICATOR 3.2.8: Procurement processing, publicity, and Communications	Procurement processing, publicity, and Communications	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	Yes
OUTPUT INDICATOR 3.3.1: Monitoring and evaluation and Project Completion Report	Monitoring and evaluation and Project Completion Report	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	Yes
OUTPUT INDICATOR 3.3.2: Project Steering and Technical Committee meetings	Project Steering and Technical Committee meetings	Project monitoring reports/Survey	Min. of Agriculture and AIP	Annual	Yes

The theory of change builds on a general understanding that political stability is sufficient to allow farmers to access and utilize the agricultural inputs and that farm inputs are procured timely. Detailed Implementation Framework and Schedule is found in Annex 9.



Annex 6: Financial Management

The project's financial management (FM) will be managed within the Project Implementation Unit (PIU) in the Ministry of Agriculture. The PIU would coordinate all project FM-related issues. The overall conclusion of the assessment is that the Ministry of Agriculture's capacity to handle all the FM aspects of the project, satisfies Bank minimum requirements as laid out in the Bank's FM guidelines subject to designation of a Project Accountant and an Assistant Accountant on secondment from the Accountant General's Office. The Project Accountant will be the focal person for the FM aspects and report to the Project Manager and to the Director of Finance at Ministry of Agriculture.

The Ministry of Agriculture has prior experience in implementing and continues to implement on-going Bank and other donor projects. The project would make use of the Bank's various disbursement methods including (i) Direct Payment, (ii) Special Account (SA) and (iii) Reimbursement and Reimbursement Guarantee methods in accordance with Bank rules and procedures as laid out in the Disbursement handbook as applicable. The Bank will issue a Disbursement Letter whose content will be discussed and agreed with the Government of Malawi during negotiations.

In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit an interim financial report to the Bank not later than forty-five (45) days after the end of each calendar quarter. The project will also prepare and submit annual financial statements, audited by the National Audit Office or an independent private audit firm, together with the auditor's opinion and management letter to the Bank not later than six (6) months after the end of the financial year. The initial financial management risk for the project is assessed as Moderate while the overall country risk is assessed as Substantial.

The Bank's Fiduciary, Financial Management and Inspection Division (SNFI) undertook a Financial Management (FM) assessment of the Ministry of Agriculture (MoA) in accordance with the Financial Management Policy in African Development Group financed operations (2014), the Financial Management Manual for Bank Group Public Sector Operations (2014), and Financial Management Implementation Guidelines for Bank Group Operations (2014).

The objective of the assessment was to determine whether MoA as the Executing Agency, has acceptable Financial Management (FM) arrangements, capable of (i) correctly and completely recording all transactions and balances relating to the project; (ii) facilitating the preparation of regular, timely and reliable financial statements; (iii) safeguarding the project's assets; and (iv) being subjected to auditing arrangements acceptable to the Bank.

The results of the assessment and the agreed FM, disbursement and auditing arrangements for the proposed Malawi Emergency Food Production Project are documented below.

MOA has prior experience in implementing projects financed by various development partners and currently manages two projects funded by the Bank. The Bank-funded projects are partially mainstreamed within the Government system with the financial management function performed

by consultants working together with Government Accountants. The frequent rotation of Government Accountants has hampered the reinforcement of capacity within the Ministry thus necessitating the retention of consultants to support the project implementation units (PIUs). The existing and preceding projects have had a number of financial management challenges related to the poor quality of quarterly reporting, delays in the preparation of annual financial statements, non-compliance with the Bank's audit submission deadlines, late submission of expenditure justification documents and inadequate controls at the decentralised level.

In order to mitigate the identified FM risks based on prior experience, the Accountant General will designate an Accountant and Assistant Accountant with the appropriate experience and qualifications to perform the financial management functions under the project. The project financial management team will report to the Project Coordinator and to the Director of Finance at the Ministry of Agriculture.

The overall conclusion of the assessment is that MOA's capacity to handle all the FM aspects of the project, satisfies Bank minimum requirements as laid out in the Bank's FM guidelines subject to the designation of an Accountant and an Assistant Accountant. The residual FM risk for the project is assessed as Moderate (see Annex 1 – Risk Analysis summary). The project would make use of the Bank's various disbursement methods including (i) Direct Payment, (ii) Special Account (SA) and (iii) Reimbursement and Reimbursement Guarantee methods in accordance with Bank rules and procedures as laid out in the Disbursement handbook as applicable. The Bank will issue a Disbursement Letter of which the content will be discussed and agreed with the Government of Malawi (GoM) during negotiations.

In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit quarterly financial reports to the Bank not later than forty-five (45) days after the end of each calendar quarter. The project will also prepare and submit annual financial statements, audited by the National Audit Office or an independent private audit firm, together with the auditor's opinion and management letter to the Bank not later than six (6) months after the end of the financial year. The results of the assessment and the agreed FM, disbursement and auditing arrangements for the proposed project are documented below.

Use of Country Systems

The Bank's Country Fiduciary Risk Assessment has rated fiduciary risk as Substantial. The assessment indicates that whilst there has been some noticeable progress in addressing certain control weaknesses, including the IFMIS security and expenditure commitment controls, ongoing work in other aspects of the fiduciary environment needs continuous support. This includes fostering compliance with internal controls, enforcing sanctions in cases of non-compliance, strengthening the internal audit function, addressing fraud and governance risks, completing the backlog of bank reconciliations, expediting proposed regulatory amendments (which among others will streamline the Auditor General's reporting and enhance his independence as well as giving a regulatory support to the internal audit function).

Notwithstanding the weaknesses identified, the Bank will use the following aspects of the country FM systems for managing the project with appropriate mitigation measures. These will include Treasury Management/Funds Flow - the project will use the Government's banking arrangements and treasury procedures at the Reserve Bank of Malawi (the Country's central bank), to access the funds; Internal Controls and Internal Audit - using the Central Internal Audit Unit to perform the internal audit function; and External Audit oversight - using the Country's supreme audit institution, the National Audit Office, to audit the project's financial statements as per their mandate.

For environmental and social risks the Malawi Environmental Agency will have to monitor the compliance with the environmental regulations and that the fertiliser suppliers and distributors follow required storage and disposal of waste; while the Ministry of Labour should ensure that there is compliance with national labour laws and occupational health and safety regulations and requirements.

Executing Agency

MOA currently manages two projects funded by the Bank. The projects are partially mainstreamed within the Ministry, but the financial management function is performed by consultants working together with Government Accountants. The frequent rotation of Government Accountants has hampered the reinforcement of capacity within the Ministry thus necessitating the retention of consultants to support the PIUs. In line with existing practice, the project's FM will be handled by the PIT within MOA. the Accountant General will designate an Accountant and Assistant Accountant with the appropriate experience and qualifications to perform the financial management functions under the project. The project financial management team will report to the Project Coordinator and to the Director of Finance at the Ministry of Agriculture. The PIT will ultimately report to the Project Steering Committee.

Summary of assessed financial management arrangements

The results from the assessment of the various FM elements regarding their adequacy are documented below:

Budgeting System: The PIT will work with MOA following a comprehensive laid-down national budgeting process which requires all ministry budgets to be prepared in consultation with various technical departments before consolidation by the Ministry of Finance and approval by Parliament. The Project Implementation Team (PIT) will prepare an annual work plan and budget for implementing project activities taking into account the specific components of this project and submit to the Project's Steering Committee (PSC) for approval and thereafter to the Bank for review and endorsement. The final budget information shall also be consolidated into the national budget as part of development partner funding. The PIT will be required to prepare and include budget variance reports in the quarterly financial report.

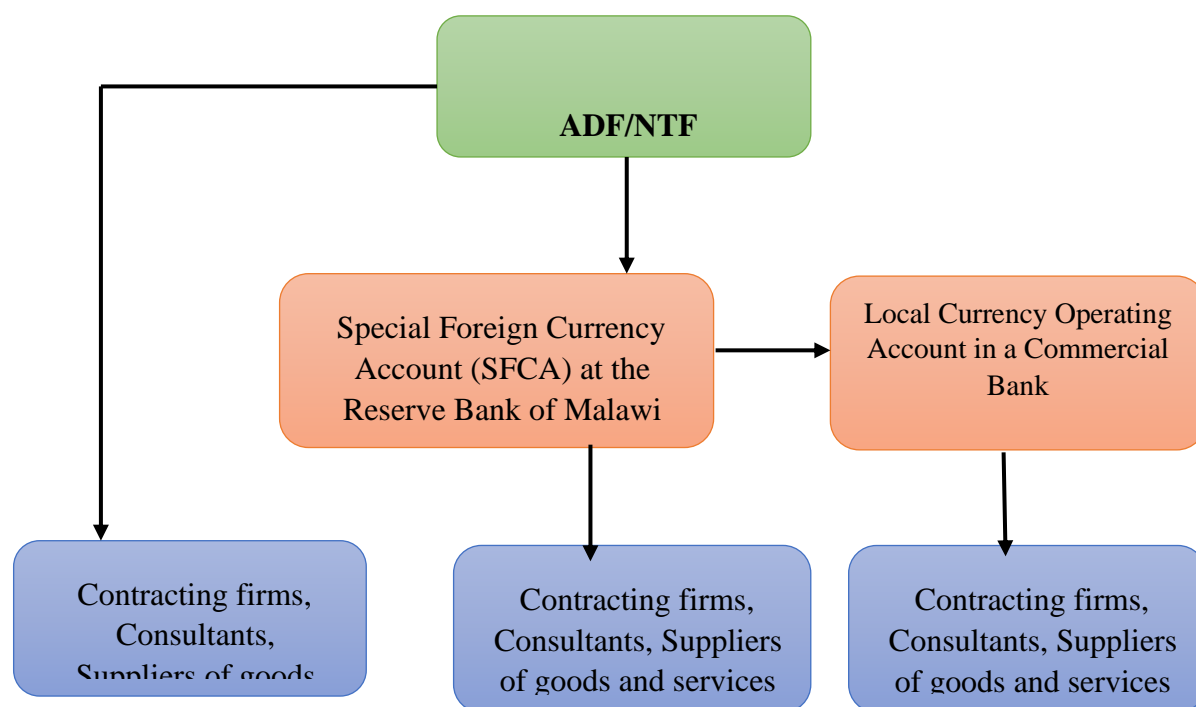
Accounting Systems: The Ministry currently uses the IFMIS for transaction processing and for

the generation of financial reports. The existing system has not been configured to enable project reporting. The project will need to use the available off-the-shelf software. Transaction processing will rely on the existing internal transaction processing procedures, payment voucher preparation, authorization and approval processes within the PIT. To facilitate project reporting, the Bank would provide the required reporting templates for the project team.

Internal Control and GAC: The internal controls of the project will be spelt out in the project implementation manual which would include sections on accounting and administrative procedures and provide guidance on the day-to-day project FM issues. The internal control environment will be under-pinned by the clear definition of roles and responsibilities allowing for segregation of duties. The Central Internal Audit Unit will be responsible for providing objective assurance and ensuring accountability in the utilization of public funds and assets. Various bank rules and guidelines (including procurement rules, FM guidelines and disbursement guidelines) would also provide additional guidance.

Funds flow and disbursement: Current AfDB financing is channeled to existing projects through Special Accounts, denominated in foreign currency, at the Reserve Bank of Malawi. The project financing will be channeled from AfDB through a Special Account denominated in foreign currency and opened at the Reserve Bank of Malawi. The PIT will also open a local currency operating account in an accredited commercial bank to facilitate payments in local currency. The project would make use of the Bank's various disbursement methods including (i) Direct Payment, (ii) Special Account (SA) and (iii) Reimbursement and Reimbursement Guarantee methods in accordance with Bank rules and procedures as laid out in the Disbursement handbook as applicable. The Bank will issue a Disbursement Letter and its contents will be discussed and agreed with the Government of Malawi during negotiations. Figure 1 below summarizes funds flow arrangement for the Bank resources under the project.

Fig 1: Funds Flow Diagram (AfDB Resources)



Financial Reporting system: The Project Accountant, reporting through the Director of Finance of MOA, will have the overall responsibility for financial reporting (including preparation and submission of withdrawal applications and payment requests to the Bank). In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit to the Bank unaudited interim financial quarterly progress Report no later than 45 days after the end of each calendar quarter. The quarterly financial reports will include a statement of sources and uses of funds, with the uses of funds analysed by activities/components and categories, comparing actual expenditure with budget and notes explaining significant variations in expenditures. Progress reporting templates will be provided to the project team to adapt for their use.

External Audit: MOA has prior experience in implementing Bank projects (and currently there are two on-going Bank-funded projects being implemented by the Ministry). The PIT will need to ensure compliance with the audit submission deadlines in order to avoid potential sanctions including the suspension of disbursements. In accordance with the Bank's financial reporting and audit requirements, the project will be required to prepare and submit a quarterly progress report to the Bank not later than forty-five (45) days after the end of each calendar quarter. The project will prepare and submit annual financial statements, audited by the National Audit Office ,

together with the auditor's opinion and management letter to the Bank not later than six (6) months after the end of the financial year. **FM Action Plan**

To ensure the adequacy the FM systems within the MOA/PIT and mitigate the identified risks, the following actions were discussed and agreed with MOA to be undertaken, as indicated in Table 1.

Table 1: FM Action Plan

#	Required Actions	By Whom	By When	Comment
1	NAO to undertake project annual audit as per their mandate.	Project Accountant/Director of Finance, MOA /NAO	Within 6 months after FY end	Director of Finance to initiate early discussion with NAO to include project in its annual audit program.

Conditions and Financial covenants

There is no FM effectiveness condition.

FM Supervision Plan

The frequency of FM supervision is determined by the outcome of the assessed risk rating. The residual FM risk rating for the proposed project is assessed as "Moderate" and hence subject to two supervision missions per year. Other supervision activities would be desk reviews of the quarterly financial reports, annual audit reports, and management letters for follow-up actions. The outcomes of these reviews would inform the intensity of subsequent FM supervisions.

Annex 7: Summary of the Procurement Arrangements for the Project

The Ministry of Agriculture will be the Executing Agency for this Project. The procurement arrangements for the various components, elements, and items, under the different expenditure categories will be procured using Bank PMPs, and Borrowers Procurement System are summarized in Table 5.3;

Table 5.3: Summary of Procurement Arrangement (UA'000)

	Project Components/Categories	*BPS	**BMP(***OCB)	Total (UA'000)
1	Goods and Non- Consulting Services			
1.	Procurement of 2,500 tons of certified improved Assorted Seeds of Groundnuts, Beans, Soybeans, Cow Peas and Pigeon Peas and Procurement of 2,500 Tons of certified improved assorted cereal seeds of maize, rice, and sorghum		8.7	8.7
	Procurement of 20,000 tons of fertilizer for 0.5 million beneficiaries registered on AIP Database for acreage of 200,000 HA of cropland (UA 0.97 million) and Procurement of 30,000 tons of fertilizer through the Partial Credit Guarantee Scheme through AFFM for risk sharing for 300,00 ha of cropland (UA 3.57 million)		4.54	4.54
	Procurement of ICT- 2 AIP's ICT main server and database computers and Procurement of 300 e-tablets extension data and other extension services		1.139	1.139
	Procurement of 300 motorbikes		1.29	1.29
	Procurement of Vehicles	0.114		0.114
	Operation Costs	0.283		0.283
	Sub-total	0.397	15.669	16.066
2	Services			
	Create incentives for private sector off-takers to enhance use of existing rural storage infrastructure for harvest and inputs		0.0714	0.0714
	Support policy creation/incentives to encourage private sector investment in the seed sector and local production of fertilizer from local materials		0.0714	0.0714
	Study to set up a sustainable agriculture finance institution for small and emergent farmers beyond AIP subsidies (UA 0.0714Million)		0.0714	0.0714
	Financial Management Audit		0.014	0.014
	Procurement Audit		0.014	0.014
	Procurement Specialist		0.040	0.040
	Sub-total		0.2822	0.2822
3	Other Components			
	Training	0.6044		0.6044
	Sub-total	0.6044		0.6044
	Grand Total (1+2+3)			16.4086

*BPS: Borrower Procurement System, **BMP Bank Methods and Procedures, *** Open Competitive Bidding

B5.3 Assessments and Procurement Risk Ratings

Procurement Law and Regulatory Framework

Main findings of the Bank Procurement Assessment Report (BPAR)

1. Malawi's procurement system has been assessed against the 21 critical sub-indicators, selected by the Bank among the OECD/DAC Methodology for Assessing Procurement Systems (MAPS) sub-indicators, in order to ensure that the Bank's fiduciary obligations and standards are not jeopardized when using Borrower Procurement System for a Bank-financed project. The assessment gives an indication of the extent to which the use of such system should be allowed in Bank-financed operations considering the discrepancies identified in particular with the principle of Equity (which includes fairness, transparency, integrity, etc.) set forth in Bank Procurement Policy.
2. **Procurement Legal and Regulatory Framework:** The Public Procurement and Disposal of Assets Act (PPDA) n°27 of 2017, Public Procurement Regulations (PPR), 2020, Desk Instructions for Public Procurement (DI), 2005, Standard Bidding Documents (SBD) 2006, have been reviewed and the risk for their use in Bank-financed projects is rated at **"moderate"**. The Desk Instructions and Standard Bidding Documents (SBDs) have not been revised to be consistent with PPDA 2017. The PPDA 2017 is therefore partially supported with relevant operational procedures and model documents that are aligned with the new Act.
3. **The National Standard Bidding Documents:** The National Standard Bidding Documents (SBD), 2006, document for goods, works, and services, including General Conditions of Contracts (GCC) for public sector contracts, and the dispute resolution mechanism and enforcement procedures of outcome of the dispute resolution process, have been reviewed and the risk for its use in Bank-financed projects is rated at **"moderate"**, given that the provisions are generally in line with internationally acceptable standard bidding documents. However, the new SBDs and the Desk Instructions are still in the process of revision to conform to the requirements of the new Act.
4. **Internal and External Controls:** The Legal framework, organization, policy, and procedures providing for internal and external control and audit of public procurement which enforces the proper application of laws, regulations and procedures, have been assessed and the risk for its use is rated at **"substantial"** for its use in Bank-financed projects due to the following reasons: i) The Country has effective control and audit system through the provision of Public Audit Act, 2003; ii) Based on Public Expenditure and Financial Accountability (PEFA) report of February 21, 2019 scores are D which indicates that performance falls below the basic level or there is absence of data; (iii) No recent cases of procurement audit by National Audit Office; and (iv) There is failure of response of findings of

procurement audits as there is no evidence of effective coordination between PPDA and the Authority and Auditor General.

5. **The Complaints Mechanism:** The existing complaints system has been reviewed to ensure that it sets out clear specific conditions that provide for fairness, independent and due process, and the risk for its use in Bank-financed projects is rated at “**moderate**” for the following reasons: i) Public Expenditure and Financial Accountability (PEFA) report of February 21, 2019 notes the procurement complaint system meets the criterion because of the availability of independence of review committee; (ii) PPDA 2017 does not provide the procedures for review of protests before the Review Committee and the Controlling Officer; iii) Malawi is not a member of the New York Convention, one of the key instruments in international arbitration; and iv) Malawi has no process to monitor outcomes of dispute resolutions and to use it in order to address performance issues.
6. **The Regulatory Function:** The Regulatory body (PPDA) has been assessed to ensure that it is not responsible for direct procurement operations and is free from other possible conflicts of interest in procurement, and the risk for its influence in Bank-financed projects is rated at “**low**”, due to the following reasons: (i) the PPDA, n°27 of 2017 clearly provides for establishment of an independent authority with enforcement mandate to ensure adherence to the provisions of the act by the Procuring Entities; (ii) the Act also spells out the responsibility of the PPDA is for oversight of the procurement function in public entities.
7. **Systemic Prohibited Practices:** The legal provisions, including the institutions in charge of dealing with prohibited practices (corruption, fraud, conflict of interest, and unethical behavior), which also define responsibilities, accountabilities and penalties for prohibited practices, has been reviewed and the risk for its use in Bank-financed projects is rated at “**Moderate**” due to the inconsistent definition of “conflict of interest” and “close relative” in procurement related matters in the Act, Corrupt Practices Act and Public Officers (Declaration of Assets, Liabilities and Business Interest) leading to its misuse or potential for misuse.
8. **Bank’s guidance on the use of BPS in Bank-financed operations;** The Public Procurement and Disposal of Assets Act (PPDA) n°27 of 2017 and Public Procurement Regulations (PPR) 2020 has been passed into law, however, the Desk Instructions for Public Procurement (DI), 2005, and Standard Bidding Documents (SBD) 2006 have not yet been revised to conform with the PPDA of 2017. Taking into account issues identified within the system, the risk for use of BPS in Bank-financed project is globally rated “**Substantial**” but will be recategorized to “**Moderate**” after proposed mitigating actions are taken. Thus, the Financing Agreements, will state that the Bank’s Procurement Policy, Procedures, and standard solicitation documents will be used for procurements under the project of Consultancy, Works and high value or complex Goods Categories, while Government of the Republic of Malawi procurement system will be used for low value transactions in Goods and Non-Consultancy Category.

B5.10 Procurement Risk and Capacity Assessment (PRCA)

1. A Procurement Risk and Capacity Assessment (PRCA) was undertaken to (i) evaluate the risks associated with the Borrower procurement system (BPS), the sector capacity which includes the capacity of the local industry, the project complexity and design, and the procurement capacity of Executing Agency; (ii) Set up risk mitigation to be exercised by the Bank and the borrower; and (iii) Form a judgment on the adequacy of procurement methods and procedures (PMPs), as well as controls being used by the Borrower in the use of funds and contract management.
2. The outcomes of the PRCA revealed that the following considerations will contribute to minimizing impact of risk: (i) country procurement information relevant to the project; (ii) the outcome of the sector market analysis; (iii) the amount and complexity of transactions; (iv) the procurement methods to be used; (v) the Bank's oversight arrangements; and (vi) any other specific recommendations to be taken at the level of the Executing Agency to ensure adequate overall capacity, compliance performance, and operational track record to implement procurement actions under the project in accordance to Bank Procurement Policy.

Table 5.4: Procurement Risk and Capacity Assessment (PRCA)- Country Procurement System

N°	Identified discrepancies in Country Procurement System	Principle Impacted	Mitigation Measures at Project Level
1	There is an urgent need to update Desk Instruction and SBDs to make these consistent with PPDA 2017. Further, there is also a need to develop guidance notes on topics like use of Life-Cycle Costing as evaluation criteria, Detection of Abnormally Low Bid Price and Complaints Review Process including use of standstill period.	Affects the principles of predictability (Equity), Efficiency and Effectiveness	Government to ensure that the Bidding Document to be updated consistent with PPDA 2017 including incorporation of good practices
2	The Act should be amended to ensure the role of Anti-Corruption Bureau, Government Controlling Unit and Ministry of Justice on vetting role of single source and high value procurement.	Affects the principles of transparency, fairness (equity) and Efficiency	Government to ensure that the amendment of the Act on the vetting role of the three institutions on

			single source and high value procurement
3	Absence of a fully functional web site of Authority / PPDA weakens the transparency of procurement system.	Affects the principles of transparency, fairness (equity) and Efficiency	Need for a fully functional website of the Authority to comply specifically with requirements of intention to award notices
4	Preference to 60 per cent indigenous black Malawians and 40 per cent others for national competitive bidding to be reconsidered as it lacks clarity and application.	Affects the principles of transparency, fairness (equity) and Efficiency	Government to ensure that the amendment has conditions set for when the preference of indigenous black Malawians is considered
5	Use of arbitration proceedings for large value contracts in particular in case of International Competitive Bidding should be clarified through Regulations and Desk Instructions.	Affects the principles of transparency, fairness (equity) and Efficiency	Government to ensure that the New Regulation clarify use of arbitration proceedings for large value contract specifically for International Competitive Bidding
6	PPDA 2017 requires an amendment to specify the minimum requirements for the use of e-procurement system and the authority/entity in charge for the development, management, and monitoring of e-procurement system.	Affects the principles of transparency, fairness (equity) and Efficiency	Government to ensure that there is Legal framework to establish a unified e-procurement platform for Malawi

7	Lack of effective complaints review mechanism including lack of trust in the system based on Surveys with private sector.	Affects the principles of accountability, transparency, and fairness (Equity)	Provision of the Act on Administrative Review and Appeal to be clarified in Regulation and actual implementation by providing adequate attention and resources
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B5.11 Country Procurement Information Relevant to the Project

1. Based on the review conducted, the BPS was found reliable for its use in the project for transactions of moderate value, where appropriate fit-for-purpose (FfP) procurement methods will be adopted, provided that the mitigation measures below are implemented.
2. The review has also identified additional risks¹⁴ within the procurement system that may affect the efficiency of procurement operations. Firstly, the requirement that all consultancy services in construction industry must have a joint venture with a local consultant under the NCIC Act. Secondly, under the NCIC Act, the requirement of a foreign construction firm wishing to provide construction services in Malawi, shall provide those services in association with a registered Malawian construction firm or a group of registered local or Malawian construction firms which is not serving any disciplinary measures. These Malawian Construction Firms, whether in a joint venture or a sub-contract arrangement shall be responsible for a minimum of thirty per cent (30%) of the works by volume and value. Thirdly, a government policy requirement that all contracts are supposed to be vetted by the Anti-Corruption Bureau's (ACB) office, Ministry of Justice and Central Government Contracting Out Unit (GCU) before signing, despite having been prior approved by Internal Procurement and Disposal Committee (IPDC) and the Bank, thereby leading to unnecessary duplication of controls.

B5.12 Sector and Market Analysis

1. The Bank has reviewed the overall capacity of the sector, which includes the main institutions namely: Ministry of Agriculture and Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM) and found that their experience and capacity is not sufficient to discharge the procurement function (technical advice, oversight, technical controls, etc.) in compliance with the applicable procurement regimes namely Banks Procurement Method and Borrowers Procurement System, where applicable.

2. The Ministry of Agriculture does not have enough Procurement personnel to absorb the workload of another project as they are already overwhelmed with the current Donor and Government Procurements. While Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM), has the practical experience of procuring fertilizer, but currently they do not have a dedicated qualified procurement personnel with knowledge of Banks Procurement Methodologies. This gap means that for efficient and effective procurement, the Ministry requires a dedicated Procurement Consultant specifically for this project for attainment of Value for Money.
3. The capacity of the local industry itself, has been assessed and found to be moderate to the following transactions: Consultancy Services and Goods Category at the national level. There are a moderate number of Seed Suppliers and Government buys seed from Malawi seed companies, estates, small farmers, and foreign companies and distributes through non-market channels (targeted credit, Starter Pack,), while in Fertilizer, currently the country does not have fertilizer manufacture plants. Malawi, however, does have fertilizer blending and granulation plants. Thus, there is heavy reliance of International Manufactures through local Suppliers.
4. The Project will mitigate the risk of monopoly transactions, and possibility of collusion, by allowing International Suppliers to compete and guarantee fair and efficient competition that respond to the project demand. It further mitigates the high demand alluded to Seasonal Products (Seeds and Fertilizer), which can have an impact to the project because of late delivery and thus by inclusion of both local and international competition, the Project increases a safety net of assurity

B5.13 Project Design and Complexity

1. The design and complexity of the project have been reviewed from procurement perspectives, considering the need for highly qualified and experienced Agro-Suppliers that will have potential to deliver High quality inputs and at a reasonable price, while mitigating the associated procurement risks of this nature.
2. To ensure effective procurement of the activities under the project, prudent packaging of activities, preparation of procurement documents including technical specifications, terms of reference, evaluation and qualification criteria and designing of contract terms should be done with great diligence and care. The recipient's Executing Agency, it is noted, has experience in terms of managing implementing a similar contract, however, a challenge will remain in terms of coordination with relevant technical departments in the preparation of technical specifications, TORs as well as undertaking credible evaluation of bids.
3. In the project, aggregation of similar items to benefit from economy of scale as well as reduce transaction costs that would otherwise duplicate procurement efforts. There are items to be supplied within the domestic market either from their existing stock or by importing on their own. The Bank's resources in this case would foster

the local economy by expanding the volume of trade, creation of employment opportunity, as well as enabling the country to benefit from getting foreign currency resources from the transactions involved. The envisaged contracts mainly involve Inputs and Fertilizers where the market conditions has been assessed to lead to effective competition that will result in achieving Value-for Money (VfM).

B5.14 Executing Agency/ies (EA) Assessment

1. Ministry of Agriculture will be responsible for the procurement of goods, and acquisition of consulting services. Specifically, Procurement of Fertilizer will be done under Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM). The overall capacity, compliance performance, and operational track record to implement procurement actions under the project, have been assessed with respect to the sector, staff capacity, project design and complexity. The assessment reviewed both organizational have structures for implementing the project and the interaction between the proposed project's staff responsible for procurement activities.
2. The assessments findings are that Ministry of Agriculture has Procurement Personnel who are overstretched with Work and frequent changes of personnel does not allow them to acquire adequate experience in procurement of Inputs. While Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM) have no personnel experienced in procurement management even though in the last 10 years they have being involved in the Procurement of the fertilizer and distribution systems under the Affordable Inputs Program (AIP).
3. Lessons learnt from previous projects financed by the Bank in the Ministry has shown that the Procurement Department (i) is overwhelmed with procurement activities, as they also have to procure for government and other donor funded projects. This is compounded with Frequent changes of Personnel to other Ministries. (ii) the internal approval processes tend to be lengthy; and (iii) the documents tend to be incomplete, thus resulting into back and forth of between the Ministry and the Bank. Further delays are encountered in contract finalization due to multi-layer approvals of Contract finalization in the Government.
4. For effective implementation, therefore there is need for the Ministry of Agriculture to recruit a Procurement Specialist, specific for this project, for one year, who will make sure that the procurements are within the particular time as planned while upholding the Country and Banks done Procurement principles of economy, efficiency, effectiveness, and equity. The Procurement Specialist should alternate seamlessly for the two institutions, to finalise these procurements within the project time frame.
5. In order to reduce the risk rating to **“Moderate”**, from **“Substantial”** the following mitigation measure are tabulated in Table B.5.3 **Procurement Risk Action Plan** which will be in place to ensure efficiency and effectiveness of the Procurements undertaken.

Table 5.5: Procurement Risk Action Plan- Procurement risks and mitigation measures

N°	Risks identified	Mitigation Measures
1	NCIC requirement for joint venture with local firms for all consultancy involving international consultant.	Currently, 2015 Bank Procurement Framework will be used. Disclosure of Beneficial Ownership will be mandatory in OCBI Procurements Prior Procurement Review by the Bank.
2	NCIC requirement for foreign construction firm for a joint venture or a sub-contract with local contractors to a minimum of (30%) of the works by volume and value	Currently, 2015 Bank Procurement Framework will be used. Disclosure of Beneficial Ownership will be mandatory in OCBI Procurements Prior Procurement Review by the Bank.
3	Prior Clearance of contracts by GCU, Ministry of Justice and ACB	Ministry has experience personnel in Procurement of Inputs to meet the deadlines Proactive Preparation and Validation of Bid Documents Recruitment of a Procurement Specialist for One Year
4	Absence of Desk Instruction and SBDs that are consistent with PPDA 2017.	PPDA Finalizing Procurement Tool Kit end 2022. Post Procurement Review by the Bank for Borrower Procurement System Project to outsource Procurement Audit
5	Lack of procurement audit cases by National Audit Office and vis a vis failure of response of findings of procurement audits as there is no evidence of effective coordination between PPDA and the Authority and Auditor General	Project to outsource Procurement Audit for its life span for Borrowers Procurement System and send reports to PPDA and the Bank for monitoring of performance. Ex- Post Validation of Goods received by the Procurement Auditor
	Lack of Procurement Personnel with experience, time and	Recruitment of a Procurement Specialist for One Year

	qualification to execute the Project Effectively.	
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B5.15 Project Procurement Risks Rating (PPRR)

1. Procurement Risk Assessments were undertaken for this project by conducting an exhaustive assessment covering the risks associated with the country, sector and project environments as well as the Executing Agency responsible for the implementation of the Project's procurement activities. The outcome of assessments provides the justifications to the risks indicated in the Summary of PPRR as shown in the table below:

Table 5.6: Project Procurement Risk Rating

Item		Assessment Rating
Risk factor #	Risk factor	Low (L) / Moderate (M) / Substantial (S) / High (H)
Project Procurement Risk Rating		
<i>Country Level</i>		
1	Procurement Legal and Regulations Framework	Moderate
2	Systemic Prohibited Practices	Moderate
<i>Sector Level</i>		
3	Capacity of the Sector	Moderate
4	Capacity of local industry	Low
<i>Project Level</i>		
5	Project design risks	Low
6	Delivery risks	Moderate
<i>Capacity Risk of the Executing Agency</i>		
7	Capacity	Moderate
8	Governance & Prohibited Practices	Moderate

1. Most of the issues / risks associated with the procurement activities for implementation of the project have been identified and mitigated. The mitigation measures have been discussed and agreed with the Executing Agency (Ministry of Agriculture) and included in the PRCA action plan proposed in above. All associated cost related to the implementation of the PRCA action plan will be borne by the Project and Government of Malawi. The overall Project Procurement Risk Rating (PPRR) is at time of Preparation is:

2. **Table 5.7: Overall Project Risk Rating at Appraisal**

Items	H	S	M	L
Overall Project Procurement Risk				
<i>Country Risks</i>			X	
<i>Sector Risks</i>			X	
<i>Project Specific risks</i>			X	
<i>Executing Agency (ies) Risks</i>			X	

B5.15 Details of procurement methods and procedures to be used as part of the Project

B5.15.1 Borrowers Procurement Systems (BPS)

1. **Goods;** All contracts estimated at UA 0.397 million that are valued equal and below UA 1.00 million will be procured using Borrowers' Procurement Systems (BPS). The following procurement will use Restricted Tendering method of procurement; Procurement of Two (2) Vehicles- 4WD Double Cabin pickup trucks. (UA 0.114 million)
2. **Operating Costs:** Each Contract will be carried out using Request for Quotation (RFQ) method of procurement or other similar methods under the BPS: These Procurements under this method will include all the following; Project Accountants (secondees), Environment and Social Safeguard Reporting, Support Staff (lumpsum), O&M–Vehicles, Motorcycles, and office equipment, Procurement processing, publicity, and Communications, Monitoring and evaluation and Project Completion Report, Project Steering and Technical Committee meetings
3. **Training and Workshops** for an estimated UA 0.6044 million, under the project will be conducted following the BPM through a prior approved work plan and budget as well as a detailed training plans, specifying the training to be undertaken, the location, cost and duration. The following Trainings earmarked are: Training of 500 Extension staff in Climate Smart Agriculture and farm data collection methodologies using new technology (UA 0.0714 Million); In partnership with TAATs, identify and disseminate value chain technologies to farmer groups (UA 0.071 Million); 2.0 million farmers training in climate smart approaches to promote

use of organic fertilizer and agricultural lime and other technologies that enhance the uptake of soil nutrients from granular fertilizers in partnership with TAAT (UA 0.107 Million); Facilitate market linkages between farmers and traders and agro-processors through the out-grower arrangements in partnership with TAAT (UA 0.142Million) Enroll, register, accredit and train last mile agro-dealers on the new national ID Farmer Registration system by AIP and TAAT (UA 0.142Million) Train institutions that regulate the registration, certification and sale of seeds, quality fertilizer and agro-chemicals to farmers (UA 0.071Million);

B5.15.2 Bank's Procurement Methods and Procedures

1. The following contracts will be carried out using the BPM in line with the Bank's Procurement Policy and Methodology for Bank Group Funded Operations dated October 2015, utilizing available Bank's Standard Solicitation Documents (SSDs). Refer to the procurement plan for specific procurement methods under each category.
2. **Goods;** All contracts estimated at UA 15.669 million that are valued above UA 1.00 million will be procured using Open Competitive Bidding International (OCBI) under the BPM.
3. Goods (Seeds estimated at a total of 8.7 million UA), procured under OCBI are Procurement of 2,500 tons of certified improved Assorted Seeds of Groundnuts, Beans, Soybeans, Cow Peas and Pigeon Peas for 0.5 million beneficiaries registered on AIP Database for 125,00 ha of cropland (UA 5.8 million) and Procurement of 2,500 Tons of certified improved assorted cereal seeds of maize, rice and sorghum for 0.5 million beneficiaries registered on AIP Database for 125,00 ha of cropland (UA2.9 Million) packaged in Lots;
4. Procurement of (Fertilizer estimated at a total of 4.54 million UA), procured under OCBI are 20,000 tons of fertilizer for 0.5 million beneficiaries registered on AIP Database for acreage of 200,000 HA of cropland (UA 0.97 million) and Procurement of 30,000 tons of fertilizer through the Partial Credit Guarantee Scheme through AFFM for risk sharing for 300,00 ha of cropland (UA 3.57 million) packaged in Lots.
5. Procurement of ICT is estimated at 1. 39 million UA, will be procured under OCBI; these are AIP's two (2) ICT main server and database computers (UA 0.71 million) and Procurement of 300 e-tablets extension data and other extension services (UA 0.429 million) packaged in Lots;
6. Procurement of 300 motorbikes for extension staff for farmer group formation, organization, training, and provision of extension messages estimated at UA 1.29 million, will be procured under OCBI.
7. **Individual consultants Services:** for the following consultancy services are to be carried out using Open Competitive Bidding based on Individual Consultant (IC) selection method; Create incentives for private sector off-takers to enhance use of existing rural storage infrastructure for harvest and inputs (UA 0.0714 Million); Support policy creation/incentives to encourage private sector investment in the seed sector and local production of fertilizer from local materials (UA 0.0714 Million) ; Study to set up a sustainable agriculture finance institution for small and

emergent farmers beyond AIP subsidies (UA 0.0714Million) and Procurement Audit (UA 0.014 million).

8. **Least Cost Selection Services:** Financial Management Audit (UA 0.014 million) consultancy service will be carried out using Open Competitive Bidding based on Least Cost Selection (LCS) selection method;

B5.16 Advertising

1. The text of a General Procurement Notice (GPN)¹⁴ has been agreed with the Ministry of Agriculture, and it will be issued for publication in UNDB online and in the Bank's Internet Website, upon approval by the Board of Directors of the Financing Proposal.

B5.17 Bank's Oversight of Borrower's Procurement:

2. The framework for the review of Borrowers' procurement actions, documents, bid evaluation and contract award recommendations, depends on whether the BPS, the BPM, are being used. The reports shall comprise:
 - a. BPS audits Reports; and
 - b. Prior and post reviews as well as IPRs for BPM

B5.18 Oversight under BPS:

1. Under BPS, procurement oversight will be carried out in accordance with the provisions of the PPDA (2017) and PPR (2004) as amended by PPDA with audit being the purview of National Audit Office (NAO) in accordance with Public Audit Act (2003). Monitoring transactions or groups of similar transactions under the project will, however, be also carried out by independent procurement audit, relying on the national audit reports as input to their independent reviews. The TORs shall be agreed with the Borrower and the cost financed under the project. The Borrower shall, based on these, compile and submit annual audit reports to the Bank.

B5.19 Oversight under BPM:

1. Procurement undertaken through Bank PMPs shall be subject to prior or post review, as well as IPRs. Large-value, complex, innovative and/or high-risk transactions would normally be prior-reviewed. However, under constrained situations such as in FCS enclaves, BPM may be followed even for low value but high-risk transactions, which will be subject to prior review while remaining transactions shall be post reviewed.

Table B5.8 Prior Review Threshold

Category	Threshold (million UA)	Frequency
Works	>1.00	All
Goods and Non-Consultancy Services	>1.00	All
Consulting Services (firm)	>0.001	All
Consulting Service (individual)	>0.001	All

2. **Review Procedures:** Procurement decisions subject to Prior Review by the Bank as stated in the Appraisal Report. For packages subject to prior review, the following documents are subject to review and approval before promulgation: Specific Procurement Notices, Tender Documents, Requests for Proposals, Tender Evaluation Reports, Reports on Evaluation of Consultants' Proposals, including recommendations for Contract Award, Draft Contracts will also be subject to the Bank's approval. The Bank's no-objection for consultancy technical proposals' evaluation report will be required before the financial evaluation is carried out.
3. In addition to the prior review of certain transactions by the Bank the capacity assessment of the EA has recommended two procurement supervision missions annually, to undertake post review of the Borrower's procurement actions.

B5.15.20 Procurement Plan

1. The Borrower is required to develop a detailed Procurement Plan (PP) covering the entire scope of implementation of the project, and which has provided the basis for the procurement arrangements in this project appraisal report (PAR). The PP has been agreed between the Borrower and the Bank and is available at the Procurement Office at the Ministry of Agriculture. It will also be available in the Project's database and in the Bank's external website. The PP will be updated by the Borrower annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. Any revisions proposed to the Procurement Plan shall be submitted to the Bank for its prior no objection. The Borrower shall implement the PP in the manner in which it has been agreed with the Bank. See annex 1 below.

B5.15.21 Procurement Risk and Capacity Assessment (PRCA)

1. The Bank and the Borrower Ministry of Agriculture agreed on a Procurement Risk and Capacity Assessment (PRCA) action plan which proposes a series of actions

and measures to be carried out during the project implementation in order to mitigate the risks identified following the assessments of procurement risks at the country/sector/project levels and procurement capacity and the level of the executing agency (ies). The PRCA action plan will be monitored during the project cycle and adjusted accordingly to ensure proper execution of the project and procurement arrangements.

ABRIDGED PROCUREMENT PLAN

Appendix B1 – Goods Procurement Plan

Country/Organization:	Malawi
Project/Programme:	Malawi Emergency Food Production Project
Loan No:	
Implementing Agency, Address:	Ministry of Agriculture
Bank's Approval Date of Procurement Plan:	
Date of General Procurement Notice:	20 July, 2022
Period Covered by these Proc. Plans:	18 Months

PROCUREMENT PLAN – GOODS AND NON – CONSULTING SERVICES

Procurement Plan- AEFPF

Procurement System ³	Package No.	Package Description	Categor y ⁴	Lot No. ⁵	Lot Description ⁶	Estimated Cost (UA)	Procurement Method	Pre-or Post- Qualification	Procurement Oversight ⁷	Planned SPN Publication Date
Bank's Methods & Procedures	MOA/A EFPF/G01	Procurement of 2,500 tons of certified improved Assorted Seeds and Procurement of 2,500 Tons of certified improved assorted cereal seeds	Goods	8	Lot 1- Soybeans, Lot 2- Beans, Lot 3- Groundnuts, Lot 4- Cow Peas Lot 5- Pigeon Peas Lot 6- Maize, Lot 7- Rice, Lot 8- Sorghum	8.7	OCB(I)	Post Qualification	Prior Review	22/07/2022
Bank's Methods &	MOA/A EFPF/G02	Procurement of 20,000 tons of fertilizer and Procurement of 30,000 tons of fertilizer	Goods	2	Lot 1- Fertilizer 200,000 ha	4.54	OCB(I)	Post Qualification		22/07/2022

³ Insert Procurement systems used under the project (Recipient Procurement System and/or Bank's Methods & Procedures and/or Third Party)

⁴ Indicate: Goods/Works/Consulting Services/Non-Consulting Services

⁵ If applicable

⁶ If applicable

⁷ Indicate (Procurement Audit / Post Review / Prior Review)

Procedures					Lot 2 -Fertilizer 300,000 ha				Prior Review	
Bank's Methods & Procedures	MOA/A EFPF/G0 3	ICT- 2 AIP's ICT main server and database computers and Procurement of 300 e-tablets extension data	Goods	2	Lot 1- 2 AIP's ICT Servers and Computers Lot 2 – 300 e- tablets Extension	1.139	OCB(I)	Post Qualificatio n	Prior Review	22/07/2022
Bank's Methods & Procedures	MOA/A EFPF/G0 4	Procurement of 300 motorbikes	Goods	N/A	N/A	1.29	OCB(I)	Post Qualificatio n	Prior Review	26/08/2022
Borrower's Procurement Systems	MOA/A EFPF/G0 5	Procurement of Vehicles	Goods	N/A	N/A	0.114	Restrict ed Tenderin g- BPS	Post Qualificatio n	Procur ement Audit	22/07/2022
Borrower's Procurement Systems	MOA/A EFPF/G0 6	Operation Costs	Goods	N/A	N/A	0.283	RFQ- BPS	Post Qualificatio n	Procur ement Audit	22/07/2022
Bank's Methods & Procedures	MOA/A EFPF/S0 7	Create incentives for private sector off-takers to enhance use of existing rural storage infrastructure for harvest and inputs	Services	N/A	N/A	0.0714	IC	Post Qualificatio n	Prior Review	03/10/2022
Bank's Methods & Procedures	MOA/A EFPF/S0	Support policy creation/incentives to encourage				0.0714				

	8	private sector investment in the seed sector and local production of fertilizer from local materials	Services	N/A	N/A		IC	Post Qualification	Prior Review	03/10/2022
Bank's Methods & Procedures	MOA/A EFPP/S09	Study to set up a sustainable agriculture finance institution for small and emergent farmers beyond AIP subsidies	Services	N/A	N/A	0.0714	IC	Post Qualification	Prior Review	03/10/2022
Bank's Methods & Procedures	MOA/A EFPP/S10	Procurement Specialist	Services	N/A	N/A	0.0714	IC	Post Qualification	Prior Review	22/07/2022
Bank's Methods & Procedures	MOA/A EFPP/S11	Procurement Audit	Services	N/A	N/A	0.014	IC	Post Qualification	Prior Review	27/02/2023
Bank's Methods & Procedures	MOA/A EFPP/S12	Environmental and Social Audit	Services	N/A	N/A	0.014	IC	Post Qualification	Prior Review	27/02/2023
Bank's Methods & Procedures	MOA/A EFPP/S13	Financial Management Audit	Services	N/A	N/A	0.014	LCS		Prior Review	27/02/2023

Appendix B2 – Consultancy Services Procurement Plan

PROCUREMENT PLAN – CONSULTANCY SERVICES

Country/Organization:	Malawi
Project/Programme:	Malawi Emergency Food Production Project
Loan No:	
Implementing Agency, Address:	Ministry of Agriculture
Bank's Approval Date of Procurement Plan:	
Date of General Procurement Notice:	20 July, 2022
Period Covered by these Proc. Plans:	18 Months

Annex 8: Implementation schedule

No.	Description of Activities	2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Appraisal								
1	Board Approval								
2	Signature								
3	Recruit PIU								
4	Project launch								
	Components 1: Scaled up food production								
5	1.1: Improved Cereal and legume seed provision to farmers								
5.1	1.1.1: Deliver certified climate smart and improved assorted seeds of groundnuts, beans, soybeans, cow peas and pigeon peas for 0.5 million families								
5.2	1.1.2: Deliver certified climate and certified improved assorted cereal seeds of maize, rice and sorghum for 0.5 million beneficiaries								
6	1.2: Fertilizer provision to farmers								
6.1	1.2.1: Deliver fertilizer for 0.5 million beneficiaries registered								
7	1.3: AFFM and Govt Partial Credit Guarantee Payment scheme								
7.1	1.3.1: Deliver fertilizer through the Partial Credit Guarantee Scheme through AFFM for risk sharing								
	Component 2 -Enhanced farmer registration and famer organization towards receipt of inputs								
8	2.1: Support to AIP for Farmer data collection and management								
8.1	2.1.1: AIP/Smallholder Farmer Registration systems – purchase of main server and database computers								
8.2	2.1.2: AIP – purchase of e-tablets extension data and other extension services								
8.3	2.1.3: AIP – Capture and entry of new beneficiaries onto AIP data bank								
9	2.2: Support to Extension Services								
9.1	2.2.1: Training of Extension staff in Climate Smart Agriculture and farm data collection methodologies using new technology								
9.2	2.2.2: Purchases of motorized transport - motorbikes for extension staff								
10	2.3 Farmers training								
10.1	2.3.1: In partnership with TAATs, identify and disseminate value chain technologies to farmer groups								
10.2	2.3.2: farmers training in climate smart approaches – to use of organic fertilizer and agricultural lime and other technologies								
11	2.4: Agro-dealer training for the up-take of the Partial Credit Risk Guarantee Scheme								

11.1	2.4.1: Facilitate market linkages between farmers and traders and agro-processors through the out-grower arrangements								
11.2	2.4.2: Enroll, register, accredit and train last mile agro-dealers on the new national ID Farmer Registration system by AIP and TAAT								
11.3	2.4.3: Train institutions that regulate the registration, certification and sale of seeds, quality fertilizer and agro-chemicals								
	Component 3: Agriculture Policy Dialogue and Project Coordination and management								
12	3.1: Strengthen capacity of private sector suppliers								
12.1	3.1.1: Create incentives for private sector off-takers to enhance use of existing rural storage infrastructure for harvest and inputs								
12.2	3.1.2: Support policy creation/incentives to encourage private sector investment in the seed sector and local production of fertilizer from local materials								
12.3	3.1.2: Study to set up a sustainable agriculture finance institution for small and emergent farmers beyond AIP subsidies and Area yield assurance index (AYIA)								
13	3.2: Project management								
13.1	3.2.1: Vehicles- 4WD Double Cabin pickup trucks								
13.2	3.2.2: Project Accountants (secondees)								
13.3	3.2.3: Financial Management Audit								
13.4	3.2.4: Procurement Audit								
13.5	3.2.5: Environment and Social Safeguard Reporting								
13.6	3.3: project monitoring and evaluation								
13.7	3.3.1: Monitoring and evaluation and Project Completion Report								

Annex 9: Governance

Government is also committed to implementing PFM reforms. The PMF Act was approved on 31st March 2022 and became operational as of 1 April 2022. Government is preparing the regulations and a new PFM Reform Strategy which will be shared to Partners for comment. In this regard, Government welcomed the Bank as Chair of the DP/PFM Group and called for joint efforts to move forward the PFM reform agenda. The key PFM reform priorities include consolidated IFMIS reporting, Debt Management and Contingent Liabilities, Strengthening Fiscal Oversight over SOEs, Revenue Mobilization, Improving Internal Audit and Internal Controls and PFM reform coordination. Elements of these also underpin the discussions for the IMF ECF and a planned World Bank DPO.

The IMF undertook negotiations for a new Extended Credit Facility (ECF) program with the government from 23rd May –03rd June 2022. This follows the cancellation of the 2018 ECF in 2020. The Macroeconomic framework has been agreed, however, the program will be concluded pending the restoration of the public debt sustainability, and conclusion of the on-going Audit of the Foreign exchange misreporting. During May 2022, the Government with the support of the EU appointed ‘Global Sovereign Advisory’ of France, as Malawi’s Debt Advisor to help develop the new Debt management strategy that could restructure the country’s debt levels and to restore sustainability. It is anticipated that the discussions with the IMF for the new Program will be concluded in the third quarter of 2022. In the meantime, the government has requested emergency financial support during this tough economic situation, to ensure emergency food production, and restoration of fiscal sustainability is achieved. This operation is in response to the request.

Prerequisites	Country Eligibility
<i>Government Commitment</i>	The Program is aligned to the Malawi long term vision and the medium-term strategies. The Malawi Growth and Development Strategy (MGDS) is a series of five-year investment plans, aims to create wealth through sustainable economic growth and infrastructure development as means to achieve productivity, competitiveness and resilience goals in the medium term. MGDSIII is the ongoing and third development policy framework whose key priority areas include: i) Agriculture, Water Development and Climate Change Management; ii) Education and Skills Development; iii) Energy, Industry and Tourism Development; iv) Transport and ICT Infrastructure and v) Health and Population. The long-term vision Malawi 2063 ultimate objective is to transform the country into an industrialized, self-reliant and wealthy economy which will be classified as an upper-middle income country by the year 2063. It’s also premised on the country’s National Agricultural Policy (NAP) which aims at transforming agriculture from subsistence level to commercial and the National Agriculture Investment Plan (NAIP) which is an implementation framework of NAP. Affordable Inputs Program

	(AIP) and Smallholder Fertilizer Revolving Fund Scheme (SFRF) are key drivers of the NAP.
<i>Macroeconomic framework</i>	Malawi is currently in discussions with the IMF for the resumption of the ECF Program. An IMF mission was conducted in June and the ECF expected for Board later this year. Some key issues which underpin the Government reform efforts including Consolidated IFMIS reporting, Debt Management and Contingent Liabilities, Revenue Mobilization and PFM reform.
<i>Political stability</i>	Malawi has generally been a politically stable country with the holding of regular democratic elections. The Presidential Election Poll were contested in a Constitutional Court. In June 2020, Lazarus Chakwera won the presidential election with 59% of the vote following the cancellation of the 2019 presidential election results by the Constitutional Court due to systematic irregularities in the election proceedings. The new government is prioritising economic recovery and transformation and has set a new agenda anchored on three priority pillars of: Achievement of Macroeconomic Stability, a sound financial management; and achievement of economic growth which are aligned with the priorities of (MGDS III) and Vision 2020.
<i>Satisfactory fiduciary risk assessment</i>	<p>Malawi's PFM systems have come under public scrutiny due to the weak accountability environment and the evidence of the misappropriation of public funds that came to light in 2013. Malawi's new Public Finance Management Act received presidential assent on 31st of March 2022 and is in implementation. Government is also elaborating a PFM Reform Strategy to move forward the Agenda on PFM Reforms. The Government's priority reforms that were communicated to the mission include Improving Internal Audit and Internal Controls and Follow up on Audit Recommendations, the Treasury Single Account-Government is working towards rationalization of accounts and a unified banking structure; Managing Debt distress and Fiscal Risks from SOEs- and IFMIS/Financial Reporting to be based on PEFA</p> <p>The Fiduciary Risk Assessment has indicated that the initial risk rating remains 'High', with the residual risk marginally improving to 'substantial' after taking into consideration the steps being taken in implementing the PFM reforms. In addition, for the CRBS, specific accountability mechanisms will be built into the program including regular reporting and specific procurement and finance audits.</p> <p>The Bank currently chairs the PFM Steering Committee. There is a PFM Technical Committee comprising Government and Development Partners meet quarterly. PFM DPs also meet every month under the Chairpersonship of the Bank.</p>
<i>Harmonization</i>	There are frameworks for donor coordination and consultation with Government including sectoral working groups. In the agriculture sector, there is a Donor

	<p>Committee on Agriculture and Food Security (DCAFS) with USAID as the current chair, Norway as outgoing chair and EU as the incoming chair forming what is called the Troika. The Troika, on behalf of DCAFS holds regular meetings with the Principal Secretary for Agriculture on key policy issues. Other members of DCAFS consists of the African Development Bank (AfDB), the World Bank (WB), DFID, EU, USAID, Norway, Irish AID, JICA, IFAD, FAO, GIZ, UNDP, and WFP. The DCAFS plays an important role in providing advisory support to the MoA and assists in ensuring aid coordination and harmonization to avoid duplications among Development Partners and enhance clarity on targeting. The design of this project has considered the contribution from DPs and Other stakeholders. DCAFS is supporting the National Agricultural Policy (NAP) and its National Investment Plan (NAIP).</p>
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Annex 10a: Summary of Country Fiduciary Risk Assessments

Risk Type	Risk Rating	Risk mitigation measures incorporated into the project design	Timing for Proposed Mitigation Measure Implementation	Conditionality(Yes/No)
Inherent Risk				
Country Level External audit backlogs, inadequate controls, weak accountability, lack of follow up and implementation of audit findings, poor enforcement and compliance with existing regulations and procedures.	S	<ul style="list-style-type: none"> ➤ There is on-going PFM reform and a comprehensive action plan is being implemented with the support of development partners. ➤ The Government has taken steps to improve the accountability and control with regard to the IFMIS. 	The reform process is on a long-term basis	No
Entity Level The MOA FM assessment revealed a need to ensure appropriate staffing of the FM function. IFMIS reporting challenges could affect timely submission of required FM reports to the Bank.	S	<ul style="list-style-type: none"> ▪ The PIT will have two financial management personnel designated by the Accountant General. ▪ The PIU will use the existing software to facilitate project transaction processing and reporting. 	Prior to negotiations	No
Project Level IFMIS challenges could affect timely submission of required FM reports to the Bank.	S	<ul style="list-style-type: none"> ▪ The PIT will use the existing off-the-shelf accounting Software to facilitate project transaction processing and reporting. 	N/A	No
Overall Inherent Risk	S			
Control Risk				
Budgeting Inadequate budgetary controls could lead to the failure to attain project objectives.	L	4 Budget will be prepared on the basis of Annual Work Plans and approved by the Steering Committee. 5 The PIT has prior experience	The first budget will be prepared within 4 months of effectiveness	No

		in budgeting from on-going Bank and other donor projects.		
Accounting Inadequate staffing in MOA to handle project transactions. IFMIS functionality challenges could affect timely project transaction processing.	M	<ul style="list-style-type: none"> ▪ The PIT will have two financial management personnel designated by the Accountant General. i. The PIT will use the existing off-the-shelf accounting software to facilitate project transaction processing and reporting. 	Prior to negotiations	No
Internal Control Weak control environment due to weak enforcement of existing financial regulations.	M	4 The project would be covered by the Central Internal Audit Unit to provide objective assurance over the controls. 5 Bank's FM Supervision and SOE reviews would also highlight and make appropriate recommendations to address internal control deficiencies.	The first internal audit will commence within 6 months of effectiveness	No
Funds Flow Inexperience in Bank disbursement procedures could affect timely project implementation.	M	<ul style="list-style-type: none"> • The Bank will provide disbursement training and guidance to project team. The PIT already has extensive experience in the processing of disbursements. 	At the project launch and on a continuous basis	No
Reporting and Monitoring Quality and timeliness of IQPRs and other reports	M	3 Format for IFRs will be provided to the PIT by the Bank to facilitate periodic reporting.	At the project launching	No
External Audit and Public Oversight Delays in auditor recruitment could affect submission of annual audit reports.	M	A. The Auditor General will audit the project. MOA will ensure that NAO include the project in their annual audit program.	The Auditor General will be informed about the audit requirement at effectiveness	No
Overall Control Risk	M			
Overall Project Risk Rating	M			

H – High

S - Substantial

M – Moderate

L – Low

Annex 10b

Factors driving fragility: Poverty can bring out manifestations and interact with the drivers of fragility (or vice versa) due to limited resilience to prepare for and respond to shocks – such as we witness from climate change, economic meltdowns, and most recently effects of COVID-19 pandemic and Ukrainian war. Malawi still has a large rate of rural poverty according to data from World Bank^[1]. Malawi's economy heavily depends on agriculture and this sector employs an estimated 80% of rural population^[2]. Looming global food crisis and rising prices of strategies consumables, including gasoline, fertilizers and grains, will push upwards the number of Malawians facing acute food insecurity, mostly in the southern region^[3] due to flooding in 2021/22 rainy season. The **Malawi Vulnerability Assessment Committee (MVAC)** report (2021) showed that 8 per cent of the 19 million people (est.) will be food insecure during 2021/2022 period, of which this number is going higher as the war in Ukraine rages and the wider economy has been impacted. The majority of vulnerable people are from rural areas but most Malawians are burdened by the higher prices for fuel and foodstuff.

Malawi is characterized by **low industrialisation**^[4] with limited off-farm gainful employment opportunities especially for the burgeoning youth population and women. The agriculture sector is dominated by many small-scale farmers who depend on rain-fed agriculture and exploitation of natural resources for livelihoods, including those who make and sale of artisanal handcrafts, ironsmiths and artifacts products using local materials. Limited value addition poses risks to the small and landlocked country, such as high transactions costs in trade.

The **Country's land and environment policy frameworks still have gaps**. Land utilisation is minimal in some parts of the country, especially in the south where populations are predicated to need emergency food and other essentials support. The current land policy limits access security for the majority of smallholder farmers, which in turn reduces potential to access financing for increased production. A recent Bank assessment found that it is difficult to determine ownership of the land by socio-economic class and gender. For example, in the northern region, women find it difficult to access and own land/other strategic assets. Landowners find it risky to reveal their landholding sizes and usage patterns because this may trigger demands for redistribution amid rising demand for land. Malawi has a sizable smallholder farmer population, most of whom grow maize for own consumption although part of it is sold at low prices immediately after harvest when its supply in the local markets is highest.

Inequalities in the ownership of, and access to, land for various uses, especially for farming purposes, are an important and growing source of political, economic and social conflicts in Malawi. At its worst, land grievances have the potential to trigger conflict and violence. With limited attention to these inequalities, the current project could gloss over the unorganised and unregistered smallholder farmers and households who need both farming inputs and food support. Some areas in Malawi are reported to have slipped into conflict due to land grievances (affecting certain groups who are in customary land with no/weak rights). The Bank may work with smallholder farmers, but also be aware of the trade/price issues on the market to avoid controversy/reputational risks to the Bank as relates to farmer exploitation. Application of the do-no-harm principle through consultations will be important throughout project preparation and implementation. As much, the projects will integrate policy dialogue to contribute to ongoing land policy reforms is a cross-cutting need to consolidate AEFFP efforts.

Debt vulnerability is an important driver of fragility and will need urgent resolution in Malawi to deal with unsustainability. With the impact of the pandemic, debt has significantly increased in recent years and has led to high risk of debt distress and both public and external debt swelled. The country faced fiscal pressures to finance expansionary policies amid the pandemic-induced social safety demands, yet revenue performance was weak. The country is also facing worsened import cover against growing demand for forex towards strategic purchases of fuels and farming inputs.

Climate change and variability is affecting every part of Malawi as tropical cyclone events and drought are becoming more frequent. Post the devastation of 2019 cyclone Idai, the country was hit by cyclone Anna and Kenneth during 2021/22 season. Yet, rainfall is erratic and appending the traditional approach is agrarian practices across the country. Studies have shown that Africa's food sufficiency has been on a downward trend as capacity to feed its growing population and climate change impacts exact pressures. Innovative and technology-driven practices are still limited, with a high gap of irrigation infrastructure. On to the Global Climate Risk Index, Malawi ranked 5 in 2019^[5] and impacts are felt across water and environment, health, transport sectors, with damages on social infrastructures well felt in education and health. The tropical cyclone Anna was recorded to have impacted on Bank funded projects as well.

Governance and services delivery in the country is an important priority for the country's development planning. Good governance around public finance management promotes improved services delivery to the people and government has continued to implement related reforms. However, gaps and fragmentations still remain in service delivery given that the country faces stiff fiscal pressures from depressed domestic resources and dependence on external financing to stabilize deficits^[6]. Government is still vested with the mammoth task to improve access to basics such as health, water and sanitation and education across urban and rural areas.

Opportunities for Resilience: The most recent Country Resilience and Fragility Assessment (CRFA) has indicated the need to **focus on capacity building and improvement** of the national institutions responsible for promoting development and reduction in poverty vulnerabilities. In essence, the agricultural sector has the potential to not only secure livelihoods, but also grow the economy. The agricultural whole-value chain approach in investments is crucial to transform the sector and ensure food self-sufficiency and resilience to shocks.

AEFPF has the potential to meet the needs of the **humanitarian-development-peace by integrating resilience** into the emergency aspects of the project. Thus, smallholder farmer capacitation to adapt to climate change and adopt area-specific farming opportunities in the most vulnerable places is important. While this project is a response to a shock/emergency, it is an important opportunity to build capacity for agricultural and food self-sufficiency.

The activities in the results matrix were informed in part by the most recent Malawi **Vulnerability Assessment Committee (MVAC) report**. Drawing lessons from the global hunger crisis and its conflict dynamics will put demand on urgent transformation of the agriculture, food and nutrition policies across the country and its neighbours.

Poverty and vulnerability reduction in the country depends **closely on decentralization of government and service delivery**. Local government capacity to reach the most in-need has potential to build community resilience. The government of Malawi has made strides in its drive to decentralize,

having already initiated its decentralization pathway, “the Governance for Service Delivery Project”.

Women and youths are a strong source of resilience building and sustainability. Involvement of youth farmers and agripreneurs trained from other Bank initiatives will be important to consolidate the AEFPP support, while also making contribution to value chain development in the strategic crops.

Climate-smart agriculture and conservative land use will be important for the project’s sustainability. Involving traditional leadership and community members for purposes of traditional practices that could offer viable solutions to conservation agriculture will be essential to record success (ensuring adequate budget for consultations). The project will also benefit from other ongoing projects, complementing results from each of the various interventions of the Bank, including the ADRiFi financing for disaster management.

Policy dialogue around land access and ownerships within the project’s areas will be important for sustainability, while also offering a key ingredient to support ongoing government reforms in the country.

Annex 10C: Risk Analysis and Mitigation Measures

No	Potential Risks	Rating (High, Medium or Low)	Mitigation Measures
I.	Continued rising of fertilizer prices	High	Provision of Partial Trade Credit Guarantees for the large-scale supply of fertilizers to wholesalers, aggregators and Hub agro-dealers to ensure additional fertilizer volumes are available in the country for small holder farmers and safeguard against price increases.
2	Incidence of drought	Medium	Support farmers to undertake winter cropping and capacity building for the adoption of soil conservation practices
3	Inadequate project management capacity	Low	The AIP unit is staffed with qualified personnel and will be supported with short term financial Management and Procurement consultants

ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)



AFRICAN DEVELOPPEMENT BANK GROUP

A. Basic Information⁸

Project Title: Agricultural Emergency Food Production Facility Project (AEFPFP)		Project "SAP code" P-MW-AA0-038
Country: Malawi	Lending Instrument ⁹ : DI <input checked="" type="checkbox"/> FI <input type="checkbox"/> CL <input type="checkbox"/> BS <input type="checkbox"/> GU <input type="checkbox"/> RPA <input type="checkbox"/> EF <input type="checkbox"/> RBF <input type="checkbox"/>	
Project Sector: Agriculture	Task Team Leader: James Peters OPIO-OMODING	
Appraisal date: 20 th June 2022	Estimated Approval Date: 14 th July 2022	
Environmental Safeguards Officer: Roberta MHANGO		
Social Safeguards Officer: xxxxxx		
Environmental and Social Category: 2	Date of categorization: 29/06/2022	Operation type: SO <input checked="" type="checkbox"/> NSO <input type="checkbox"/> PBO <input type="checkbox"/>
Is this project processed under rapid responses to crises and emergencies?		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Is this project processed under a waiver to the Integrated Safeguards System?		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

B. Disclosure and Compliance Monitoring

B.1 Mandatory disclosure

Environmental Assessment/Audit/System/Others (specify: Pest Management Plan (PMP))		
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client	N/A	
Date of receipt, by the Bank, of the authorization to disclose	N/A	
Date of disclosure by the Bank	N/A	
Resettlement Action Plan/Framework/Others (specify:)		
Was/Were the document (s) disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client	N/A	
Date of receipt, by the Bank, of the authorization to disclose	N/A	
Date of disclosure by the Bank	N/A	
Vulnerable Peoples Plan/Framework		
Was the document disclosed <i>prior to appraisal</i> ?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input checked="" type="checkbox"/>	
Date of "in-country" disclosure by the borrower/client	[Date]	
Date of receipt, by the Bank, of the authorization to disclose	[Date]	
Date of disclosure by the Bank	[Date]	
<p>If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: <i>As per the provision of the African Emergency Food Production Facility paper approved by the Board, the preparation and disclosure of the E&S documents are deferred after Board Approval. They will be prepared and disclosed in-country and by the Bank prior the implementation of concerned activities.</i></p>		

B.2. Compliance monitoring indicators

⁸ Note: This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.



⁹ DI=Direct Investment; FI=Financial Intermediary; CL=Corporate Loan; BS=Budget Support; GU=Guarantee; RPA=Risk Participation Agreement; EF=Equity Financing; RBF=Results Based Financing.

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Is the total amount for the full implementation for the Resettlement of affected people, as integrated in the project costs, effectively mobilized and secured?	Yes <input type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>
Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> NA <input type="checkbox"/>

C. Clearance

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board?

Yes ☒ No ☐

<i>Prepared by:</i>	<i>Name</i>	<i>Signature</i>	<i>Date</i>
Environmental Safeguards Officer:	Roberta MHANGO		29 06 2022
Social Safeguards Officer:	xxxxx		29 06 2022
Task Team Leader:	James Peters OPIO-OMODING		29 06 2022
<i>Submitted by:</i>			
Sector Director:	Martin FREGENE		29/06/2022
<i>Cleared by:</i>			
Director SNSC:	Maman-Sani ISSA		02/07/2022