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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX 2**

to the Commission Implementing Decision on the financing of the annual action plan in favour of the Republic of Malawi for 2024

**Action Document for Malawi State and Resilience Building Programme**

**ANNUAL PLAN**

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

## 1 SYNOPSIS

### 1.1 Action Summary Table

<b>1. Title CRIS/OPSYS business reference Basic Act</b>	<b>Malawi State and Resilience Building Programme</b> OPSYS number: ACT-62358 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
<b>2. Team Europe Initiative</b>	Yes TEI Good Governance for Malawi
<b>3. Zone benefiting from the action</b>	The Action shall be carried out in Malawi
<b>4. Programming document</b>	Republic of Malawi – Multi-Annual Indicative Programme (MIP) 2021-2027
<b>5. Link with relevant MIP(s) objectives / expected results</b>	Specific Objective 2.2: Enhancing economic governance - Expected result 2.2.1: Increased domestic revenue mobilisation, greater control over public expenditure and revenue, as well as greater transparency and accountability in the use of public funds Specific objective 3.1: Advancing quality education and skills - Expected result 3.1.2: Improved inclusive and equitable quality education
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	Priority Area 2 – Democratic and economic governance - Government & civil society-general (151) Priority area 3 – Human development and social inclusion - Education (110)
<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG: 4 Quality Education Other significant SDGs: SDG 1 (No Poverty), SDG 16 (Peace, Justice and Strong Institutions); SDG5 (Gender Equality); SDG10 (Reducing inequalities)
<b>8 a) DAC code(s)</b>	11320 – Upper Secondary education (75%) 15111 – Public finance Management (25%)
<b>8 b) Main Delivery Channel</b>	Central Government - 12001

<b>9. Targets</b>	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
<b>10. Markers (from DAC form)</b>	<b>General policy objective @</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>11. Internal markers and Tags:</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Digitalisation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	/
	Connectivity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	/
	Migration @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>12. Amounts concerned</b>	Budget line(s) (article, item): 14.020122 Total estimated cost: EUR 55 000 000 Total amount of EU budget contribution EUR 55 000 000 of which EUR 50 000 000 for budget support and EUR 4 900 000 for complementary support, with additional			

	EUR 100 000 for evaluation.
<b>MANAGEMENT AND IMPLEMENTATION</b>	
<b>13. Type of financing<sup>1</sup></b>	<b>Direct management</b> through Budget Support: State and Resilience Building Programme <b>Indirect management</b> with the entity to be selected in accordance with the criteria set out in section <a href="#">4.4.1</a> .

## 1.2 Summary of the Action

The Action, to be implemented through a two-year State and Resilience Building Programme (SRBP) and complementary measures, would mark the resumption of budget support in Malawi, after a 10-year hiatus, consecutive to the so-called 2013 “Cashgate” scandal<sup>2</sup>. It intends to improve efficiency, effectiveness and quality in the provision of secondary education services, combining support to sector specific processes, with the strengthening of the overarching Public Financial Management (PFM) framework.

The Action will focus on addressing selected major inefficiencies specific to the secondary education subsector such as uneven teacher deployment and teacher management at large, disparities in school funding, high student-teacher ratios, payroll management, and weak data management. It will also explore the possibility of scaling up and transitioning to budget of cost-effective practices in support to increased quality and equity that have already proven successful under previous development partners’ funded initiatives (e.g., school-based teachers’ professional development and bursaries).

As regards PFM, building on the current momentum to restore macroeconomic stability and fiscal management, forged by the new Extended-Credit Facility (ECF) arrangement agreed with the International Monetary Fund (IMF), the Action intends to foster the implementation of the new PFM reforms agenda, focussing on enhancing the effectiveness and efficiency of fiscal management, including by improving the implementation of the Integrated Financial Management Information System (IFMIS) and its interoperability with other systems, as well as fostering commitment control, cash management, fiscal reporting, public procurement and revenue collection. Moreover, the Action presents an opportunity to enhance the efficient use of public funds in delivering education services, while also promoting green PFM.

The Action complements other EU projects in the country, in particular in secondary education, vocational training, PFM and business environment and is coordinated with other development partners. In particular, the PFM section of the programme will be an integral part of the TEI Good Governance, to which Germany and Ireland also contribute with complementary interventions in a joint intervention logic. The strands of action of the TEI are participatory governance, rule of law and economic governance, the latter including support to public finance management.

## 1.3 Zone benefitting from the Action

The Action shall be carried out in Malawi which is included in the list of ODA recipients.

# 2 RATIONALE

## 2.1 Context

Malawi is a landlocked, low-income country, with one of the highest incidences of poverty, food insecurity and frequent weather-related shocks. Over the last decade, long-standing structural macroeconomic weaknesses, compounded by multiple shocks have set back progress on human and social development. Two-third of the population still live below the poverty line and 20% are facing

<sup>1</sup> Art. 27 NDICI

<sup>2</sup> See below under point 2.2. for details.

acute food insecurity. Despite advances in gender equality over the last decade, Malawi ranks 142/162 on the Gender Inequality Index (GII), reflecting high levels of inequality in reproductive health, women's empowerment and economic activity. With current trends, Malawi is likely to fall short of meeting the Sustainable Development Goals (SDGs) by a wide margin, unless more public and private resources are mobilised, and more allocative efficiencies are achieved.

Since 2020, when President Chakwera assumed office, the Malawian economy has suffered from the adverse effects of multiple shocks that amplified pre-existing vulnerabilities, interrupted the post-pandemic recovery and set back reform implementation. More recently, foreign exchange shortages (gross reserve projected at 1.8 month of import cover in 2023), that constrained importation of essential commodities, in particular fuel and production inputs, a generally unfavourable external environment, as well as the impact of Cyclone Ana in 2022 and Cyclone Freddy in 2023, impacting crop production and worsening an already erratic electricity supply situation, are all factors weakening growth performance (estimated to reach 1.6% in 2023<sup>3</sup>). In 2023, fiscal deficits have thus continued to widen (projected at -11.7% of GDP), and the task of raising revenue remains challenging (only 13.3% of GDP). The tightening of monetary conditions (with a policy rate pushed at 24% in July 2023) has been so far insufficient to contain inflationary pressures (projected at 28% in 2023), due to the continued increase in the money supply (caused by high level of government borrowing) and depreciation of the kwacha. Malawi's external debt is presently deemed unsustainable, according to IMF and World Bank Debt Sustainability Framework. As for many other areas, the very constrained fiscal space adds pressure to education service delivery, in a sector facing already significant structural challenges.

To restore macro-stability, the authorities have embarked on a reform programme supported by international partners, notably the EU, which has focused on restructuring its external debt, increasing domestic revenue, controlling public expenditure, expanding social protection, developing mining projects and intervening on the agricultural commodity market. Following the positive track record built under the Staff Monitored Programme with Executive Board involvement (PMB) agreed with the IMF in November 2022, Malawi reached a new Extended Credit Facility (ECF) arrangement with the IMF in November 2023. This arrangement is expected to preserve the reform momentum, address sources of economic fragility and catalyse additional bilateral and multilateral financial support, while allowing the resumption of budget support from various development partners.

## 2.2 Problem Analysis

### Short problem analysis:

#### **Priority Area 1- Secondary Education**

Secondary education has been lagging behind for many years in Malawi, mainly due to insufficient human and financial resources and weak track record of reform implementation. Not even half of the children who complete primary school find places in secondary schools, and many drop out before they complete the four-year secondary cycle. Due to various challenges both in terms of supply of and demand for secondary education, learners outcomes are very low, resulting in insufficient skilled graduates for the country's needs.

Insufficient Access: In terms of supply, there is a substantial lack of places, insufficient school infrastructure, especially in rural areas. Increasing availability of good quality and climate resilient infrastructure is a high priority, though achieving construction targets is hampered by high costs and delays in procurement. EU<sup>4</sup>, World Bank and USAID are the main partners of the Ministry of Education (MoE) in terms of expansion of physical infrastructures in support to the secondary education subsector.

Education Financing: A key constraint to the supply of good quality and equitable education is linked to the insufficient availability and inefficient use of financing. Since 2017/18 education sector spending as a share of total government budget decreased from 22% to around 16%, fluctuating between 4% and

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<sup>3</sup> GDP at constant market price, IMF, November 2023.

<sup>4</sup> The EU funded ISEM II programme, running in parallel to this Action, aims at supporting an inclusive and climate resilient expansion of 40 CDSSs across 12 districts.

5% of GDP. There is little fiscal space for the sector goals to be achieved, especially for rapid expansion of secondary provision.

*Education equity:* A key concern is that government spending on secondary education does not target the needs of those least able to pay. The financing of various categories of schools in the country is inequitable, with Community Day Secondary Schools (CDSS) receiving significantly less per capita and in terms of qualified teachers, compared to more privileged schools, creating further barriers for the poor. Funding for schools that are registered as cost centres, flows directly from the Treasury, but for non-cost centre schools funding comes via the Education Division and is lower. While there has been some progress in establishing Boards of Governors (BoG) for secondary schools, they only exist in 24% of secondary schools, and not all of these are functional.

Given the high cost to families, bursaries play an important role to support the poor to take up places and stay in secondary school. However, the current system lacks clarity, risks overlapping bursary provision and is poorly targeted to those most in need.

*Teacher Management and Training and Quality Assurance:* Qualified teachers are in short supply, with high pupil-teacher ratios. A significant number of primary teachers have transferred to secondary schools, many of whom do not have the formal level of qualifications to teach at secondary. The lack of a proper Teacher in-service training, professional development and support and quality assurance systems is also a key factor significantly affecting the quality of the teaching and learning. In secondary education pass rates reach only 54% in 2023, with lower results in Community Day Secondary Schools (CDSS) and with boys performing better than girls.

*Gender and Inclusive Education:* Although low completion rates are a big challenge for both boys and girls, fewer girls (20.6%) complete secondary than boys (24%). Reasons for the higher drop-out rate of girls, especially from upper grades in secondary and in rural areas, include the costs, prioritisation of boys in families and the impact of early marriage and pregnancy. Violence against women and girls (VAWG) and harmful practices (HP) remain serious issues with 65% of girls and 35% of boys experiencing child abuse in their lifetime, including in and around schools, between students and at times involving teachers. A particular challenge is the lack of female teachers, only 27% of secondary teachers, with significant variation between districts and urban/rural areas. A low percentage of Special Education Needs (SEN) learners are in secondary schools, and teachers and schools are not well equipped to cater to their needs. In addition 47% of secondary schools and 21% of primary school do not have even basic sanitation facilities, affecting not only learning access but also access to education and enrolment, in particular for young girls because of their menstruation.

*Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the Action:*

The main stakeholder is the Ministry of Education, which is the leading entity responsible for education policy. The Ministry of Finance and Economic Affairs (MoFEA) and the Office of the President and Cabinet (OPC) are also relevant as competent for education financing and human resource policy issues, respectively. The policy dialogue will also include the Ministry of Gender as policy holder for gender equality and social welfare.

## **Priority Area 2 – Public Finance Management (PFM)**

The economic governance in Malawi has been affected by a weak Public Finance Management (PFM) system, which together with inadequate policies, has induced low fiscal discipline and high primary deficits. Persistent high fiscal deficits over the years have pushed up debt to unsustainable levels, thereby reducing the fiscal space needed for developmental investments. Weak institutional and human capacity, a poor budget information system and weak budget oversight have been major constraints to the good functioning of the PFM system.

In September 2013, a massive misappropriation and theft of public funds was uncovered, commonly known as the “Cashgate scandal”, which has significantly affected Malawi’s macroeconomic situation and exposed significant deficiencies related to procurement and internal controls and other related PFM

areas. It also showed that real and effective PFM behaviours, practices and established norms were insufficiently pursued.

Since 2020, the Government of Malawi demonstrates genuine commitment to address such deficiencies. Supported by development partners, concrete signs of improvement of the regulatory and policy framework (e.g. new PFM Act passed in March 2022, new PFM strategy launched in October 2023) as well as in the implementation of reforms are observed, allowing for enhanced revenue mobilisation and stronger fiscal discipline and transparency.

There remain several weaknesses, particularly related to debt management, oversight of State owned Enterprises, revenue collection, commitment control, expenditure arrears, public procurement, fiscal reporting and bank reconciliation. The full operationalisation of management information systems, including the Integrated Financial Management Information System (IFMIS), Integrated Tax Administration System (ITAS) and E-Government Procurement (E-GP), and their interoperability, will help ensure automated processing, block irregularities and improve efficiency and transparency. Moreover, there is still an insufficient level of compliance to business rules and of enforcement of sanctions in case of faults. Progress on the establishment of a Tax Appeal Tribunal to improve tax dispute resolution, is slow, which affects tax compliance as well as the business environment. Also, limited consideration is given to climate change issues within the PFM framework.

Worth noting that weaknesses in PFM systems have an impact on social sectors such as education, including through the lack of compliance with internal controls, lack of transparency in allocation, use and reporting of funds, including at school level.

*Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the Action:*

The main stakeholder is the Ministry of Finance and Economic Affairs (MoFEA), which is the leading entity responsible for economic and fiscal policies and strategic guidance on economic and development planning. The policy dialogue will also include other relevant Ministries, Departments and Agencies (MDAs), including the National Audit Office (NAO), the Anti-Corruption Bureau (ACB), the Financial Intelligence Authority (FIA), the Malawi Revenue Authority (MRA) and Public Procurement and Disposal of Assets Authority (PPDA).

## 2.3. Additional Areas of Assessment

### 2.3.1 Public Policy

#### National Policy

In 2021, Malawi has released a comprehensive long-term development strategy, Malawi 2063, which was followed by the launch of its 10-year implementation plan (2021-2030), end of 2021. These plans aim to move the country to an upper middle-income, self-reliant, and industrialised society by 2063. Malawi 2063 rests on three pillars, namely (i) agricultural productivity and commercialisation, (ii) industrialisation and (iii) urbanisation, buttressed by seven “enablers”, namely mind-set change, effective governance system, public sector performance, private sector dynamism, human capital development, economic infrastructure and environmental sustainability. The 10-year implementation plan provides a comprehensive accountability mechanism and monitoring and evaluation framework. It also presents the responsibilities and roles of each stakeholder for implementation, as well as a costing of activities, though its financing has become disconnected from the difficult macroeconomic context. A first progress report has been released in February 2023, showing a rate of 58% of objectives assessed as on-track or progressing.

### Education Policy

Education has an important place in Malawi 2063 as part of the human capital development enabler and secondary education is considered crucial to provide youth, especially girls boys, women in all their diversity, people with disabilities and those from rural areas, with opportunities to develop skills.

The National Education Sector Investment Plan (NESIP) 2020-30, the fifth sector plan, provides sub-sectoral and crosscutting strategies for the implementation of the Education Policy. It includes a 5-year costed implementation plan and provides the key focus for sector dialogue and planning, including for external partners. The NESIP also includes a results framework of indicators and targets, with baseline values for 2019 and targets for 2025 and 2030 used for annual reporting at the Joint Sector Review. Education Sector Performance Report and statistical reports are produced yearly, including with data from the Education Management Information System (EMIS) which is supported by external partners. The NESIP and broader policies on which it is based, coupled with the MoE / GoM implementation of its stated priorities over recent years, provide a credible basis for support to the sector.

The critical challenge is the need for prioritisation and sequencing of reforms, which will otherwise be unaffordable challenging the absorption capacity of system actors at central and local levels. In this context, the stated prio sexual and reproductive health rity to foundational learning in basic education, including early childhood education, is appropriate given the overall performance of the sector. In addition, the MoE sees expanding secondary education opportunities as the second high level priority.

A Secondary Education Expansion Strategy, being finalised, will ensure best use of available resources and focus the efforts of the MoE and partners in the coming years. Key elements of this strategy include (i) addressing inequity in secondary education financing, including with a revised school funding formula, (ii) continued focus on expanding school infrastructure, (iii) expanding the use of double shifts, (iv) improving the quality and efficiency of Open Secondary Schools (OSS), (v) investing in appropriate, evidence-based approaches to expanding the use of Open and Distance e-Learning, and (vi) selecting and testing public private partnerships for secondary education.

With these elements in place, the EU will seek to keep a strong focus on ensuring expansion is appropriately resourced, and does not come at the expense of quality and equity.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

### 2.3.2 Macroeconomic Policy

In order to restore stable and sustainable macroeconomic position, the Government of Malawi has embarked on a wide-ranging macroeconomic and structural reform programme based on the Malawi 2063 blueprint. More specifically, the Government has been working with the IMF under a Staff-Monitored Programme with Executive Board involvement (PMB), agreed in November 2022, whose positive performance enabled to transition to the long-awaited Extended-Credit Facility (ECF) arrangement in November 2023. In the Memorandum of Economic and Financial Policies to be supported by the new programme the government has committed to pursue efforts geared to (i) restoring macroeconomic policy, (ii) enhancing fiscal discipline, (iii) maintaining price stability and financial soundness, (iv) rebuilding external buffers, (v) restoring debt sustainability and closing the financing gap and (vi) addressing weakness in governance.

The ECF-arrangement provides much-needed breathing space for Malawi by unlocking not only IMF, but also the World Bank and African Development Bank “on-budget” funding. It is also expected that the arrangement should improve private sector and donor confidence and further catalyse much-needed concessional financing and capital inflows including trade credit. Key in the agreement were the significant devaluation of the national currency in November 2023 (by -44% compared to the USD), the receipt of the so-called financing assurances from bilateral creditors (China and India), which committed to restructure their debt within a debt sustainability framework, as well as the progress made to meet structural Benchmarks, Quantitative Performance Criteria and Indicative targets under the PMB. This demonstrated the authorities’ commitment to restore stability and implement bold policies

measures and corrective actions, including the realignment of the exchange rate to market-clearing level.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

### 2.3.3 Public Financial Management

Since 2020, the new government has engaged in the wide range of reforms to enhance the country's PFM framework, geared at improving revenue collection, fostering fiscal discipline and enhancing transparency and accountability. This has been extensively supported by an EU PFM flagship programme, as well as by Gesellschaft für Internationale Zusammenarbeit (GIZ), IMF and the World Bank. If weaknesses remain, in particular related to debt management, oversight of State Owned Enterprises (SOE), revenue collection, commitment controls, public procurement, and bank reconciliation, the government has been able to establish a robust track record of reforms.

Key achievements on regulatory reforms include the introduction of a new PFM Reform Strategy in 2023, and the adoption of a revised PFM Act in 2022 and related regulations in 2023. Expenditure and fiduciary risk improvements involve the implementation of a new SAP-based IFMIS since 2021, enhanced commitment controls with the introduction of quarterly allotment, progress on fiscal reporting and arrears management, and the rationalisation of bank accounts within a core Treasury Single Account structure. Revenue collection advancements encompass the introduction of new tax measures, significant progress in the roll-out of Tax Administration Information System (Msonkho Online), and legislative revisions including related to VAT and tax administration. The recent Tax Administration Diagnostic Assessment Tool (TADAT) assessment conducted in 2023, is showing progress compared to last assessment in 2015 (12 areas progressed and 3 declined out of total of 26), and a post-TADAT action plan is under implementation.

Moreover, the new IMF ECF arrangement includes several PFM related benchmarks and targets, which will help further sustain the current reform momentum, with a view to supporting the country's commitment to applying fiscal discipline, containing domestic borrowing and improve public fiscal management.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

### 2.3.4 Transparency and Oversight of the Budget

The entry point for budget support is met as the enacted budget is published within the legal deadline. The Appropriation Bill (May 2023) and Budget Estimates for FY2023/24 were approved by the Parliament and published on 8 May 2023. Moreover, the hearings of the Public Accounts Committee at Parliament are broadcasted on national television and radio, citizen's budgets are also regularly published as well as the annual reports of the National Audit Office and the Anti-Corruption Bureau.

Key elements of the national accountability system are in place. The National Assembly has well established procedures for the budget scrutiny process, set out in the Constitution and its Standing Orders, even though the scrutiny period is very short and capacity is low for a proper evaluation. The National Audit Office (NAO) broadly fulfils its mandate, although it remains mostly limited to financial audits. The audit reports are available online, although with delays. The Public Accounts Committee at Parliament holds public hearings on key findings of audit reports. The legislature issues recommendations on actions to be implemented by the executive and thereafter report back to the Committee on the resolution of the recommendation. However, the main issue on the oversight side has to do with the limited implementation of audit recommendations by MDAs, and lack of follow-up by the Ministry of Finance. The finalisation of a dashboard to compile all audit recommendations and their status should enable the NAO to increase the pressure on MDAs with many outstanding recommendations. In addition, the appointment of a new Auditor General in August 2023 after a vacancy of more than four years (which required a legal amendment to streamline the qualifications for the Auditor-General) will most certainly be instrumental to making progress in this area.

In the 2021 Open Budget Survey, Malawi scored relatively low compared to other country of the region with a transparency score of 20 (out of 100), a public participation score of 13 (out of 100), and a composite score 48 (out of 100) as regards oversight from the legislature and the supreme audit institution, all scores being moderately lower than the 2019 OBS scores of respectively 27, 15 and 54.

Going forward the areas for progress relate to: (i) the publication of government's budget proposal, (ii) the timely publication of consolidated financial statement (end-year report); (iii) the quality and comprehensiveness of the information provided in the budget documents, which should improve as per the provisions of the new PFM act; (iv) the participation of the civil society in budget processes, which could be enhanced.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

### 3. DESCRIPTION OF THE ACTION

#### 3.1 Objectives and Expected Outputs

The Overall Objective of this Action is to accelerate the social and economic inclusion of youth in their diversity based on sound economic governance in Malawi.

The Specific Objectives (SO) of this Action are to:

- SO1: Enhance efficiency and equity of secondary education for all students in their diversity
- SO2: Strengthen quality in the provision of secondary education
- SO3: Strengthen Public Finance Management systems

The Induced Outputs (IO) to be delivered by this Action contributing to the corresponding Specific Objectives are:

- IO 1.1: Education sector financing is maintained or improved at levels which enable the implementation of priority reforms
- IO 1.2: More efficient and equitable funding for secondary schools
- IO 1.3: Advanced phased implementation of secondary education expansion strategy
- IO 1.4: Improved coherence, efficiency, transparency and reach of secondary school bursary schemes with emphasis on girls and students from ultra-poor households
- IO 2.1: Development and implementation of the Teacher Management Strategy for more efficient, gender sensitive, management and use of human resources
- IO 2.2: Scaling up effective models for teacher continuous professional development (CPD).
- IO 2.3: Improved gender-transformative and cultural-sensitive school quality assurance, performance monitoring and data collection
- IO 3.1: Improved revenue collection
- IO 3.2: Improved fiscal management
- IO 3.3: Improved transparency and oversight of the Budget.

The Direct Outputs (DO) to be delivered by this Action, contributing to the corresponding Induced Outputs and Specific Objectives are the following:

- DO 1.1.1 Improved policy dialogue in support to maintaining or increasing the financing for the education sector
- DO 1.2.1 Improved policy dialogue in support to the development of a more efficient and equitable financing formula

- DO 1.3.1: Increased capacities of School leadership in the use of the new school financing formula
- DO 1.4.1: A more coherent, efficient, equitable and transparent policy and related implementation strategy for school bursaries is developed
- DO 2.1.1: Teacher Management Strategy for Secondary Education is developed
- DO 2.2.1: Increased capacities in secondary schools and clusters to implement effective models for teacher continuous professional development and communities of practice
- DO 2.3.1: Improved gender-transformative and cultural-sensitive quality assurance and performance monitoring capacities along the secondary education subsystem
- DO 2.3.2 Improved engendered data collection systems included as part of the upgraded EMIS
- DO 2.3.3: Improved capacities of managers in secondary schools to use performance monitoring and data collection systems
- DO 3.1: Increased fiscal space and predictability of funds to support MW 2063 MIP-1, in particular for secondary education
- DO 3.2: Improved structured policy dialogue on PFM between the GoM and the EUD
- DO 3.3: Improved monitoring and reporting of PFM results framework.

### 3.2 Indicative Activities

#### Activities relating to Output 1.1

- Policy dialogue / engagement on sector budget and annual reporting
- Ensure dialogue and technical support to / coherence with broader PFM reforms that will improve fiscal space and expenditure management for education reforms inclusive and human-centric.
- Technical support and capacity development for improved education budget planning and financial management, with a focus on improving efficiency, budget execution / utilisation.

#### Activities relating to Output 1.2

- Policy dialogue / engagement on secondary school funding, and related PFM reforms to ensure timely transfer, accountability and management of funds
- Finalisation and implementation of new funding formula for secondary schools, addressing specific needs of CDSS, OSS and disadvantaged/rural schools
- Technical support and training for school management / planning and financing management of school grants, including transparency, reporting, community accountability
- Support civil society engagement in social accountability systems, building local / community awareness of their roles and ensure support to schools.

#### Activities relating to Output 1.3

- Policy dialogue / engagement focused on the strategic choices / decision making relating to the secondary education expansion strategy
- Technical support to the planning and implementation of specific reforms (e.g. expansion of double shift model, capacity for distance learning/ODEL in OSS)
- Technical support for the strengthening of regulation and oversight of private provision / PPPs

- Lesson learning and research / evidence building to help MoE / sector stakeholders determine the impact of reforms and ensure equity / quality improvements leaving no one behind.

#### Activities relating to Output 1.4

- Policy dialogue / engagement to support critical review and reform of bursary schemes and related financing/budget planning
- Technical support to review and revision of bursary schemes and implementation of agreed management arrangements, including possible harmonization with social protection/cash transfer programmes and use of United Beneficiary Registry (UBR) to identify secondary education bursary beneficiaries
- Monitoring / research / evidence building on effective targeting of those most in need, and tracking educational results/outcomes
- Civil society engagement in ensuring fair and accountable management of bursaries, and the use of funds at school level.

#### Activities relating to Output 2.1:

- Policy dialogue / engagement on key teacher management reforms, focusing on secondary education, with implications for teacher recruitment and deployment across the sector
- Technical support / analytical work, to review teacher management reforms, develop supply / demand for teacher recruitment and deployment for secondary education
- Recruitment/deployment of teachers to schools with greatest need, with incentives to work in rural areas and for subjects with critical shortages (including specific focus on female teachers)
- Assessment of technical support to payroll management, including bringing primary teachers currently working in secondary schools on to secondary payroll.

#### Activities relating to Output 2.2:

- Review and assess effectiveness of CPD approaches implemented under ISEM<sup>5</sup>, EQUALS<sup>6</sup> and other secondary education projects
- Implement at scale CPD through cluster/school-based communities of practice, using the approved competency framework for teachers and school leaders.

#### Activities relating to Output 2.3:

- Policy dialogue on availability and use of school level data and systems for school performance monitoring and support
- Improved central MoE / Division support to schools to use existing tools for quality assurance, school self-assessment for monitoring performance, and teacher/head-teacher/peer observation
- Availability of school level data in EMIS for secondary education, and use of data at central / Division level for decision making and management.

#### Activities relating to Output 3.1/3.2/3.3/3.4:

- Permanent structured dialogue on macro-economic stability, (green) PFM, budget transparency and control, monitoring and assessing the compliance of Budget Support criteria and disbursement conditions

The commitment of the EU's contribution to the Team Europe Initiative (TEI) to which this action refers, will be complemented by other contributions from Team Europe members. It is subject to the formal confirmation of each respective member's meaningful contribution as early as possible. In the

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<sup>5</sup> Improving Secondary Education in Malawi (ISEM) – EU funded.

<sup>6</sup> Equity with Quality and Learning at Secondary (EQUALS) – World Bank funded.

event that the TEIs and/or these contributions do not materialise, the EU action may continue outside a TEI framework.

### 3.3 Mainstreaming

#### **Environmental Protection & Climate Change**

The Action does not address directly environment and climate change, however it will promote, to the extent possible, climate-resilient school infrastructure. Furthermore, under the PFM component, policy dialogue will promote greening PFM supporting Malawi to meet its international commitments on environment and climate change.

#### **Outcomes of the SEA screening** (relevant for budget support and strategic-level interventions)

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

#### **Outcomes of the EIA (Environmental Impact Assessment) screening**

The Environment Impact Assessment (EIA) screening classified the Action as Category C (no need for further assessment).

#### **Outcome of the CRA (Climate Risk Assessment) screening**

The Climate Risk Assessment (CRA) screening concluded that this Action is no or low risk (no need for further assessment).

#### **Gender equality and empowerment of women and girls**

As per the OECD Gender DAC codes identified in section 1.1, this Action is labelled as G1. This implies that Gender Equality constitutes a significant, but not the main objective of the Action. The Budget Support programme is contributing to the Gender Action Plan III (GAP III) as endorsed by 24 Member States – and in particular to the Country Level Implementation Plan (CLIP) for Malawi: more specifically, under the thematic area focused on the promotion of economic and social rights and empowering girls and women. The focus will be on the objectives to reduce gender disparities in enrolment, progression and retention in secondary education.

The Action will seek complementarities with existing EU project support and from other partners. The EU will engage in dialogue and support analytical work to develop new strategies in support to girls' retention (e.g. bursaries) and to face the challenges of increasing the number of female teachers in secondary education. Where feasible, interventions to target gender disparity can be scaled, learning lessons from current support to address gender based violence in and around schools.

Policy dialogues, both general and sectoral, will include gender equality aspects, and within the PFM component of Budget Support, gender responsive budgeting will be encouraged as relevant.

#### **Human Rights**

The initiative strongly focuses on tackling educational access inequalities, particularly emphasizing the increased participation and retention of adolescent girls. The goal is to enhance and extend involvement in the education system, indirectly addressing a spectrum of human rights violations. These violations encompass rights such as life, freedom from degrading treatment, discrimination, and the right to safety and security. Additionally, the initiative is anticipated to have a positive impact on reducing early pregnancy, child marriages, and other harmful practices affecting women and adolescent girls.

#### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D1. This implies that Disability constitutes a significant, but not the main objective of the Action.

The MoE has an inclusive education directorate, which will be involved throughout the programming process for this support. A broad definition of inclusive education is adopted by the MoE. The programme will seek to ensure that SEN learners are included in all components, including with

targeting for bursaries, and with SEN education integrated into teacher professional development. Data on SEN students is not reliable, and efforts may be undertaken to strengthen this, within the EMIS, and school based monitoring systems. Children with disabilities are less likely to transition to secondary school, facing multiple, intersectional barriers. Consideration will be given to how complementary measures can help to address these barriers.

The Action will be in line with the EU Strategy for the Rights of Persons with Disabilities 2021-2030, and the EU Guidance Note Disability inclusion in EU external action, including difficulties of access and adapted materials.

### **Reduction of inequalities**

The reduction of inequalities is at the heart of this Action, with a strong focus on rebalancing current inequity in secondary education financing, and ensuring that the focus on secondary education expansion gives priority to those schools and areas that serve the poor, marginalised communities, particularly in underserved rural areas, possibly including asylum seekers and refugee settings. The Action will align with other partner support to the sector, including from the Global Partnership for Education (GPE), which focuses on addressing equitable quality basic education, including early childhood. By addressing broader sector financing and teacher management issues, the Action can have a broader impact on inequalities in education service delivery.

### **Democracy**

The Action will support the consolidation of democracy in Malawi, which has been progressing positively. Through the General Conditions, the Budget Support is seeking to consolidate a steady process of macroeconomic recovery, and to accompany solid reforms that seek to increase transparency and participation to budget planning and execution, and to eradicate corruption.

Through the education component of the Action, improving quality and effectiveness of secondary education, will in time contribute to eliminate marginalisation, exclusion and inequalities – all of them solid barriers to democratic progress. The role of education in creating citizens that are informed and able to fully exercise their democratic rights is also crucial.

In addition, the Action will support better governance systems at local level and in the sector overall. The sector coordination / dialogue structures will be inclusive of all partners (e.g. civil society, teacher unions) to gain consensus on reform agenda and implementation.

### **Conflict sensitivity, peace and resilience**

The Action will support the consolidation of peace and resilience in Malawi. The Budget Support is seeking to consolidate a steady process of macroeconomic recovery and advance secondary education, both being key drivers to consolidate peace and resilience.

The Action will align with other EU support enhancing climate resilience, including through education infrastructure, and local / school and community responses, possibly also targeting asylum seekers, refugees and surrounding host communities. By improving school management and ensuring improved financing for schools, the Action will enhance capacity for local decision making. Malawi has a National Disaster Preparedness plan, with a National Education Contingency plan under the Education Cluster, which can inform adaptation and responses where appropriate. However, the lack of a longer-term plan to address the impact of climate change on the education sector should be included in sector dialogue to which the EU will contribute. This is also part of the planning and dialogue under GPE support.

### **Disaster Risk Reduction**

The Action will be working with the Ministry of Education in improving the financing of secondary schools and in strengthening school management's capacities in planning and financial management. School improvement plans (the planning document developed at school level), are expected to include elements related to DRR (preparedness and response), in particular in at risks areas.

### 3.4 Risks and Lessons Learnt

The main risks of this Action are related to the general elections of September 2025. Campaigning may slow down implementation of reforms while, in case of a change of administration, the course of reforms and priorities may change. In addition, Government may soften its present commitment to fight corruption, appointing a weaker director of the ACB when the term of the current director ends in March 2024. Clear and visible support to the institution and continuous dialogue mitigates this risk.

Category	Risks	Likelihood	Impact	Mitigating measures
External environment	Political disruption and loss of traction on reforms agenda, following the 2025 general election	<b>Medium</b>	<b>High</b>	Maintaining regular policy dialogue, including at highest level, ensuring strong alignment with Malawi's reform agenda and coordination with other key development partners.
External environment	Macroeconomic situation remains fragile and un conducive for reforms implementation	<b>High</b>	<b>High</b>	Maintaining regular dialogue at political and technical with all relevant stakeholders, in particular with the IMF and World Bank.
Risks related to people and organisation	Constrained implementation capacity undermines implementation	<b>High</b>	<b>High</b>	Providing budget support to progress on the implementation of Malawi's own priority reform agenda, in areas where development partners are providing technical assistance and operational support, in addition to complementary measures to fill technical assistance gap.
Risks related to people and organisation	Resistance in key government departments to adopt new and better ways of executing their functions	<b>Medium</b>	<b>Medium</b>	Maintaining regular dialogue at political and technical with all relevant stakeholders, coupled with sound monitoring of reforms progress and specific technical assistance and in coordination with other development partners
Risks related to legality and regularity aspects	Mismanagement of public funds and administrative/legal actions threatening the functioning of targeted institutions.	<b>Medium</b>	<b>Medium</b>	Ensuring robust action design and complementarity with other development partners, regular policy dialogue at national level, while providing technical assistance through a joint-support programme on PFM and anti-corruption between EU and Germany.
Risk related to financing of the NESIP	NESIP is very depending on external financing and technical support	<b>Medium</b>	<b>Medium</b>	Ensuring very good complementarity with other development partners, while using the Budget Support to provide support to protect the financing of the sector and its efficiency.

External Environment	If no new public funding, expansion of secondary education provision requires to continue relying on the contribution from households, and potentially from the private sector subject to external crises	<b>High</b>	<b>Medium</b>	Using the budget support to incentivise the protection of the current financing to the sector, promote more efficient use of available resources and increased equity in the provision of education services.
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### Lessons Learnt:

The main lessons learnt from previous budget support operations in Malawi are:

**Political governance** - The importance of strong leadership commitment to achieving reforms is essential. With the current Government, the highest levels of the Malawi Government are committed to reforms. However, it should not be assumed that the level of commitments from government leaders will always remain as strong, and that they can push reforms through a bureaucracy without the cooperation of reformers at operational levels. Hence, the Action will leverage sector-level interventions to ensure the public administration's buy-in and participation. In particular, the current EU Chuma Cha Dziko programme will continue to provide tailored technical assistance to implement the PFM reforms agenda and related change management, while an upcoming new EU-Germany programme, implemented by GIZ, shall further foster accountability, strengthen the fight against corruption and transparency in the public sector.

**Conditionality and predictability** - When designing Budget Support conditionalities and sanctions, the impact of poor performance as well as suspension of Budget Support on macroeconomic stabilisation needs to be particularly taken into account, in particular in the fragile context of Malawi. Hence, the Action has been elaborated to be impactful but simple and robust in design. Full transparency on conditions for release and clarity between conditionalities on Budget Support and commitment to other cooperation programmes will be ensured, coupled with continuous policy dialogue, including with other donors resuming budget support.

**Need for Improved Statistics and M&E** - Data is important to ensure that the accountability function is fulfilled. The country's statistical capacity remains limited by a lack of data management mechanisms/systems, limited coordination/collaboration within and between institutions, and weaknesses in the sectors' information management systems. The Action will be supported by an *ad hoc* EU programme, implemented by UNDP/UNFPA aiming at establishing a Human Resources Management Information System, which will strive to strengthen the government data management capacity and to improve accountability and efficiency in resource allocation. Support to the strengthening of the EMIS is also expected to be provided via complementary measures.

### *Other lessons learnt from interventions in the education sector*

**Need for Ownership** - Donor support in the education sector needs to be adopted by the government in its own budget and scaled across the country. There is a need for longer term approaches and effective and equitable allocation of funding of resources.

**Need for Coordination mechanisms** - Interventions addressing supply and demand constraints have been able to improve access and retention in the secondary education system. However, the lack of mechanisms to coordinate properly the different interventions are a significant challenge and inefficiency in the system (e.g. bursaries schemes).

**Decentralisation is a long term process** - Although a roadmap for secondary education was approved, more recent review and reflection has shown that there is a need to focus in the short/medium term on strengthening school level systems for financial management, school improvement planning and

governance. Boards of Governors and Parents-Teachers Associations (PTA) can become functional and make an important contribution to school planning and management if there is more focus on ensuring the transparency of school leadership in school budgeting and use of resources.

**Need of diversifying the expansion of secondary education** - Traditional support to increase access through infrastructure construction / rehabilitation has helped improved school access/enrolment, made improvements to the learning environment, and incentivise teachers to work and remain in rural schools. However, it has come with significant challenges related to capacity constraints in the MoE system for planning, management and monitoring of school infrastructure works. In addition, school infrastructure development is currently strongly reliant on external support. While addressing these constraints, it is essential to expand the access in a diversified way.

**Gender mainstreaming** - Girls in Malawi are confronted to a range of complex factors contributing to drop out, including negative socio-cultural norms, encouraging girls to marry early, and resistance to allowing Sexual and reproductive health and reproductive rights information and services for girls. That need to be addressed through specific complementary/additional interventions / approaches (e.g. sensitisation of communities) that will have to be considered at the different levels. The lack of female teachers in CDSS should also be considered as it can present a challenge to mainstreaming / addressing gender barriers in schools.

### 3.5. The Intervention Logic

The underlying intervention logic for this Action is that the Government is committed to reforms that aim for medium-term economic and societal recovery targeting long-term growth and citizens' welfare. These include the stimulation of Malawi's economy, the consolidation of progress in democratic institutions and processes and the increased investment in the country's human development. However, carrying out these reforms in a context of limited fiscal space is a difficult task and the active support of multilateral and bilateral development partners remains necessary.

In this context, the EU opts for resuming budget support operations in support of the reforms, coupled with tailored complementary measures. This will allow for increased fiscal space and higher ownership of the Government of the activities and the results of the programme. Moreover, the option of a State and Resilience Building Contract (SRBC) is adequate for Malawi's recovery from a multi-faceted crisis (balance of payment and debt crises, food crisis, frequent climate related shocks), supporting the country to advance policies through a human-centric and holistic approach and provide political leverage to encourage institutions to continue carrying out solid reforms with lasting positive effects on the economy and the society.

In this regard, the Action's objectives aim to address key inefficiencies in the education sector, ensuring better use of public funds for improved service delivery at school and local levels. While the primary focus is on secondary education, cross-sector challenges impacting primary education and opportunities for young people to transition to, remain in and complete secondary school, and so access higher levels of education and contribute productively to the labour market will also be addressed with a special focus on vulnerable categories. With high levels of population growth, and many challenges facing expanded provision of basic and secondary education alongside quality improvements, there is a need to ensure sufficient fiscal space for implementation of priority reforms under NESIP. Budget Support represents therefore an important tool in support of dialogue with GoM on sector financing and is expected to help in maintaining sector spending, seeking efficiency gains, and, when possible, increasing fiscal space.

Under SO.1, the Action will enhance sector specific PFM reforms by improving secondary education financing, ensuring nationwide implementation of MoE/GoM reforms to the funding formula, and addressing specific cost barriers in disadvantaged schools. It also aims to strengthen school management, ensuring timely fund disbursement and transparent fund use. Alongside this, the Action will also support the MoE in implementing its secondary education expansion strategy. In particular, expectation is for Budget Support to support the inclusion of initiatives within MoE's budget to expand secondary provision, in the most equitable and cost effective ways, including potentially through more use of double shifts, addressing the quality and management of OSS and supporting the reform of

secondary school bursaries, making them more efficient, transparent and targeted on those least able to cover the costs of secondary schooling.

SO.2 of the Action will focus on supporting Government to develop and implement a Teacher Management Strategy seen as fundamental to improved quality of service delivery in education. Budget support will give the EU an entry point for dialogue, to contribute to payroll management and related teacher management reforms across the sector, including for secondary education. The Action will accompany teacher management reforms, incentivising the recruitment and deployment of qualified teachers, especially female teachers, in subjects that are currently under-staffed, for schools which lack qualified teachers. These are long-term reforms for which the EU will support important first steps.

Building on this, the Action will also support scaling up interventions from the EU's ISEM and World Bank EQUALS projects, enhancing local service delivery through teacher and school leader development and implementing quality assurance systems.

An important element in the intervention logic is the anticipated strengthening of dialogue and cooperation between the MoE and MoFEA on sector financing and efficiency. It is expected that the finalisation of results framework and targets, along with agreed areas for technical / analytical work, can promote consensus between the two ministries on priorities for sector financial management reforms, linked to the broader PFM reform agenda.

Under SO.3, the Action intends to support the Government's PFM Reform Strategy to help restore fiscal sustainability and improving efficiency and effectiveness of public resource allocation, notably in relation to public service delivery. This Action will focus on improving domestic revenue mobilisation, fiscal discipline, public procurement, transparency and financial compliance in the management of public resources across Government, all of which require an operational IFMIS interconnected with other government systems. Moreover, the Action will support green PFM, to the extent possible. The budget support operation will complement the upcoming Performance-4-Results programme on PFM from the World Bank, building on the current momentum for macro-stabilisation enabled by the IMF ECF arrangement. It will also be supported by a joint programme EU-Germany on PFM and Anti-corruption, implemented by GIZ.

### 3.6. Logical Framework Matrix<sup>7</sup>

Results	Results chain	Indicators	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data (1 per indicator)
<b>Indicative Impact of the Policy</b>	To accelerate the social and economic inclusion of youth in their diversity based on sound economic governance in Malawi	<p>1. Pass rate at Malawi School Certificate of Education (MSCE - national average), by sex;</p> <p>2. Number of students enrolled in education with EU support: (b) secondary education, by sex; (GERF 2.36 and MIP)***</p> <p>3. Overall fiscal balance</p>	<p>1. TBD (2023/2024 s.y.)</p> <p>2. TBD (2023/2024 s.y.)</p> <p>3. -11.7 % of GDP (FY22-23)</p>	<p>1. TBD (2026/2027 s.y.)</p> <p>2. TBD (2026/2027 s.y.)</p> <p>3. Below -8% of GDP (FY 24-25)</p>	<p>1. MANEB MSCE reports;</p> <p>2. Education Sector Performance Report</p> <p>3. IMF ECF review</p>
<b>Expected Outcomes 1</b>	1. Enhanced efficiency and equity of secondary education for all students in their diversity	<p>1.1. Primary-secondary transition rate (MIP indicator)*;</p> <p>1.2. Per pupil spending in disadvantaged secondary schools (e.g. in CDSS);</p> <p>1.3. Improved Gender Parity Index (GPI) in secondary education.</p>	<p>1.1. TBD</p> <p>1.2. TBD</p> <p>1.3. TBD</p>	<p>1.1. TBD</p> <p>1.2. TBD</p> <p>1.3. TBD</p>	1.1, 1.2, 1.3 Education Sector Performance Report
<b>Expected Outcomes 2</b>	2. Strengthened quality in the provision of secondary education	<p>2.1. Pupil/Qualified Teacher Ratio in CDSS (in key subjects)</p> <p>2.2. % of districts with secondary Pupil-Qualified Teacher Ratio above (value) in maths / science / English</p> <p>2.3. % of teachers in CDSS receiving CPD</p> <p>2.4. % of schools reporting on performance / availability of school data in EMIS</p>	TBD	TBD	2.1, 2.2, 2.3, 2.4 Education Sector Performance Report

<sup>7</sup> All indicators and targets are intended as disaggregated wherever data available allow for it.

<b>Expected Outcomes 3</b>	3. Public Finance Management systems strengthened	3.1. Extent to which the PFM Strategy 2023-2028 is implemented	3.1 To a limited extend (2023)	3.1 To a medium extend (2026)	3.1. Annual progress reports of PFM Results Framework
<b>Induced Outputs 1</b>	<p>IO 1.1. Education sector financing maintained or increased at levels which enable the implementation of priority reforms</p> <p>IO 1.2. More efficient and equitable funding for secondary schools</p> <p>IO 1.3. Advanced phased implementation of secondary education expansion strategy</p> <p>IO 1.4. Improved coherence/efficiency, transparency and reach of secondary school bursary schemes with emphasis on girls and students from ultra-poor households</p>	<p>1.1.1. % of government spending allocated to education</p> <p>1.1.2. % of education sector budget financed (disaggregated by vote)</p> <p>1.2.1. % of secondary schools registered as cost centres and with functioning Boards of Governors</p> <p>1.2.2. % of CDSS receiving school grants on time</p> <p>1.3.1. % increase in schools operating double shift / distance learning in OSS</p> <p>1.3.2. Number of students receiving vouchers in pilot phase of PPP implementation</p> <p>1.4.1. Revised bursary scheme / management in place and implemented</p>	<p>1.1.1. 16%</p> <p>1.1.2. 66%</p> <p>1.2.1. TBD</p> <p>1.2.2. TBD</p> <p>1.3.1. TBD</p> <p>1.3.2. 0</p> <p>1.4.1. MoE led harmonised bursary scheme doesn't exist</p>	<p>1.1.1. TBD</p> <p>1.1.2. TBD</p> <p>1.2.1. TBD</p> <p>1.2.2. TBD</p> <p>1.3.1. TBD</p> <p>1.3.2. 0</p> <p>1.4.1. MoE led harmonised bursary scheme in place</p>	<p>1.1.1. UNICEF annual MoE budget Analysis</p> <p>1.1.2, 1.2.1, 1.2.2; 1.3.1, 1.3.2, 1.4.1 Education Sector Performance Report</p>

<b>Induced Outputs 2</b>	IO 2.1. Development and implementation of the Teacher Management Strategy for more efficient, gender sensitive, management and use of human resources	2.1.1. Status of teacher deployment strategies in support to underserved CDSS	2.1.1. No formal strategy is available to guide teachers' deployment in secondary education	2.1.1. Strategy or plan is implemented	2.1.1, 2.2.1, 2.2.2, 2.3.1 Education Sector Performance Report
	IO 2.2. Scaling up effective models for teacher continuous professional development (CPD)	2.2.1. % of clusters implementing support to teachers in line with CPD framework 2.2.2 % of clusters implementing communities of practice	2.2.1. TBD 2.2.2. TBD	2.2.1. TBD 2.2.2. TBD	
	IO 2.3. Improved gender-transformative and cultural-sensitive school quality assurance, performance monitoring and data collection	2.3.1. % of schools implementing self-assessment / QA tools	2.3.1 TBD	2.3.1 TBD	
<b>Induced Outputs 3</b>	IO 3.1 Improved revenue collection	3.1.1. % Large Taxpayers filing core taxes (Value Added Tax (VAT), Corporate Income Tax (CIT)/Personal Income Tax (PIT), Pay as You Earn (PAYE) and Domestic Excise (DE)) on Msonkho Online	3.1.1. TBD	3.1.1. At least 90% (2026)	3.1.1. MRA annual reports
		3.1.2 Extent to which the Tax Appeal Tribunal is operational	3.1.2. Under development	3.1.2. To a medium extent (2026)	3.1.2. DRMS monitoring report
	IO 3.2 Improved fiscal management	3.2.1 Number of government systems integrated with SAP-IFMIS	3.2.1. 0 (2023)	3.2.1 At least 3 (2026)	3.2.1. Annual progress reports of PFM Results Framework
3.2.2 Extent to which commitment controls are applied within IFMIS		3.2.2. TBD	3.2.2. At least 80% of the value of commitment made are encoded ex-ante in IFMIS	3.2.2. NAO audit report or independent verification report	
IO 3.3 Improved transparency and oversight of the Budget	3.3.1 Budget oversight score (Open Budget Survey)	3.4.1 48/100 (2021)	3.4.1 >60/100 (2026)	3.4.1, 3.4.2 Open Budget Survey	
	3.3.2 Transparency score (Open Budget Survey)	3.4.2 20/100 (2021)	3.4.2 > 30/100 (2026)		

<b>Direct Outputs</b>	DO 1.1.1. Improved policy dialogue in support to maintained or increased education sector financing	1.1 Status of dialogue between MoE and MoFEA on budget process	1.1.1. TBD	1.1.1. TBD	1.1.1. National budget
	DO 1.2.1. Improved policy dialogue in support to the development of a more efficient and equitable financing formula	1.2.1. Status of the Secondary School Formula	1.2.1. Old formula in place (2023/2024)	1.2.1. New formula developed and submitted for MoE approval (2025-2026)	1.2.1. Education Sector Performance Report 1.3.1. Pre and post tests
	DO 1.3.1. Increased capacities of school leadership in the use of the new school financing formula	1.3.1. Number of schools-with staff who have increased their skills to manage school finances and accounts with the support of the EU	1.3.1. 0	1.3.1. TBD	
	DO 1.4.1. A more coherent, efficient, equitable and transparent policy and related implementation strategy for school bursaries is developed	1.4.1. Status of the policy and related implementation strategy for the provision of bursaries	1.4.1. Policy not available	1.4.1. Policy is drafted	1.4.1. Policy and related implementation strategy for school bursaries
	DO 2.1.1. Teacher Management Strategy for Secondary Education is developed	2.1.1. Status of the Teacher Management Strategy for secondary education	2.1.1 Teacher Management Strategy not available	2.1.1 Teacher Management Strategy developed and submitted for Government endorsement	2.1.1. Education Sector Performance Report
	DO 2.2.1. Increased capacities in secondary schools and clusters to implement effective models for teacher continuous professional development and communities of practice	2.2.1 Number of staff from clusters trained in effective models for teacher continuous professional development and communities of practice who show an increase in their skills as a result of the training received (by sex and cluster)	2.2.1. 0	2.2.1. TBD	2.2.1. Pre and post tests
DO 2.3.1. Improved gender-transformative and cultural-	2.3.1. / 2.3.2 Status of the EMIS		2.3.1. /2.3.2 A revised and	2.3.1. / 2.3.2 Education Sector	

	<p>sensitive quality assurance and performance monitoring capacities along the secondary education subsystem</p> <p>DO 2.3.2. Improved engendered data collection systems included as part of the upgraded EMIS</p> <p>DO 2.3.3. Improved capacities of managers in secondary schools to use performance monitoring and data collection systems</p>	<p>2.3.3. Number of staff from clusters trained to use performance monitoring and data collection systems</p>	<p>2.3.1 / 2.3.2 EMIS is not revised and is outdated</p> <p>2.3.3. 0</p>	<p>modernised EMIS that includes modules on quality assurance and performance based on gender-transformative and cultural sensitiveness monitoring is developed and ready for deployment.</p> <p>2.3.3. TBD</p>	<p>Performance Report</p> <p>2.3.3. Pre and post tests</p>
	<p>DO 3.1.1. Increased fiscal space and predictability of funds to support MW 2063 MIP-1, in particular for secondary education</p> <p>DO 3.2.1. Improved structured policy dialogue in support of PFM reform between the GoM and the EU</p> <p>DO 3.3.1. Improved monitoring and reporting of PFM results framework</p>	<p>3.1. Disbursement of funds according to pre-established calendar</p> <p>3.2. Number of Budget Support Steering Committee meetings organised</p> <p>3.3. Number of annual reports of PFM Results Framework</p>	<p>3.1. None (2023)</p> <p>3.2. None (2023)</p> <p>3.3. None (2023)</p>	<p>3.1. Max. EUR 50 million (2026)</p> <p>3.2. 4 meetings (total by 2026)</p> <p>3.3. 1 (annually)</p>	<p>3.1, 3.2, 3.3 MoFEA reports &amp; EUD analysis</p>

## 4. IMPLEMENTATION ARRANGEMENTS

### 4.1 Financing Agreement

In order to implement this Action, it is envisaged to conclude a financing agreement with the Government of Malawi.

### 4.2 Indicative Implementation Period

The indicative operational implementation period of this Action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 30 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### 4.3 Implementation of the Budget Support Component

#### 4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 50 000 000 and for complementary support is EUR 4 900 000. This amount is based on Government's financing needs to implement policy priorities and is considered adequate as a first budget support after a 10-year interruption, also taking into account the other budget support operations planned by other donors (IMF, World Bank, and AfDB). It would cover annually approximately between 1.8% and 3% of the government financing gap, and represent between 0.8% and 1.4% of total revenue and 1.2% and 1.6% of domestic revenue, depending on the applicable exchange rate over the fiscal years 2024/25 to 2026/27.

The Action will foster high-level results-oriented policy dialogue between the EU, the Ministry of Finance and Economic Affairs and the Ministry of Education, as well as with the other donors resuming budget support operations. Thus, this Action will bring different stakeholders together to discuss and advance ongoing policy development and reform in order to support the Government to progress on its social and economic development objectives under Malawi 2063. It will also incentivise continued improvements in budget transparency, public sector accountability and macro-economic stability.

Considering the track record built by the current administration, and the subsequent current momentum to resume budget support by key development partners, the Action has been designed as a pilot which, if successful, could open the way to a larger proportion of the country allocation to be delivered through budget support in the second phase of the MIP (2025-2027). The proposed SRBP for Malawi focuses on key priorities of the country, while complementing other EU initiatives and from other partners, thus allowing to drive a specific set of reforms that requires strong political commitment and cooperation of different government actors.

#### 4.3.2 Criteria for Disbursement of Budget Support

##### **a) Conditions**

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of education specific policies and strategies, in particular the NESIP and the Secondary Education Expansion Strategy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

**b) The performance indicators** for disbursement to be used for variable tranches may focus on the following policy priorities:

- Improve the provision of secondary education services;
- Improve Public Finance Management systems.

### **c) Modifications**

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the Action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

### **d) Fundamental values**

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

#### 4.3.3 Budget Support Details

Budget support is provided as direct non-targeted budget support to the national treasury. The crediting of the euro transfers disbursed into Malawi Kwacha will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The following disbursement calendar and profile proposed for the Action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

The Action includes both fixed and variable tranches over 30 months. The fixed component covers the years 2024, 2025 and 2026. The incentive to deliver on the sector policy targets, through the variable tranches, starts from the second disbursement in 2025. The overall amount of the variable tranche will be at least 35%.

- Disbursement of a fixed tranche in 2024 after signing the financing agreement;
- Year 1 disbursement in Q4 2025 and, mixing fixed and variable tranches;
- Year 2 disbursement in Q4 2026 and, mixing fixed and variable tranches.

## **4.4 Implementation Modalities**

The Commission will ensure that the EU rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the Action with EU restrictive measures<sup>8</sup>.

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<sup>8</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu). Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

#### 4.4.1 Indirect Management with an entrusted entity

A part of this Action may be implemented in indirect management with an entity, which will be selected by the Commission's services using the following criteria:

- The entity is a contributor to the sector, serving as a partner in facilitating the Ministry of Education's structural reforms,
- The entity has an active policy dialogue and favours harmonisation in delivering development partner support to the sector,
- It has extensive expertise in the secondary education subsector in areas relevant to the reform efforts prioritised in the Action.

This implementation entails activities related to technical assistance, and capacity building relevant to the achievement of expected results contributing to SO. 1 and SO. 2.

If negotiations with the above-mentioned entity fail, that part of this Action may be implemented in direct management in accordance with the implementation modalities identified in section 4.4.2.

#### 4.4.2 Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option)

In case the preferred modality referred to in section 4.4.1 cannot be implemented due to circumstances outside of the Commission's control, an alternative implementation modality will be used.

##### 4.4.2.1 Direct Management (Procurement)

Under the responsibility of the Commission's responsible authorising officer, a service contract in support to provide technical assistance relevant to the achievement of the corresponding specific objectives and in particular Outputs 1.1, 1.2 and 1.3, will be contracted by the Commission.

##### 4.4.2.2 Direct Management (Grants)

Grants: (direct management)

###### (a) Purpose of the grant

The grant aims at supporting the Ministry of Education to provide capacity building relevant to the achievement of the corresponding specific objectives and in particular Outputs 2.1, 2.2 and 2.3.

###### (b) Type of applicants targeted

Direct Grant with the Government of Malawi.

###### (c) Justification of a direct grant

Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the Ministry of Education.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is foreseen in Article 195 (c) of the Financial Regulation since the Ministry of Education, as holder of the policy, is in a situation of monopoly de jure and de facto to achieve the objectives described above.

##### 4.4.2.3 Direct Management (Grants)

###### (a) Purpose of the grant

The grant aims at supporting civil society in ensuring fair and accountable use of funds in connection to the reforms supported by the Action. The grant will support overall monitoring of activities under the programme, and in particular activities related to the achievement of Output 1.4 (bursary schemes).

#### (b) Type of applicants targeted

The potential applicants for funding shall be a civil society organisation(s) or a relevant government trust with demonstrated in-depth knowledge and expertise in social accountability. With regard to essential characteristics, the applicant shall be a legal person or an entity with legal personality, and established in one of the EU member states or eligible countries defined by the basic act.

#### 4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this Action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### 4.6. Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution (in EUR)</b>
<b>Budget support</b> - contributing to SO.1, SO.2 and SO.3 of the Action – cf. section 4.3	50 000 000
<b>Complementary support</b> Indirect management with an entrusted entity – contributing to SO.1 and SO.2 of the Action – cf. section 4.4.1	4 900 000
<b>Evaluation</b> – cf. section 5.2 <b>Audit</b> – cf. section 5.3	100 000
<b>Contingencies</b>	0
<b>Total</b>	55 000 000

#### 4.7. Organisational Set-up and Responsibilities

The main responsibility for the implementation of the Budget Support Programme lies with the Government of Malawi, in particular with the Ministry of Finance and Economic Affairs and the Ministry of Education.

The policy dialogue is envisaged to be held at two levels. At higher level (Minister or Secretary to the Treasury), the policy dialogue between the EU and Malawi is intended to be embedded in a joint platform with key development partners implementing budget support programmes. In case such platform fails to be established or is not conducive, *ad hoc* regular meetings with the Ministry of Finance and Economic Affairs will be set up.

At technical level, a Budget Support Coordination committee will be held at least six-monthly, at Principal Secretary or Director Level, gathering the concerned MDAs.

Moreover, the EU plays already an important role in the education policy dialogue platforms between the MoE and Development Partners (Sector Working Group, Technical Working Groups, Local Education Group, Joint Sector Review / High level meeting and Secretary for Education/Troika meeting). To complement these dialogues, the EU Delegation will engage regularly (possibly jointly with other Development Partners concerned) with the technical team of the MoE, at Secretary for Education (SE) level, on policy progress and performance achievement.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the Action and may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this Action and ensuring effective coordination.

## 5. PERFORMANCE MEASUREMENT

### 5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the Action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

For the budget support component, the MoFEA and the MoE as well as the other public agencies taking part in the Action (such as MRA and NAO, etc.) will report on the sector policies. The MoFEA will report on macroeconomic performance, improvements in public financial management and budget transparency.

The budget support programme will be reviewed through annual reviews to assess compliance with the General Conditions and Performance Indicators for the release of the variable tranches. The reviews will be timed to meet the indicative disbursement schedule. An independent review team (third party contracted by the EU Delegation) may support the process for each instalment.

For complementary support, reports shall be laid out in such a way as to allow monitoring of the support provided through the Action. The final report, narrative and financial, will cover the entire period of the Action implementation.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the Action as follows:

Eligibility monitoring will be based on the collection and analysis of primary data, sector-level M&E framework, PFM progress reports, and policy dialogue with MoFEA, MoE and other stakeholders.

Progress in the education sector will be monitored through existing Government of Malawi's led monitoring mechanisms and reports (e.g. Annual Joint Sector Review, Education Sector (Annual) Progress Report, Annual Education Statistics report) building on data collected through the country's Education Management Information System (EMIS) and joint supervision missions organised with Development Partners concerned by the Action and the Government of Malawi.

Monitoring of the macroeconomic situation will be done through the analysis of reports published by the IMF, in particular those prepared in the framework of the ECF arrangement, as well as by the World Bank and the GoM. Other publications will also be used when relevant.

Progress on PFM as well as on transparency and oversight will be primarily monitored based on the annual reporting of the new PFM strategy and other documents made available by the GoM (such as budget documentation and external audit reports) and assessments from the Open Budget Survey. Reviews and reports from donor funded PFM projects will also be used to cross-check available information. When needed, ad hoc assessments will be commissioned.

Furthermore, the principle of gender equality, human rights-based approach and rights of persons with disabilities including inclusion and diversity will be monitored and reported where relevant.

## 5.2 Evaluation

Having regard to the nature of the Action, an ex-post evaluation may be carried out for this Action or its components via independent consultants contracted by the Commission. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that it the Action marks the resumption of EU Budget Support in Malawi since in 2013 and might open the way to a continuation with this implementation modality in the future.

The evaluation of this Action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 60 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

## 5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this Action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

# 6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

In line with the 2022 “[Communicating and Raising EU Visibility: Guidance for External Actions](#)”, it will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union’s support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

## Appendix 1 REPORTING IN OPSYS

A Primary Intervention (project/programme) is a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Identifying the level of the primary intervention will allow for:

Articulating Actions or Contracts according to an expected chain of results and therefore allowing them to ensure efficient monitoring and reporting of performance;

Differentiating these Actions or Contracts from those that do not produce direct reportable development results, defined as support entities (i.e. audits, evaluations);

Having a complete and exhaustive mapping of all results-bearing Actions and Contracts.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).

The level of the Primary Intervention chosen can be modified (directly in OPSYS) and the modification does not constitute an amendment of the action document.

The intervention level for the present action identifies as:

<b>Action level (i.e. Budget Support, blending)</b>		
<input checked="" type="checkbox"/>	Single action	Present action: all contracts in the present action
<b>Group of actions level (i.e. top-up cases, different phases of a single programme)</b>		
<input type="checkbox"/>	Group of actions	NA
<b>Contract level</b>		
<input type="checkbox"/>	Single Contract 1	NA
<b>Group of contracts level (i.e. series of programme estimates, cases in which an Action includes for example four contracts and two of them, a technical assistance contract and a contribution agreement, aim at the same objectives and complement each other)</b>		
<input type="checkbox"/>	Group of contracts 1	NA