Reserve Bank of Malawi

FINANCIAL INCLUSION AND ENTREPRENEURSHIP SCALING PROJECT

PROJECT IMPLEMENTATION MANUAL

REVISION 1: SEPTEMBER 2022

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PROJECT IMPLEMENTATION MANUAL

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LIST OF ABBREVIATIONS AND ACRONYMS

AG	Auditor General
AGCOM	Agricultural Commercialization
AS	Advisory Service
BAM	Banker's Association of Malawi
BDS	Business Development Service
BOQ	Bill of Quality
CSD	Central Securities Depository
CEO	Chief Executive Officer
CIAU	Central Internal Audit Unit
CLA	Credit Loan Agreement
CLCs	Customary Land Committees
CCQS	Consultant Qualifications Based Selection
DEA	Director of Environmental Affairs
DS	Direct Selection
DFI	Development Finance Institution
DFS	Digital Financial Services
E&S P&P	Environmental & Social Policy and Procedures
ECAMA	Economics Association of Malawi
ELAF	Emergency Liquidity Assistance Facility
EOS	Expression of Interest
ESIA	Environmental and Social Impact Assessment
ESHS	Environmental, Social, Health and Safety
ESMS	Environmental and Social Management System
ESRS	Environmental and Social Review Summary Appraisal
ESSs	Environmental and Social Commitment Plan
ESCP	Environmental and Social Commitment Plan
ESMP	Environmental and Social Management Plans
ESMS	Environmental and Social Management System
ESRS	Environmental and Social Review Summary
ESS	Environmental and Social Standards
FA	Financing Agreement
FAs	Framework Agreements
FBS	Fixed Budget Selection
FI	Financial Intermediaries
FINES	Financial Inclusion and Entrepreneurship Scaling project
FM	Financial Management
FSAP	Financial Sector Assessment Program
FSTAP	Financial Sector Technical Assistance Project
GBV	Gender-Based Violence
GCU	Government Contracting Unit
GDP	Gross Domestic Product
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GVH	Group Village Headman
IA	Implementing Agency
IBRD	International Bank for Reconstruction and Development
IC	Investment Climate
ICB	International Competitive Bidding
ICP	International Competitive Procurement
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management and Information Systems
IFR	Interim Financial Reports

IPF	Investment Project Financing
IPDC	Internal Procurement ad Disposal Committee
IRR	Internal Rate of Return
JET	Job and Economic Transformation
LA	Legal Agreement
LCS	Least Cost Selection
LOC	Line of Credit
MAIIC	Malawi Agricultural and Industrial Investment Corporation
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MFD	Maximizing Finance for Development
MFI	Microfinance Institutions
MGDS	Malawi Growth and Development Strategy
MoF	Ministry of Finance
MoI	Ministry of Industry
MoJ	Ministry of Justice and Constitutional Affairs
MSMEs	Micro Small and Medium scale Enterprises
NEP	National Environmental Policy
NPL	Non-Performing Loans
NPP	National Procurement Procedures
OHS	Occupational Health and Safety
OIPs	Other Interested Parties
PAPs	Project-affected parties
PCG	Partial Credit Guarantee
PDO	Project Development Objective
PDU	Procurement and Disposal Unit
PIM	Project Implementation Manual
PIU	Project Implementation Unit
PFIs	Participating Financial Institutions
PIU	Project Implementation Unit
PM	Project Manager
PP	Procurement Plan
PPDA	Public Procurement and Disposal of Assets
PPSD	Project Procurement Strategy for Development
PR	Purchase Requisition
PS	Procurement Specialist
PSC	Project Steering Committee
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
RAP	Resettlement Action Plans
RBM	Reserve Bank of Malawi
RFB	Request for Bids
RFP	Request for Proposals
RFQ	Request for Quotations
ROE	Return of Equity
SADC	Southern Africa Development Community
SACCO	Savings and Credit Co-Operative
SBD	Standard Bidding Documents
SEP	Stakeholder Engagement Plan
SME	Small and Medium Enterprise
SMEDI	Small and Medium Enterprises Development Institute
ST	Secretary to the Treasury
STEP	Systematic Tracking of Exchanges in Procurement
TA	Technical Assistance
TLMA	Traditional Land management Area
TOT	Training of Trainers
TWG	Technical Working Group

UNDB	United National Development Business
VC	Venture Capital
WBG	World Bank Group

ACKNOWLEDGEMENTS

This Project Implementation Manual is the outcome of the various meetings with Government institutions including the Ministries of Finance; Ministry of Economic Planning and Development; Ministry of Industry, Reserve Bank of Malawi; and members of the Private Sector. Appreciation goes to the World Bank for their technical input and for financing the development of the manual.

Special mention should go to Mr Alfred Kutengule Director for Pensions and Financial Sector Policy, Ministry of Finance, Mrs. Nancy Mpita, Deputy Director for Pensions and Financial Sector Policy, Ministry of Finance, Mr Wiskes Mkombezi, Director of SMEs, Ministry of Trade, Mr Patrick Mhango, Project Manager, Project Implementation Unit, Reserve Bank of Malawi, Mr Ralph Tseka, Director Financial Markets, Reserve Bank of Malawi, Mr George Chioza, General Counsel and Company Secretary, Reserve Bank of Malawi, Ms. Chimwemwe Kachingwe, General Manager, Pension Fund, Reserve Bank of Malawi, Mr Chitani Chigumula, Director, Pension and Insurance , Reserve Bank of Malawi (RBM), Mr Lanjesi Sinoya, Director Bank Supervision, Reserve Bank of Malawi, Mr Fund Mzama, Director Administrative Services Reserve Bank of Malawi, Dr Mark Lungu, Director, Capital Markets and Microfinance, Reserve Bank of Malawi, Mrs. Khumbo Mtalika, Director, Financial Sector Regulation, Reserve Bank of Malawi, Ms. Mtchaisi Chintengo, Chief Examiner, Capital Markets and Microfinance, Reserve Bank of Malawi, Mr Laurence Sheriff, Chief Examiner, Financial Sector Regulation, Reserve Bank of Malawi, Mr Taziona Chaponda, Chief Executive Officer(MAIIC), Mr Lloyd Banda, Chief Risk Officer, MAIIC, Mr Duncan Phulusa, Executive Director, Malawi Microfinance Network and Mr Francis Mwamadi, Business Training Manager, SMEDI for their guidance and critical input into the design of the project.

PURPOSE OF THE MANUAL

This project implementation manual (PIM) is designed to facilitate the daily administration and management of the Financial Inclusion and Entrepreneurship Scaling (FInES) Project. The Project, aims to increasing access to financial services, promote entrepreneurship and capabilities of MSMEs in Malawi as well as addressing Covid-19 implications It identifies best practices and guidelines for achieving the intended results of the project. The manual can be used as a reference for Project partners, in preparing their Legal agreements related to the Project.

The key users of this manual are the Reserve Bank of Malawi (RBM), the Ministry of Industry (MoI), the Ministry of Finance (MOF), (as borrower), and the Project Implementing Unit (PIU). The PIM informs the Project Steering Committee (PSC), and the Project Technical Working Group (TWG), PM, FM, compliance teams, supervision departments, internal auditors, legal team, marketing &communications team and other related employees and associates of the Project.

The PIM provides specific guidance on roles and responsibilities of institutions and individuals in carrying out their duties in key areas of program implementation. These key areas include: (a) basic program management, (b) institutional responsibilities, (c) results monitoring and evaluation, (d) environmental and social safeguards, and; (e) specific reporting requirements imposed by the IDA and Malawi Government. Besides roles and responsibilities, the PIM unpacks scope and modalities for implementation as well as serving as a tool for supervision and monitoring by the implementing teams and relevant stakeholders.

This manual ensures that the Reserve Bank of Malawi and all related partners assume their proper responsibility towards their respected activities and conduct, policies and procedures that adhere to the World Bank guidelines, comply with the laws of the Government of Malawi, and with the accounting principles and methodologies set up by the Ministry of Finance.

The main purpose of the Manual is to enhance the effectiveness and efficiency of Project implementation and management by clarifying the roles and responsibilities as well as the mechanisms of interaction between different agencies and relevant Project staff. The Manual clarifies and streamlines procedures between those of the Republic of Malawi and the World Bank, particularly where there are overlaps and inefficiencies, so that operations are carried out effectively, in a timely manner, and based on agreed quality standards.

In particular, the PIM may ensure the following:

(a) Compliance with fiduciary and prudential financing and investing responsibilities;
(b) Guide project team members, in order to maintain the consistency in processes necessary to produce good long-term results; and
(c) Provide transparency and understanding of the Project policies.

The PIM is, however, not a rigid blueprint, and will be subject to updating periodically, in consultation with Project stakeholders, to ensure that it remains relevant and useful over time. It will, thus be reviewed and revised as needed based on lessons learnt during implementation. Revisions to the PIM are subject to prior review and "no objection" from the World Bank.

This PIM includes 9 chapters and 2 Annexes. Chapter 1 provides an overview of Malawi's economy and state of the private sector, Chapter 2 covers the project description including details of activities to be implemented during the five (5) years; Chapter 3 contains the implementation arrangements for the project, Chapter 4 covers procurement including procedures and methods, Chapter 5 cover financial management, Chapter 6 covers environmental and social issues and Chapter 7 covers monitoring and evaluation of project implementation and results Sections.

CHAPTER 1: OVERVIEW

1.1 Background and context

The Government of Malawi, with support of the World Bank will implement the Financial Inclusion and Entrepreneurship Scaling (FInES) Project, which is aimed at increasing access to financial services, promote entrepreneurship and capabilities of MSMEs in Malawi including addressing Covid-19 implications. This will be a five-year operation costing USD86 million with the entire amount financed by an IDA loan from the World Bank (WB). The borrower of the IDA funds is the Republic of Malawi, represented by the Ministry of Finance (MoF). The project is designed within the context below.

The country's stable macroeconomic indicators in recent years are set to be disrupted by the Covid-19 global pandemic. Trade disruptions due to Covid-19 outbreak, a decline in imported food products and in-country mobility restrictions, and potential speculation or market distortion and possible exchange rate depreciation could escalate prices of imported goods and induce an upward push on the country's inflation. Good economic performance in 2019 was expected to continue in 2020; however, due to the potential impact of Covid-19, real GDP growth estimate for 2020 has been revised downward from 4.8 percent projected for the year earlier to 2.0 percent for the year. The Covid-19 outbreak poses downside risks for the economy and, in an adverse scenario, could lead to an economic recession. If the virus spreads extensively in Malawi and aversion behavior increases and/or market and trading restrictions are imposed, it could severely reduce trade and business activity. Transport, tourism, accommodation and food services, wholesale and retail trading, and manufacturing sectors are the most hard-hit due to the Covid-19 crisis. Even without Covid-19 crisis, the private sector in Malawi faces some challenges.

1.2 MSMEs dominates Malawi's private sector

Malawi's private sector is mostly informal with a few largescale firms capturing most economic opportunities. The large-scale firms mostly operate in urban areas and are engaged in agriculture, agro-processing, and financial services. The 2019 FinScope Survey estimates that 89 percent of employment in Malawi is in the informal sector, and that 74 percent of the MSME sector are micro enterprises. Overall, 49 per cent of businesses, the majority of which are the micro-enterprises are female led. Most women and youth led entrepreneurs are not aware of the process or the importance of formalizing, which is expected given that they mainly operate as a micro and small business. The MSMEs in Malawi face numerous challenges that constrain their ability to contribute to economic growth and yet they will need to play a significant role in helping the economy recover, including from the potential Covid-19 induced recession. MSMEs[1] have low capacity and are primarily concentrated in the services sector. The women (and youth) led enterprises face challenges in growing their businesses from micro to small and medium enterprises. Sourcing capital is the leading challenge faced by the MSMEs sector across business life cycles from start-up to mature enterprises. Low levels of business and financial management skills affect the operations of the MSMEs and impacts their ability to access finance. Low awareness and knowledge constrain formalization and compliance.

[1] Based on the national MSME policy document, a micro enterprise is defined as one that has 1 to 4 employees, a turnover of up to and an asset value of up to US$1,370. A small enterprise has 5 to 20 employees, a turnover of between US$6,849 and US$68,849 and maximum assets value of US$27,397. A medium enterprise has 21 to 99 employees, turnover of between US$68,849 and US$136,986 and maximum asset value of US$342,466

1.3 Access to finance is the key challenge to the private sector development

Access to finance is a key constraint for MSMEs. Only 10 percent of medium enterprises, 5 percent of small enterprises and 3 percent of micro enterprises have credit from a commercial bank (MSME FinScope Survey, 2019). Commercial bank's financial intermediation is low as an estimated 90 per cent of loans are channeled to a handful of large corporates. Domestic credit to the private sector as a percentage of GDP (less than 10 per cent) is also low compared to an average of 34.2 percent for Southern Africa Development Community (SADC) countries 28.4 percent for Sub-Saharan Africa in 2016. High government borrowing and high profits generated through non-lending activities crowd out bank lending to the private sector which will be further constrained by the impact of Covid-19 amid banks' low tolerance to high risk and increased cash flow challenges for borrowers.

High level of inefficiencies, overhead costs and lack of proper financial infrastructure contribute to high cost of wholesale funding available for MFIs and smaller banks which they pass on to their borrowers. Since, most commercial banks prefer to lend to larger corporations and to government, MFIs and some banks which have limited deposits in the first place are further constrained by their inability to access affordable wholesale funding. Not surprisingly cost of credit for MSMEs remains high while longer-term bank financing is very limited. Collateral requirements are significantly high, at times reaching close to 300 percent of the loan amount[2], further deterring borrowing by MSMEs. The low financing access is compounded by the low number of people and micro enterprises with a bank account, lack of requisite skills capacity and aspiration to grow.

Part of the low access to finance by the MSMEs relates to business model of some financial institutions, which do not do much by way of credit intermediation and financial inclusion. Commercial bank private sector credit to GDP was only around 6.7 percent as at end-December 2019. The 2018 Financial Sector Assessment Program (FSAP) analysis of banks' income and cost structure across different business lines, demonstrates limited profit margins in the deposit and lending business but high profit margins in non-lending, especially in foreign exchange business. Because foreign currency turnover was so high compared to the depth of the banking system, the large trading band contributed disproportionately to banks' profits. As a result, the overall bottom-line of banks has increased over the past years, with revenue from government securities decreasing and other revenue sources staying constant. With the impending decrease in trade and exports due to the Covid-19 crisis, expected increase in non- performing loans (NPLs), and majority of large corporations who may fully utilize their undrawn credit lines, their capacity to lend to MSMEs will be severely affected. Hopefully, the current high bank liquidity position will be a source of strength, reinforce sustainability and be redirected to MSME within varying risk appetites of solo banks.

Size and broader weaknesses in financial sector capacity pose additional challenges to financial intermediation. According to the FSAP, the Malawi banking system suffers from lack of critical mass, low productivity and high costs, limited outreach and product variety to facilitate adequate financing for MSMEs. Two thirds of total financial system assets are in the banking sector (29.9 per cent of GDP as of June 2019) which is concentrated in urban areas and dominated by two banks[3]. The banks' average interest rate spreads and overhead costs (16.3 percent and 10.7 percent respectively) are very high even by regional standards reflecting high operating costs[4],

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[2] 2014 Enterprise Survey

[3] The two banks account for 46.2 percent of the sector's deposits, 58.1 percent of total loans and 60.0 percent of total equity capital.

[4] Mainly arising from infrastructure challenges: Power, Telecommunication Connectivity and Road net-work.

inefficiencies, deficient infrastructure, and lack of competition. The micro finance sector, which serves most of the financing needs of MSMEs and rural population, represents only 0.64 percent of GDP in assets, serving only about 39,000 clients (2018). The total number of clients served by licensed savings and credit cooperatives (SACCOs), however, has been growing, with borrowers and clients reaching 359,166 in 2018. Since, most commercial banks prefer to lend to larger corporations and to government, MFIs and some banks which have limited deposits in the first place are further constrained by their inability to access affordable wholesale funding. Not surprisingly, the cost of credit for MSMEs remains high and unaffordable while longer-term bank financing and equity/quasi equity/startup funds are limited.

Capabilities among firms are not developed along such dimensions as attitude/mindset to skills, financial literacy, management practices, business language, market assessment, and behavioral characteristics of successful entrepreneurs that include clear goal setting, long-term involvement, and drive and energy. MSMEs account for most jobs globally and if supported well, can be an engine of growth. In Malawi, realizing the potential of MSMEs in economic growth has been difficult. The majority of MSMEs in the country are informal, 36 percent do not keep records, and 45 percent lack innovation and diversification (FinScope survey 2019). Even the few credible MSME business owners are often unable to present relevant evidence of their financial history to meet the requirements of potential financiers. MSMEs have poor perception of banks, with those not banked perceiving the banks as not being interested in extending products and services to them. This is particularly a strong deterrent to women-led and youth-led businesses and first-time borrowers. Most women and youth-led entrepreneurships are said to be unaware of the process or the importance of formalizing.

MSMEs are not properly supported by the limited quantity and quality of support services available in the business ecosystem. According to research (McKenzie and Woodruff, 2013), almost all training programs find that trained firms implement some of the business practices taught in the training. Studies of microfinance clients found some evidence that training changes the rates of client retention and the characteristics of loan applicants. With limited capacities and low levels of productivity, both public and private business development services (BDS) providers in Malawi are challenged to provide effective support to MSMEs. Without support to properly adjust operations and delivery of services, especially during Covid-19 emergency and shortly afterwards, most private sector BDS's may shut down. The multiplicity of overlapping BDS providers, and their internal operational challenges, have constrained the allocation of resources and resulted in duplication of efforts. In order to improve the capacities and capabilities of MSMEs, the Government established the Small and Medium Enterprise Development Institute (SMEDI) in 2015. The SMEDI and most of the private BDS providers require support to provide services to MSMEs effectively both during the Covid-19 crisis and post Covid-19 economic recovery.

Information asymmetry due to lack of appropriate technological infrastructure and awareness contributes further to the perception of high risk of MSMEs and consequently their high cost of borrowing. Malawi's credit infrastructure supported by a revised Credit Reference Bureau (2016), is not yet fully utilized by banks and their clients. While there has been progress in this area supported by the International Finance Corporation (IFC) advisory projects, more will be required for the bureaus to be fully utilized and to improve the quality of reports and to generate good credit scores that can help MSMEs get lower borrowing rates. While a robust collateral registry, developed with support from IFC Advisory project, is functioning well, its usage by banks and creditors is now low. In addition, the inadequate usage of the national identification system in the financial system poses a great challenge. As a result, the limited financing that goes to MSMEs is at a high-risk premium and a limited term (no more than 12 months) meaning that business expansion and investment loans are not meaningfully available – thereby constraining growth and job creation opportunities.

Alternative forms of financing suited to support innovative high-growth-potential firms is lacking but there is room for growth. Despite being a small proportion of MSMEs, literature shows that innovative startups and MSMEs with high-growth potential create the highest number of jobs among all MSMEs and hence are an important area of focus for governments[5]. Malawi has a nascent market of investors in venture capital. However, a large gap in equity financing exists starting at the seed stage, acceleration, to venture capital (VC) stage, with only a few business applications receiving some form of support. There are currently a few private companies that are providing equity funding although investment amounts have been small (approximately US$1,000 to US$250,000). The current equity investment support ecosystem consists mostly of, training, business acceleration and provision of co-sharing spaces. Female led hubs are helping close the funding and skills gaps for female entrepreneurs and recent secondary and tertiary school graduates. Without follow-on financing and support until they reach the stage where they can raise capital and financing directly from the market, start-ups emanating from these accelerators and hubs will be highly susceptible to failure – and their potential to support entrepreneurship, growth and jobs may fail to be realized.

MSMEs have not been spared from experiences of Climate change impacts and the critical one being inadequate energy supplies. Malawi depends on hydro power and due to sedimentation, siltation, flooding, droughts, and urbanization; the power supply has experienced, blackouts and long hours of load shedding leading to negatively impact operations of the SMEs. Cooling, heating and all industrial processes that rely on electrical energy have been significantly affected. Worsened by lack of access to finances combined with regulatory and technology barriers, SMEs have remained crippled to adopt energy efficient and clean technology and practices to address energy unreliability and inefficiency challenges as well as digital finance services (DFS).

1.4 Regulatory and policy gaps exacerbate the challenges

Due diligence conducted by the project team of regulatory and policy space and the coordinating unit of the MoEFPD in terms reveals policy/regulatory/capacity gaps and the need for support to set up an appropriate environment according to best practice to facilitate financial inclusion, entrepreneurship and MSMEs growth. There are gaps in the legal, policy and regulatory framework for mortgage finance, leasing finance and long-term finance as they facilitate access to financing by MSMEs and the growing of entrepreneurship. There are also gaps in the implementation and reviewing of strategies and roadmaps such as those on financial sector development, financial inclusion and government payments digitization. There is need to build capacity for the Ministry to play its role to create the necessary policy environment for increasing financial inclusion and facilitating entrepreneurship.

1.5 Covid-19 pose further challenges

Covid-19 is amplifying the challenges confronting MSMEs and is damaging otherwise healthy firms that require support to remain viable. The economic shock is being transmitted through (a) falling demand, (b) reduced and disrupted input supply, (c) tightening of credit conditions and cash flow challenges, and (d) rising uncertainty.

[5] For instance, a World Bank report "Jobs for Growth" (2015, MNA) showed that it is younger firms and more productive firms that create more jobs in MENA.

The Government has declared a state of disaster and proposed measures to respond to covid-19 and is seeking support from donors and development finance institutions and organizations. In March 2020, the President declared the outbreak a national disaster and announced basic social distancing and protection measures to help stop the spread of the virus. In April, the Government announced measures mostly aimed at cushioning the private sector from the ensuing economic downturn, including encouraging financial institutions to grant a moratorium on interest and principal repayment of loans on account of MSMEs as well as restructuring of existing loans on a case by case basis , and activating an emergency liquidity assistance facility (ELAF) framework to support banks' continued lending as liquidity weakens. The National Association of Small and Medium Enterprises suggested in May 2020 that it needs a special bailout package for the SME category to help them cushion against the impacts of Covid-19, after observing that the moratorium announced by the Reserve Bank of Malawi (RBM) may not benefit most of the smaller businesses.

CHAPTER 2: PROJECT DESCRIPTION

2.1 Project Overview

Given the constraints outlines in Chapter 1, through this proposed project, the Government of Malawi is seeking to support MSMEs in Malawi, in the short and medium term to weather Covid-19 effects and in the medium and longer term to support job creation and sustainable inclusive growth. This project includes interventions to support firms in tiding over the Covid-19-induced economic crisis aligned with the Government's announced temporary measures.[6] The support envisages both economic relief as well as recovery dimensions outlined in the World Bank's overall approach to the Covid-19 response using instruments to support liquidity and de-risking. In the short term, the project will support additional buffers and liquidity for financial institutions to continue providing finance and services to MSMEs to maintain their payroll, pay their bills, provide continued supply of essential goods and services to the economy, and mitigate risk of failure/bankruptcy.

In addition, the project design is suited to support MSMEs to recover by facilitating opportunities and conditions for MSMEs with potential for growth to thrive over the medium-to-long term, hence contributing to the twin pillars of 'connecting to and creating markets' and 'building capabilities' under the IDA19 Jobs and Economic Transformation (JET) agenda. The project will focus on the cross-cutting issues related to finance, business regulation, and innovation and on building capabilities of entrepreneurs and MSMEs. Increasing the supply of financing alongside capacity building to start-ups and MSMEs will provide a demonstration effect of successful MSME borrowers that would encourage financial institutions and investors to increase funding to this group over the medium to long term. This will encourage more youth and entrepreneurs to start businesses and over time create a snowball effect of increased entrepreneurship and job creation. Specific focus will be made to support women business capabilities to enhance their potential to access financing. The project will also address some of the market failures that are limiting the supply of affordable finance and will develop solutions for a more conducive business environment for dynamic business creation, including building capacity of institutions and business development support providers to ensure sustainability of MSME lending and investment beyond the life of the project.

2.2 Project Development Objective

The Project Development Objective (PDO) is to increase access to financial services, promote entrepreneurship and capabilities of MSMEs in Malawi including addressing Covid-19 implications.

In the long-term, the project is expected to contribute indirectly to the creation of a large number of jobs, due to spillover effects on the supply and value chains. However, this is beyond the direct monitoring scope of the project. While this will have some economic impact, it will not be included as a core indicator. However, the project will track the number of jobs created directly by the project, dissaggregated by gender and by age. The project will explore best practice frameworks working with experts in the Jobs Unit to determine how to measure the number of indirectly created jobs under such an operation and will monitor the results to

[6] It also aligns with the World Bank's approach for supporting firms during Covid-19 as indicated in the note 'Supporting Firm Resilience: A Firm Support Program for WBG Covid-19 Phase 2 Response'.

the extent possible.

2.3 Components and Implementation Activities

Activities for this project will be structured under four mutually reinforcing components, namely: Component 1: Liquidity enhancement to MSMEs; Component 2: Scaling entrepreneurship and building firm capabilities; Component 3: Enhancing the enabling environment for supporting the financial inclusion and growth of entrepreneurs; and Component 4: Project implementation support (see table x below). The project will also provide funding to support the RBM's Covid-19 response alongside the RBM's Emergency Liquidity Assistance Facility (ELAF).

Table 1: Project Cost

Project Components		Project Cost (US$, millions)	IDA Financing (US$, millions)	Financing (percentage)
Component 1: Liquidity Enhancement to MSMEs		**65.00**	**65.00**	100
Subcomponent 1.1: Credit line and special support for Covid-19 response for MSMEs, and technical assistance to participating financial intermediaries		49.00	49.00	100
Subcomponent 1.2: De-risking financing to MSMEs		16.00	16.00	100
Component 2: Scaling Entrepreneurship and Building Firm Capabilities		**7.50**	**7.50**	100
Subcomponent 2.1: Building firm capabilities for SMEs		5.50	5.50	100
Subcomponent 2.2 *Developing Capacity of SMEDI*		2.00	2.00	100
Component 3: Enhancing the Enabling Environment for Supporting the Financial Inclusion and Growth of Entrepreneurs		**9.00**	**9.00**	100
Subcomponent 3.1: Improving Financial Infrastructure and Regulatory Framework		6.00	6.00	100
Subcomponent 3.2: Increasing Financial Literacy and Consumer Protection		3.00	3.00	100
Component 4: Project Implementation Support		**4.50**	**4.50**	**100**
Total		***86.00***	***86.00***	***100***

2.3.1 Component 1: Liquidity Enhancement for MSMEs

This component aims at increasing the supply of wholesale financing to the project's participating financial intermediaries (PFIs) and scaling lending and/or investments to MSMEs. The focus is on providing immediate relief and support for medium-term recovery and resilience of firms. Funding will cover two main interventions organized under the following subcomponents.

Sub-component 1.1: *Credit line and special support for Covid-19 response for MSMEs, and technical assistance to participating financial intermediaries*

This aims at increasing the level of wholesale financing to the PFIs to facilitate increased lending to traditional MSMEs in key development sectors including in the post-Covid-19 recovery and growth period. By extending the IDA financing to the banks as well as the MFIs, the project will offer lower-cost funds to the sector and allow the financial institutions to pass some of the savings to MSMEs. Financing to MSMEs will be in the form of an LoC including under the ELAF on-lent by the RBM to eligible PFIs (banks, MFIs, SACCOs), which will pass on this financing to eligible MSMEs in the form of credit for working capital and investment in local currency. The ELAF was established in April 2020 as one of the measures announced by the Government of Malawi to prevent the spread of the Covid-19 pandemic and to mitigate its negative effects. Eligible MSMEs include those engaged in key development sectors particularly agribusiness and productive export-oriented farming; those with existing links to large commercial enterprises; and those operating in trade, clean energy, and e-commerce. The intention is to create a demonstration effect for lending to the MSME sector, which currently has low levels of access to finance. Through this intervention, the project will focus on SMEs as well as microenterprises seeking to graduate out of the micro space and have the potential to scale up.

The credit line will be extended through the RBM to commercial banks, MFIs, and SACCOs that meet eligibility criteria for on-lending to MSMEs. PFIs will assume the credit risk for the on-lent funds to MSMEs and, to avoid creating distortions, will set their own commercially sustainable interest rates. It should be noted that in order to achieve objectives of the Project, the RBM may provide directions on the pricing of facilities granted to MSMEs by PFIs Eligibility criteria for the wholesale financier (the RBM), the PFIs, and final beneficiaries as well as the terms for on-lending and the flow of funds arrangements will be consistent with the World Bank's policy and guidelines on financial intermediaries, as detailed in this Project Implementation Manual (PIM) as well as RBM's Environment and Social Policy and Procedures that are aligned to the World Bank ESS.

TA amounting up to US$2.0 million will be provided to the RBM and PFIs to strengthen their capacity to serve MSMEs, to adopt fintech approaches, and to reinforce the implementation of the lines of credit including the Covid-19 response. TA in form of trainings, conferences, local workshops or consultancies will be provided to the RBM to strengthen capacity to administer the LoC and to dig deeper into addressing the persistent high interest rates offered to MSMEs. The World Bank Group capacity-building training on downscaling will be made available to banks (at sectoral level), including SME banking training modules covering aspects such as policy, strategy, market segmentation, product development, credit risk management, information technology/management information system, and DFS topics such as credit scoring and psychometrics. The modules also support the piloting of innovative financing methods to address constraints on access to finance, especially in the case of enterprises owned by women. The subcomponent will also provide support to strengthen the capacity of PFIs to manage emerging risks such as the coronavirus. Given the recent spread of the coronavirus, it is likely that Malawi will not be impervious to an impact given the interlinks through global value chains, imports, financial capital flows, and trade. This challenge may affect loan repayments and increase NPLs. Support will be provided to the RBM/PFIs to address any such concerns and build capacity, including through improved business continuity and contingency planning exercises to manage such emerging risks.

Subcomponent 1.2: *De-risking financing to MSMEs*

This subcomponent will provide support to MAIIC to play a key role in supporting the

medium-term recovery and resilience of firms, although it will also support, through a guarantee fund, extension of credit for immediate relief. Launched in 2018 to provide nonbank financing as well as guarantees to credit issued by banks, MAIIC is a local development finance institution (DFI), developed by the Government in collaboration with the private sector based on a feasibility study conducted with support from development partners including the World Bank. Due diligence was conducted by the project team on MAIIC in terms of its capacity and mandate which revealed the need for support to set up appropriate systems to ensure that MAIIC is operating according to best practice. A transparent and fully commercial-based program would enable MAIIC to crowd in private sector investors and partners. Based on this, TA in the amount of US$2 million will be allocated from this subcomponent for MAIIC to continue building its institutional framework based on best practice. The TA will include advisory service (AS) such as on capital raising, project structuring, and legal services on transactions; staff training and knowledge sharing exercises; and structuring of the institutional systems according to best practice.

Beyond the TA, the subcomponent [1.2] will support a partial credit guarantee (PCG) fund for all eligible MSMEs, including those affected by Covid-19 and equity and quasi-equity financing and concessional debt for innovative start-ups and SMEs Beyond the TA, the subcomponent will support a partial credit guarantee (PCG) fund for MSMEs affected by Covid-19 and equity and quasi-equity financing and concessional debt for innovative start-ups and SMEs, and also including those that emanate from the training conducted under Component 2 and entrepreneurship ecosystem players (incubators, accelerators, tech hubs, and so on.). Support under this subcomponent will be provided as described in the following paragraphs. The aggregate amount available under the PCG Fund is USD2million.

Equity and quasi-equity financing for innovative[7] start-ups and SMEs. MAIIC will invest equity and quasi equity and other flexible debt instruments in innovative high growth potential start-ups and SMEs leveraging other investors for risk sharing and MFD. Investments will be made either directly into start-ups and SMEs alongside other private co-investors or indirectly through investment contributions in seed funds, accelerators' follow-on funds, and VC funds investing in high-growth SMEs. MAIIC will maintain a significant share in all investments, with the MAIIC investment committee (which consists of independent private sector experts in equity finance and entrepreneurship, selected in accordance with the criteria established in this PIM which incorporate the RBM E&S P&P and with a statement of non-objection by the World Bank) deciding on the level of investments and exits. The total amount available under this line is up to USD 6 million

MAIIC will leverage the ecosystem to develop and fund a pipeline of innovative high growth potential start-ups and SMEs. MAIIC will extend service contracts to ecosystem providers (incubators, accelerators, hubs, and other local or foreign entities based in Malawi) to conduct training and boot camps to help foster more innovative firms. Concessional loans of an amount relative to the purpose and borrowers' capacity (up to an aggregate amount of USD6 million) will be provided directly to enterprises graduating from these ecosystem programs including those that complete the firm capabilities training under Component 2. Concessional loans will be provided directly to enterprises graduating from these ecosystem programs including those that complete the firm capabilities training under Component 2. The size of the concessional loans will be follow the specifications in the subsidiary financing agreement between the individual PFI and RBM

[7] Innovative in this case means new or improved products, new or improved processes and/or business models, and goods and/or services that are new/improved to the Malawi market.

MAIIC will extend service contracts to two categories of ecosystem providers, selected on a competitive basis in accordance with the criteria below as well as the procurement procedures and methods detailed in this PIM specifically in Chapter 4 (Procurement). Before extending financing, MAIIC will also conduct an assessment and review of MSMEs that apply based on criteria indicated in this PIM and other standard criteria for credit risk assessment so long as they meet the eligibility criteria set up for these loans indicated in paragraphs 87 and 90 below.

The two categories of ecosystem service providers that MAIIC will provide service contracts will be (a) general ecosystem providers; and (b) University College based Ecosystem service providers.

Among other considerations deemed necessary by the PIU, general ecosystem providers should have a track record in at least three of the following including a mechanism for identifying and supporting women and youth entrepreneurs:

(a) Supporting development of nascent companies through provision of financial, material and technical resources, facilitating access to industrial mentors and interaction with other entrepreneurs;
(b) Providing office space to startups;
(c) Facilitation of technology transfer;
(d) General training of startups directly or through external trainers;
(e) Connecting startups or other up and coming firms to investors including venture capitalists and angel funds;
(f) Have a formal and comprehensive business support program that will fit into the three stages of developing entrepreneurs as detailed in **Section 2.3.2** specifically, developing the entrepreneurs mentally, training them in specific skills including business management, financial literacy and supply chain management and market linkages.
(g) Have a sustainable business model or adequate resources/sound financial statements to ensure they can complete and deliver the services and thus they should undergo a financial as well as operational review before they are given a contract. In order to ensure the sustainability of business, RBM/MAIIC may require the ecosystem support providers to share their cost structures and how they are covered especially with respect to project implementation to facilitate pricing of their services.

College University based Ecosystem service providers should fulfil at least three of the following including a mechanism for identifying and supporting women and youth entrepreneurs:

(h) Having a track record or working on and delivering incubation programme(s) with reputable organizations/development partners for a sustained period of over one year;
(i) Supporting development of nascent companies through provision and/or linkage of its incubates to financial, material and technical resources, facilitating access to industrial mentors and interaction with other entrepreneurs;

(j) Either providing office space to startups or a well-structured mentorship programme in case of the incubation service provision being offered on a non-residential model;
(k) Offering incubation services in trades/services or value chains in which relevant expertise is available within its faculty;
(l) Having a basic structured programme or curriculum that guide the incubation training process and existence of competencies within its faculty to review the curriculum from

time to time to enable alignment with the objective of this project;

(m) Availability of workshops or demonstration facilities within its campus or proof of an arrangement for access to such facilities by its incubates to facilitate practical and action learning approach;

(n) Ability to demonstrate that the ecosystem player has an after-training business support programme that will facilitate handholding, mentorship and continuous coaching to the incubates; post-graduation and after successfully accessing business financing.

MAIIC will also facilitate Covid-19 immediate relief to SMEs through a PCG fund. Eligible SMEs include those engaged in key development sectors particularly agribusiness and productive export-oriented farming; those with existing links to large commercial enterprises; and those operating in trade, clean energy, and e-commerce and financial services. A PCG, will be provided to the eligible SMEs that can provide evidence of being affected as a result of COVID-19. MAIIC has a guarantee scheme to support firms operating in the productive sector, which can be expanded to support SMEs under the project. SMEs with a good credit history and existing contracts from a reputable corporation or state-owned enterprise or other government agency in good credit standing can use the partial guarantee to apply for credit from banks outside the LoC under Subcomponent 1.1. Firms seeking a PCG will be reviewed by MAIIC for viability. MAIIC shall obtain CRB reports on such firms. Firms seeking a PCG will be reviewed by MAIIC for viability . The objective is to help lower the collateral demanded by banks. In the case of nonrepayment of a loan, banks will provide evidence of their effort to collect in accordance to criteria established in the PIM before approaching MAIIC for reimbursement. The PCG is intended to facilitate credit to MSMEs that have limited collateral in the form of hard asset but are otherwise revenue generating.

In the case of non-repayment of a loan, banks will provide evidence of their effort to collect in accordance with the criteria below before approaching MAIIC for reimbursement:

(a) Banks should provide evidence that the necessary procedures and documentation were fulfilled prior to granting the credit facility;
(b) Banks should provide evidence that the defaulting MSME was formally engaged in relation to the default;
(c) Banks should provide evidence of effort to realize any collateral held on account of the defaulting MSME and where collateral is realized, evidence that it was not adequate to repay the outstanding debt in full;
(d) Banks should provide evidence that in accordance with their internal procedures as RBM guidelines, the debt is due for a write off within a period of 3 months from the date of their claim for reimbursements under the PCG facility.

2.3.2 Component 2: Scaling Entrepreneurship and Building Firm Capabilities

This component will facilitate the building of firms' capabilities, with measures to enhance the quality of business support provided by private and public BDSs. This component will be delivered by competitively selected service providers (local and/or international). It will enhance firms' internal capabilities and increase their eligibility for financing. Women and youth entrepreneurs stand to benefit the most from the training.

Subcomponent 2.1: *Building Firm Capability for SMEs*

Through this subcomponent, the project will provide training to entrepreneurs and firms, using a three-stage approach. This training will encompass the development of psychological and technical skills, followed by measures to connect trainees with market opportunities. Enhancing firms' capabilities will be achieved using a graduated approach, with firms that show significant improvements in terms of their level of awareness and capabilities qualifying as 'transformative' enterprises rather than 'subsistence' enterprises and moving to the subsequent stages of the program. Concessional loans (up to US$6.0 million) will be provided to firms through MAIIC (see Subcomponent 1.2) which will be selected among those who complete the entire training and graduate from the program to incentivize participation in the entire program. Rigorous impact evaluation of intermediate and final outcomes will be an integral part of the subcomponent design, as agreed upon with the government counterparts. The soft loans recipients will include firms that have been affected significantly by Covid-19 but are able to demonstrate sustainability to produce key products during this period in the sectors whose activities have been significantly affected such as pharmaceuticals, tourism, and trading. The value of the TA under this Subcomponent is estimated at USD5.5 million.

A critical expected outcome of this project is to encourage the participation of youth and women-owned businesses. Hence, firms will be selected into Stage 1 of the program based on experimental design and stratified age and by gender. In addition, training programs will be customized and will be informed by evidence (firm survey) to meet the needs of the youth and women-led firms, with an emphasis on personal initiative skills training. Some of the other topics that may be covered in the life skills training modules are likely to include a combination of socioemotional skills training and information related to gender-based violence (GBV), returns to education, job readiness, financial literacy, and cross-cutting topics (such as nutrition and civic engagement). To support and facilitate businesses with the public sector, the training programs will include enhancement of MSMEs' capacity to supply goods and services to the public sector and to promote professionalization of the supply chain. The government-to-person system supported under Component 3 will facilitate and modernize government-to-enterprises transactions.[8]

Subcomponent 2.2: Developing Capacity of SMEDI

This subcomponent will provide funding for SMEDI to improve its capacity to provide services to MSMEs and young entrepreneurs beyond the life of the project. Through competitively selected consultancy firms and individuals, SMEDI will enhance the capacity and training skills of its staff and trainers in providing backstopping services to growth firms and MSMEs focusing on areas such as business development, advisory, and information services, as well as technology adoption and transfer within SMEDI's service provision. This subcomponent will also support purchase of goods, services, and small works by SMEDI such as computers, software, furniture, office refurbishment, Wi-Fi/connectivity, and others to expand SMEDI's outreach in the regions using existing buildings. Where applicable, support may be given for SMEDI to review its legal status so that it contributes to expansion of outreach of its services. These activities will facilitate outreach and delivery of services to MSMEs and enhance SMEDI's support to women and youth owned MSMEs in the agricultural sector and shall include the institutionalization of the three-stage approach to MSME capacity building. The value of the TA under this Subcomponent is estimated at USD2 million.

2.3.3 Component 3: Enhancing the Enabling Environment for Supporting the Financial Inclusion and Growth of Entrepreneurs

[8] The project will collaborate with the Malawi Digital Project and other projects to support development of e-GP and government e-marketplace systems.

This component builds on activities supported under the Financial Sector Technical Assistance Project (FSTAP). The FSTAP aimed to facilitate increased access to finance by Malawi's unbanked, but bankable, population. The project will finance the implementation of activities that make it possible for MSMEs to access financing from financial institutions and to improve their prospect to grow. Specifically, this component will finance activities to increase use of digital financial services (DFS) for MSMEs; improve the effectiveness of the credit reference, movable asset registry, and business insolvency framework and systems; and increase financial literacy and consumer protection with the aim of increasing eligibility for MSMEs to access finance and grow.

Subcomponent 3.1: Improving Financial Infrastructure and Regulatory Framework

The subcomponent will aim at increasing the use of recently developed digital finance services (DFS) technology and systems in Malawi to expand financial inclusion. Funds will be made available to facilitate increasing the volume of MSMEs that would be connected to the DFS technology through the national payments system, to facilitate PFIs to innovate and develop financial products that are suitable for MSMEs, and to reduce the cost of borrowing by reducing perception of risk by the PFIs. Funds will be made available to support onboarding of SACCOs and MFIs on to the MFI Hub and to support the MFI Hub to integrate with other third-party systems. This will facilitate secure lending for MFIs to MSMEs, facilitate penetration of financial services, and increase financial inclusion. The subcomponent will also provide support for the improvement of the functionality of central securities depository (CSD) for the stock exchange to facilitate participation of small private sector players on the exchange.

This subcomponent will reduce risks associated with financial institutions lending to MSMEs, hence reduce the cost of funds available to the sector. The subcomponent will support the integration of 'national identities' into the financial sector through a TA to the National Registration Bureau for the credibility of information being used across financial sector platforms. Through TA to the RBM, the subcomponent will support improvement of the credit reference system with the aim of developing credible credit scoring for the financial sector. Through this subcomponent, the project will also support use of the collateral registry systems to encourage use of movable and cheaper collateral by MSMEs. To encourage formalization, the project will collaborate with the Agriculture Commercialization (AGCOM) project which is financing the development of a modern business registration system.

Through this subcomponent, TA and capacity building will be provided to the MoF to review and/or develop suitable regulatory and policy environment framework to facilitate financial inclusion, facilitate entrepreneurship, and grow MSMEs. It will help MSMEs on new DFS innovations; on mortgage finance, leasing finance, and long-term finance as they facilitate access to financing by MSMEs and the growing of entrepreneurship; and implementation and review of strategies and road maps on financial sector development and financial inclusion and to complete the electronic government-to-person payments system facilitating MSMEs to do business and provide goods and services to public service and to support implementation of deposit insurance system. The value of the TA under this Subcomponent is estimated at USD6 million.

***Subcomponent 3.2:** Increasing Financial Literacy and Consumer Protection*

This subcomponent will provide TA to the RBM and selected private institutions to implement financial literacy and consumer protection activities. Guided by the recommendations from the country's Financial Inclusion Strategy, the subcomponent will aim at promoting savings culture, developing and implementing financial literacy awareness and consumer protection programs, enhancing the provision of free and easy to access financial consumer complaints and dispute resolution mechanisms and promoting the use of the DFS for MSME owners, particularly for the women and the youth entrepreneurs. This subcomponent will also support the improvement of financial literacy of future entrepreneurs and hence support the broader integration of financial education initiatives at the primary school level. The value of the TA under this Subcomponent is estimated at USD 3million.

2.3.4 Component 4: Project Implementation Support

Funds under this component will be used to meet the costs of the Project Implementation Unit (PIU) in its capacity as the implementing entity, including costs related to fiduciary and safeguards aspects and monitoring and evaluation (M&E). An M&E system will be developed to monitor and track the progress of the project. The M&E activities will include updating the baseline data based on information derived from ongoing surveys. This component will also fund retroactive financing arrangement that may be required to finance studies and activities and help develop and implement the Covid-19 responses. The value of funds under this Component is USD4.5 million.

Project Beneficiaries

The primary beneficiaries of this Project are MSMEs that face constraints on access to financing for their businesses. MSMEs will benefit from the availability of funds through the line of credit extended to PFIs, including that for the Covid-19 emergency. They will also benefit from possible access to early stage financing/venture capital (VC) for innovative startups and SMEs that are deemed to be transformative and to have potential for high growth and job creation. These funds will be channeled through the Malawi Agricultural and Industrial Investment Corporation (MAIIC). The MSMEs will also benefit from the TOT intended to build their capabilities to enable these firms to participate in market linkages. Other project beneficiaries include those lacking financial literacy skills and the unbanked who will benefit from the financial literacy program. The MSMEs that are affected by the Covid-19 emergency, and private sector MSME players that would normally would not receive payment from Government for providing goods and services to the public sector due to covid-19 will also be key beneficiaries.

Government agencies (MoIT, MoF, RBM, MAIIC, and other financial entities) and ecosystem and BDS providers will also benefit from this project, with most of this benefit taking the form of institutional strengthening and capacity building. PFIs will also be beneficiaries from capacity building activities intended to enhance their capacity to adopt and implement innovative tools and DFS to better serve MSMEs.

Institutional and Implementation Arrangements

RBM will implement components, 1,3 and 4. The RBM will implement Subcomponent 1.1 (Credit line and special support for Covid-19 response for MSMEs, technical assistance to participating financial intermediaries) and Component 3 (Enhancing the Enabling Environment for Supporting the Financial Inclusion and growth of Entrepreneurs) and through the PIU, Component 4. The RBM will contract qualified service providers and/or short-term consultants to support implementation of the TA for the credit line. The following criteria in addition to recommended procurement procedures will be applied in the selection of the appropriate service providers/consultants:

(a) Consultant(s) should demonstrate a clear understanding of Malawi financial sector including how it serves MSMEs;
(b) Consultant(s) should demonstrate that they are conversant with the financing needs of MSMEs and challenges they face when accessing credit from financial institutions;
(c) Consultants should have experience in local commercial banking including business development through working with MSMEs and credit risk management;
(d) Consultants should be able to network with key stakeholders in the private sector, commercial banks, MFIs, RBM, Ministry of Finance, and relevant government institutions;
(e) Consultants should have a clear understanding of the World Bank Financial Intermediary Financing criteria.

For Subcomponent 1.2 (De-risking financing to MSMEs), the RBM will enter into a subsidiary agreement with MAIIC, which will facilitate (a) establishment of a Covid-19 PCG fund; (b) the equity and quasi-equity financing to innovative start-ups and SMEs; and (c) the strengthening and funding of a pipeline of innovative start-ups and growth-oriented SMEs leveraging the business and entrepreneurship ecosystem support providers. The World Bank will carry a further assessment of the technical staff and management of MAIIC especially with regard to their knowledge and capacity to manage E&S risks as they are already considered to be qualified and possessing the necessary experience to fulfil the assigned tasks.

MoI will oversee implementation of activities Under Component 2. However, the MoI will receive its required funding (mostly incremental operating costs) from the RBM where the PIU will be based, and the FM- and procurement-related activities will be centralized at the RBM. The MoI has appointed a senior officer to ensure ownership and implementation of Component 2. In addition, the PM will ensure coordination between the RBM and the MoI. The MoI will employ competitively selected local and/or international service providers to implement the firm support program in accordance with the criteria developed and contained in this PIM specifically, Chapter 3 section 3.4. The service providers will determine the best modalities to strengthen and support participating firm's/entrepreneurship intermediaries The PIU will implement procurements for SMEDI. (see details in Chapter 3).

The PM will report on the M&E framework. With support from the PIU, the PFIs, MAIIC, and MoI will track both PDO indicators and indicators on gender and citizen engagement through a survey of beneficiaries conducted before the midterm review to determine whether their access to finance has increased and their firm capabilities have improved as a result of the project's interventions. This survey of beneficiaries will also provide data on beneficiaries' income segment. For Component 1, the PFIs will develop reporting and representation mechanisms to collect and monitor information on beneficiaries, with a disaggregation of PFIs' refinancing to compare the impact of new loans to the rollover of existing loans.

CHAPTER 3: IMPLEMENTATION ARRANGEMENTS

3.1 Institutional structure

Reserve Bank of Malawi: The borrower is the Republic of Malawi, represented by the Ministry of Finance, **but** the RBM will be responsible for the overall implementation of the project.

Project Implementation Unit (PIU): A PIU, established at the RBM, will oversee day-to-day project implementation, monitor progress, and coordinate and account for the utilization of project funds: (a) The RBM shall maintain a PIU with mandate, composition and resources satisfactory to the World Bank to be responsible for (i) day to day implementation of the Project; (ii) coordinating the implementation of the Project with Ministry of Industry (MoI) and supporting the Ministry with fiduciary, environmental and social, procurement, monitoring and evaluation under Component 2; (iii) serve as the secretariat for both the project steering committee and the project technical working group; and (iv) operationalizing RBM's E&S Policy and Procedures and promoting the development, operationalization of ESMS for implementing Agencies and PFIs as part of the management of E&S risks and impacts. The PIU shall include an environmental specialist, a social specialist, a finance management specialist, a monitoring and evaluation specialist, a procurement specialist and a financial sector specialist. (b) Not later than three (3) month after the Effective Date, the project shall recruit an additional procurement specialist with qualifications, experience and terms of reference acceptable to the World Bank. As a project management entity, RBM may recruit if not already in place, an E&S specialist separate from the one under the PIU and ensure that E&S risk management roles and responsibilities are added to job descriptions for relevant staff.

Ministry of Industry: MoI shall be designated as the implementing agency for Component 2 of the Project and ensure coordination between MoI and the RBM in the implementation of their respective parts of the Project.

Project Steering Committee (PSC): The Government shall maintain, during the implementation of the Project, the PSC with mandate, composition and resources satisfactory to the Association and responsible for providing overall strategic and general policy guidance on Project.

Project Technical Working Group (TWG): The Government shall maintain, during the implementation of the Project, the Project Technical Working Group established under the PSC, with mandate, composition and resources satisfactory to the Association and responsible for providing technical guidance on the Project, stakeholder dialogue and monitoring Project impact.

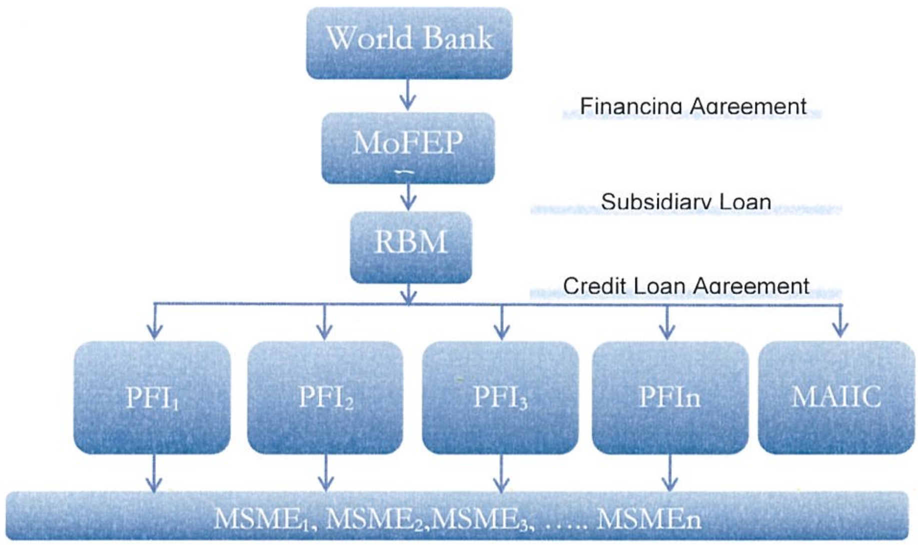
3.2 Legal arrangements

The flow of funds for the credit line will be regulated by: (i) Legal Agreement (LA) entered into between the World Bank and the MoF; (ii) Subsidiary Financing Agreement (SFA) entered into between the MoF and the RBM; and (iii) Subsidiary Loan Agreements (SLAs) entered into between the RBM and the PFIs. These agreements will specify the terms and conditions for the use of the LoC as agreed between the MoF, the RBM and the World Bank and will be subject to the World Bank's approval (no objection). (see fund flow chart below). The CLAs entered into between the RBM, MAIIC and PFIs will incorporate requirements specified in RBM's E&S Policy and Procedures and fully comply with the World Bank ESS.

3.3 Implementation Arrangements for Component 1

Subcomponent 1.1 (Liquidity Enhancement for MSMEs): The RBM will implement credit line in accordance to the Financial Intermediary Financing framework in Annex 2 of the PAD, and TA to PFIs as explained in Annex 2 of the PAD. With regards to the training of PFIs the RBM will contract qualified experts in the relevant topics. For each topic/TA needed, a minimum of 3 resumes/proposals should be short-listed and evaluated by the RBM, with the selection decision properly reflected and filed/documented – these must be made available to the World Bank if/when requested. A temporary emergency liquidity stimulus funding targeting MSMEs that will be hard-fit by Covid-19 alongside the RBM's ELAF will also be provided through this subcomponent.

Figure 1: Funds Flow Chart



3.3.1 Eligibility Criteria for the Wholesale Financer and PFIs

Wholesale Financing by RBM

The RBM will be the wholesale financer, as it is the institution best positioned to provide wholesale financing to PFIs in Malawi. The RBM has a track record of managing World Bank-funded projects, including the FSTAP. It also has the legal mandate to extend wholesale financing to PFIs for on-lending to MSMEs. Moreover, the RBM's banking and MFI supervision functions give it an added advantage in terms of its ability to manage the implementation of the Loco

In line with RBM's objective of promoting the stability of Malawi's financial system, it has two supervision departments, which will together be responsible for supervising the PFIs involved in this project. These are the Banking Supervision department (responsible for regulating and supervising banks and other financial institutions in Malawi) and the Microfinance and Capital Markets Supervision department, (responsible for regulating and supervising MFIs, financial cooperatives and capital markets financial institutions). These two departments will ensure that the RBM adequately fulfils its role of protecting the public interest by administering a regulatory and supervisory regime and by maintaining a good supervisory oversight over the

PFIs involved in this project including compliance with RBM's E&S requirements as well as the World Bank's ESS. The supervision departments will maintain their functions and not be involved in the PIU to ensure PFIs benefitting from the project funds maintain all requisite macro prudential norms and conflict of interest is mitigated.

Eligibility Criteria for PFIs

The RBM will select PFIs according to the criteria agreed upon between the RBM and the World Bank which incorporates compliance with the RBM E&S P&P and subject to the latter's approval (no objection). PFIs will submit expressions of interest to participate in the project, with the RBM PIU responsible for assessing their eligibility, checking their standing with the supervision departments, and selecting them. Before the final selection of the PFIs, the RBM PIU will submit an evaluation report to the World Bank, together with a request to include the specified PFIs in the project. The World Bank will review the RBM's assessment and, if it approves, provide a statement of no objection for each PFI's participation. The RBM will send a detailed statement of the proposed PFIs financial records to the World Bank within 90 days of the end of the fiscal year to ensure that the selected PFIs continue to meet the required criteria throughout the life of the project. A statement of no objection will not be required for the continued participation of the PFIs.

All PFIs will be assessed in terms of the following criteria and as full compliance with the RBM E&S P&P as detailed in Chapter 6:

(a) The PFI must be duly licensed in Malawi and have been in operation for at least two years.
(b) The PFI's owners should be determined to be "fit and proper" persons. The PFI must have qualified and experienced management, adequate organization, and the necessary institutional capacity for its specific risk profile.
(c) The PFI must meet all national prudential and other applicable laws and regulations, remaining in compliance at all times.
(d) The PFI must maintain capital adequacy at the levels prescribed by the national prudential regulations.
(e) The PFI must have adequate liquidity at the level prescribed by the national prudential regulations.
(f) The PFI must classify its assets and make adequate provisions. The quality of its portfolio must be adequate, with an appropriate NPL ratio as percentage of total assets in line with prudential regulations.
(g) The PFI must have positive profitability (adjusted for the receipt of any subsidies) and an acceptable risk profile.
(h) The PFI must have adequate internal audit and control systems for its specific risk profile.
(i) The PFI must have adequate management information systems.
(j) The PFI must agree to and have previous experience lending out to MSMEs, preferably with a focus on businesses owned by women.
The PFI must have adequate managerial autonomy and a commercially oriented governance system.; and
(k) In case where a proposed PFI does not fully meet all the proposed eligibility criteria and where the RBM considers it reasonably feasible that the PFI participates in the project, the PFI shall submit a proposed institutional development plan, including a set of time bound monitorable performance indicators to ensure conditional eligibility and where necessary RBM will support the PFIs to achieve the eligibility criteria including compliance with E&S as detailed in Section 6.2. However, there will be a required minimum of a basic General Environmental and Social Policy of the institution or guidelines on safeguards in general

for their operations. This should include an exclusion list and a basic grievance and labour management criteria. A presentation of these basics will place the PFI in a position of conditional eligibility. The PIU will then work with the PFI to fully align them to the requirements set herein and ensure that these are abided to with the specified timeline.

(l) Submission of a Board Resolution authorizing the PFI to participate in the Line of Credit and specifying the maximum amount that can be accessed

3.3.2 On-lending terms from RBM to PFIs

Guidelines for determining interest rates, costs, and loan tenures under the project have been specified below **and will be adjusted to market changes and linked to a formal reference rate.** The LoC makes funding available to eligible financial intermediaries for on-lending to eligible MSMEs on terms that ensure sustainability; avoid perpetual dependence on government facilitated resources; and prevent the emergence of conflict of interest. The criteria for qualifying PFIs will include compliance with the RBM E&S P&P including the monitoring process. The RBM will assume the risk of on-lending to PFIs[9] and will determine interest rates and other terms for the wholesale finance, adjusted to market changes. Overall, the wholesale pricing strategy will serve the purpose of attracting eligible PFIs to participate in the scheme at a sufficient margin, while enabling the provision of more affordable finance to MSMEs. The significant market advantage to PFIs and final borrowers will be on maturity, by facilitating the provision of longer-term finance to MSMEs without PFIs taking on maturity mismatches.

Maturity: Considering the time lag between the disbursement of wholesale finance from the RBM to PFIs' on-lending to MSMEs, the RBM will include a grace period of no more than twelve months for its loans to PFIs, based on criteria specified below and other conditions that may be agreed upon with the World Bank. Participating PFIs are expected to receive steady cash flows from clients relatively soon after disbursements are made. The Criteria for granting a grace period to PFIs include:

(a) Delayed disbursements to final beneficiaries (MSMEs) as PFIs wait for fulfillment of key credit facility conditions by the MSMEs;

(b) There is an existing pipeline for funding requirements that will need a much higher amount than the amount that could be repaid by the PFI in the next 6 months; and

(c) Part of the funds have been lent to MSMEs that may need a grace period as they are investing funds in capital equipment that is being imported or is being built and the project will not start generating funds immediately to facilitate repayments.

All loans granted to PFIs under this component will be repaid (by PFIs to RBM) in line with the scheduled repayments from the MSMEs and should be fully repaid by the end of the project period although the RBM subject to agreement with the Malawi Government may extend the availability of the facility beyond the Project period.

Allocation of the loan amount to PFIs: The loan amounts for the PFIs will initially be credit capped, based on their financial strength and perceived absorptive capacity. Loans will be provided on a first-come, first-served basis, until the LoC is exhausted. In order to balance amounts granted to PFIs, each PFI may access wholesale funding of up to set percentage of its core capital and for banks or deposit taking MFIs this amount should be within a certain percentage of the PFIs stable deposits (savings and current accounts). The exact parameters will be determined by RBM and may be negotiated with the PFI before the SFA is executed.

[9] this include force majeure events that affect the PFIs (TBC after consulting with RBM)

On-lending arrangements: The RBM would on-lend the funds to the selected PFIs based on their confirmed pipelines, covering a realistic period (say, three months), in any event not exceeding 6 months. The RBM would on-lend the funds to the selected PFIs based on a six-month lending forecast provided by the PFIs to the RBM on a semi-annual basis. PFIs may be eligible for advance payments from the RBM against a loan demand schedule to be prepared by the PFIs in advance. Subject to approval by MoF, the RBM will be responsible for channeling the reflows back to selected PFIs to extend additional sub-loans to MSMEs. Once the allocated amount is drawn down, the PFIs will be able to reapply for replenishment.

The normal LOC is meant to support targeted SMEs of which at least 40% should be women owned and at least 20% youth owned. This LOC will be available for the entire project life. The RBM and PFIs will specify how the utilization of the facility will be tracked including the format of the monitoring processes. The PFIs will be submitting their requirements on six-month basis from the effective date of the project until its closure. The facility will be used to finance both capital and non-capital expenditures of targeted MSMEs.

The emergency sub-component will target MSMEs that have been hard hit by Covid-19 pandemic and need additional working capital facilities on top of their regular funding needs and on more concessionary terms to enable them waiver the pandemic. This facility is expected to be fully utilized within a period of 12 months to ensure that businesses are sustained and do not falter due to significant reductions in revenues. As this facility is form immediate needs, PFIs are expected to submit their requirements focusing on the needs of the affected MSMEs for the next two six-month periods from the effective date of the FInES project. For the facility to be more effective, RBM will offer banks a longer moratorium on the repayment of this facility though it's for working capital purposes based on structures of credit facilities that PFIs will grant their clients. Specific details for the favorable terms will be contained in the subsidiary agreements between RBM and PFIs.

Once emergency liquidity requirements are fully met or once repayments from the emergency LOC commence, the available funds may then be available to PFIs for normal lending to their clients under the terms and conditions for the normal LOC. This will be subject to existing or forecast demand for the LOC by PFIs.

Interest rates: The LOC is aimed at providing PFIs with additional/adequate liquidity to specifically extend credit to MSMEs at more competitive but affordable terms including pricing and repayment terms compared to standard terms extended to MSMEs at the moment. In order to enable PFIs offer such considerable terms as well as to make the LOC attractive to PFIs, RBM will have to charge the PFIs an interest rate that is lower than the average cost of funds sourced on the market. Therefore, RBM will charge PFIs an interest rate note exceeding the average cost of savings and fixed deposits for banks and depositing taking MFIs. This interest rate will be determined annually but may be adjusted when economic fundamentals change or if the interest rate is considered unattractive for PFIs.

For the Emergency LOC facility to support MSMEs that are hard hit by Covid-19, RBM will charge a much lower interest rate to enable PFIs to maintain a reasonable margin as they will have to extend this component at a much lower rates to their clients. The specific framework for this will be specified in the subsidiary loan agreement between RBM and PFIs

3.3.3 On-lending terms from PFIs to final beneficiaries

Interest rates: The PFIs funded by the RBM will assume the full credit risk for their MSME portfolio under the project and will be free to determine the price of the sub-loans. The retail pricing terms offered by PFIs will be based on local lending market conditions to avoid market distortions and to reflect PFIs' cost of borrowing/funds, administrative expenses, and estimated loan losses. The terms should also provide a sufficient spread to enable the PFI to make a reasonable profit, thus ensuring sustainability over the medium term. The RBM may provide directions on the pricing of facilities granted to MSMEs by MFIs in order to support achievement of project objectives. Imposing a margin that adequately reflects PFIs' cost and risk would allow them to build a capital base which could then be reinvested in new loans to eligible SMEs. However, the project will support greater transparency regarding MFI interest rates, with MFIs being required to disclose the rate build-up and the effective interest rate to borrowers on their websites and through issuance of Key Fact Statements (half or one paged document summarizing key terms and conditions of the credit)to the borrowing MSMEs before, during and after the loan contract. The RBM will monitor this disclosure regularly to ensure that the information is up-to-date and accurate. In addition, the applicable interest rates will be transparently disclosed and included in the loan contracts entered between the PFIs and borrowers. Furthermore, the PFIs will be required to disclose to the MSMEs available complaints and dispute resolution mechanisms and how the MSMEs can lodge their complaints

For the normal LOC, PFIs will be expected to charge competitive market rates that are clearly below the excessive margins currently applied on their credit facilities while for the Emergency LOC aimed at supporting businesses hard hit by Covid-19, the interest rate should not exceed the monthly Reference Rate as determined by the RBM.

Eligible sub-borrowers: The sub-borrowers will be creditworthy private sector MSMEs seeking to transform/scale their current business and are operating in key sectors such as agribusiness, exports and trade, clean energy, and e-commerce. A full list of excluded sectors and businesses not eligible for financing under the project as specified in the RBM E&S P&P include, among others, drugs, armaments, liquor, and tobacco is in Annex 3. The PFIs will develop their own assessment criteria which will incorporate the RBM E&S P&P requirements especially with regard to screening for E&S risks for sub-borrowers as detailed in section 6.3.2 and will determine the granting of finance among eligible MSMEs.

Loan amount: For commercial and development banks, the maximum loan size to any MSME shall not exceed: (i) the single exposure limit by the PFI (currently 25 percent of core capital for banks), or (ii) the equivalent of U$250,000 (which may be waived and increased depending on the nature of project at hand); whichever is the lower. For MFIs, the maximum loan size to any MSME shall not exceed: (i) the single exposure limit by the PFI (currently 25 percent of Core Capital for MFIs), or (ii) K20,000,000; whichever is the lower. Subject to these limits, the actual loan size will be determined by the PFI.

Monitoring and Evaluation. An M&E system will be developed to monitor and track the progress of the project, including the LoC and portfolio quality, including the level of NPLs of the project portfolio. The key parameters relating to the M&E system are detailed in Annex 2 of this PIM. The M&E activities will include updating the baseline data using ongoing surveys. The monitoring and evaluation process will incorporate monitoring PFIs' compliance with the RBM E&S P&P requirements throughout the tenure of the project.

Subcomponent 1.2 (De-risking financing to MSMEs): For the early stage equity financing and to support development of long-term-finance, the RBM will sign a subsidiary agreement with the MAIIC, which will be responsible for extending equity and quasi-equity financing and TA to seed and early stage funds as well as VC funds to invest in and support development and growth of innovative start-ups and SMEs with potential for high-growth and job creation, establishing a PCG fund and extending concessional financing to MSMEs that graduate from the firm capabilities training and other programs by BDSs, incubators, accelerators and other entrepreneurship support entities. . Alongside the credit line, the project will finance a PCG fund to cover any loan facilities where the MSME does not have collateral. The subsidiary agreement between RBM and MAIIC will detail the responsibilities of MAIIC. The MAIIC's responsibilities will include, amongst others, managing the sourcing, review and making investments in, and extending TA to, eligible ecosystem partners as decided by an independent investment committee composed of private sector specialists to be established at MAIIC in accordance with criteria indicated in this PIM on page 33. The selection of the investment committee members will require a statement of non-objection by the World Bank. Neither the MAIIC Board of Directors (BOD), RBM, MoF, the World Bank nor any government entity will play a role in the selection and sourcing of investments. The MAIIC BOD, the RBM, MoF will maintain an arms-length monitoring role (will not direct influence) to ensure that MAIIC management and the investment committee are implementing the related activities in accordance with the PDO and criteria indicated in this PIM and that MAIIC management is ensuring proper fiduciary and safeguards management (in compliance with the RBM E&S P&P as well as MAIICs; own E&S P&P(which should be aligned to the RBM E&S P&P) and reporting to the RBM. Any changes to the investment committee criteria, governance and investment process, and the investment strategy, requires World Bank approval.

For the TA and other experts MAIIC in liaison with PIU may contract qualified experts as needed. For each topic/TA needed, a minimum of three resumes/proposals should be short-listed and evaluated by the RBM, with the selection decision properly reflected and filed/documented – these must be made available to the World Bank if/when requested.

PCG fund: A PCG of a maximum of USD 100,000 or other share defined in the PIM will be provided to eligible SMEs including those that can provide evidence of being impacted as a result of COVID-19. MAIIC has a pilot guarantee scheme to support firms operating in the productive sector which can be expanded to support SMEs under the project. MSMEs without adequate collateral but with a good credit history and/or have existing contracts from a reputable corporation, or State-owned-enterprise or other government agency in good credit standing can apply for credit from banks participating in the LoC or those not participating in the LoC under Subcomponent 1.1. The banks will then apply (to MAIIC) for a PCG to cover such credit requests, Firms seeking a PCG will be reviewed by MAIIC for viability and for confirmation that they are not servicing other loans in the financial services sector. MAIIC shall obtain CRB reports on such firms. Firms seeking a PCG will be reviewed by MAIIC for viability. The banks will assume some of the risk of the loan to mitigate against moral hazard and determine whether to extend credit to the MSMEs based on due diligence aligned with the RBM's prudential guidelines for extension of credit. The objective is to help lower the collateral demanded by banks. The PCG is intended to facilitate credit to MSMEs that have limited collateral in the form of hard assets but are otherwise revenue generating. In the case of non-repayment of a loan, banks will provide evidence of their effort to collect in accordance with the criteria below before approaching MAIIC for reimbursement:

(a) Banks should provide evidence that the necessary procedures and documentation were fulfilled prior to granting the credit facility;
(b) Banks should provide evidence that the defaulting MSME was formally engaged in relation to the default;

(c) Banks should provide evidence of effort to realize any collateral held on account of the defaulting MSME and where collateral is realized, evidence that it was not adequate to repay the outstanding debt in full; and

(d) Banks should provide evidence that in accordance with their internal procedures and RBM guidelines, the debt is due for a write off within a period of 3 months from the date of their claim for reimbursements under the PCG facility.

Criteria for selection of start-ups/SMEs seeking equity/quasi equity and concessional debt financing from MAIIC.

To be eligible for financing from MAIIC either directly or indirectly, a Start-up/SME must have a presence in Malawi with the locus of its operations conducted in Malawi even if their product target market is external. This includes companies with foreign shareholders but who include Malawians and/or legal residents. All eligible SMEs must comply with RBM E&S P&P within a reasonable time and may not be engaged in any of the activities or sectors included in the negative expenditures list described in the project ESMF, the RBM E&S P&P and this PIM.

When evaluating an investment, the following should be taken into consideration:

Criteria for selection of startups: Management Team; Stage of investment; Market size; Comparative edge; Market validation; Business model; Risk Analysis; financial projections; Due diligence reports for investments will be made available to the World Bank upon request.

Criteria for selection of SMEs: Management Team; Stage of investment; Market size; Comparative edge; Market validation; Business model and unit economics; Risk Analysis; Valuation; Exit; Track Record: including annual audited financial statements for Companies (the audit report must be void of any adverse or disclaimer opinions in the last 2 years); or non-audited financials for sole proprietorships, partnerships; Due diligence reports for investments supported by MAIIC's E&S performance reports as specified in section 6.3.3 will be made available to the World Bank upon request.

Concessional debt to be priced below prevailing market rates (specially the Reference Rate, and with a longer grace period on repayment of interest and capital to enable the beneficiary firms start generating satisfactory revenues to service the debt.

Broad Investment Parameters. Table 1.1 provides high level guidelines for MAIIC based on a total capital investment of around US$6 million can be mobilized during the first 5 years. Table 1.1. is indicative and the investment strategy and budget is subject to adjustment and re-allocation to meet the market demand. The MAIIC may also decide to apply the fund of funds model and use the allocation to invest in funds (contributing capital as well as management fees) with a similar investment strategy and targets as proposed in the table below. Based on best practice MAIIC will make co-investments in Start-ups and SMEs preferably as a minority shareholder, though a majority equity investment may also be considered depending on funding needs. In all cases, MAIIC will stand on equal terms 'pari passu' alongside private investors who have skin in the game and are equally convinced through their own due diligence of the potential viability of the investment. Another best practice is for MAIIC to invest alongside a lead investor that has the capacity to fully support the investee develop its business and make it successful. This addresses the capacity constraints in MAIIC to follow-up closely on each investment since they have a lean structure. Any key changes to the investment strategy and allocations will require MAIIC BOD and World Bank approval within the project life and the BOD's approval after the WB project closes.

Table 2: Broad Investment Parameters of the MAIIC over the Project Life (5 years)

Type	Direct Investments			Total
Stage (average investment ticket size)	Seed (below US$200,000)	Early Stage (US$200,000-US$500,000)	Venture (US$500,000 - US$1.5 million)	
MAIIC Allocation	US$1,000,000	US$2.0 million	US$3.0million	US$6 million
Sectors	Opportunistic with focus on Tech, Media, Telecom, Agricultural, Health, Manufacturing, financial services/fintech, and green energy			
Players	Accelerators / Incubators + Seed Funds	Accelerators / Incubators + Angel Funds / networks/Early Stage VC funds	Early stage and VC Funds, family offices and other corporate investors and investment banks	
Target number of companies (appx.)	7	5	1-3	13-16
Private leverage x1.5 min. (approximation)	US$1.5 million	US$3.0 million	US$4.5 million	US$9.0 million
Total investment Allocation	**US$2.5 million**	**US$5.0 million**	**US$7.5 million**	**US$15.0 million**

Investment Guidelines

The company may have a co-investor(s) as MAIIC will only contribute a part of the overall capital raise or may make own contribution to match MAIICs' investment – refer to table 1.1.

When there is another investor in the opportunity, they will need to share all Due Diligence to MAIIC.

The opportunity should yield a projected IRR of at least 12 percent in Malawi Kwacha terms.

A company can only apply up to two times for MAIIC investments across its lifecycle. If the company is applying for a second investment, the company must meet a majority of their base case assumptions under the first investment.

Investment structure

Equity: At its simplest, a straightforward equity investment in the target firm with MAIIC subscribing to share capital in the entity at the agreed valuation. This straightforward structure may be modified so that the investment is made in tranches (steps). The steps may be benchmarked against targets, milestones or a specific timeframe. The subscription price may also be adjusted up or down if milestones are not achieved or forecasts are exceeded.

Convertible Debt: MAIIC provides financing to the enterprise as a loan at an agreed interest rate, but the loan becomes convertible into equity in the target business (sometimes automatically, at other times upon election of MAIIC).

In most cases, as approved by the Investment Committee, MAIIC would look to sign a term sheet highlighting the overall structure of a deal. The purpose here is to highlight the intent and the overall perceived structure. This is non-binding and is subject to change based on the outcome of the due diligence process.

Regardless of the structure of the investment, and if applicable under the Malawian Law, certain standard protective provisions will need to be included in the various agreements. These include terms such as drag and tag rights, rights of first refusals, audit rights, board seats, targets, non-compete, good leaver and bad leaver clauses and various reserved matters. These terms are determined on a case by case basis and are mainly there to protect MAIIC's downside risk.

Investment Committee

The Investment Committee (IC) will be composed of 5 members including the MAIIC CEO with a minimum attendance of 3 members per sitting. The purpose of the IC is to formulate the investment strategy, evaluate, approve, and review all capital deployments by MAIIC under this project. The MAIIC Board of Directors may delegate to the IC the selection of approval of all investments under the project. The IC will also be in charge of all exits and all restructurings across the areas that MAIIC is involved in through the project.

The MAIIC CEO will propose IC members to the Board who will appoint the IC in accordance to criteria below and on a non-objection from the WB. To be eligible as a member of the IC, an individual must have at least three of the following:

(a) Be non-governmental;
(b) Possess Experience in VC/investment;
(c) Possess Experience in the entrepreneurial ecosystem – either as an investor, or as an entrepreneur;
(d) Have limited or no conflict of interest – see paragraph below on conflict of interest; and
(e) Possess strong analytical and operational experience.

Tasks and Obligations of the IC include:

(a) Formal approval of Investments;
(b) Understanding the MAIIC investment goals and objectives under the project;
(c) Adopting, reviewing and revising MAIIC's investment policies and guidelines;
(d) Establishing a strategic framework within the overall MAIIC's strategy for capital deployments;
(e) Authorizing all capital deployment activities within the set guidelines and framework;
(f) Monitoring and reviewing performance of investments including taking necessary corrective actions as needed;
(g) Approving all exits;
(h) Administrative: other functions the IC may undertake based on best practice include;

(i) Review and approve annual budget that is to be shared and approved by the Board; and
(j) Monitor capital deployment and MAIIC's annual budget.

Investment Selection Process

A. A meeting agenda including dossiers of each application shall be prepared and circulated by the MAIIC CEO to the Investment Committee (IC) members at least five business days before each meeting to enable the Committee to make informed decisions. A simple majority vote will result in a resolution being passed. The Chairperson will have a casting vote if the vote is tied. If the Chairperson is absent from the meeting, the remaining members will elect one of their number as Chairperson of that meeting.

B. The IC shall maintain clear minutes or other records of meetings and activities of the Committee, which must be circulated to all Committee members within ten (10) business days for approval and subsequent signature. Once signed, the minutes shall be distributed to all members and the MAIIC Board.

C. Decisions made by the IC will be evidenced by resolutions passed at a meeting and recorded in the minutes of the respective meeting, or by a written resolution (including unambiguous email approval) signed by all members of the Committee.

D. The IC shall be responsible for the appointment, compensation and oversight of the work of any independent counsel or other advisers retained by the IC, and the MAIIC shall provide appropriate funding for payment of reasonable compensation to any such independent counsel or other advisers retained by the IC.

Conflict of Interest

The BOD, MAIIC management, and the IC members will adopt a code of conduct, conflict of interest policies and procedures, and enforce several measures to mitigate conflict of interest that may arise. An overview of key issues regarding conflict of interest are summarized below.

The Committee and Board members and any other person present at an investment selection meeting (Invitees) must declare any actual or potential conflicts of interest in any investments at the start of each meeting or, at a minimum, before discussion of the relevant agenda item or topic. All details of any conflict of interest must be documented in detail in the minutes of the relevant meeting. Before discussing the relevant agenda item or topic, the Committee must determine by majority vote (excluding the meeting member with the potential conflict of interest) whether the relevant member or Invitee has a real or perceived conflict of interest and whether that member or Invitee shall be excused from the deliberations on the conflict of interest. All actual or potential conflicts of interest shall be reviewed with MAIIC's designated Legal Counsel.

3.4 Implementation Arrangements for Component 2

A. To facilitate the firm capability improvement process, the program will adopt an inclusive approach and train a large set of firms in soft skills through a process intended to change their mindset. During the first stage, the screening criterion will be determined by the number of firms interested in participating in the program. The second stage trainings will be more customized and tailored to meet the needs of the firms and their markets, with some higher threshold for firm capabilities and capacity to grow. The final stage of the program would be highly customized for an even smaller number of firms, with grants provided to participants that graduate from the program and with the provision of support to establish linkages between these graduates and potential markets and buyers.

B. **Since Component 2 falls under the mandate of the MoI, the MoI will be responsible for all the TA relating to Component 2 (evaluation and call for proposals, selection of consultancies, and M&E of results).** The PM will ensure coordination between the RBM and the MoI and the RBM will delegate within the PIU established at the RBM, a dedicated PC who will assist the RBM to coordinate with the MoI and to work to ensure proper inter-ministerial coordination for the project. The MoI will assign a focal person for Component 2 who will work with the PM PC. Since the MoI is new to World Bank fiduciary and safeguards processes, the RBM/PIU would still undertake and be responsible for the fiduciary and safeguards aspects of all consultancy contracts including under Component 2 and monitor and evaluate technical implementation of Component 2 through the dedicated PC.

C. **The PC for Component 2 at the PIU will be a technical specialist with substantial experience leading related and similar projects, nationally or internationally.** The PC will report directly to the PIU PM and to the head of SME department at the MoI. The responsibilities of the PC will include, among others: (i) overseeing, coordinating, and managing the day-to-day implementation of Component 2 with the MoI; (ii) managing the procurement, FM, disbursements, and safeguards aspects of Component 2; (iii) coordinating the preparation, adjustments, and use of the project management tools, including the Project Operational Manual, annual work plans, Procurement Plan, and disbursement projections related to Component 2; (iv) coordinating with key stakeholders on the technical aspects of Component 2; (v) monitoring progress toward the PDO and intermediate indicators of the Results Framework; (vi) preparing project reports; and (vii) acting as the main point of contact with the World Bank. Knowledge and understanding gained on how these elements work in a context of a World Bank project will be an added value to the MoI.

D. **For the training on firm capabilities, the MoI will issue a competitive call for proposals (based on criteria listed below as well as the procurement methods and procedures in Chapter 4) and document/file the short-listing, evaluation, and selection process/decision to be made available to the World Bank if/when requested.** The call for proposals will be flexible to allow the bidders to determine the best modalities to strengthen and support participating firms/entrepreneurship intermediaries given their knowledge, capacity and experience in other countries as well as in Malawi. The selection of the firm (or firms[10]) assigned to deliver the firm capabilities training will include (but not limited to) the following criteria:

(a) A reputed firm, with a good track record of delivering trainings for SMEs in Malawi and other developing countries (a local-international partnership delivery model is preferred);
(b) Experience in delivering personal initiative skills training, the training offered in stage 1 of the program is essential;
(c) Experience in delivering customized training to special focus groups such as women entrepreneurs is highly desirable; and
(d) Experience in delivering other related skills training such as financial literacy, management skills, digital skills etc. is essential.

E. **The training of BDS providers will be in the form of TOT as well as bringing in**

[10] When selecting multiple firms, the MoI must avoid having multiple firms deploying in the same areas or duplicating activities. The idea behind selecting more than one firm is to ensure adequate geographic coverage is achieved or gaps in specific expertise/topics are addressed.

experts and consultants for workshops on how the BDS can improve their targeting and effectiveness through a sustainable model. Bidders will also need to provide if they can, a development and implementation strategy to provide support to the MoI in attaining internal competencies to manage a program to support SME business development and other programs with similar elements. The MoI will issue a competitive call for proposals (based on criteria listed below) and document/file the short-listing, evaluation, and selection process/decision to be made available to the World Bank if/when requested. The selection criteria for selecting firm/consultants include:

(a) Specialized firm support training courses;
(b) Sharing software tools that may be useful for managing firm support programs;
(c) Sharing, discussion and appropriation of operations manuals, methods of ensuring transparency in processes, among others;
(d) MoI members presenting the program internally, to partners and to potential applicants to develop their understanding of the program and to respond to questions that may arise; and
(e) Any other capacity building ideas from the experience of the national or international independent firm/consortium of firms, including visits to other programs in other countries, if this is feasible within the Project budget.

F. **Funding, governed by a signed Memorandum of Understanding (MOU) with RBM, will be provided to improve SMEDI's capacity** to provide services to MSMEs and young entrepreneurs beyond the life of the project as well as bringing experts and competitively selected consultancy firms or individuals to enhance the capacity and training skills of its staff and trainers. **As a sustainability measure, support will be provided for institutionalization within SMEDI of the three stage approach that will be implemented by the project in subcomponent 2.2.** This subcomponent will also support purchase of goods, services, and small works, and by SMEDI such as computers, software, furniture, office refurbishment, Wi-Fi/connectivity and others to expand SMEDIs outreach in the regions using existing buildings. Where applicable, support may be provided to SMEDI for review of its legal status among others as long as those actions contribute to building its capacity to expand outreach of services to the MSME sector. The criteria for selecting firm/consultants include:

(a) Specialized firm support training courses;
(b) Supporting the preparation or sharing, discussion and appropriation of operations manuals; and
(c) Any other capacity building ideas from the experience of the national or international independent firm/consortium of firms, including visits to other programs in other countries, if this is feasible within the Project budget. For the TA and other experts SMEDI may contract qualified experts as needed.
(d) On Component 2, as ESS the aim will be to enhance the capacity of Microfinancing institutions in prioritizing environmental management and social protection in their interventions. This will then depend on intervention to intervention but every intervention should demonstrate appraising risks involved and mitigation measures suggested even if the risks are in affirmative.

3.5 Implementation Arrangements for Component 3

A. **The RBM together with MoF will implement all activities under this Component with the aim of strengthening the policy and regulatory environment and the financial infrastructure.** Activities under this component will aim to increase use of digital financial services (DFS) for MSMEs; improve the effectiveness of the credit reference, movable asset registry, and business insolvency framework and systems; and increase financial literacy and consumer protection with the aim of increasing eligibility for MSMEs to access finance and grow.

B. The RBM and MoF will also work hand in hand with other stakeholders to increase the proportion of MSMEs connected to the DFS technology through the national payments system, to facilitate PFIs to innovate and develop financial products and services that are suitable for MSMEs, and to reduce risk perception by the PFIs. This working arrangement with other stakeholders will also support onboarding of SACCOs and MFIs on the MFI Hub, support the MFI Hub to integrate with other third-party systems and support the improvement of the functionality of central securities depository (CSD) for the stock exchange. The National Registration Bureau will be supported under this component in order to integrate 'national identities' into the financial sector through a TA to the Bureau. The aim of this intervention will be to improve credibility of information being used across financial sector platforms.

C. Under this component, capacity building will be provided to RBM and MoF through trainings, conferences, knowledge exchange visits, local workshops and a TA deployed to RBM and the Ministry of Finance with the aim of improving their capacity to review and/or develop suitable regulatory and policy environment framework to facilitate financial inclusion, entrepreneurship, and growth of MSMEs. The RBM and MoF will also develop policy and regulatory framework on financial consumer protection for both traditional and digital financial services, new DFS innovations; mortgage finance, leasing finance, and long-term finance as they facilitate access to financing by MSMEs and upscaling entrepreneurship. MoF will also implement, develop, review strategies and road maps on financial sector development and financial inclusion, implementation of deposit insurance system, and electronic government-to-person payments system to facilitate MSMEs' business and provision of goods and services to public service and to support.

D. The RBM will implement activities aimed at strengthening the consumer protection, for both traditional and digital financial services, institutional and regulatory framework and improving financial literacy for current and future MSMEs. Implemented activities will be based on the National Financial Inclusion Strategy, and will aim at promoting savings and investing culture, developing and implementing financial literacy awareness and consumer protection programs, and supporting broader integration of financial education initiatives at primary and secondary school levels. Activities will also aim at enhancing supervision of financial institutions consumer protection and market conduct practices and the provision of free and easy to access financial consumer complaints and dispute resolution mechanisms and promoting the use of the DFS for MSME owners, particularly for women and youth entrepreneurs.

E. Under this component, capacity building on consumer protection and market conduct supervision and financial literacy will be provided to RBM. The component will also support the enhancement of the institutional and regulatory framework for financial consumer protection. On a demand basis, a TA may be provided to the RBM and selected private institutions to implement financial literacy and consumer protection activities. Selected service providers/consultants under this component will be required to meet the criteria in terms of technical expertise and established track record, together with any other criteria established in this PIM.

F. On ESS Component 3 will emphasize on regularizing grievance redress activities where issues of gender and youth inclusion will be addressed. This will be done through enhancement of environmental and social management systems which will be created to capture grievances that are social in nature and gender risks. These may include sexual exploitation, denied services linked to sexual favours, child labour and other social ills.

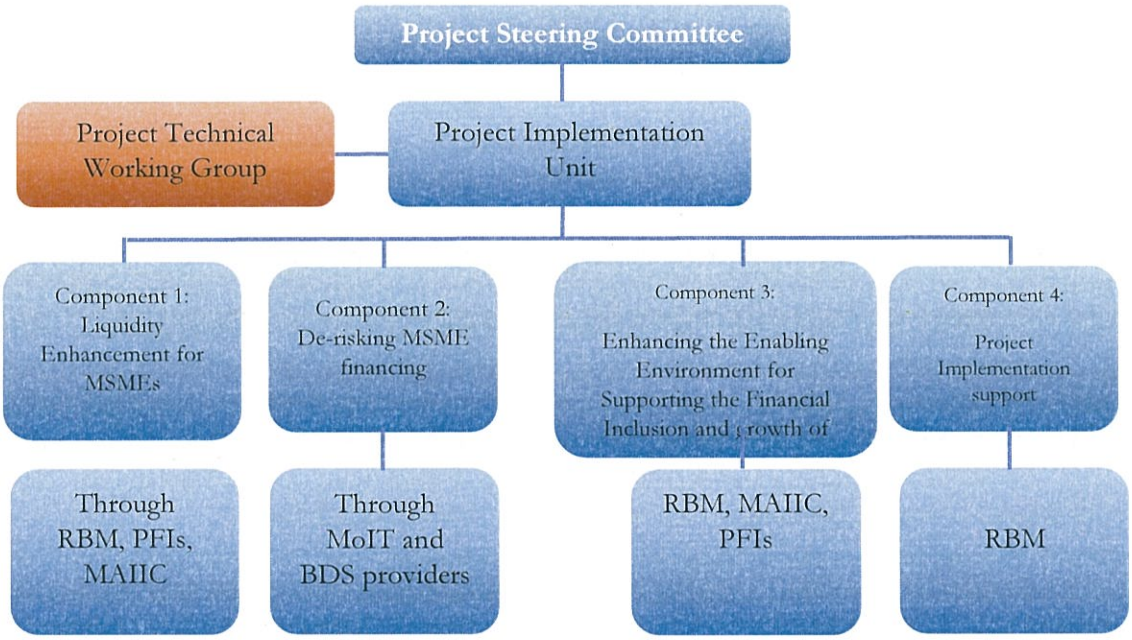
3.6 Implementation Arrangements for Component 4

A. **The RBM will be responsible for all activities under this Component.** The PIU will oversee day-to-day project implementation; monitor progress; coordinate the utilization of project funds; and establish mechanisms to account for this utilization. To fulfil these roles, the RBM will deploy a qualified PM at the PIU, as well as the required technical and fiduciary experts in accordance to criteria established in this PIM. Specifically, the PIU will be headed by a qualified PM and include the following key professionals: procurement specialist, FM specialist, M&E specialist, financial sector specialist, trade PC, and environmental/social development specialist. The PIU staff will consist of experienced, competitively recruited professionals to work specifically in the PIU for the duration of the project. The PIU will report directly to the Governor of the RBM. With the agreement of the PSC, the PIU may hire other required specialists or support staff to enable it to fulfil its defined obligations under the project.

Project Oversight

The Implementation Matrix is represented in the figure below.

Figure 2: Implementation Matrix



The PSC has been established to provide the Borrower and implementing entities overall strategic guidance in line with national development objectives and monitor project impact. The membership of the PSC consists of the Secretary to the Treasury (ST); the Principal Secretary, Economic Planning and Development, the Principal Secretary for Ministry of Industry; the Principal Secretary for MoF; the Deputy Governor of the RBM; the President of the Economics Association of Malawi (ECAMA); the President of Financial Market Dealers Association of Malawi; the President of the Bankers Association of Malawi (BAM); the President of the Insurance Association of Malawi; the President of the Malawi Confederation of Chambers of Commerce and Industry (MCCCI); the President of the Microfinance Network; the Executive Director of the RBM; and the PC. The PSC will be chaired by the Secretary to the Treasury and co-chaired by the Governor for the RBM. The PSC will not be involved in the management of the project nor in the decision-making processes related to project financing. The PSC will be a high-level oversight body responsible for providing general policy guidance for the project. The PC will serve as secretary to the PSC, which will meet bi-annually.

A Project Technical Working Group (TWG) has been established under the PSC to monitor project impact and ensure dialogue with stakeholders is done. The TWG will report to the PSC. Members of the TWG consist of the PM (Chairperson), the Director of Pensions and Financial Sector Policy, the Director for Debt and Aid Management, the Director of Public Finance Management Services, the Director, Planning, the Director of Bank Supervision, the Director of Micro-finance and Capital Market Supervision, the Director of National Payment System, the Director of Economic Policy Research, the Director of Accounting and Finance, the Director of Financial Markets, the Director of Financial Sector Regulations and the Director of Cooperatives and SMEs. The Executive Director of MAMN, the CEO of MUSCCO and CEO of BAM may attend meetings but will not be voting members. The PIU will function as the secretariat for both the PSC and the TWG. The TWG will meet on a quarterly basis in the early years of the project, with a shift to biannual meetings later. The project will utilize existing policy dialogue forums to improve dialogue and coordination. These platforms include the Joint Sector Reviews (under TIP-SWAp), TWGs involved in the development of Tip-SWAp, and other relevant TWGs under the National Export Strategy and the Financial Inclusion Strategy. The project will also utilize the existing PPD Forum and other relevant commodity platforms.

The project will be implemented in collaboration with the IFC and other development partners. The IFC will provide AS related to agribusiness' operations, transport and trade, business environment improvement; and the required tools to ensure the establishment of effective linkages between entrepreneurs and off takers. The World Bank and the Government of Malawi will undertake joint implementation support missions on a bi-annual basis to provide guidance to the project implementation teams.

In order to facilitate project implementation, this PIM among other things includes the following:

(a) A description of implementation arrangements for each component of the project
(b) Eligibility criteria for PFIs;
(c) Fiduciary and E&S risk management arrangements;
(d) Project audit requirements;
(e) The terms of reference (TOR) for the project audit;
(f) Disbursement arrangements;
(g) The interim financial report (IFR) formats;
(h) M&E framework;
(i) Guidance for each responsible agency on the procedural aspects of the Project; and
(j) The organizational chart for the project implementation.

3.7 Disbursement of Funds under all components

The PIU (RBM) will be required to submit requests to MoF (Pension and Financial Sector Policy Division as well as Debt and Aid Division) for authorization to access funding under the project.

CHAPTER 4: PROCUREMENT

4.1 Introduction

The purpose of this procurement section is to define principles and procedures of operations in implementing the Project procurement arrangements. It is designed to guide the Reserve Bank of Malawi's Project Implementing Unit (PIU), of the procedures to be followed when undertaking procurement of Goods, Works, Non-consulting Services, and Consulting Services, financed under the Financial Inclusion and Entrepreneurship Scaling (FInES) project.

The objective is to facilitate necessary decision-making and guidance regarding request and procurement of Goods, Works, Non-consulting Services, and Consulting Services in compliance with the World Bank procurement procedures. The procurement procedures for undertaking procurement under FInES provide an overview of procurement methods and thresholds, procedures and acceptable practices that will be followed by the PIU in the procurement of Goods, Works, Non-consulting Services, and Consulting Services under the project.

The rights and obligations of the PIU and providers of goods, works, services and consultancies for the project are governed by the bidding documents during bidding and by the contracts signed by the Reserve Bank of Malawi (RBM) and providers of goods, works, services and consultancies during contract execution and not by these guidelines or financing agreements. These procurement procedures are designed to ensure that the proceeds of any financing are used directly for the purposes for which the financing was obtained.

The RBM will hire a Procurement Specialist as per the TOR approved by the World Bank, who will be part of the key PIU Staff. The Procurement Specialist will work closely with the RBM's mainstream Procurement and Disposal of Assets Unit to ensure procurement is done in accordance with World Bank Procurement Regulations for IPF Borrowers, this PIM Project Procurement Manual and Procurement Plan
Procurement Manual: This shall be used in conjunction with the provisions stipulated in the Project Financing Agreement. Where there is conflict between the National Procurement guidelines and the World Bank Procurement Regulations, the Financing Agreement's requirements shall take precedence.

Project Procurement Strategy for Development (PPSD): The RBM prepared a PPSD for the project which the World Bank agreed (Annex II). The PPSD will be updated during implementation to provide necessary justifications for procurement arrangements, Procurement Plan and updates.

4.2 Procurement Framework

4.2.1 The Legal Framework

Procurement will be carried out in accordance with the Procurement Regulations for Borrowers under IPF: Goods, Works, Non-Consulting Services and Consulting Services dated November, 2020(Procurement Regulations); "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016)"; and provisions stipulated in the Financing Agreement and may also use the Malawi Public Procurement and Disposal of Assets Act (PPDA Act 2017) Regulations and Desk Instructions. The Bank core procurement principles of Value for Money, Economy, Integrity, and

Fit for Purpose, Efficiency, Transparency and Fairness shall be observed throughout the procurement process.
The Bank core procurement principles of ***Value for Money, Economy, Integrity, and Fit for Purpose, Efficiency, Transparency and Fairness*** shall be observed throughout the procurement process.

4.2.2 Implementation Arrangements for Procurement:

The RBM through its Project Implementation Unit (PIU) will have the responsibility for procurement implementation, contract management, and the related decision-making authority under the project. The PIU will ensure that the procurement policies and procedures governing procurement under the Project are fully and successfully applied to the contracting of goods, works, non-consulting services, and consulting services. In addition to ensuring that the procurement policies and procedures are applied, the PIU is also responsible for ensuring that all proposed procurement activities under the Project are eligible for financing.

4.2.3 Institutional Arrangements for procurement approval processes

As required by the PPD Act (2017), the RBM is a Procuring Entity with a Procurement and Disposal Unit (PDU) and an Internal Procurement and Disposal of Assets Committee (IPDC). The Project will utilize the existing procurement structures for procurement approvals.

4.2.4 Procurement Oversight and Implementation

The PIU will assume the project coordination function and shall provide overall procurement oversight and supervise the procurement activities for FInES and in this case, shall be responsible for ensuring compliance with the provisions of Financing Agreement. The PIU in liaison with the RBM procurement structure shall monitor the procurement activities to ensure adherence to the Procurement Plan and the applicable regulations.

4.2.5 Bank Exceptions

In procuring the goods and services required for the project, the PE will follow the World Bank Procurement Regulations referred to above. Procurements will comply with this manual to the extent that it is not in conflict with the World Bank Regulations and the World Bank-approved procurement plan and budget; however, National Procurement arrangements shall be subject to paragraph 5.3 and 5.4 of the Procurement Regulations. The Borrower's own Procurement Documents, acceptable to the Bank will be used for National Competitive Bidding

4.2.6 Procurement Methods and Prior Review Thresholds

The Bank sets mandatory prior review based on project procurement risk levels. Works under the Project estimated to cost ≧US$7 million per contract will be procured through Open International market approach, whereas contracts estimated to cost <US$7 million will be procured through Open National market approach. Contracts estimated to cost ≦US$200,000 will be procured through Request for Quotations (RFQ).

When procuring goods, contracts estimated to cost ≧US$2million will be procured through Open International market approach, whilst those contracts estimated to cost <US$2 million will be procured through Open National market approach. For goods estimated to cost ≦US$100,000 and ≦US$500,000 for motor vehicles only, RFQ may be used. World Bank's Standard Bidding

Documents (SBDs) shall be used for the Open International market approach whereas National Standard Bidding Documents acceptable to the Bank shall be used for the Open National method.

Contracts for small quantities of office supplies and equipment, and consumables, which are available locally at economical prices and are estimated to cost ≦US$100,000 shall be procured through RFQ and procedures based on price quotations obtained from at least three reliable suppliers

Given the Substantial Procurement risk rating for FInES Project, the following are the applicable procurement method and prior review thresholds:

Table 4: Procurement Methods Thresholds and Prior-review Thresholds

Prior-review Thresholds		**Thresholds for Procurement Methods**							
Procurement Type	Substantial Risk ($'000)	Works			Goods, IT & Non-Consulting Services			Shortlist of National Consultants	
Works	10,000	Open International or ICB ($'000	Open National or NCB ($'000)	Request for Quotation or National Shopping ($'000)	Open international or ICB ($'000)	Open National or NCB ($'000)	Request for Quotation or National Shopping ($'000)	Consulting Services ($'000)	Engineering & Construction Supervision ($'000)
Goods, IT & Non-Consulting Services	2,000	≧	<	≦	≧	<	≦	<	≦
Consultants (Firms)	1,000	7,000	7,000	200	1,000	1,000	100	200	300
Individual Consultants	300								

*These thresholds are for the purposes of the initial procurement plan for the first 18 months. The thresholds will be revised periodically.

4.2.7 Procurement Cycle:

The procurement cycle includes the following nine steps:

(a) Procurement planning, at the beginning and thereafter annually or or as required, to reflect the actual project implementation needs.;
(b) Requisition;
(c) Competition process (via ITB, RFP, RFQ, etc.) and short-listing;
(d) Selection of supplier (following an evaluation process);
(e) Award of contract, including the issuance of the purchase order or contract;
(f) Contract administration;
(g) Delivery of goods or services;
(h) Payment; and
(i) Reporting and supplier appraisal.

4.2.8 Procurement Planning

Based on the PPSD findings, the RBM prepared a summarized Procurement Plan for FInES for Goods, Works, Non-consulting Services, and Consulting Services for the first 18 months which contains the following:

(a) The types and the estimated costs of each package, to be carried out for Goods, Works, Non-consulting Services, and Consulting Services;

(b) The dates for completing key processing steps, considering the amount of time required to carry out each and the entire process from preparation of schedule of requirements to final delivery; and
(c) Other key processing steps in the plan.

The Procurement Plan shall be updated at least every 6 months or as required to reflect the actual project implementation needs and improvements in institutional capacity. After updating, the Procurement Plan will be submitted to the Bank for review and No Objection. The approved Procurement Plan will be the basis for clearance by the Bank on the RBM procurement/selection requests.

The PIU will be responsible for procurement planning i.e. identification and specification of procurement requirements in consultation with the Implementing Agencies (IA) and Technical Specialists for procurement under their respective components or subcomponents of the project. Each IA will prepare and submit its requirements to the Project Manager, and these will be included in the Procurement Plan for the Project and submitted to the World Bank for approval after carrying out the following:

Identification and description of the goods and non-consulting services, works, or consulting services to be procured: The PIU in conjunction with IAE will develop a Statement of Requirements (SoR) for each of its requirements. This SoR will clearly describe the goods, works or services that IA requires, which are subsequently the basis for designing statements of requirements, by the user department. The SoR will also indicate when the goods, works or services are required. IAPE will be responsible for identifying and ensuring that the FInES attains the actual requirements in the procurement plan on time. As such, they must be aware of the associated procurement lead times.
Estimation of cost of the items to be procured:

(a) For all requirements, the IA also referred to as the end user department will estimate the cost, which should to the extent possible, be in line with the resources in the project budget.
(b) Where the estimated cost is not in line with the budget, the end user department will revisit its SoR with a view to adjusting it to fit within the available resources, taking care not to compromise the quality or goods, works or services. The requirements will be submitted to the PIU for consolidation.
(c) The Procurement Specialist for FInES will be responsible for initiating the planning process for procurement activities under the project and for consolidating the submissions into contract packages.

Aggregation of Requirements: In order to promote economy and efficiency across the project, the needs of FInES, will be aggregated at each planning cycle. The Procurement Specialist will set and advise the Project Manager of a deadline for submission of procurement requirements. Following the deadline, the Procurement Specialist will review the submissions by the various IA and group (aggregate) them into packages of similar requirements. For each resultant contract to be financed by the Credit, the procurement or consultant selection method, the need for pre-qualification, estimated cost, prior/post review requirements, and timeframe shall be documented in the Procurement Plan.

Identification of Eligible Procurement / Selection Method: For each resultant procurement action, the most appropriate selection for procurement of goods, works, non-consulting services and consulting services will be identified. The specific method will be principally based on the value of the contract. In exceptional cases, the method may be influenced by the urgency of the requirement. However, in view of the provision for the bi-annual review of the plan, this should be a rare occurrence. The identified method will be indicated in the procurement plan.

Scheduling of Procurement Milestones: Following the aggregation of requirements, the PIU will work out the procurement milestones that comprise the lead time for each contract. Key milestones will include the following as appropriate for each contract: preparation of solicitation documents; approval of solicitation documents; advertising; short-listing / prequalification; issuance of bidding documents; receipt of bids / proposals; evaluation of bids / proposals; approval of evaluation reports; negotiations; preparation and approval of contract documents; signing of contracts; delivery of goods and / or services.

Submission of Procurement Plan for Approval: The project will use the World Bank's Systematic Tracking of Exchanges in Procurement (STEP) as a primary tool to submit, review, and clear all procurement plans and conduct all procurement transactions for the project. The Procurement Specialist will present the Procurement Plan to the Project Manager who will, thoroughly review it for onward transmission to the Bank through STEP for review and No Objection. Once the Procurement Plan is approved by the Bank, the PIU will be expected to carry out procurement activities in accordance with the approved Procurement Plan. Any changes to the approved Procurement Plan will be communicated to the Bank. The Procurement Plan will be revised to incorporate the suggested changes and re-submitted to the Bank for review and No Objection.

4.2.9 Fraud, Coercion and Corruption

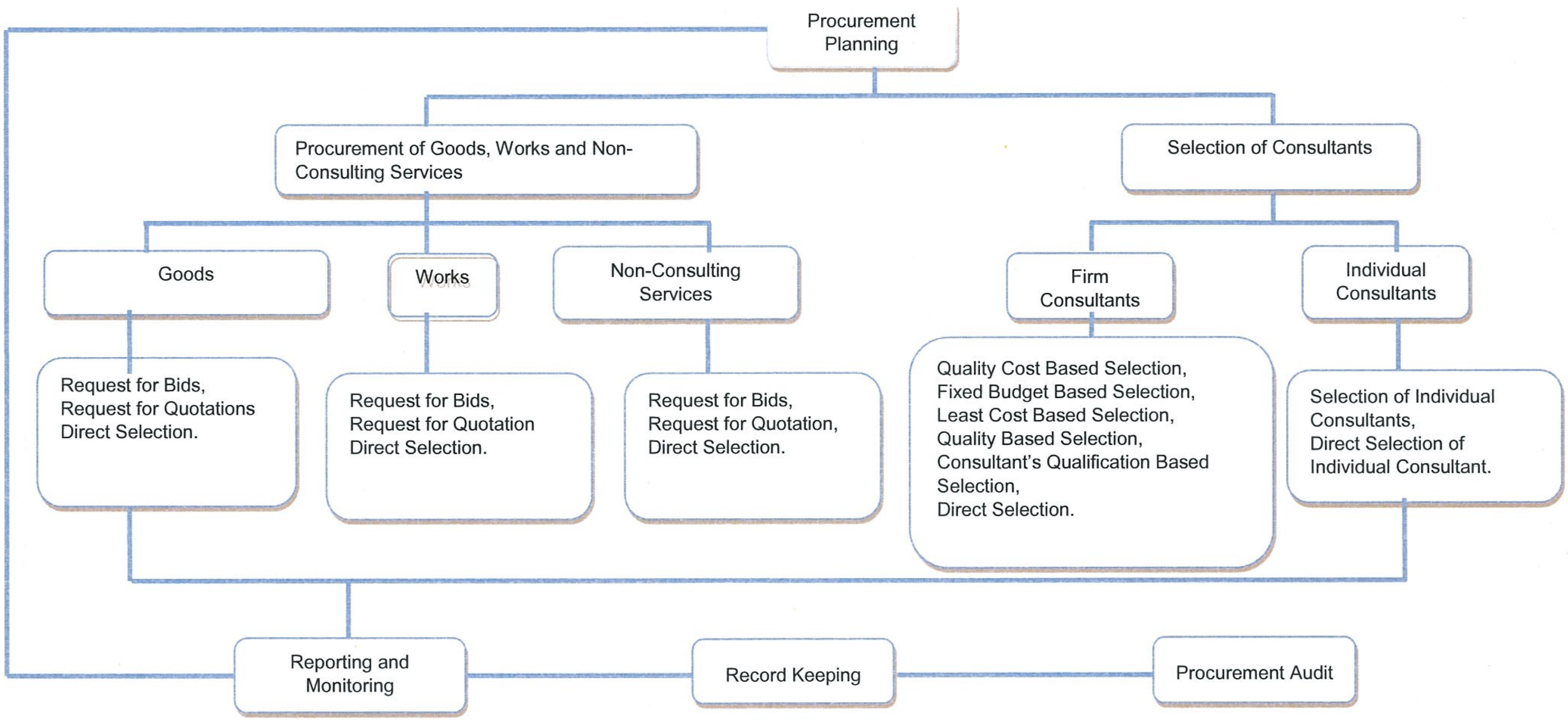
The Procuring Entity as well as bidders and service providers (i.e., suppliers, contractors, and consultants) shall observe the highest standard of ethics during the procurement and execution of contracts financed under the Project in accordance with the World bank "Guidelines on Preventing and Combating Fraud and Corruption in Projects financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006, revised in January 2011, and as of July 1, 2016.

The RBM shall ensure that procurement under their respective grants is carried out in accordance with the provisions of the anti-corruption guidelines and observe highest standards of ethics during procurement and execution of contracts. Officers shall refrain from actions that may lead to fraud and corruption. Implementing agencies have a responsibility to report and cause investigations into suspected cases of corruption in accordance with the set guidelines. Areas of responsibility include cooperating with investigating agencies as well as providing relevant information as requested. A proposal may be rejected if it is determined that the bidder recommended for award of contract has directly or through his agent engaged in corrupt, fraudulent, collusive or coercive practices in competing for the contract in question. For the purposes of this project, ***"Corrupt practice"*** means the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence the action of a public official in the procurement process or contract execution. ***"Fraudulent practice"*** means a misrepresentation or omission of facts in order to influence a procurement process or the execution of a contract. **"Collusive practice"** means a scheme or an arrangement between two or more bidders with or without the knowledge of the procuring entity, a design to establish bid prices at artificial, non-competitive levels and **"coercive practice"** means harming or threatening to harm, directly or indirectly, persons or their property to influence their participation in a procurement process or affect the execution of a contract.

4.3 Selection Methods

The RBM shall use approved selection methods specified in the Procurement Regulations for Investment Project Financing (IPF) Borrowers for Goods, Works, Non-Consulting and Consulting Services, Fourth Edition, dated November 2020. Selection methods for Goods, Works and Non-Consulting Services and Consulting Services permitted under FInES Project, are listed in the Figure 3 below.

Figure 3: Procurement Procedures



4.3 Selection Methods for Goods, Works and Non-Consulting Services

4.3.1 Request for Bids (Open International) for Goods, Works and Non-Consulting Services

The PIU shall ensure that it has complied with all relevant requirements of World Bank Procurement Regulations prior to initiating the Request for Bids selection procedures. To select a Goods, Works and Non-Consulting Services supplier/contractor/service provider, the following procedure is involved in Request for Bids (Open International Approach):

Step 1: In case of limited and or lack of internal capacity, a consultant shall be hired to assist the Procuring Entity in developing technical specifications including detailed bills of quantities for the goods and works required for a particular contract. The PIU will prepare Purchase Requisition (PR). Draft Procurement Documents shall be prepared and sent to the World Bank through the PIU Project Manager for a No Objection to advertise in UN Development Business (UNDB) online and in widely circulated local newspapers.

Step 2: The Bank shall review the Procurement Documents and give a No Objection to advertise.

Step 3: The PIU will put a Specific Procurement Notice in the papers to inform interested bidders of the goods, works and non-consulting services required. Notification will be given sufficient time to enable the prospective bidders to obtain the Procurement Documents and prepare and submit their bids. Generally, not less than six (6) weeks from the date of invitation to bid or the date of availability of the Procurement Documents; whichever is later shall be allowed for Open International Competition. In terms of the works contracts a pre-bid conference may be held (where applicable) to provide clarifications and to give a chance to the prospective bidders to have a look at the project sites for them to develop reasonable cost estimates.

Step 4: The time of bid opening shall be the same as for the deadline of receipt of the bids and shall be announced together with the place of bid opening in the invitation to bid. The PIU shall open the bids at the stipulated time and place. The bids shall be opened in public; bidders or their representatives shall be allowed to be present.

Step 5: The process for public opening of bids shall be undertaken by the PIU under the direction of the Procurement Specialist. The PIU will open the bids and make sure that the following are announced: -

(a) Name of the bidder;
(b) Bid prices and total amount of each bid;
(c) Alternative bids if available or if requested;
(d) Amount of bid security/bond;
(e) Discounts provided by the bidder; and
(f) Withdrawals or any other information that the bidder has opted to provide.

Step 6: Minutes of bid opening will have to be prepared by the PIU, providing all the details of the opening process and be sent to the Bank under the signature of the Project Manager as promptly as possible.

Step 7: The PIU shall appoint not less than three and not more than five persons to serve as members of an Evaluation Panel to evaluate the bids. An evaluation report with recommendation for award of contract will be sent to the Bank for a No Objection based on the recommendation to award and sign a contract with the successful bidder.

Step 8: The Bank shall review the evaluation report with recommendation and provide a No Objection for the PIU to proceed.

Step 9: After receiving the Bank's No Objection to the evaluation report, the PIU shall issue a written Notification of Intention to Award to each bidder that submitted a bid, using the quickest means available. The Notification of Intention to Award will include the date the Standstill period is due to end. The standstill period shall last ten (10) business days after transmission date, unless otherwise extended in accordance with Paragraph 5.82 of the World Bank Procurement Regulations. The Contract shall not be awarded either before or during the Standstill Period. The Standstill Period shall, however, not be a requirement for the following situations:

(a) Only one bid/proposal was submitted in an open competitive process;
(b) Direct Selection;
(c) Call-off process for among firms holding Framework Agreements (FAs); and
(d) Emergency Situations recognized by the Bank.

Step 10: At the end of the Standstill Period, if the PIU has not received any complaint from an unsuccessful bidder, the PIU shall proceed to award the contract in accordance with its decision to award, as previously communicated through the Notification of Intention to Award.

Step 11: The contract shall be signed by the Parties.

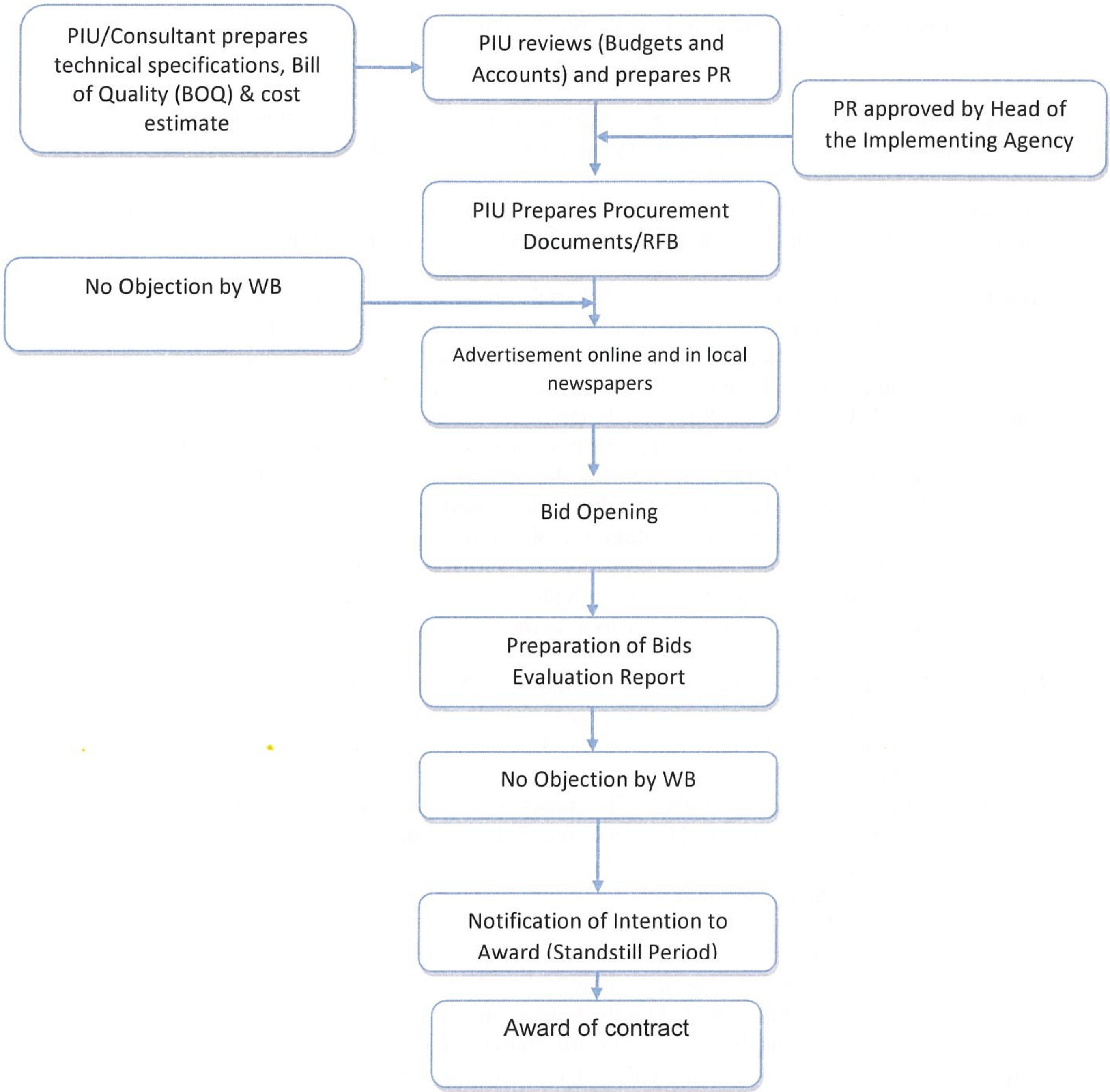
Step 12: One copy of the contract will be sent to the Bank for record and entry into the contract database.

Step 13: Within ten (10) Business Days from NPU's Notification of Contract Award to the successful bidder, the project will publish a public notice of award of contract (Contract Award Notice).

Step 14: Contract management and monitoring shall be done by Implementing Agency's technical departments (and/or Agency's technical departments) with support from the PIU.

Award of any contracts will be subject to compliance with Malawi's public procurement procedures including approval by Internal Procurement and Disposal Committee (IPDC), No Objection from Public Procurement and Disposal of Assets Authority (PPDA), approval by Government Contracting Unit (GCU) and Ministry of Justice where applicable .

Figure 4: Procurement through Request for Bids (Open International Approach)



The procurement for all Open International Approach Contracts would be done using the IDA Standard Procurement Documents (SBD) and Standard Bid Evaluation forms.

4.3.2 Other Selection Methods for Goods, Works and Non-Consulting Services

Goods, Works and Non-Consultant Services for contracts with cost estimates below Procurement Prior Review threshold may be procured through Request for Bids (Open National Approach)

To select a supplier/contractor/service provider for goods, works or non-consulting services, the following procedure is involved in Request for Bids (Open National Approach):

Step 1: In case of limited and or lack internal capacity, a Consultant shall be hired to assist the Procuring Entity in developing technical specifications including detailed bills of quantities for the goods, works and non-consulting services required for a particular contract. The PIU will prepare Purchase Requisition (PR).

Step 2: The PIU will put a Specific Procurement Notice in the papers to inform interested bidders of the goods, works and non-consulting services required. Notification will be given sufficient time to enable the prospective bidders to obtain the Procurement Documents and prepare and submit their responses. Generally, not less than four (4) weeks from the date of invitation to bid or the date of availability of the Procurement Documents; whichever is later shall be allowed. In terms of works contracts a pre-bid conference may be held to provide clarifications and to give an opportunity to the prospective bidders to have a look at the project sites for them to develop reasonable cost estimates.

Step 3: The time of bid opening shall be the same as for the deadline of receipt of the bids and shall be announced together with the place of bid opening in the Request for Bid. The bids shall be opened in public; bidders or their representatives shall be allowed to be present.

Step 4: Public opening of bids. The process shall be undertaken by the PIU. The Procurement Expert will open the bids and make sure that the following are announced:

(a) Name of the bidder;
(b) Bid prices and total amount of each bid;
(c) Alternative bids if available or if requested;
(d) Amount of bid security/bond;
(e) Discounts provided by the bidder; and
(f) Withdrawals or any other information that the bidder has opted to provide.

Step 5: Minutes of bids opening will have to be prepared by the PIU, providing all the details of the opening process.

Step 6: The RBM shall set up an Evaluation Panel to evaluate the bids.

Step 7: The RBM shall review the evaluation report with recommendation and provide an approval.

Step 8: After approval of the evaluation report by the RBM, the PIU shall issue a written Notification of Intention to Award to each bidder that submitted a bid, using the quickest means available. The Notification of Intention to Award will include the date the Standstill period is due to end. The standstill period shall last ten (10) business days after transmission date, unless otherwise extended in accordance with Paragraph 5.82 of the Procurement Regulations. The Contract shall not be awarded either before or during the Standstill Period. The Standstill Period shall, however, not be a requirement for the following situations:

(a) Only one bid/proposal was submitted in an open competitive process;
(b) Direct Selection;
(c) Call-off process for among firms holding FAs; and
(d) Emergency Situations recognized by the Bank.

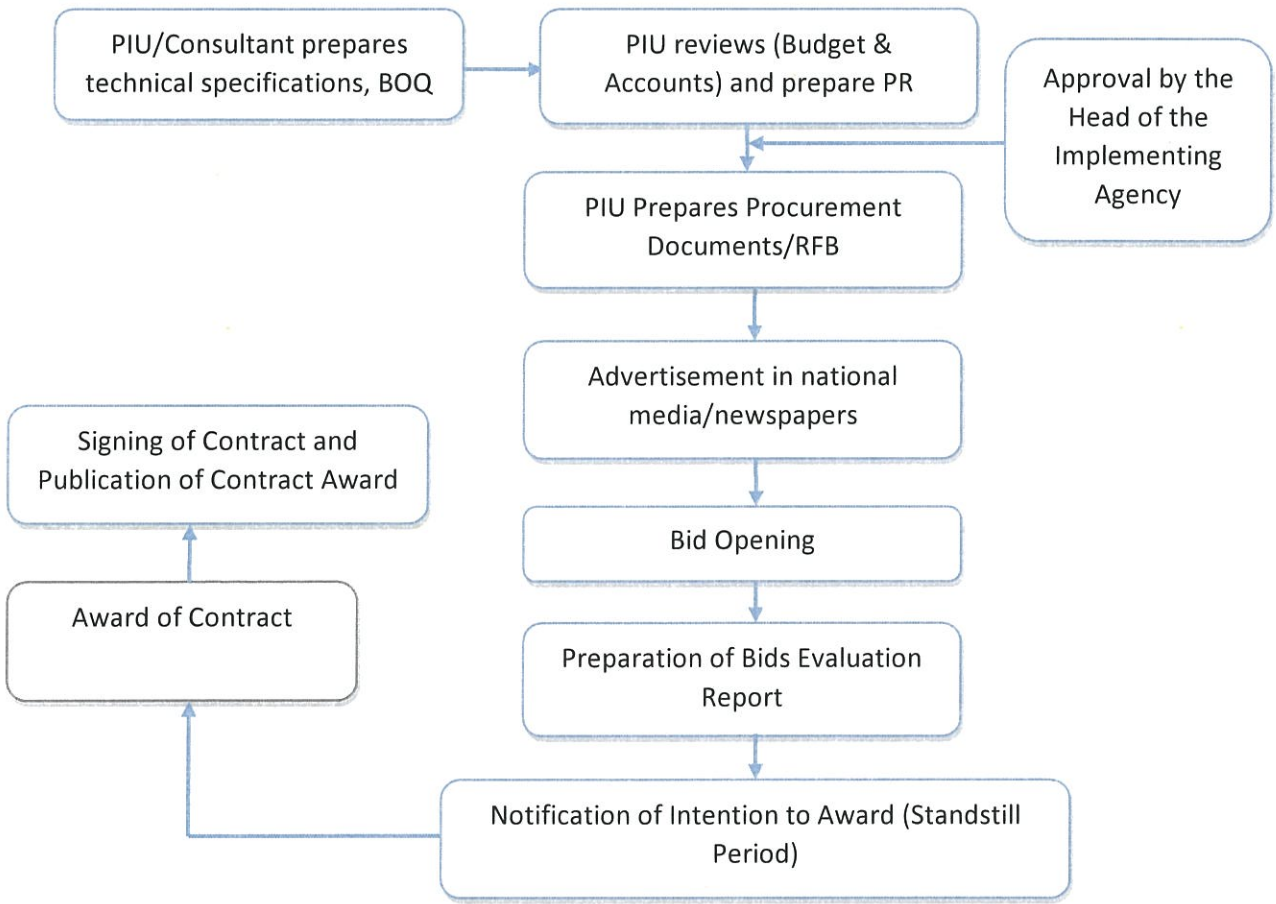
Step 9: At the end of the Standstill Period, if the PIU has not received any complaint from an unsuccessful bidder, the PIU shall proceed to award the contract in accordance with its decision to award, as previously communicated through the Notification of Intention to Award.

Step 10: The contract shall be signed by the Parties.

Step 11: Contract management and monitoring shall be done by the IA's technical departments with support from the PIU.

Award of any contracts will be subject to compliance with other public procurement procedures including No Objection from PPDA, approval by GCU and MoJ where applicable.

Figure 5: Procurement through Open National Approach



4.3.3 Procurement through Request for Quotations (National and International)

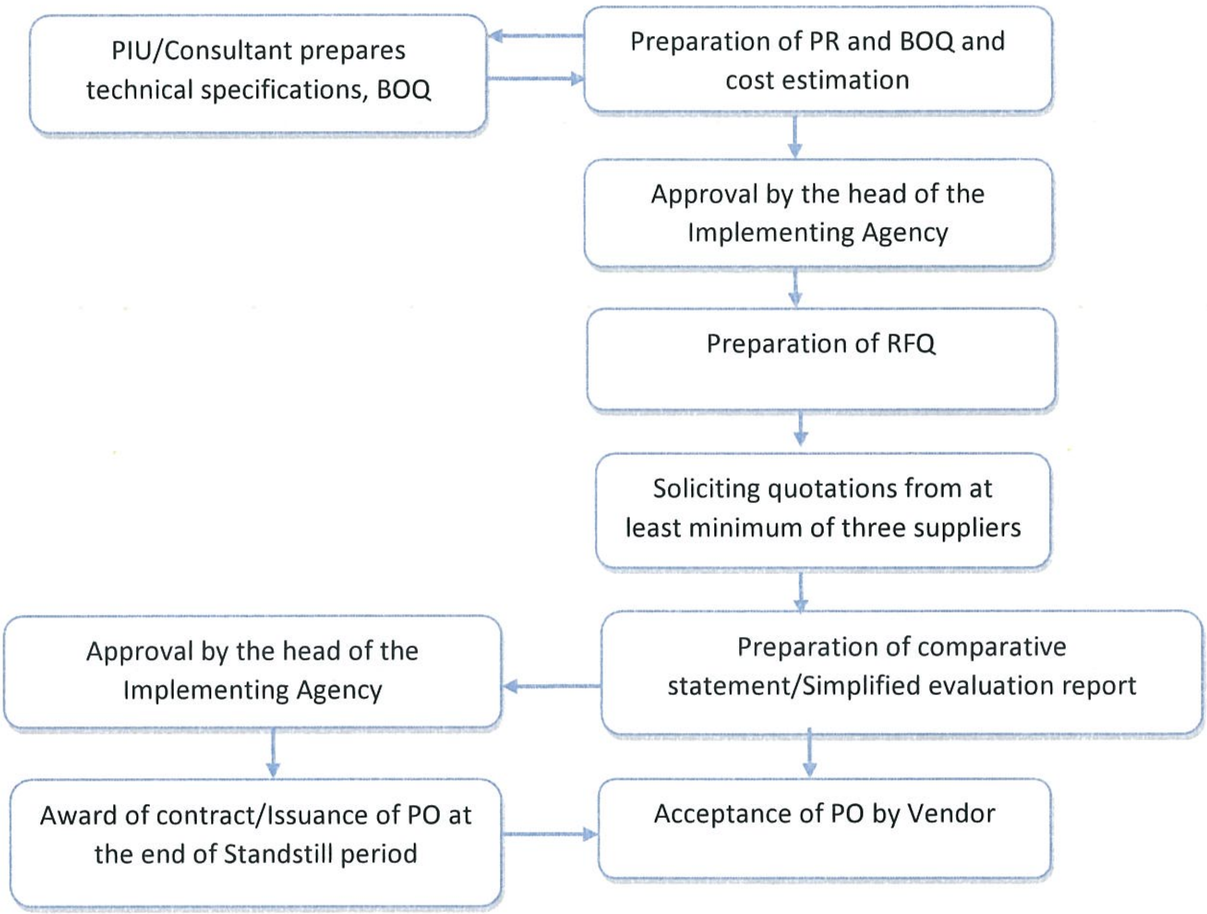
Contracts for small quantities of office supplies and equipment, vehicles and consumables, which are available locally and internationally at economical prices, would be procured through Request for Quotations (RFQ) procedures based on price quotations obtained from at least three well established and reliable suppliers. RFQ may be used for contracts estimated to cost below US$100,000 per contract for goods and non-consulting services, below US$200,000 for works and below US$500,000 for motor vehicles only.

The following steps will be followed in case of procurement through RFQ: -

Step 1: The PIU will prepare the Purchase Requisition (PR).
Step 2: The PIU will seek approval from the head of the Implementing Agency
Step 3: The PIU will prepare the RFQ
Step 4: Quotations shall be **obtained** from a **minimum** of three suppliers.
Step 5: Quotations will be opened by a Bid Evaluation Panel, which shall have one member (technical) from the Implementing Agency (if applicable), and record of the opening prepared.
Step 6: A comparative evaluation report shall be prepared on the quotations received.
Step 7: The best compliant/responsive quotation shall be accepted.
Step 8: The Purchase Order shall be issued to the selected bidder by the PIU if there is no complaint received during the standstill period.
Step 9: The following are the standard documents used in RFQ: (i) Purchase Requisition; (ii) Request for Quotation (RFQ); (iii) Comparative evaluation report of Bids/Quotations and; (iv) Purchase Order/Contract.

Award of any contracts will be subject to compliance with other public procurement procedures including No Objection from PPDA, approval by GCU and MoJ where applicable.

Figure 6: Procurement through Request for Quotation



Direct Selection may be used when it can be justified in line with ***paragraphs 6.8 thru 6.10 of the World Bank Procurement Regulations.***

4.4.1 Selection of Consultants

Open competitive approach to market is the most preferred when selecting consultants, including advertisement of EoI, as it provides all eligible prospective firms or Individuals Consultants with timely and adequate information to participate in the bidding process for providing project requirements. This provides equal opportunity and fairness to all eligible consultants.

Shortlist of consultants are required for all selection methods except CQS and Direct Selection. Selection procedures for consulting firms shall be undertaken in accordance with Section VII paragraph 7.16 -7.20 of the Procurement Regulations. The shortlist shall include not less than 5 and not more than 8 eligible firms. All ToRs for selection of Consultants regardless of value will be reviewed and cleared by the Bank prior to start of the selection process.

The following are selection methods for consulting services:

4.4.1.1 Consulting Services through Quality and Cost Based Selection (QCBS) Procedures

Selection through *Quality and Cost Based Selection (QCBS)* procedures. In such a case, prior No Objection is required from the Bank. To identify the Consultant, the following processes will be followed: -

Step 1: Draft Terms of Reference (ToR) for the Consultancy Services will be developed by the PIU with the assistance of the technical staff of the Implementing Agency in the area of the assignment. In case of limited and or lack of internal capacity, a consultant shall be hired to assist the Implementing Agency to develop the ToR.

Step 2: The PIU, will advertise a Request for Expressions of Interest for each contract in the UN Development Business online (UNDB online) and in widely circulated local newspapers. The information requested shall be the minimum that will be required to make judgement on the firm's suitability and not to be so complex as to discourage consultants from expressing interest. Not less than 14 days from date of advertising shall be provided for responses, before preparation of the shortlist.

Step 3: The PIU shall be responsible for preparation of the shortlist. First consideration will be made to those firms that possess the relevant qualifications. Shortlist shall comprise of not fewer than five (5) and not more than eight (8) eligible firms. For small assignments, all the shortlisted firms can be national consultants. The shortlisting report will be forwarded to obtain a No Objection from the World Bank.

Step 4: After satisfying the procurement as required, the World Bank shall be asked to review and provide a No Objection for Procuring Entity to proceed with the preparation of the Request for Proposal.

Step 5: The PIU shall prepare a Request for Proposal using the applicable standard RFPs. The completed RFP shall be issued to all shortlisted consultants. Consultants shall be allowed not less than 6 weeks to prepare their detailed Technical and Financial Proposals.

Step 6: Opening of the Technical Proposals shall be done on the closing date and at the time stipulated in the RFP. The Proposals will be opened by the PIU. All late submissions will be returned to the owners unopened.

Step 7: The Procuring Entity will set up an Evaluation Panel consisting of three or more specialists in the sector to evaluate the proposals. The evaluation shall be carried out in two stages. The first stage in the evaluation process is the technical. The evaluation criteria (Quality) generally includes: -

(a) the Consultant's relevant experience for the assignment;

(b) the quality of the methodology proposed;
(c) the qualifications of the key staff proposed;
(d) transfer of knowledge; and
(e) the extent of participation by nationals among key staff in the performance of the assignment (in instances where local participation is preferred).

Step 8: A Technical Evaluation report will be produced and sent the World Bank for No Objection in case of contracts that are subject to prior review to proceed with opening of the Financial Proposal.

Step 9: After obtaining IDA No Objection, the PIU shall inform the consultants who have submitted the proposals, the technical points assigned to each consultant and shall notify those consultants whose proposals did not meet the minimum qualifying mark or were non-responsive to the RFP and the ToR that their financial proposals will be returned unopened after the signature of the contract. Simultaneously, the Procuring Entity will notify consultants that have secured the minimum specified technical score of the date, time and place set for opening of their financial proposals. The financial proposals shall be opened publicly in the presence of the representatives of the consultants who choose to attend.

Step 10: The Evaluation Panel that evaluated the technical proposals shall reconvene to evaluate the financial proposals and produce a combined technical and financial evaluation report.

Step 11: The combined technical and financial evaluation report shall be submitted to IDA for information and records. Simultaneously, The PIU will set a date for negotiations and invite the highest ranked Consultant.

Step 12: Minutes of the negotiations and an initialed draft contract shall be sent to IDA for review and No Objection to sign the contract.

Step 13: After approval of the Minutes of the negotiations and an initialed draft contract by the World Bank, the PIU shall issue a written Notification of Intention to Award to each firm that submitted a Proposal, using the quickest means available. The Notification of Intention to Award will include the date the Standstill period is due to end. The standstill period shall last ten (10) business days after transmission date, unless otherwise extended in accordance with Paragraph 5.82 of the Procurement Regulations. The Contract shall not be awarded either before or during the Standstill Period. The Standstill Period shall, however, not be a requirement for the following situations:

(a) Only one bid/proposal was submitted in an open competitive process;
(b) Direct Selection;
(c) Call-off process for among firms holding FAs; and
(d) Emergency Situations recognized by the Bank.

Step 14: At the end of the Standstill Period, if Procuring Entity has not received any complaint from an unsuccessful firm, the Procuring Entity shall proceed to award the contract in accordance with its decision to award, as previously communicated through the Notification of Intention to Award.

Step 15: The contract shall be signed by the Parties. Contract management and monitoring shall be done by PIU.

Step 16: One copy of the contract will be sent to the Bank for record and entry into the contract database.

Step 17: Within ten (10) Business Days from PIU's Notification of Contract Award to the successful bidder, the project will publish a public notice of award of contract (Contract Award Notice).

Award of any contracts will be subject to compliance with other public procurement procedures including No Objection from PPDA, approval by GCU and MoJ where applicable.

The following weights (see Table 5: Indicative Weighting of Evaluation Criteria for Consulting Services) are indicative and may be adjusted for specific circumstances. The proposed weights shall be disclosed in the RFP.

Table 3: Indicative Weighting of Evaluation Criteria of Consulting Services

Consultant's Specific Experience:	0 to 10 points
Methodology:	20 to 50 points
Key Personnel:	30 to 60 points
Transfer of Knowledge:	0 to 10 points
Participation by Nationals	0 to 10 points
Total:	**100**

We recommend against the use of exceedingly detailed lists of sub criteria that may render the evaluation a mechanical exercise more than a professional assessment of the proposals.

Consultant's Specific Experience

The weight given to experience can be relatively modest, since this criterion has already been considered when shortlisting the Consultants.

Methodology

More weight shall be given to the methodology in the case of more complex assignments (for example, multidisciplinary feasibility or management studies).

Personnel

Evaluation of only the key personnel is recommended. Since key personnel ultimately determine the quality of performance, more weight shall be assigned to this criterion if the proposed assignment is complex. The Evaluation Panel shall review the qualifications and experience of proposed key personnel in their *curricula vitae*, which must be: -

(a) Accurate;
(b) Complete; and
(c) Signed by an authorized official of the Consultant and the individual proposed.

When the assignment depends critically on the performance of key staff, such as a Project Manager in a large team of specified individuals, it may be desirable to conduct interviews. The individuals shall be rated in the following three sub criteria, as relevant to the task: -

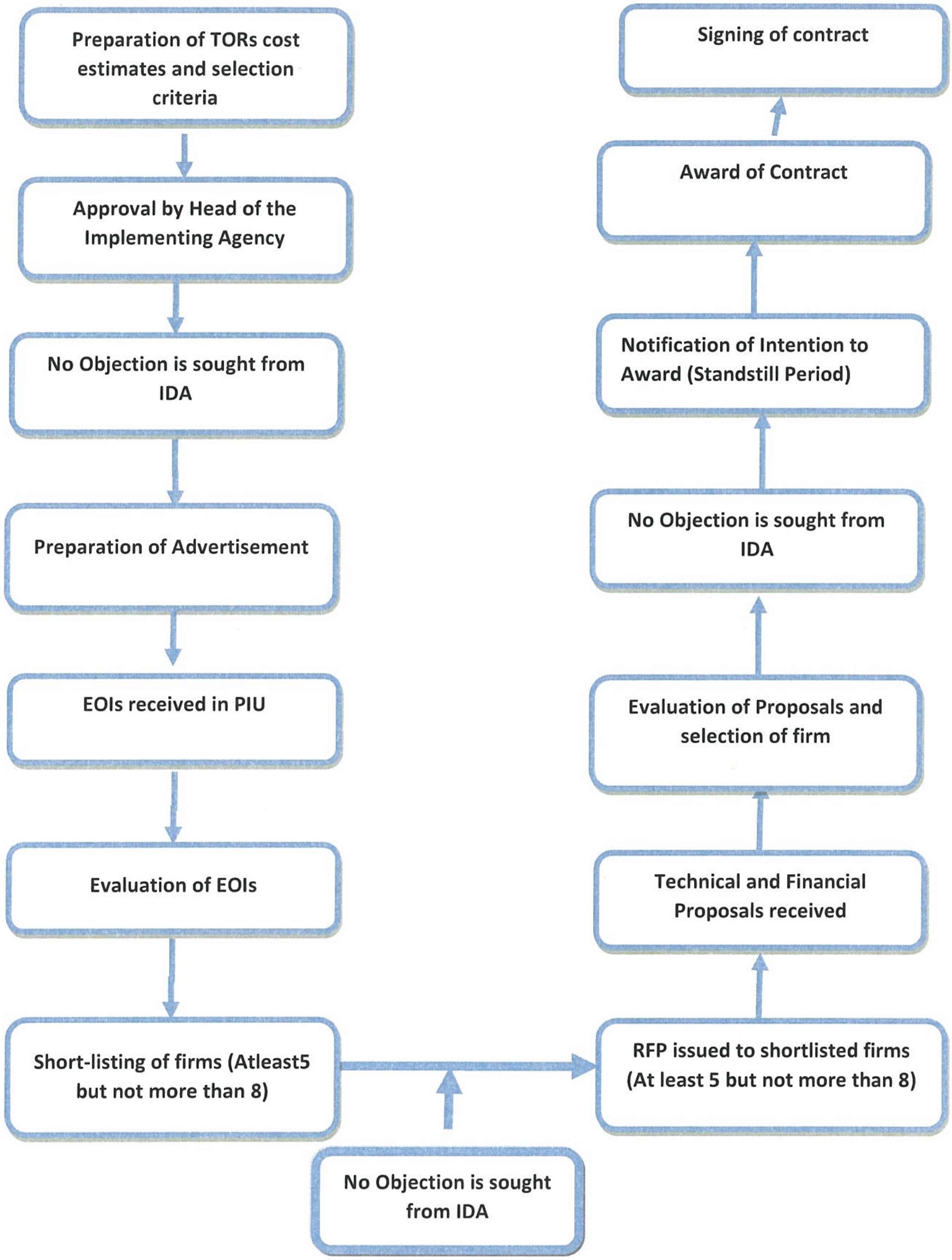
(a) **General Qualifications**: General education and training, length of experience, positions held, time with the consulting firm as staff, experience in developing countries, and so forth;
(b) **Adequacy for the Assignment**: Education, training, and experience in the specific sector, field, subject, and so forth, relevant to the assignment; and
(c) **Experience in the Region**: Knowledge of the local language, culture, administrative system, government organization, and so on and forth.

The Evaluation Panel shall evaluate each proposal based on its responsiveness to the Terms of Reference. A proposal shall be considered unsuitable and shall be rejected at this stage if:

(a) It does not respond to important aspects of the TOR; and

(b) It fails to achieve a minimum technical score specified in the RFP.

Figure 7: Quality and Cost Based Selection of Consultancy Firm



Other Methods of Selection

Consultants for assignments estimated to cost less than the prior review threshold may be selected using other selection methods such as *Quality Based Selection (QBS), Least Cost Selection (LCS), Consultant's Qualifications* Based Selection (CQS) and *Fixed Based Selection (FBS).*

Further, Individual Consultants will be selected based on their qualifications in accordance with Paragraphs 7.34 thru 7.39 of the Procurement Regulations. Direct Selection may be used where it can be justified and after consultation with the IDA and approval is given.

4.4.1.2 Quality-Based Selection (QBS)

QBS is applicable in complex or highly specialized assignments. Assignments that have a high downstream impact and that can be carried out in substantially different ways.

Step 1: Draft Terms of Reference (ToR) for the Consultancy Services will be developed by PIU with the assistance, when applicable, of the technical experts of the Implementing Agency in the area of the assignment. In case of limited and or lack of internal capacity, a Consultant shall be hired to assist the PIU to develop the ToR.

Step 2: The PIU, will advertise a Request for Expressions of Interest for each contract in the UN Development Business (UNDB) online and in widely circulated local newspapers. The information requested shall be the minimum that will be required to make judgement on the firm's suitability and not to be so complex as to discourage consultants from expressing interest. Not less than 14 days from date of advertising shall be provided for responses, before preparation of the shortlist.

Step 3: The PIU shall be responsible for preparation of the shortlist. First consideration will be made to those firms that possess the relevant qualifications. Shortlist shall comprise of not fewer than five (5) firms and not more than eight (8) eligible firms. For small assignments, all the shortlisted firms can be national consultants. The shortlisting report will be forwarded to obtain a No Objection from the World Bank.

Step 4: After satisfying the procurement as required, the World Bank shall be asked to review and provide a No Objection for Procuring Entity to proceed with the preparation of the Request for Proposal.

Step 5: The PIU shall prepare a Request for Proposal using the applicable standard RFPs. The completed RFP shall be issued to all shortlisted consultants. Consultants shall be allowed not less than 6 weeks to prepare their detailed Technical and Financial Proposals.

Step 6: Opening of the Technical Proposals shall be done on the closing date and at the time stipulated in the RFP. The Proposals will be opened by the PIU. All late submissions will be returned to the owners unopened.

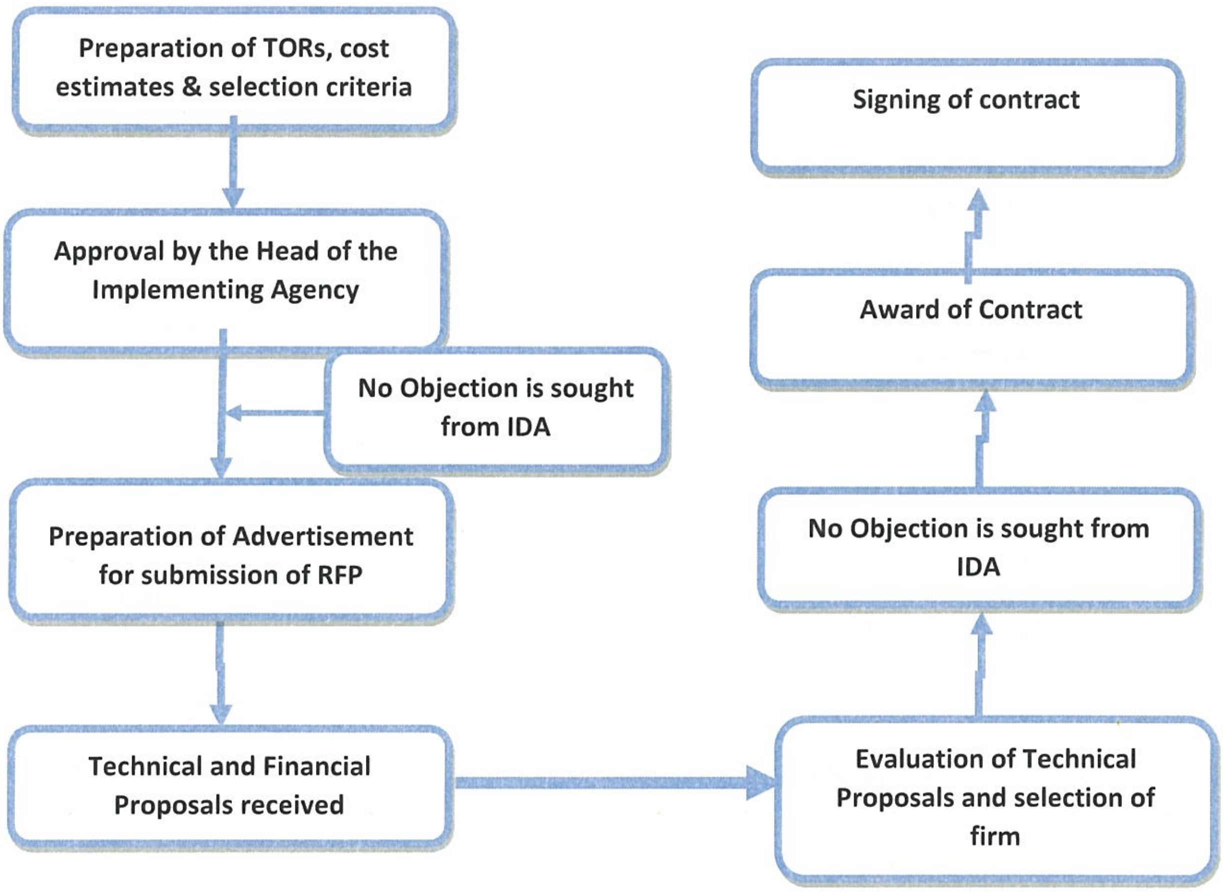
Step 7: The Procuring Entity will set up an Evaluation Panel consisting of three or more specialists in the sector but not more than 5 to evaluate the proposals. The evaluation shall be carried out in two stages. The first stage in the evaluation process is the technical.

Step 8: The Financial Proposal for the firm with the highest Technical Score is opened and invited for contract negotiations.

Step 9: All other aspects of the selection process shall be identical to those of QCBS.

Award of any contracts will be subject to compliance with other public procurement procedures including No Objection from PPDA, approval by GCU and MoJ where applicable.

Figure 8: Quality Based Selection of Consultancy Firm



4.4.1.3 Consultants' Qualifications Based Selection (CQS)

This method of selection is based on Consultant's qualification and its appropriate for small value contracts (e.g. contracts estimated to cost less than US$300,000). In such a case, audit is carried out after completion of the assignment. Procedure involved in Consultant's Qualification Based Selection (consultancy firms) is as follows:

Step 1: Draft Terms of Reference (ToR) for the Consultancy Services will be developed by the PIU with the assistance, where applicable, of technical experts of PIU in the area of the assignment.

Step 2: The PIU shall prepare Expressions of Interest (EOIs) that include information on the Consultant's experience and qualifications and publish the advertisement in widely circulated local newspapers.

Step 3: The EOIs are received by the PIU. After receipt and evaluation of EOIs, the top ranked firm will be selected.

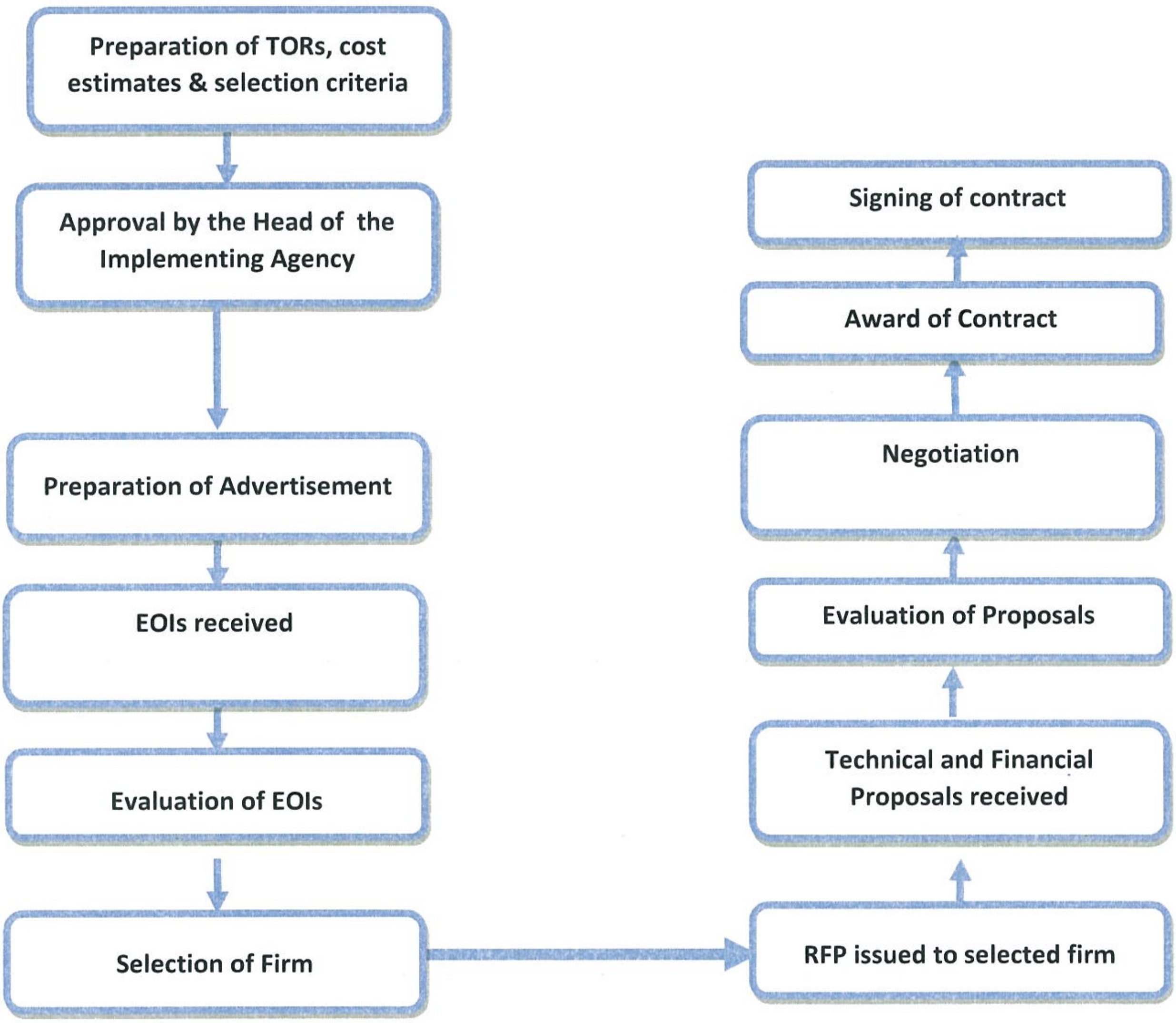
Step 4: A simplified RFP will be issued to the top ranked firm selected with not less than 4 weeks to prepare and submit the Technical and Financial Proposals.

Step 5: The submitted Technical and Financial Proposals will be evaluated by the appointed Evaluation Panel and negotiations will be carried out with the selected firm, if required.

Step 6: The contract shall be signed by the Parties. Contract management and monitoring shall be done by Implementing Agencies' technical departments and supported by the PIU.

Award of any contracts will be subject to compliance with other public procurement procedures including No Objection from PPDA, approval by GCU and MoJ where applicable .

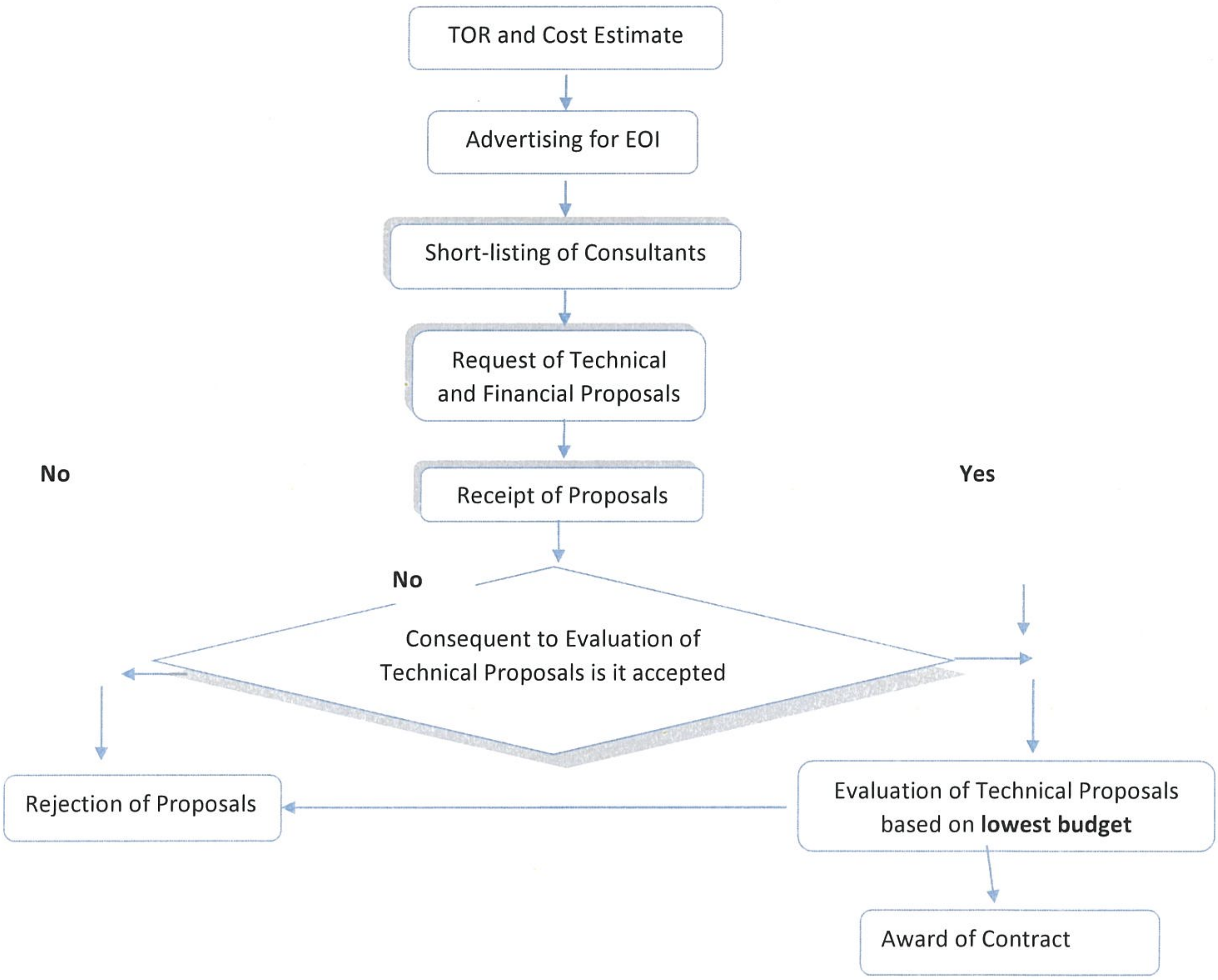
Figure 9: Consultant's Qualifications Based Selection (CQS)



4.4.1.4 Least Cost Selection (LCS)

LCS is applicable when the assignments of a standard or routine nature such as audit, engineering design of non-complex works where well-established practices and standards exist. Under this method, a "minimum" qualifying mark for the "quality" is established. Proposals, to be submitted in two envelopes, are invited from shortlisted firms. Technical proposals are opened first and evaluated. Those securing less than the minimum qualifying mark are rejected, and the financial proposals of the rest are opened in public. The firm with the lowest price shall be selected.

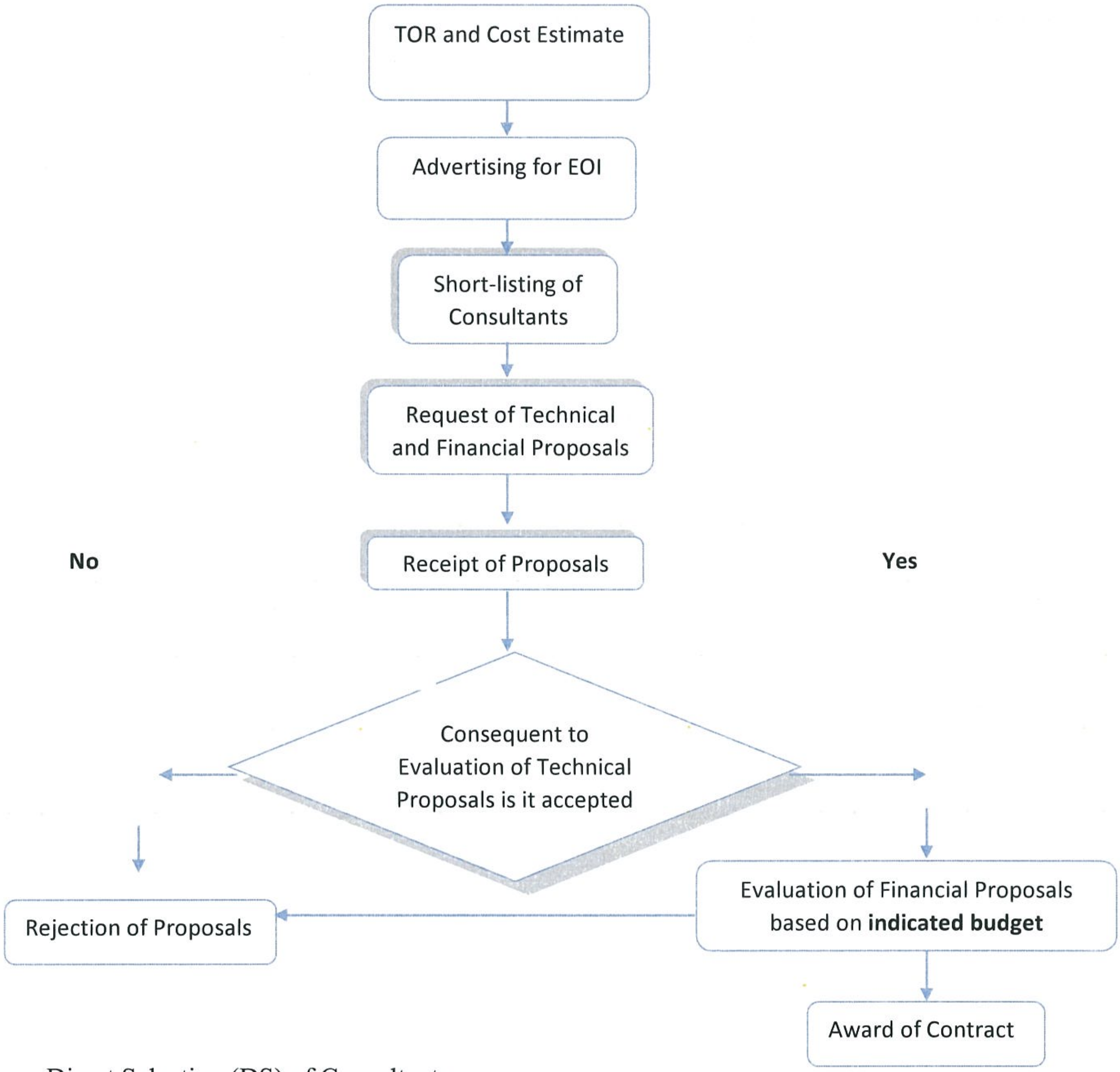
Figure 10: Least Cost Selection (LCS)



4.4.1.5 Selection under Fixed Budget Selection (FBS)

This method is appropriate only when the assignment is simple and can be precisely defined and when the budget is fixed. The RFP shall indicate the available budget and request the consultants to provide their best technical and financial proposals in separate envelopes, within the budget. Evaluation of all technical proposals shall be carried out first as in the QCBS method. Then the price proposals shall be opened in public and prices shall be read out aloud. Proposals that exceed the indicated budget shall be rejected. The consultant who has submitted the highest ranked technical proposal among the rest shall be selected and invited to negotiate a contract.

Figure 11: Selection under Fixed Budget (FBS)



4.5 Direct Selection (DS) of Consultants

The PIU may procure the services of any firm/individual consultant without going through the competitive process. Direct Selection procedure will be in accordance with:

(a) Paragraph 7.13 to 7.15 of the Procurement Regulations for Consulting Firms, and
(b) Paragraph 7.39 of the Procurement Regulations for Individual Consultants.

In selecting Direct Selection method, consideration must be given to fit for purpose, value for money, and be applied under the following circumstances:

(a) An existing contract, including a contract not originally financed by the Bank for goods or works or non-consulting services, is awarded in accordance with procedures acceptable to the Bank, may be extended for additional goods or works of a similar nature. The Bank shall be satisfied in such cases that no advantage could be obtained by further competition and that the prices on the extended contract are reasonable. Provisions for such an extension, if considered likely in advance, shall be included in the original contract;
(b) There is justification that the firm performed satisfactorily in the previous contract within a period of 12 months, procurements are of low value and low risk, and there is an exceptional case of response to emergency situations;
(c) Standardization of equipment or spare parts, to be compatible with existing equipment, may justify additional purchases from the original Supplier. For such purchases to be justified, the original equipment shall be suitable, the number of new items shall generally be less than the existing number, the price shall be reasonable, and the advantages of another make or source of equipment shall have been considered and rejected on grounds acceptable to the Bank;
(d) The required equipment is proprietary and obtainable only from one source;
(e) The Contractor responsible for a process design requires the purchase of critical items from a particular Supplier as a condition of a performance guarantee.
(f) The procurement is essential to achieve required performance or functional guarantees of an equipment, plant, or facility;
(g) The goods, works, or non-consulting services provided by a state-owned enterprise within the country are of unique or exceptional nature; and
(h) Direct selection of United Nations agencies.

In case circumstances warrant that a Direct Selection is the only option, a strong justification for considering only one Consultant shall be prepared by the PIU. A justification to use Direct Selection method shall be submitted by the PIU together with the draft Procurement Plan which is submitted to the Bank for approval.

During implementation, for contracts estimated to cost above the prior review threshold, a Direct Selection Justification giving reasons why a particular firm is being recommended will be submitted to IDA for Review and No objection before proceeding with the rest of the selection processes.

4.6 United Nations (UN) Agencies

UN agencies may be hired following Direct market approach for contracts for which they offer their unique roles and qualifications in responding to the emergency situations in accordance with paragraph 6.47-6.48 of Section VI of the Procurement Regulations for IPF Borrowers. Standard forms of agreement for UN agencies as acceptable to the Bank will be adopted. For those UN agencies, where such forms have not been agreed with the Bank, the Bank's team will provide acceptable sample forms.

4.7 Selection of Individual Consultants

Individual Consultants will be selected in line with paragraph 7.34-7.39 of Section VII of the Procurement Regulations.

4.8 Training, Workshops, Study Tours and Conferences

Training activities would comprise workshops and training, based on individual needs, as well as group requirements, on-the-job training, and hiring consultants for developing training materials and conducting training. Selection of consultants for training services follows the requirements for selection of consultants above. All training and workshop activities (other than consulting services) would be carried out on the basis of approved annual work plans/training plans that would identify the general framework of training activities for the year, including (a) the type of training or workshop, (b) the personnel to be trained, (c) the institutions which would conduct the training and reason for selection of this particular institution, (d) the justification for the training and how it would lead to effective performance and implementation, (e) the duration of the proposed training, and (f) the cost estimate of the training. Report by the trainee(s), including completion certificate/diploma upon completion of training, shall be provided to the Project Manager and will be kept as part of the records and will be shared with the World Bank if required. After the training, the beneficiaries will be requested to submit a brief report indicating what skills have been acquired and how these skills will contribute to enhance their performance and contribute to the attainment of the project objective.

4.9 Operational Costs

Operational costs financed by the project would be incremental expenses, including office supplies, vehicles operation and maintenance cost, maintenance of equipment, communication costs, rental expenses, utilities expenses, consumables, transport and accommodation, per diem, supervision costs, and salaries of locally contracted support staff. Such services will be procured using the procurement procedures specified in the procurement manual accepted and approved by the World Bank. Fuel and communication cards will be procured directly from the vendors without the need of three quotations as prices are standard.

4.10 Reporting

The Procurement Specialist will prepare procurement reports which will be consolidated by the Project Manager to be submitted to the Bank in accordance with the Project reporting requirements as follows:

(a) Prepare and submit to the Bank quarterly and annual procurement progress reports;
(b) Prepare an updated Procurement Plan and submitted to the bank for review and No Objection as and when required; and
(c) Any other reports as may be required from time to time.

4.11 Procurement Records Management

The Procurement Specialist shall maintain accurate and complete records of the documents relating to the procurement activities under this project and shall with due diligence ensure that the records for the entire procurement proceedings for each contract are accessible when required. The procurement files will be required for review by the Bank during supervision missions in ascertaining compliance and also for other audits purposes.

The files will be used in the preparation of quarterly and annual progress reports. Due diligence shall be exercised in the keeping of the procurement files.

At the minimum the Procurement Specialist shall keep records of the procurement processes, and documentation and file:

(a) Records of all procurement processes and contracts for goods, works and consulting and non-consulting services;
(b) Cuttings of all Adverts, e.g. GPN, SPN, local & International adverts, etc.;
(c) Records on all selection and bidding procurement events shall be kept in a unique file;
(d) Records on payments; and
(e) Record of complaints and claims.

4.12 Stores Management

(a) The RBM shall ensure that they have provision for a very secure storage building and stockyard. Proper instructions should be issued as to who will be responsible for the keys to storage building and stockyard.
(b) The storekeeper in charge shall be responsible for the care and custody of all materials from the time of delivery until the time of issue. He/she, therefore, will have the authority over all persons who have occasion to visit the premises for any purpose whatsoever. In the interest of security, access to storehouse and stockyard shall be strictly limited.
(c) All goods received and issued shall be recorded in Stores Ledgers. It is prudent to take extra security precautions in respect of attractive goods which are generally recognized as being especially subject to pilferage. Separate lockable enclosures should be provided inside the main storehouse for commodities of this kind.
(d) It is very important that the storekeeper should have a good general knowledge of the principal materials used. The importance of this knowledge is appreciated because the different materials kept happen to have different environments of custody and shelf life.
(e) Safety is a very important matter in storekeeping, and all materials shall be stored so as to minimize the risk of injury to staff or damage to goods or equipment.

4.13 Procurement Audit

Procurement Audit will be undertaken as part of the Financial Audit on annual basis by the appointed External Auditor and the IDA will additionally undertake annual Procurement Post Review. The audit reports shall be submitted to the IDA not later than six (6) months after the end of the financial year or at whatever time period as stated in Financing Agreement.

4.14 Contract Management and Administration

The responsibility for contract management under this project shall largely be with the Implementing Agencies with support from the PIU. The Implementing Agencies and PIU shall ensure that the goods, works and services procured under the project meet the requirements as defined in the contracts. The project will develop simple excel contract monitoring sheets even for contracts that do not require mandatory contract management plans, to enhance contract monitoring and tracking of milestones

4.15 Bank Supervision Missions and Reviews

The World Bank procurement specialists will regularly participate in implementation support missions to assist in monitoring procurement procedures and plans. The procurement plan will indicate those contracts which are subject to prior review. All other contracts will be subject to post-review. During the regular implementation support missions, the procurement plans will be updated at least twice each year (or more often as required to reflect the actual project implementation needs) and post-procurement reviews will be carried out at a minimum once annually.

4.16 Publication of Procurement Notices

The Reserve Bank of Malawi (under which the PIU will be) shall publish on the Bank's website, the PPDA website, its own website, and in at least one newspaper with national circulation, the Annual Procurement Plan and all awarded contracts under the Project. Details of contract awards through Competitive Approaches shall be published through STEP in accordance with the Bank Guidelines and using Bank templates. In addition, the details of the contract awards including those through National Procurement Procedures shall also be published on the PPDA website and in at least one local newspaper with national circulation.

CHAPTER 5: FINANCIAL MANAGEMENT

5.1 Financial Management Arrangements

The FInES project financial management will be in accordance with the Government of Malawi Financial and Accounting regulations and World Bank Financial Regulations. Financial management and accountability under the Project will be tracked at national, district and community level. A Financial Manual Handbook will be developed to guide Project implementation at all levels of Project implementation. The responsibility for project Financial Management will rest with the RBM. Financial Management (FM) will be centralized at the RBM, in terms of processing transactions and reporting/auditing. Other IAs will need to follow FM procedures and provide liquidation for funds advanced to them as appropriate in accordance with the agreed project frame work of implementation and anti-corruption guidelines within the financial management framework including the Public Finance Management Act, 2003, and the amended Public Audit Act, 2018.

The World Bank Team conducted an assessment of RBM's FM arrangements, to determine that: (i) the funds will be used for the purposes intended in an efficient and economical manner and also that the entities involved are capable of correctly and completely recording all transactions and balances related to the project; (ii) the project's financial reports will be prepared in an accurate, reliable and timely manner; (iii) the assets acquired under the project will be safely guarded; and (iv) the project will be subjected to auditing arrangements acceptable to the World Bank. The assessment concluded that the RBM has the requisite FM arrangements to successfully implement projects, as demonstrated by implementation of FSTAP (P122616), which closed in August 2018. The entity has an appropriate accounting package for project transaction processing and reporting. It has the appropriate accounting staff, with the right qualifications and experience. The audited financial reports of the projects with which it was involved were always submitted on time and with unqualified audit opinions. Control and accountability have been good regarding project management, as shown by observations in management letters and internal audit reports.

The project budget will be activity-based, with the RBM having experience using this approach, as demonstrated by the implementation of a project with similar arrangements in the past. The project budget cycle will follow that of RBM's, running from January to December. The budget will also be incorporated in the accounting software, which will be used to monitor and control project expenditure. RBM computerized accounting system will be used. During FSTAP implementation, there was compliance with controls, with both internal and external audit reports not finding any serious control and accountability issues.

5.2 Planning and Budgeting

The PIU based at the RBM will be charged with the overall responsibility to ensure that plans and budgets for Project activities are realistic and based on valid assumptions, and that all the budgets and work plans conform to the project policies, guidelines and legal agreements. The PIU will communicate the planning and budgeting guidelines to implementing agencies, enforce timely delivery of budget proposals, review submitted budgets for adequacy and consolidate the overall budget which will be subject for financing from IDA. All activities under the project shall be implemented following duly approved budgeting allocations (project components, expenditure categories, Indicative Planning Figures (IPF), budget lines) and budgeting processes (approvals and no objections). The PIU shall prepare and submit a consolidated budget and work plan to IDA by 30th November each calendar year. Financial

Statements of the Project will be prepared using International Public Sector Accounting Standards (IPSAS).

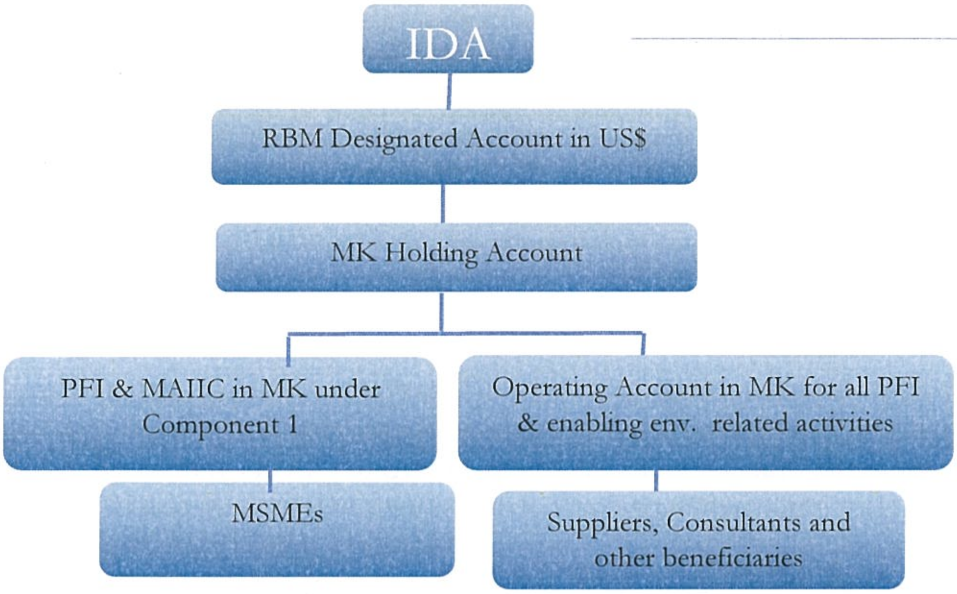
5.3 Funds Flow

The PIU shall be responsible for submitting fund request using Interim Financial Reporting (IFR). An initial six-month forecast of project expenditures will be made by the PIU using the consolidated work plan. IFR will electronically be submitted to World Bank for clearance before submitting to Treasury. Treasury will approve the submission and forward to World Bank. World Bank will release funds through the Designated Account maintained at the RBM [or any approved designated commercial bank] in accordance with negotiated disbursement and financial information letter.

The project shall have one designated US$ dominated Account maintained with the RBM opened in the name of Financial Inclusion and Entrepreneurship Scaling Project (FInES) which will be used to receive funds from the IDA for both the LOC and other project activities. The RBM will also open a kwacha-denominated operating account, which will be used to pay suppliers and other project beneficiaries; The LoC and funding for equity/quasi-equity investments will be extended to the PFIs and MAIIC in Kwacha. The PIU will disburse funds to implementing agencies based on the agreed budgets.

After the first and each subsequent quarter, the PIU will submit to IDA quarterly IFRs using the agreed template. In addition, to expenses, the IFR will include six months funds forecast which will determine the required funds to be withdrawn for the quarter. IDA will review IFRs to confirm eligibility of expenditures during the period covered by the respective IFRs.

Figure 12: Funds Flow



The RBM will retire the funds disbursed quarterly by accounting for them through the quarterly IFRs to be submitted to IDA not later than 45 days after the end of the quarter. The IFRs will provide adequate information on the source of funds and how the funds have been utilized with a detailed list of expenditures broken down by Component, both for the quarter and cumulatively since the project began. The IFRs will be used to document expenditure. The format of the IFR will be agreed upon between the RBM and the World Bank before negotiations.

The World Bank will issue a disbursement letter as part of the financing agreement (FA) with the recipient which will among other things set out and summarize all disbursement arrangements and procedures under the project as indicated above. The IFR, as agreed upon with the World Bank, will consist of a financial report on the source and use of funds in summary and will contain a detailed reconciliation of the Designated Account, clearly showing opening and closing cash balances.

The PIU shall use RBM computerized accounting system for capturing, storing and reporting financial information. The government implementing agencies will use centralized transaction processing to capture and track transactions, to allow for (a) timely recording of project transactions; (b) to safeguard project assets; and (c) to allow for timely reporting of project transactions for compliance and accountability purposes.

5.4 Record Keeping

The RBM (PIU) and all implementing agencies shall maintain accounting records in a form and content acceptable to IDA and within Malawi Government financial regulation framework. Accounting records shall be retained for audit purposes. Implementing agencies shall make available accounting records and information in a form and content as reasonably to IDA, RBM, and Auditors as requested.

5.5 Reporting

The RBM Financial Management system will be used to generate quarterly un-audited Interim Financial Reports (IFR) in a form and content satisfactory to the Bank, which will be submitted to the Bank within 45 days after the end of the quarter to which they relate. The quarterly IFR's will be used as a basis for the disbursement. The IFR will consist of a statement of sources and uses of funds (by main expenditure classifications), opening and closing balances of the funds from the Bank; and actual and budgeted expenditures by component and/or activity within component and explanations of any variances, for the quarter and cumulatively for the Project. It will also contain forecasts for the next 6 months. The format of these reports will be as agreed between the Bank and the PIU. All implementing agencies shall prepare and submit to the PIU monthly financial reports in prescribed format and timeline. The PIU shall consolidate the reports for further reporting to the World Bank.

5.6 Internal Controls

The internal controls system described in the Financial Management Manual will provide guidance to the Project financial and help in monitoring the system of internal controls. The RBM internal audit function will work with the PIU to provide internal audit requirements where necessary. The implementing agency audit systems will provide an independent assessment of the adequacy of, compliance with, established controls, policies and procedures. A system shall be established for following up on all weaknesses reported by external and internal auditors.

5.7 Audit

The project will have one consolidated project financial statements under the PIU to be audited annually by auditors acceptable to the IDA. The auditing shall be conducted in accordance with international standards on Auditing and the amended Public Audit Act, 2018 and the Public Finance Management Act, 2003 and any other relevant financing policies applicable from time to time. The PIU shall submit the audited financial statement to IDA and Treasury not later than December 31 of each year. (2) To act on all audit recommendations promptly. The Auditor General (AG) is primarily responsible for the auditing of all public funds including government projects. It is recommended that the RBM through AG should procure the services of private auditors and could even single source their existing auditors.

The audit shall cover both the annual audit of the project financial statements including their consistency with the quarterly IFRs, and a review of internal controls and compliance with the Project Agreement. The external audit will be conducted using terms of reference agreed with IDA. The Auditor will be required to issue a management letter providing an assessment of the financial management system, including the adequacy of internal controls. The audit report and the management letter must be submitted to the Bank within six months after the end of each fiscal year. The project will cover all reasonable costs related to the auditing process.

5.8 Anti-Corruption

All implementing agencies shall ensure that the project is carried out in accordance with the provisions of the anti-corruption guidelines including the Corrupt Practices Act, 1996 amended. Implementing agencies have a responsibility to report and cause investigations into suspected cases of corruption in accordance with the set guidelines. Areas of responsibility include cooperating with investigating agencies as well as providing relevant information as requested. The anti-corruption and governance arrangements would be structured to include:

(a) an accountability mechanism covering public reporting;
(b) the use of civil society organizations in social audits and disclosure of project information; and

(c) The use of whistleblowers to further combat corruption and other forms of fraudulent activities. The whistle blowing arrangement is already in place for the existing project managed by Deloitte under an anonymous tipoff arrangement.

The RBM will ensure that all reasonable measures to mitigate corruption are implemented. The RBM has a robust anti-fraud and an anti-corruption whistle blowing policies that will also apply to the project.

CHAPTER 6: ENVIRONMENTAL AND SOCIAL MANAGEMENT SAFEGUARDS

6.1 Introduction

This chapter of the PIM specifies the environmental and social safeguard instruments that are relevant or have been developed for the FInES Project and the proposed processes for their application to ensure compliance with the Reserve Bank of Malawi (RBM) and the World Bank environmental and social management frameworks. The proposed environmental and social (E&Ss) safeguards are aimed at providing the minimum requirements for all stakeholders expected to be involved in the implementation of the FInES project specifically on how to incorporate and collaborate on the environmental and social safeguards aspects of the Project.

The project will be implemented by the RBM which has its own E&S P&P that are aligned to World Bank Environmental and Social Standards (ESS). However, the involvement of other stakeholders including for the participating financial intermediaries (PFIs) in the implementation process, the RBM and the project as a whole will be exposed to environmental and social risks. For the PFIs, risks will mainly arise from the E&S risks associated with the business activities of the sub-borrowers and sub-projects they finance. It should be recognized that since the project will concentrate on small-scale MSMEs involved and the modest levels of funds being made available to each, the risks and impacts will largely be of low magnitude, not extensive and reversible. However, the potential for sub-projects to develop high or substantial level risks and impacts remains and RBM's Environmental and Social Management System (ESMS) will seek to mitigate any impacts to acceptable levels. In order to guide all project stakeholders especially IAs and PFIs to mitigate E&S risks, the following will be the key reference documents:

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(a) The World Bank environmental and social standards (ESS);
(b) The RBM environmental safeguards policy and procedures (E&S P&P);
(c) The implementation agencies' (IA's) E&S P&P; and
(d) The PFIs E&S P&P.

The E&S Management processes will be at various levels, with RBM responsible for complying with its own E&S P&P, reviewing PFIs E&S P&P and ensuring that there is compliance with RBM's E&S P&P, integrating the RBM E&S P&P into existing RBM systems to ensure continuity and that implementation of the RBM E&S P&P does not interrupt systems. PFIs will be responsible for ensuring that they comply with their own E&S P&P and that they are fully aware of E&S risks affecting their clients and that there is full compliance.

Implementers of each component will be expected to understand and comply to ESS and the same level of understanding will be required to trickle down to PFIs who would in turn subject the processes therein to ESMS assessments, risk rating and reporting all aspects including grievances management.

6.2 Potential E&S Risks, Mitigating factors and Management of E&S Risks

Potential Risks from MSMEs: The project will mainly target MSMEs operating in agriculture & agri-business and agro-processing, trade/exports, ICT, and clean energy sectors. The likelihood of adverse high or substantial risks is limited given the nature of MSMEs' businesses and the oversight which will be provided by the PFIs' ESMSs over their MSME clients and by the RBM on the comprehensiveness and performance of the PFIs' ESMS.

On the basis of Malawi's MSME profile it is expected that most of the MSMEs involved in the project are most likely to operate in the agriculture sector and related value chains. This expectation presents a high potential for risks associated with the agriculture sector including risks related to soil and conservation management; crop residue and solid waste management; water management; pest management and the use of pesticides; the use of fertilizer; biodiversity, and ecosystems, management of waste materials; wastewater and effluents; air emissions; hazardous materials management; and the spread of animal diseases. These risks may be mitigated and managed through use of farm management plans (even very simple ones can serve as an underlying framework for the management of E&S risks and impacts). Within the other sectors (trade, ICT, clean/solar energy etc.), risks include those related to solid wastes management; water consumption; wastewater and effluents; energy consumption and emissions into the atmosphere.

Cross cutting E&S risks –The potential E&S risks across all MSMEs include issues relating to occupational health and safety, labor and community health and safety, GBV; the use of child labor; the spread of HIV; and the exclusion of disadvantaged groups. All the potential E&S risks will be assessed and managed in line with the World Bank, RBM, PFIs and IAs E&S P&P.

General E&S risk management framework- Among other actions the following will mitigate or facilitate management of E&S Risks in addition to the World Bank ESS, RBM E&SP&P ,IAs E&S P&P and PFIs E&S P&P:

(a) Project will focus on small MSME that are not expected to be associated with high or substantial risks;
(b) The maximum amount for loans to an individual MSME will be determined by PFIs in line with their standard procedures and subject to any guidelines that are provided by PIU. hence; risks are expected to be **moderate** or **low**;
(c) Provision enabling PFIs to request improvement to E&S performance (where risks are identified) as a condition for MSMEs to continue receiving support under the project; and
(d) Activities to promote awareness-raising and capacity building in relation to E&S issues that are included in the project's Building Firm Capability component.

E&S Risk Management for PFIs-Larger-scale, commercial PFIs are generally already including an assessment of E&S risks in their due diligence processes for lending while the smaller PFIs, particularly the microfinance organizations, are less well prepared to address E&S related risks and impacts. As a precondition for continued participation in the project, each of the PFIs will have its own ESMS and perform its own separate E&S due diligence processes. Where necessary support will be provided particularly in the case of smaller PFIs, to ensure PFIs' ESMSs are appropriately developed (in line with the RBM ESMS) and put into practice.

The RBM will have to undertake an analysis of the capacities of this group and to provide capacity building support to help develop policies and to ensure that loan officers have the skills to identify risks and to advise MSME client on approaches to address them. The project includes provisions for capacity support for PFIs including MAIIC to address capacity constraints affecting their ability to support MSMEs, including in areas related to E&S issues.

6.3 RBM's Role in E&S Risk Management

The FInES Project will be managed by the RBM who will in turn take overall responsibility for the management of E&S and any other risks arising from the implementation of the project. The RBM has extensive experience with risk management and due diligence processes within its operations (described in the Risk Management Guidelines for Banking Institutions and A Guide to Risk Management Programs). These RBM risk management and due diligence processes have been expanded to incorporate the E&S coverage through the development of the RBM's E&S Policies and Procedures for the financial inclusion and entrepreneurship scaling project which are aligned to the World Bank ESS. In order to ensure that the RBM has the necessary capacity to manage E&S risk, a senior official will be in charge of the PIU and will be supported by an Environmental/Social Development Specialist to manage E&S issues, particularly those that relate to the RBM's E&S policies and procedures for the FINES Project and to oversight of the PFIs' ESMS all prospective PFIs will be required to develop, implement and maintain with adequate capacity an ESMS to manage E&S risks attendant to their portfolio of MSMEs involved in the project.

The RBM PIU will provide capacity building sessions for RBM staff, PFIs and MFIs on ESS in general and appraisal on monitoring reports based on reports from the field. This will guide reprogramming of ESS in the FINES Project. The PIU will also be made available to support PFIs and MFIs in any ESS training for their clients. The GEMs tool under FINES Project will also be used to capture ESS compliance and progress with various stakeholders.

The E&S risk management process will be driven by the RBM E&S P&P which apply to the LoC and PCG facility established by RBM, to PFIs (in the MSME financing sector) and the ultimate borrowers, the MSMEs whose main objectives are to[11]:

(a) Integrate ESRM policy considerations into the RBM on-lending and partial credit guarantee decision making processes;
(b) Set out requirements for the PFI for environmental and social screening associated with the activities implemented with funding they on-lend to MSMEs;
(c) Ensure compliance with national regulation pertaining to E&S governance and the applicable World Banks environmental and social standards (ESS);
(d) Promote greater transparency and accountability on E&S issues among all RBM stakeholders through disclosure and reporting; and
(e) Ensure that the RBM ESRM policy considerations are ingrained in the PFI's core business strategies and thus increase the likelihood that these lending practices will be sustained beyond the life span of the project.

6.3.1 Applicable Environmental and Social Requirements[12]

[11] RBM Environment and Social Policy and Procedures
[12] RBM E&S P&P

Under FINES, RBM will only finance business activities that are expected to meet applicable E&S Requirements within a reasonable period. Persistent delays and gaps in meetings these requirements shall lead to loss of financial support from RBM.

6.3.2 Requirements for Participating Financial Institutions[13]

As a condition of eligibility to receive financing, from RBM: -

(a) PFIs will put in place and maintain an Environmental and Social Management System (ESMS) to identify, assess, manage, and monitor E&S risks and impacts associated with business activities they finance under FINES, as commensurate with the nature and magnitude of such risks and impacts.[14]

(b) PFIs that already have an ESMS at the time of RBM's due diligence, will provide adequate documented evidence to that effect.[15]

The PFI's ESMS should include the following elements:

(a) environmental and social policy;
(b) clearly defined E&S risk identification, assessment, and management procedures, organizational capacity and competency;
(c) monitoring and review of E&S risks of individual transactions and the portfolio;
(d) reporting mechanism of the E&S risks;
(e) external communications mechanism; and
(f) grievance handling mechanism.

As part of the above elements, the PFI's ESMS must include:

(a) An E&S risk categorization system with clearly defined risk categories[16];
(b) As part of the PFI's E&S policy, PFIs will state the applicable E&S Requirements as follows:
- All sub-borrowers and sub-projects follow relevant E&S national and local laws and regulations (overview provided in Annex 1).
- No financing will be provided to activities on the List of Excluded Activities[17] (Annex 3).

(c) Appropriate E&S screening process, taking into consideration provisions of section 5 of the RBM E&S P&P, to ensure that sub-borrowers and sub-projects financed are environmentally and socially sound.
(c) That all sub-projects which involve resettlement (unless the risks of such resettlement are minor) or significant risks or impacts on the environment, community health and safety, labour and working conditions, biodiversity or cultural heritage will apply relevant requirements of World Bank ESSs.

[13] RBM E&S P&P
[14] The PFI's ESMS will be tailored and scaled to the nature of their lending activities (size of the transactions, sectors of operation, size of the micro-enterprises supported etc.) and be commensurate with the magnitude of anticipated risks and impacts of their portfolio, which are generally low/moderate for MSMEs at the individual transaction level.
[15] Where RBM is providing support to a PFI, RBM may use an ESMS already established by the PFI, provided that such requirements will enable the PFI to achieve objectives materially consistent with this Policy. A PFI may be required to enhance or supplement its ESMS, as deemed necessary by RBM.
[16] A typical categorization system used by PFIs may consist of three risk categories, which correspond to high, medium, or low risk. It should, therefore, be noted that the main purpose of a categorization system is to help PFIs prioritize their due diligence and supervision activities with a focus on higher risk and larger transactions (as compared to other transactions of the PFI) within a PFI's portfolio. In case of a microfinance institution, the categorization system is designed to be relative to the nature of the transactions in the portfolio. Such categorization system can include internal thresholds that help classify transactions based on such parameters as amount of loan, tenor of loan, size of enterprise/ borrower and sectors of operation etc.
[17] List of Excluded Activities may be amended from time to time.

RBM will require PFIs to maintain labour management procedures in line with national laws and WB Performance Standard 2 on Labour and Working Conditions.[18]

6.3.3 Reporting Process by PFIs including MAIIC[19]

The PFI/MAIIC will prepare and submit to the RBM an Annual E&S Report on the implementation of its ESMS that will include information on E&S risk profile of its portfolio financed through FINES.

The PFI/MAIIC will promptly notify RBM of any significant accidents or incidents associated with sub-borrowers and sub-projects to be financed which may have any material impact on the compliance of the applicable Environmental and Social Requirements.
Legal agreements pertaining to the financing of business activities between RBM and PFIs/MAIIC for financing under FINES, shall incorporate specific E&S provisions including those specified in sections 6.3 to 6.3.3 above.

6.3.4 E&S Risk Rating for Participating Financial Institutions[20]

Each PFI considered for RBM investments for the purpose of financing FINES-eligible business activities will be assigned an E&S risk rating by RBM according to the PFIs' risk profile that can change over time.

E&S risk rating assigned to each PFI will be based on the outcomes of the E&S screening and due diligence of the PFIs, including portfolio of proposed business activities to be financed by FINES funds and PFI's E&S competency and capacity (see Appendix 4). PFIs' risk rating will determine the level of RBM E&S due diligence and supervision.

The risk ratings are as follows:

(a) **RR-1 (High Risk):** When a PFI's proposed portfolio includes, or is expected to include, substantial financial exposure to business activities with potential significant adverse E&S risks or impacts;
(b) **RR-2 (Moderate Risk):** When a PFI's proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse E&S risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; and
(c) **RR-3 (Low Risk):** When a PFI's proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse E&S impacts.

For due diligence purposes, RBM will determine the E&S risk rating of its PFI investment in relation to risks associated with the specified end use of FINES funds. RBM will consider size, and type of investments as well as the sectoral exposure of investments in the PFI's relevant portfolio.

Risk Rating Cycle for PFIs -RBM may change a PFI's risk rating based on the outcomes of PFI's portfolio risks profile and E&S capacity assessment. Such re-assessment may take place on an annual basis or in connection with the PFI's new request for FINES funds, whichever is sooner.

[18] RBM will analyse and leverage the synergies that may exist between World Bank Performance Standard 2 and relevant national labour laws and regulations.
[19] RBM E&S P&P
[20] RBM E&S P&P

Environmental and Social Risk Management Procedures for RBM Investments are detailed in Annex 4 of this manual with:

(a) The E&S Procedure Flowchart (Investments through PFIs) in Appendix 1;
(b) The Environmental and Social Screening Questionnaire (PFIs) in Appendix 2;
(c) The Environmental and Social Risk Rating Memorandum in Appendix 3;
(d) Key Considerations for E&S Risk Rating in Appendix 4;
(e) PFI's E&S Performance Criteria in Appendix 5; and
(f) E&S Reporting Template for PFIs in Appendix 6.

The RBM Team responsible for assessing PFIs E&S Risks as well as monitoring compliance on an ongoing basis should be conversant with procedures.

The RBM will ensure that the participating PFIs engage with stakeholders in a manner proportionate to the risks and impacts associated with the subprojects and in accordance with ESS 9 and ESS 10. Provisions related to stakeholder engagement, including procedures for external communications throughout the project's life cycle and a GRM that adequately responds to public enquiries and concerns in a timely manner will be outlined in RBM's SEP and E&S Policies and Procedures and in the individual PFIs' ESMS.

The project has prepared an ESCP that outlines material measures and actions to be undertaken during project implementation, including capacity building for the selected financial intermediaries (including MAIIC), stakeholder engagement processes and the setting up of a grievance Redress Management (GRM).

6.3.5 Supervision [21]

RBM will develop and maintain a regular program and procedures for supervision of its PFI investments, based on a clearly defined set of E&S performance criteria included in RBM's E&S Procedures for investments through PFIs.

RBM will periodically review adequacy and implementation effectiveness of the PFIs' ESMS, including the processes and the results of the E&S due diligence conducted by the PFIs on its MSME sub-borrowers, PFIs organizational competency and capacity, on-going and consistent compliance with Applicable E&S Requirements, E&S records maintenance and availability of supporting documentation etc.

RBM will periodically review a sample of PFIs' MSME sub-borrowers, especially for business activities with significant E&S risks.

6.3.6 Institutional Arrangements and Roles and Responsibilities [22]

This section describes the roles and responsibilities of RBM and PIU staff as well as committee members in charge of implementing and maintaining oversight of the various parts of the E&S Policy and Procedures. Key departments/individuals with accountability for implementation are listed below:

Responsible Entity	Roles and Responsibilities

[21] RBM E&S P&P
[22] RBM E&S P&P

Project Steering Committee	a) Provide overall policy guidance on E&S risk management; b) Provide oversight to PIU on E&S risk issues; c) Receive and review quarterly and annual E&S risk management reports and provide guidance on the on the way
Technical Committee	a) Provide technical oversight on issues of E&S risk management
RBM Executive Management	a) Review and approval of E&S Policy and Procedures; b) Approval of the PIU budget for E&S implementation; c) Provide Management oversight of the PIU and specifically for E&S risk management; and d) Mutual accountability to and from external stakeholders including the World Bank, Malawi Government, Partial Credit Guarantee facility and PFIs.
RBM Human Resources Department	a) Support the PIU in organizing orientations and training for staff with E&S risk management responsibilities at RBM and within PFIs b) Ensure that E&S risk management roles and responsibilities are added to job descriptions for relevant staff.
RBM Internal Audit Department	a) Periodic Independent review and verification of internal compliance with RBM E&S Policy and Procedures b) Preparing and monitoring time-bound plans for improvement
PIU	a) Documenting initial E&S screening, as per the E&S Procedures; b) Requesting, obtaining, and conducting initial analysis E&S reporting from PFIs; c) Provide secretarial services to PSC on issues of E&S risk management; d) Responsibility for E&S risk management component of the Project; e) Day-to-day management and oversight of E&S risk management, in line with ESRM Policies and Procedures, including E&S screening, review and appraisal, and supervision; f) Developing and improving tools to support implementation of E&S risk management measures such as checklists and TORs for Consultants; g) Development of training materials for PIU and PFI staff h) Development and implementation of Capacity Building and Training Plan for RBM, PFI staff; i) Liaising with PFIs on compliance with E&S requirements j) Liaising with the RBM on E&S risk management issues; k) Ensuring quality, completeness, and timeliness of capturing information in the E&S Performance System (ESPS); l) Reporting to RBM Executive Management and preparation of reports on behalf of RBM for external stakeholders (Government of Malawi and the World Bank; m) Preparing revisions to the RBM ESRM Policy and Procedures, and presenting them for approval by Executive Management; n) Undertake targeted visits to subprojects and report findings to the PSC Monitoring progress of the E&S Action Plan, as included in the legal agreement with PFIs; o) Maintaining records in the E&S Performance System (ESPS), as per E&S Procedures; and p) Monitoring potential E&S issues associated with the PFIs, such as incidents and accidents. q) Ensuring that E&S covenants are included in credit agreements with PFIs
Partial Credit Guarantee entity	a) Incorporate the RBM E&S Policy and Procedures in its own processes and procedures

The following will serve as a basic guide/checklist for Participating Financial Institutions (PFIs) to ensure that their systems comply to Environmental and Social Policies which are legally prescribed on the FINES Project by the World Bank and the Reserve Bank of Malawi.

	REQUIREMENT	AFFIRMATION
	Environmental and social policy	
1	Environmental and social policy	
2	Transaction screening and risk categorization	
3	Exclusion list	
4	Define E&S catalogue of tools, EMP, LMP, OHS, CPP, IPMP	
	Transaction screening	
5	Screen all transactions	
6	Categorization of E&S risks to high, moderate and low	
7	Prioritize transactions and focus on high risk transactions	
8	Formation of mitigation plans based on degrees of risks	
9	A commitment not to finance certain types of activities	
	Environmental and social due diligence	
10	Environmental and social covenants in Loan contracts	
11	Low-risk transactions, will be limited to a simple review	
12	Medium to high enterprises, will need require a site visit, to identify potential E&S impacts	
13	PFIs to ensure clients implement certain mitigation measures within a specified timeframe as compliance need	
	Environmental and social covenants	
14	Inclusion of clauses in the legal agreement with the clients	
15	Define penalties for non-compliance of E&S Policies to clients	
	Monitoring system for environmental and social performance	
16	Establish mitigation and compliance monthly records	
17	Monitoring transactions to allow verification through site visits	
18	Monthly reports to FINES to include information on all ESMS	
	Grievance Redress System	
19	PFI to establish a clear grievance redress mechanism (GRM).	
20	The GRM to have emphasis on gender and sexual/child protection	

21	GRM to have a monthly reporting system of all grievances, how they were resolved and if communicated to complainant.	
22	The PFI to have an accident report policy within 24 hours	

6.4 Grievance Redress Management

The project will establish a grievance redress management process to respond to communities and individuals who believe that they are adversely affected by the World Bank-supported project. They will be able to submit complaints through the project-level GRMs or the World Bank's Grievance Redress Service (GRS). In addition, each PFI's ESMS will establish requirements for beneficiary MSME to establish a simple grievance mechanism suited to its risks and needs. Using the existing Appeals Committee and the required internal complaints handling systems, the project's Stakeholder Engagement Plan (SEP) will establish a project-level process to respond to complaints, concerns, queries, clarifications, and feedback from stakeholders, including parties affected by the project. In addition, each PFI's ESMS will outline how each beneficiary MSME will be required to set up a simple, context-specific grievance mechanism that is proportionate to the risks faced. The Grievance Redress Service for RBM and MAIIC or PFIs and general complaints are detailed in sections 6.5.1 to 6.5.3The GRS will ensure that complaints received are promptly reviewed in order to address project-related concerns. Project-affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel, which determines whether harm occurred or could occur as a result of the World Bank's non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and after the World Bank management has been given an opportunity to respond (For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit http://www.inspectionpanel.org).

The GM should not impede access to the already established judicial and administrative remedies.

6.4.1 RBM Grievance Mechanism[23]

The Financial Services Act 2010, in Part VIII, establishes the Financial Services Appeals Committee (FSAC) with the mandate to review regulatory decisions of the Registrar of the financial institutions and hear appeals from financial institutions. The Act provides for the Committee to consist of three members, one of whom shall be designated as Chairperson and others as ordinary members. The members are appointed by the Minister of Finance. The Rules prescribe the procedure for the conduct of proceedings brought before the FSAC. Under the Rules, a person affected by the decision of the Registrar may appeal against the decision by filling a Notice of Appeal with the Secretary within 21 days of date of the decision.[24]

The notice of appeal must among other information contain a copy of disputed decisions, grounds for appeal relief sought by the applicant, grounds and urgency of the appeal. At the conclusion

[23] RBM E&S P &P

[24] See Financial Services (Financial Services Appeal Committee Procedures (Rules)

of the appeal FSAC delivers its decision in writing to the parties. A copy of the decision and the reasons for the decision are published on the FSAC website.

The right to appeal the decision of the Registrar is well known by the Banks and Financial Institutions and the PFIs will be reminded of this remedy during stakeholder engagement meetings.

6.4.2 Grievance Mechanism of PFIs[25]

Complaints by MSMEs who are customers of financial institutions will be handled in line with the Complaints Handling Directive issued by the Registrar of Financial Institutions in 2016 which requires all financial institutions to have an internal complaint handling system to assist in resolving complaints by customers of financial institutions in relation to financial services and products. The Objectives of Complaints Handling Directive are to:

(a) Ensure that a financial institution has in place avenues for resolving complaints lodged by financial consumers;
(b) Promote transparency in the process of handling financial consumer complaints to improve service delivery; and
(c) Ensure that financial institutions timely report data on complaint to the Registrar.

The Registrar outlined procedures for complaints handling as follows:

(a) A consumer reports complaint to financial service providers (FSPs) through designated officers and once received, officers must record complaints and strive to timely resolve the complaint;
(b) Provide feedback on complainants;
(c) Complaints handling should be guided by internal process approved by the Board and reviewed by the Registrar;
(d) Complaint resolution rule - 0/10/30 rule - should apply where simple complaints should be dealt with immediately; complaints that require investigation should be dealt within 10 working days and complex complaints be resolved within 30 days;
(e) Longer periods should be approved by management and specifically flagged in complaints register;
(f) Response should be in line with how the complaint was lodged; and
(g) Institutions must inform complainants about the right to appeal to an internal appeals committee, if available, the Registrar of Financial Institution and contacts, or to a civil court - file a lawsuit.

The FIs are under the directive obliged to submit complaints reports to Registrar on quarterly basis highlighting the number of complaints received, nature of complaints and the resolutions.

The potential grievances of much interest to this project are those related to the negative environmental and social impacts arising from the implementation of the subprojects. There are various acts of parliament and regulations that provide remedies to grievances related to land disputes as well as negative environmental and social impacts.

[25] RBM E&S P &P

6.4.3 Grievance Redress Committee

The RBM Grievance system available is strictly aligned to finance and banking related grievances. The ESF framework which the FInES Project is subjected to has the Environmental and Social Commitment Plan (ESCP) which has legal implications. Some of the commitments are to do with grievance redress in the areas of social and environmental issues that may arise. In order to absorb this need, the Technical Working Group (TWG) suggested to create a Grievance Redress Committee (GRC) that would absorb the environment and social related grievances and endeavor to resolve them at the PFI level and if that fails can be escalated to the GRC committee to ensure full resolutions and feedback. The TWG selected the organizations to make up the GRC and PIU proceeded to acquire names and facilitated development of TORs which have since been adopted by the PSC. The GRC will now start to function as per design. APPENDIX 7 has the GRC TORs.

6.4.4 General Grievance Redress Management

The EMA 2017, created a Tribunal to address issues of environmental and social impacts to the extent that "any person who has reason to believe that his right to a clean or healthy environment has been violated by any person may, file a written complaint to the Tribunal outlining the nature of his complaint and particulars. The Tribunal shall, within thirty (30) days from the date of the filing of the complaint, institute an investigation into the activity or matter complained about and shall give a written response to the complainant indicating what action the Tribunal has taken or shall take to restore the claimant's right to a clean and healthy environment, including instructing the Authority to take such legal action on the matter as the Authority may deem appropriate".

Similarly, the Customary Land Act has put in place alternative land dispute settlement mechanism. It has created customary land committees (CLCs) at group village headman (GVH) level to manage land within a Traditional Land Management Area (TLMA). Land dispute resolution under the Act are through Land Tribunals. These are Customary Land Tribunals at Traditional Authority and district level.

At the Central level, the Act established the Central Land Board to be presided over by a Resident Magistrate. If the complainant is not satisfied with a decision of a land tribunal, he or she can appeal to the next level or the high court.

The grievance mechanisms outlined above are not directly linked and it is the duty of the relevant GRC to ensure that project affected persons are given the option of using the grievance redress mechanisms that are led by local authorities where project led negotiations have not been able to provide a satisfactory solution to the complaint. The project is duty bound to forward to the relevant local authority the complaints they receive that are, in their view, can be better resolved by the local government led dispute resolution systems.

The PFIs will be duty bound to use in-house intelligence mechanisms and routine supervisory visits to register grievances affecting the disadvantage and vulnerable groups.

6.5 Project Administration and Personnel

The PIU will oversee day-to-day project implementation, monitor progress, and coordinate and account for the utilization of project funds, and will be headed by a qualified PM who may be an employee of the RBM. All contract Staff employed under the project shall be offered and will have duly signed employment contracts before taking up their positions. All contract staff of the project shall be renewed upon successful performance assessment biannually. Contractual arrangements for all staff of the project that also includes staff entitlements and benefits like; staff working hours, public holidays, leave provisions and other benefits shall be governed by the human resources policies/staff rules and regulations of the Reserve Bank of Malawi.

The project shall strive to create a gender-sensitive and gender-friendly working environment for its entire personnel. In particular the project shall: (a) facilitate transparent and gender-sensitive recruitment and selection procedures for all types of jobs both in the secretariat as well as engaging consultants to undertake various assignments in the project; (b) orient project staff on gender sensitive behaviour in the office and in the field and offer training in some instances if this is lacking; (c) take measures to create a working environment that recognises the needs and interests of female and male staff members; and d) take measures to ban gender insensitive language, posters, literature and behaviour in office and the field and establish channels for reporting such cases.

FInES project staff trainings shall be facilitated based on specialized programme areas. This will include both contracted staff and the designated focal point officers in the implementing agencies. Specialized short-term trainings shall be preceded by a Training Needs Assessment. Permission to attend such trainings shall be granted by MoF, MoI, RBM and the Bank.

6.6 Communication

Communication Strategy - A communication strategy will be developed to guide all the communication and dissemination activities. The communication specialist will champion the development of this strategy. The strategy should be developed within the first three months of project effectiveness.

CHAPTER 7: MONITORING AND EVALUATION

7.1 Monitoring Results Framework

The PDO-level indicators' progress toward achieving the PDO will be measured through the following key results indicators:

- Value of MSMEs loans provided by PFIs through the line of credit
  - Ratio of loans from PFIs to women-owned MSMEs (%)
  - Ratio of loans from PFIs to youth-owned MSMEs (%)

- Volume of funds financed by MAIIC for innovative start-ups and SMEs
  - Ratio of which are women-owned enterprises (%)
  - Ratio of which are youth-owned enterprises

- Volume of loans to MSMEs financed from the Covid-19 emergency liquidity facility

- Number of new firms established through the project support to incubators and accelerators
  - Ratio of which are women-owned (%)

- Number of MSMEs reporting improvement in capabilities
  - Ratio of which are women-owned MSMEs (%)

A specific indicator has been placed to monitor citizen satisfaction with the project's provisioning of financial services to MSMEs based on periodic beneficiary feedback survey.

Details of the PDO and Intermediate Indicators and targets, monitoring and Evaluation plan are as in Annex 1.

ANNEX 1: RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Malawi
Financial Inclusion and Entrepreneurship Scaling Project

Project Development Objectives(s)

The Project Development Objective (PDO) is to increase access to financial services, promote entrepreneurship and capabilities of MSMEs in Malawi including addressing Covid-19 implications.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
To increase financing to MSMEs							
Value of MSME loans provided by PFIs through the Line of Credit (Amount(USD))		0.00	6.00	7.00	7.00	7.00	27.00
Ratio of loans from PFIs to women-owned MSMEs (Percentage)		0.00					40.00
Ratio of loans from PFIs to Youth owned MSMEs (Percentage)		0.00					20.00
Volume of funds financed by MAIIC for innovative start-ups and SMEs (Amount(USD)) (Amount(USD))		0.00	1.00	2.00	2.00	1.00	6.00
Ratio of which are women-owned enterprises (Percentage)		0.00					40.00
Ratio of Youth Owned Enterprises (Amount(USD))		0.00					20.00
Volume loans to MSMEs financed from the Covid-19 emergency liquidity		0.00					20.00

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
facility (Amount(USD))							
To scale up intrepreneurship							
Number of new firms established through the project support to incubators and accelerators (Number)		0.00	250.00				500.00
Ratio of which are women-owned (%) (Percentage)		0.00					40.00
To scale up entrepreneurship and skills support for MSMEs							
Number of MSMEs reporting improvement in capabilities (Number)		0.00					1,000.00
Ratio of which Women owned MSMEs (Percentage)		0.00					40.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Increasing financing available to MSMEs							
Value of private sector funding mobilized through the LOC (Amount(USD))		0.00		13,500.00			27,000.00
NPLs on project portifolios (Percentage)		0.00	10.00	8.00	7.00	6.00	5.00
Increase in citizen satisfaction with the project's provisioning of financial services to MSMEs based on periodic beneficiary feedback survey (disaggregated by gender)		0.00	15.00				25.00

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
(Percentage)							
Value of concessional financing from MAIIC to MSMEs (Amount(USD))		0.00	10.00	15.00	20.00		27.00
Value of PCG extended to MSMEs through the project (Amount(USD))		0.00	0.50	1.00	1.50	1.70	2.00
Scaling Entrepreneurship and Building Firm Capabilities for MSMEs							
Number of project beneficiaries who successfully complete stage 1 of the training program (Number)		0.00	500.00	500.00	0.00	0.00	1,000.00
Number of project beneficiaries who successifully complete the stage 2 of the program (Number)		0.00	250.00	250.00	0.00	0.00	500.00
Number of project beneficiaries who successfully complete the stage 3 of the trainign program (Number)		0.00	0.00	0.00	125.00	125.00	250.00
Number of BDS providers supported through training under the project (Number)		0.00	20.00	40.00	60.00	80.00	100.00
Number of female entrepreneurs trained through the project (Number)		0.00	30.00	30.00	30.00	30.00	120.00
Number of micro firms trained (Number)		0.00	300.00	300.00	150.00	100.00	850.00
Number of incubators who receive a contract under the project to provide training and support to start-ups and MSMEs under the project (Number)		0.00					200.00
Enhancing the Enabling Environment for Supporting Financial Inclusion							
Financial Literacy rate, disaggregated by gender (Percentage)		37.00	40.00	45.00	50.00	55.00	60.00
Credit bureau coverage (Percentage)		2.00	4.00	6.00	10.00	12.00	15.00
MFI Hub Membership (Number)		22.00	30.00	40.00	60.00	70.00	80.00
MSME satisfactory rate with project		0.00	20.00	40.00	60.00	70.00	80.00

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
implementation, disagregated by gender (Percentage)							

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Value of MSME loans provided by PFIs through the Line of Credit	This indicator captures the volume of finanancial support to MSMEs (MSME finance portfolio of PFIs) thrrough the LoC scheme	**Semi Annual**	Project reporting	PIU Data Base	Project PIU
Ratio of loans from PFIs to women-owned MSMEs	Ratio of loans from PFIs to women-owned MSMEs	Semi Annual	Project reporting	PIU Data Base	Project PIU
Ratio of loans from PFIs to Youth owned MSMEs	Percentage of loans from PFIs to Youth Enterprises	Annual	RBM	Bank Supervision	PIU/RBM
Volume of funds financed by MAIIC for innovative start-ups and SMEs (Amount(USD))	This indicator captures the volume of funds from the project that MAIIC will finance start-ups and SMEs	Semi Annual	RBM Financial Stability Report/ RBM Bank Supervision Report	RBM	PIU
Ratio of which are women-owned enterprises	Ratio of funds financed by MAIIC for innovative start ups, to women owned enterprises	Semi Annual	RBM Financial Stability Report/ RBM Bank Supervision Report	RBM	PIU/RBM

Ratio of Youth Owned Enterprises	Ratio of Youth Owned Enterprises	Annual	RBM data Base	Survey	RBM/PIU
Volume loans to MSMEs financed from the Covid-19 emergency liquidity facility	This indicator will trace the volume loans to MSMEs financed from the Covid-19 emergency liquidity facility during the Covid-19 period	Semi Annual	RBM Survey	Survey	RBM/PIU
Number of new firms established through the project support to incubators and accelerators	This indicator captures the new firms established through the support to incubators and accelerators	Three times	Baseline, mid and endline survey	Survey	RBM
Ratio of which are women-owned (%)	New firms established through the support to incubators and accelerator, ratio for women owned enterprises	Three times	Baseline, Mid and endline surveys	Survey	PIU
Number of MSMEs reporting improvement in capabilities	This indiator captures the number of MSMEs reporting improvements in their firms' capability after receiving support from the project	Semi Annual	Project reporting	PIU Database	Project PIU
Ratio of which Women owned MSMEs	ratio of women owned MSMEs reporting improvement in capabilities	Annual	Survey	PIU	PIU/RBM

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Value of private sector funding mobilized through the LOC	This indicator measures the number financial intermediaries (SACCOS,	Semi Annual	Project reporting	PIU database	Project PIU

	PFIs, etc) accessing project funds through the LoC scheme				
NPLs on project portfolios	This indicator captures the level of NPLs ratio to gross loans for the project loan portfolio	Annual	Project reporting	PIU Database	PIU
Increase in citizen satisfaction with the project's provisioning of financial services to MSMEs based on periodic beneficiary feedback survey (disaggregated by gender)	Survey to cover 4 aspects of satisfaction with implementation of FInES: knowledge on part of citizens; efficiency of implementation; responsiveness to citizen needs; transparency of process. Survey methodology to be stipulated in the Project Implementation Manual	3 times. Baseline, midline and endline surveys	Project reporting	Survey	Project PIU
Value of concessional financing from MAIIC to MSMEs	Value of concessional financing from MAIIC to the MSMEs	Annual	RBM /PIU	Survey	RBM
Value of PCG extended to MSMEs through the project	The amount that the PCG will spend to support MSMEs	Annual	PIU	Survey	RBM/PIU
Number of project beneficiaries who successfully complete stage 1 of the training program	This indicator captures the number of beneficiaries that complete the first stage of the training program	Annual	Project reporting	PIU database	PIU
Number of project beneficiaries who successifully complete the stage 2 of the program	This indicator captures the number of beneficiaries that completes the second stage of the training program	Annual	Project reporting	PIU database	PIU

Number of project beneficiaries who successfully complete the stage 3 of the trainign program	The indicator captures the number of beneficiaries that completes the third stage of the training program	Annual	Project reporting	PIU Database	PIU
Number of BDS providers supported through training under the project	This indicator captures the number of BDS providers whose trainers are trained with the support of the project	Annual	Project reporting	PIU Database	PIU
Number of female entrepreneurs trained through the project	This indicator captures the number of female entrepreneurs that are trained by the project	Annual	Project reporting	PIU database	PIU
Number of micro firms trained	This indicator captures the number of micro enterprises that successfully undergoes training by the project	Annual	Project Reporting	PIU database	PIU
Number of incubators who receive a contract under the project to provide training and support to start-ups and MSMEs under the project	This indicator captures the number of incubators and accelerators supported through training	Annual	PIU Database	PIU Database	PIU
Financial Literacy rate, disaggregated by gender	This indicator tracks the level of financial literacy in Malawi, including for women	At the beginning of the project, midway through implementation and at the closure of the project	Project reporting	Survey	PIU

Credit bureau coverage	This indicator measures the ratio of population of adults coverage of credit bureaus to total population	Semi Annual	RBM Financial Stability reports/Bank Supervision Reports	RBM/PIU	
MFI Hub Membership	The indicator measure the growth of membership to the MFI Hub	Annual	PIU database	PIU	
MSME satisfactory rate with project implementation, disagregated by gender	This indicator measures the project satisfactory rate by the MSMEs	Annual	Project reporting	Survey	PIU

ANNEX 2:18-MONTH PROCUREMENT PLAN

1	2	3	4	5	6	7	8	9	10
Ref. No.	Contract (Description)	Estimated Cost US$	Procurement Method/ Arrangement	Prequalification (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected bid opening date	Expected Contract Signature Date	Comments
1.	Minor works for maintenance of PIU offices	200,000.00	Open, National, RFB	Post	No	Post	11-Sep-20	16-Oct-20	

	2	3	4	5	6	7	8	9	10
Ref. No.	Contract (Description)	Estimated Cost US$	Procurement Method/ Arrangement	Prequalification (yes/no)	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected bid opening date	Expected Contract Signature Date	Comments
1.	Procurement of 8 motor vehicles	550,000.00	Open National, RFB	Post	No	Post	11-Sep-20	16-Oct-20	
2.	Procurement of office furniture, ICT equipment and system upgrades	500,000.00	Open National, RFB	Post	No	Post	7-Aug-20	31-Aug-20	
3.	Procurement of an ICT system for strengthening the Reserve Bank's Supervision Department	300,000.00	Open National, RFB	Post	No	Post	15-Feb-21	30-Mar-21	
4.	Procurement for improving of a surveillance system for the securities market to ensure orderly markets, where buyers and sellers are willing to participate because they feel confident in the fairness and accuracy of transactions, and hence improving functionality of central securities depository (CSD) and facilitating participation of small private sector players on the stock exchange.	150,000.00	Open National, RFB	Post	No	Post	15-Feb-21	30-Mar-21	
5.	Procurement of Mobile Application software for Malawi Stock Exchange.	200,000	Open National, RFB	Post	No	Post	15-Feb-21	30-Mar-21	
6.	Procurement of an integrated risk management system for Deposit Insurance Scheme (DIS)	100,000.00	Open National, RFQ	Post	No	Post	15-Feb-21	30-Mar-21	

7.	Procurement Integrated Management Information System for MAIIC	1,200,000.00	Open International or NCB	Post	No	Post	15-Feb-21	30-Mar-21	

1	2	3	4	5	6	7
Ref. No.	**Description of Assignment**	**Estimated Cost US$**	**Selection Method/ Arrangement**	**Review by Bank (Prior / Post)**	**Expected date of proposal submission**	**Expected Contract Signature Date**
1.	Consulting services to carry out annual external audits	150,000.00	Open National LCS	Post	30-Aug-21	20-Sep-21
2.	Consulting services to carry out Baseline Survey	200,000.00	Open International QCBS	Post	11-Sep-20	16-Oct-20
3.	Consulting services to collect and consolidate data on MSMEs on a national level to support the creation of a national database on MSMEs	200,000.00	Open International QCBS	Post	15-Feb-21	30-Mar-21
4.	Consulting services to Develop legal, regulatory and supervision frameworks for consumer protection; and digital finance products	200,000.00	Open International QCBS	Post	15-Feb-21	30-Mar-21
5.	Consulting service to support MAIIC	100,000.00	Open National QCBS	Post	11-Sep-20	16-Oct-20
6.	Consulting service to support RBM administration of LOCs to PFIs, and provide support for onboarding of MFIs to the MFI Hub	100,000.00	Open, National CQS	Post	15-Feb-21	30-Mar-21
7.	Consulting service to support capacity building at the Malawi Registration Bureau	100,000.00	Open, National CQS	Post	15-Feb-21	30-Mar-21
8.	Consulting service to support PFIs administration of LOCs, development of products for MSMEs, expansion of DFSs and integration of national identification system into the financial system	100,000.00	Open, National CQS	Post	15-Feb-21	30-Mar-21
9.	Consulting service to provide training of trainers on Business Development Services	1,000,000.00	Open, International QCBS	Prior	11-Sep-20	16-Oct-20
10.	TA to support and build capacity at SMEDI in training MSMES	200,000.00	Open International QCBS	Post	11-Sep-20	16-Oct-20
11.	TA to support improvement of policy, legal and regulatory environment at the RBM, Moil, and Move.	150,000.00	Open, National QCBS	Post	11-Sep-20	16-Oct-20
12.	Consulting Service to support and build capacity of the credit reference system	100,000.00	Open, National QCBS	Post	11-Sep-20	16-Oct-20
13.	Hiring of Procurement Specialist	392,000.00	Limited, National	Prior	1-Aug-20	1-Oct-20

14.	Hiring of a Financial Management Specialist	392,000.00	Limited, National	Prior	1-Aug-20	1-Oct-20
15.	Environmental and Social Risk Management Specialist	300,000.00	Open National	Prior	1-Aug-20	1-Oct-20
16.	Hiring of Trade project coordinator	250,000.00	Open National	Post	1-Aug-20	1-Oct-20
17.	Hiring of M&E Specialist	250,000.00	Open National	Post	1-Aug-20	1-Oct-20

RFQ – Request for Quotations; **CQS** - Consultant's Qualification-based Selection; **QCBS** – Quality and Cost-based Selection and; **INDV** - Individual Consultant Selection.

ANNEX 3: RBM FINES LIST OF EXCLUDED ACTIVITIES

RBM FINES will not provide financing to any projects involving the following activities.

(a) Production or trade in any product or activity deemed illegal under Malawian laws or regulations or international conventions and agreements.

(b) Production or trade in weapons or ammunitions.[1]

(c) Gambling, casinos and equivalent enterprises.[1]

(d) Production or trade in alcoholic beverages (excluding beer and wine).[1]

(e) Activities targeting tobacco manufacturing, processing, or specialist tobacco distribution, and activities facilitating the use of tobacco.[1]

(f) Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species (CITES).

(g) Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where RBM considers the radioactive source to be trivial and/or adequately shielded.

(h) Production or trade in or use of unbounded asbestos fibres.

(i) Any activities involving significant degradation or conversion of natural[2] and/or critical habitats[3] and/or any activities in legally protected areas.

(j) Activities damaging to national monuments and other cultural heritage.[4]

(k) Unsustainable fishing practices such as drift net fishing in the marine environment using nets in excess of 2.5 km in length, electric shocks, or explosive materials.

(l) Production or trade in wood or other forestry products other than from sustainably managed forests.[5]

(m) Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs) subject to international phase outs or bans.

(n) Production or activities involving harmful or exploitative forms of forced labour[6] or hazardous child work[7].

(o) Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes etc.).

(p) Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by historically underserved traditional local communities.

(q) Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement.[8]

(r) Military or police equipment or infrastructures, and equipment or infrastructure which result in limiting people's individual rights and freedom (i.e. prisons, detention centres of any form) or in violation of human rights.

(s) Activities involving live animals for experimental and scientific purposes.

Footnotes

1. This does not apply to enterprises that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to an enterprise's primary operations.
2. Natural habitats are areas composed of viable assemblages of plant and/or animal species of largely native origin, and/or where human activity has not essentially modified an area's primary ecological functions and species composition.
3. Critical habitat is defined as areas with high biodiversity importance or value, including:(a) habitat of significant importance to Critically Endangered or Endangered species, as listed in the IUCN Red List of threatened species or equivalent national approaches; (b) habitat of significant importance to endemic or restricted-range species; (c) habitat supporting globally or nationally significant concentrations of migratory or congregatory species; (d) highly threatened or unique ecosystems; (e) ecological functions or characteristics that are needed to maintain the viability of the biodiversity values described above in (a) to (d).
4. The term 'cultural heritage' encompasses tangible and intangible heritage, which may be recognized and valued at a local, regional, national or global level, as follows: Tangible cultural heritage, which includes movable or immovable objects, sites, structures, groups of structures, and natural features and landscapes that have archaeological, paleontological, historical, architectural, religious, aesthetic, or other cultural significance. Tangible cultural heritage may be located in urban or rural settings, and may be above or below land or under the water; Intangible cultural heritage, which includes practices, representations, expressions, knowledge, skills—as well as the instruments, objects, artifacts and cultural spaces associated therewith— that communities and groups recognize as part of their cultural heritage, as transmitted from generation to generation and constantly recreated by them in response to their environment, their interaction with nature and their history.
5. Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/ verification or progress towards certification /verification under a credible standards system.
6. Forced labor, which consists of any work or service not voluntarily performed that is exacted from an individual under threat of force or penalty
7. Work considered hazardous for children is work that, by its nature or the circumstances in which it is carried out, is likely to jeopardize the health, safety, or morals of children.
8. Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement) as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced). Land must be acquired on willing-seller willing-buyer basis.

ANNEX 4: ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT PROCEDURES FOR RBM INVESTMENTS

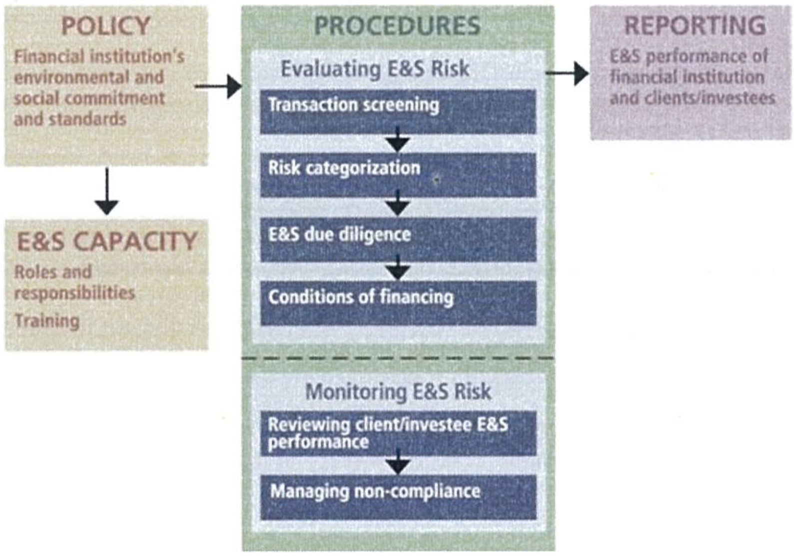
PURPOSE

Box 1. What is an ESMS for a financial institution?

In general, Environmental and Social Management System for the financial sector is defined as is a systematic process to assess the environmental and social risks and impacts arising from their investees' business activities, manage the financial institutions' exposure to them, and improve operating efficiency and effectiveness. This system ensures that environmental and social risk management plays a role in all of the investment decision-making processes. It enables financial institutions to consider environmental and socioeconomic issues comprehensively, and by so doing, move beyond simply complying with regulations to taking advantage of increased sustainability of their operations.

An ESMS for financial institutions is normally anchored in the E&S policy and corresponding procedures, supplemented by the internal capacity to identify, manage, and monitor E&S risks in the activities financed. The effectiveness of the system is determined by the implementation performance factors such as consistent compliance with the E&S risk management requirements and maintenance of adequate documentation to that effect by the financial institution.

Figure 1. Core components of an ESMS for a financial institution



These E&S Procedures set out RBM FINES arrangements and processes that aim to support the implementation of RBM Environmental and Social Risk Management Policy. These Procedures describe how RBM conducts its due diligence with regard to the finance components of the project to PFIs for on-lending of working capital finance to SMEs.

The core objective of these Procedures is to facilitate and promote proper implementation and institutionalization of the Environmental and Social management System (ESMS) at the level of participating Financial Institutions (PFIs). Such ESMS will articulate processes, roles, and activities for ensuring that have in place adequate systems and capacity for identification and mitigation of E&S risks involved in RBM's finance under FINES (see Box 1). These Procedures are an integral part of RBM's risk management framework, are embedded in the overall investment screening and appraisal process under FINES.

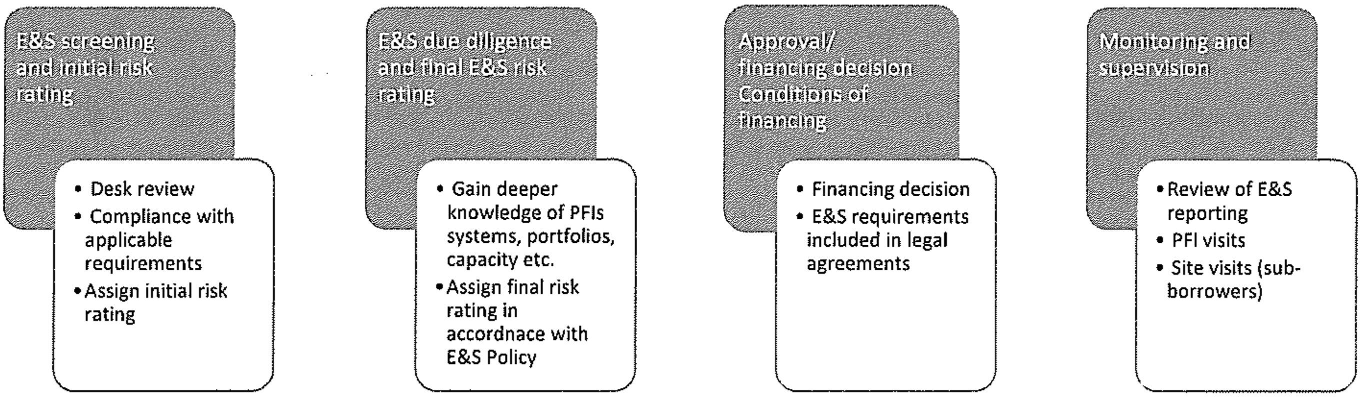
SCOPE OF APPLICATION

The implementation of these E&S Procedures will apply to all finance provided by RBM under FINES to PFIs.

STRUCTURE OF E&S PROCEDURES FOR RBM INVESTMENTS

The ESRM Procedures are comprised of four distinct components (Figure 1). Visual flow for transaction-level decision-making process is provided in Appendix 1.

Figure 1. Structure of E&S Procedures for RBM FINES Financing



Supporting processes/ systems: (i) Disclosure; (ii) Information and record-keeping system; (iii) Reporting

E&S SCREENING AND DUE DILIGENCE

E&S Screening and Initial Risk Rating: This procedure outlines steps required for initial transaction screening for E&S risks when a new PFI is identified for a financing opportunity. RBM's Environmental and Social Development Specialist completes the following steps:

(a) Reviews the relevant information collected from the PFI (current portfolio, any existing E&S screening and due diligence processes and capacity etc.). The review will include assessment of the PFI's current portfolio and lending activities against the FINES List of Excluded Activities, the financing product types offered to the sub-borrowers, the expected portfolio to be supported, and the overall E&S systems and capacity (per criteria in Appendix 4), including PFI's commitment to comply with national and local laws and regulations and RBM's requirements.

(b) Completes PFI E&S Screening Questionnaire (Appendix 2).

(c) Participates in all relevant credit / investment review meetings at the early stages of decision-making and provides inputs and recommendations with regard to E&S issues.

(d) Assigns an initial E&S risk rating to the PFI taking into account the general provisions of the RBM E&S Policy and documents the summary of the initial risk screening and risk rating in the E&S Risk Rating Memorandum (Appendix 3). This memorandum may be adjusted following E&S due diligence procedure outlined in section 6 of the E&S Policy and Procedures.

Based on the results of E&S screening, a PFI will not be eligible for financing by RBM under FINES where (i) PFI has high exposure to activities on the List of Excluded Activities; (ii) PFI does not meet minimum eligibility criteria for its E&S systems and capacity , or (iii) E&S risks associated with a PFI's portfolio are deemed to be unacceptable to RBM.

E&S Due Diligence and Final Risk Rating: This procedure outlines steps required for PFI transactions found eligible following the initial E&S screening.

E&S due diligence for PFIs is the responsibility of the Environmental and Social Risk Officer.

(a) Transactions identified as RR-3 (Low Risk) during E&S screening do not require additional E&S due diligence and are processed through the regular investment procedures following confirmation of the final PFI's E&S risk rating by Environmental and Social Development Specialist.
(b) Transactions identified as RR-1 (High Risk) or RR-2 (Moderate Risk) may require further E&S due diligence, commensurate with the risks and impacts identified during the screening stage, which may involve PFI engagement where appropriate and necessary to determine whether the PFI is committed to improving its Environmental land Social Management System (i.e. E&S management policies, procedures, capacity), as well as E&S performance in relevant business activities financed.

The Environmental and Social Development Specialist:

(a) Requests and reviews detailed PFI's existing and proposed portfolio information to determine the level and nature of E&S risks associated with the relevant activities financed by the PFI's. The portfolio review will include an assessment of the types of financing, transaction sizes, enterprise sizes, and industrial sectors of the portfolio to be supported particularly in connection with the Environmental Management Act (1996) and the Environmental Assessment Guidelines, or any other directives by local authorities; and the PFI's business plan and strategy.
(b) Requests and obtains evidence of the PFI's ESMS and capacity for its implementation. The review will include the following aspects of the PFI's system and capacity commensurate with the nature of the activities supported as detailed in Appendix 5.
(c) Requests and obtains information about the PFI's compliance with national Labour laws and evaluates compliance with the World Bank Performance Standard 2.
(d) Provides final E&S risk rating based on the detailed information and due diligence actions, such as PFI or project/ borrower site visits if deemed necessary, taking into account considerations detailed in Appendix 4. These considerations should be used together and will require exercising reasonable judgment.
(e) Updates the E&S Risk Rating Memorandum (Appendix 3) with the results of E&S due diligence, including E&S Action Plan, as necessary.

(f) Files all relevant documentation in a systematic manner.

E&S Action Plan for PFIs: Based on the results of the E&S due diligence, RBM will require the PFI to develop and /or maintain an ESMS in accordance with RBM E&S Policy. The PFIs ESMS will enable application of FINES applicable E&S requirements. Where the PFI's ESMS must be strengthened in order to be acceptable to RBM, the PFI will put in place a time-bound action plan as a condition of its eligibility.

Environmental and Social Development Specialist:
(a) Identifies key gaps in the PFI's ESMS and institutional capacity (per Appendix 5) and documents proposed measures and actions to address the gaps in the PFI E&S Action Plan as included in the E&S Risk Rating Memorandum (Appendix 3).
(b) Discusses and agrees on the Action Plan with the PFI.
(c) Ensures it is included in the investment decision-making and subsequently in the legal agreement with the PFI.

At a minimum, a PFI shall have:
(a) Written E&S policy and screening procedures in place;
(b) PFI designates staff with clearly defined responsibilities for E&S risk management;
(c) Commitment to taking part in E&S training and capacity building activities.

The process and timelines for achieving compliance with actions identified in the E&S Action Plan are as follows:
(a) Gaps in the ESMS of a PFI rated as RR-1 (High Risk) or otherwise engaged in sub-projects with potentially significant E&S risks must be closed to ensure compliance with the applicable E&S requirements before first disbursement of funds by RBM;
(b) Gaps in the ESMS (per the performance criteria in Appendix 5) – e.g. inadequate E&S procedures, no staff assigned to manage E&S issues, gaps in practical implementation of E&S screening measures by PFIs' credit staff, no documentation maintained for lending transactions etc. – of a PFI rated RR-2 (Moderate Risk) with either relatively low E&S risks or no immediate financing activities in risky areas must be closed according to agreed timelines in the E&S Action Plan as specified in the legal agreements;
(c) PFIs rated as RR-3 (Low Risk) are assumed to have no substantial gaps in their ESMS;
(d) Significant gaps in the E&S performance (including outstanding E&S Action Plan items) of existing clients / PFIs must be closed through the process of commitment as conditions of commitment or as conditions of subsequent disbursements.
(e) If a PFI is consistently not able to meet the requirements set out in the E&S Action Plan, and any subsequent remedial actions, RBM may decide to terminate its financing to the PFI.

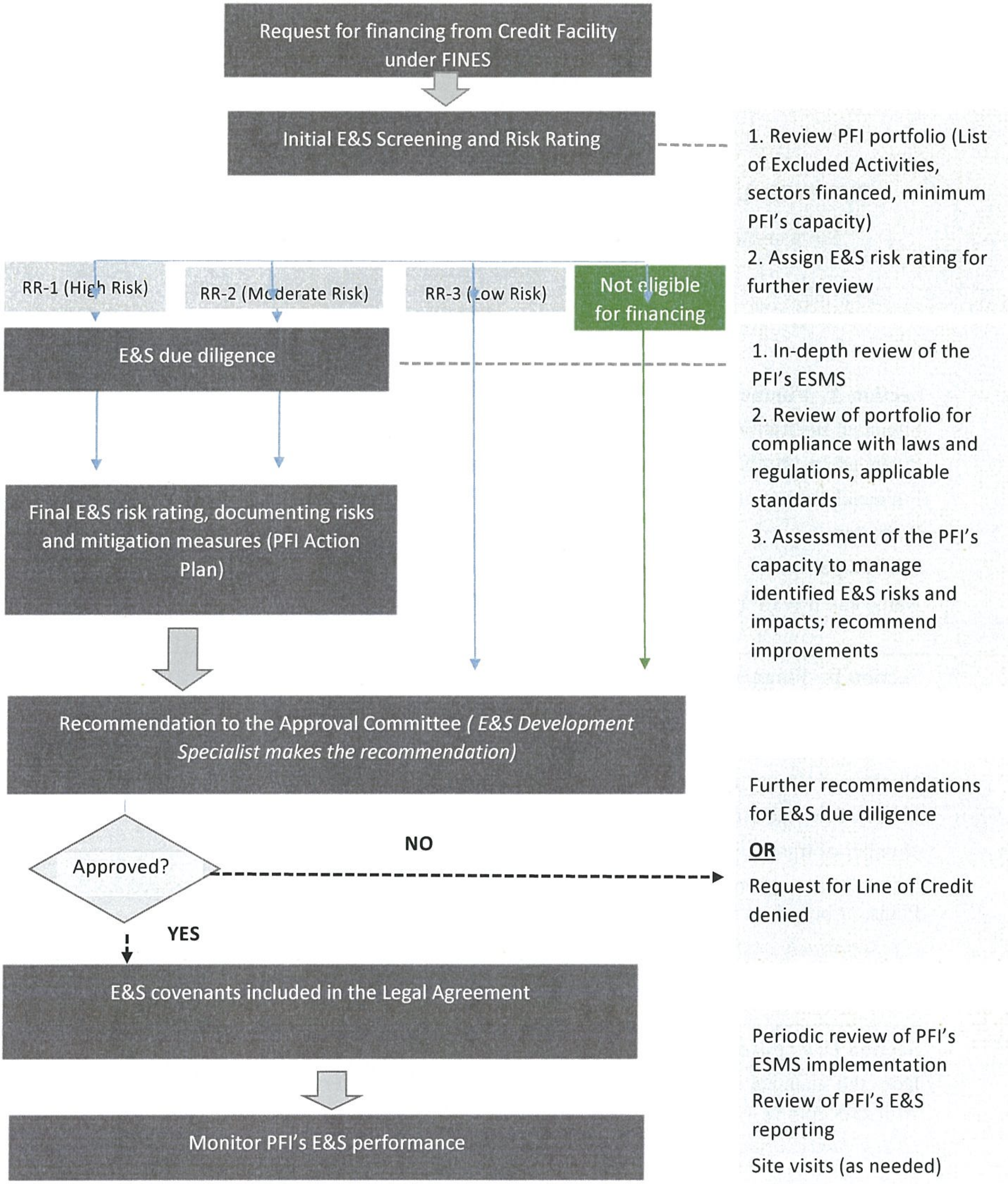
APPROVAL AND CONDITIONS OF FINANCING

This procedure outlines applicable requirements and performance commitments formalized in loan covenants as part of the approval process by the Approval Committee. E&S loan covenants should cover the following:

Environmental and Social Management System:
(a) PFIs shall have an ESMS comprising written policy and procedures, acceptable to RBM, and will delegate a person responsible for its implementation and reporting.

(b) PFIs will provide an annual environmental and social performance report to RBM within 90 days after the end of each calendar year (Appendix 6).

APPENDIX 1. E&S PROCEDURE FLOWCHART (INVESTMENTS THROUGH PFIs)



APPENDIX 2. ENVIRONMENTAL AND SOCIAL SCREENING QUESTIONNAIRE (PFIs)

RESERVE BANK OF MALAWI

FINANCIAL INCLUSION AND ENTREPRENEURSHIP SCALING PROJECT

Environmental and Social Screening Questionnaire (Participating Financial Intermediaries)

[date]

Section A. Financial Institution's Details

Financial Institution Name:

Financial Institution Type *(Commercial Bank; Microfinance Institution)*

Financial Institution Address:

Website:

Contact person for E&S issues:

Name and title of the person filling the Questionnaire:

Section B. Financial Institution's SME Portfolio

Total number of transactions approved over the last year:

Total value of transactions:

Number of transactions screened / assessed for E&S risks

Value of transactions screened / assessed for E&S risks

Number of transactions not approved for E&S reasons

Number of transactions exited poor E&S performance, non-compliance with agreed E&S Action Plans, or breach of loan documentation covenants/conditions

(Please attach a summary of transactions by E&S risk category, where available, sector, size, financial product type)

Section D. Exposure to Activities on the List of Excluded Activities

Does the financial institutions have investments / sub-borrowers that fall under SME category with exposure to activities on fines Exclusion List? **(Yes/ No)**

(If yes, please attach a summary of transactions with exposure to such activities)

Section E. Environmental and Social Management System

Does the financial institution have an Environmental and Social Management System (ESMS)? **(Yes/No)**

If yes, please attach any documents that can serve as evidence of an ESMS, including E&S policy and procedures, and its approval by the FI's Senior Management.

Does the financial institution have an E&S categorization system? **(Yes/No)**

If yes, please briefly describe the system below:

Does the financial institution require E&S risk mitigation measures from sub-borrowers? **(Yes/ No)**

If yes, number of corrective action plans developed for high and medium risk transactions/sub-borrowers over the past year:

Does the financial institution require regular reporting from sub-borrowers on E&S issues? **(Yes/ No)**

If yes, percentage of transactions with regular reporting from sub-borrowers over the past year:

Does the financial institution have staff with clearly designated roles and responsibilities for E&S risk management? **(Yes/ No)**

Does the financial institution conduct regular E&S monitoring visits? **(Yes/ No)**

Does the financial institution maintain an E&S records system? **(Yes/ No)**

Section F. Other Relevant Information

Please provide any other relevant information below

Date ______________________________

Signature __________________________

APPENDIX 3. ENVIRONMENTAL AND SOCIAL RISK RATING MEMORANDUM

RESERVE BANK OF MALAWI

FINANCIAL INCLUSION AND ENTREPRENEURSHIP SCALING PROJECT

Environmental and Social Risk Rating Memorandum (Participating Financial Intermediaries)

[date]

Section A. Project Details

Project name:

Project reference number:

Financial Institutions' contact information:

Project Description:

Section B. Eligibility for Financing

Is the PFI eligible for RBM financing based on E&S criteria? Yes No

Justification:

Section C. Environmental and Social Risk Rating

E&S category: RR-1 (High) RR-2 (Moderate) RR-3 (Low)

Justification for E&S risk rating:

(Types of lending, exposure to activities with potential significant E&S risks and impacts, activities on List of Excluded Activities, PFI's systems and capacity)

Section D. E&S Issues Identified at the E&S Screening Stage

Section E. E&S Issues Identified at the E&S Due Diligence Stage

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Section F. Action Plan to Improve ESMS

Section G. Risk Rating Change

Date:

Reasons:

Signature ______________________________ (E&S Risk Officer)

APPENDIX 4. KEY CONSIDERATIONS FOR E&S RISK RATING

Risk Rating	Sector-based risks	Main types and nature of financing proposed / performed[26] under FINES	List of Excluded Activities	PFI's Systems and Capacity for E&S Risk Management
RR-1 (High Risk)	Substantial lending in sectors subject to full EIA per Environmental Management Act (1996) and the Environmental Assessment Guidelines Appendix B	Loans with tenors over 36 months Loan sizes from 10 to 20 million Kwacha MSME size: medium	PFI's portfolio includes <u>some exposure</u> to such activities that can be eliminated over a reasonable period of time	Overall weak E&S systems and capacity based on criteria in Appendix 5.
RR-2 (Moderate Risk)	Some lending in sectors subject to full EIA per Environmental Management Act (1996) and the Environmental Assessment Guidelines Appendix B	Loan sizes from 5 to 10 million Kwacha MSME size: small	PFI's portfolio includes <u>no exposure</u> to such activities	Overall moderate to strong E&S systems and capacity based on criteria in Appendix 5.
RR-3 (Low Risk)	Most lending in sectors not subject to EIA per Environmental Management Act (1996) and the Environmental Assessment Guidelines.	Loan sizes below 5 million Kwacha MSME size: micro	PFI's portfolio includes <u>no exposure</u> to such activities	E&S systems and capacity are well in excess of minimum capacity as above.

[26] When re-assessing PFIs based on E&S portfolio financed under FINES (on an annual basis or in connection with request for repeat transaction).

APPENDIX 5: PFI'S E&S PERFORMANCE CRITERIA

Area	Description
	1. Systems and capacity
E&S Staffing and Capacity	Staff with clearly designated roles, responsibilities and capacity to manage E&S issues Internal training developed and implemented to sensitize relevant investment staff on the required E&S screening process, criteria, and documentation
E&S screening process	A systematic E&S screening process, including an E&S categorization system, is supported by written documents (e.g. a policy statement, a standardized E&S questionnaire) and adequately internalized within the PFI
Management Commitment	Level of management commitment to incorporate E&S aspects into the PFI's risk management practices. Management commitment can be indicated by formal endorsement of the E&S policies and procedures by the PFI's management and willingness to provide adequate resources (staff and budget) for implementation.
	2. Implementation
Compliance with applicable requirements	Adequate implementation of the E&S screening process, including evidence of application of RBM E&S requirements Corrective action plans for sub-borrowers are developed
Documentation	Adequate documentation is maintained by the PFIs and available upon request from RBM Appropriate language is incorporated in financing agreements and other relevant documentation with end borrowers Annual E&S reports are prepared and submitted in a timely manner to RBM

APPENDIX 6: E&S REPORTING TEMPLATE FOR PFIs

Reserve Bank of Malawi
E&S Performance Report for Participating Financial Institutions (PFIs)

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes.

NAME OF FINANCIAL INSTITUTION			
COMPLETED BY:			
OFFICIAL POSITION		DATE	
REPORTING PERIOD	FROM:	TO:	

REPORT COVERING PERIOD	
FROM:	TO:

For the reporting period indicated above, please provide the following information about your portfolio where applicable:

Term	Product Line	Description	Total exposure outstanding for most recent year end in MK	Average loan or transaction
Long Term: Transactions with Tenor Greater Than 12 Months	MSME	Any lending or other financial assistance to any corporate or legal entity other than an individual, with 100 employees or less:		
Short term (ST): transactions with tenor less than 12 months	MSE			
Other if applicable	Other if applicable	Please describe		

PFI's Environmental & Social Management System (ESMS)

Policies and processes	*Y/N*	
Has your organization developed and implemented an ESMS?		If yes, please attach a copy of the ESMS to this report.
If there is an ESMS already in place, have there been any updates to the ESMS, or policy and procedures adopted by your organization during the reporting period?		If yes, please provide a copy of the updates including dates and reasons for the same
Has senior management signed off on the updated policy/procedure		If yes, please provide the date and internal communication indicating the same

Please give details of any transactions rejected on environmental, health, safety or social grounds		
Please state any difficulties and/or constraints related to the implementation of the environmental and social procedures.		
Please describe how you ensure that your clients and their sub-projects are operated in compliance with the National laws and regulations		
Please give details of any material environmental and social issues associated with sub-borrowers during the reporting period.		
Capacity	**Y/N**	
Please provide the name and contact information of the Environmental Officer or Coordinator who has the overall responsibility for the implementation of ESMS		Please describe the training or learning activities the Environmental Officer or Coordinator attended during the year
Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.		Please describe the training provided to the ESMS persons and other team members during year.
What was the budget allocated to the ESMS and its implementation during the year		Please provide budget details including staff costs and training as well as any actual costs
Monitoring	**Y/N**	
Do you receive any non-financial reporting from industrial sub-projects that you finance?		If yes, please describe and provide supporting documents including any E&S considerations if applicable
Do you check for ongoing compliance of your subprojects with national regulation and any other requirements?		Please describe how you monitor the client and project
Please describe how you monitor the client and project environmental and social performance		Please describe and provide supporting documents and please provide information on the number of sub-projects where a field visit was conducted by staff to review aspects including E&S issues
Please provide details of any accidents/ litigation/ complaints/regulatory notices and fines: - Any significant accidents - Any incidents of non-compliance with the E&S Requirements - Any existing or potential complaint, order, directive, claim, citation or notice from any Authority under applicable law and local requirements - Covenants/ conditionalities imposed by the Bank as a result of any non-compliance		
Reporting	**Y/N**	
Is there an internal process to report on E&S issues to Senior Management?		If yes, please explain the process, reporting format and frequency and actions taken if any.
Do you prepare any environmental and social reports: - Other stakeholders - E&S reporting in the Annual Report - Sustainability reports		If yes, please provide copies of these reports.

APPENDIX 7: TERMS OF REFERENCE OF THE GRIEVANCE REDRESS COMMITTEE (GRC)

Reserve Bank of Malawi

FINANCIAL INCLUSION AND ENTREPRENEURSHIP SCALING (FINES) PROJECT

TERMS OF REFERENCE FOR THE GRIEVANCE REDRESS COMMITTEE OF THE FINES PROJECT

RESERVE BANK OF MALAWI (FSR DEPARTMENT)

BANKERS ASSOCIATION OF MALAWI

MINISTRY OF TRADE AND INDUSTRY

MALAWI MICROFINANCE NETWORK

MALAWI UNION OF SMALL AND MEDIUM ENTERPRISES

MALAWI ENVIRONMENT PROTECTION AUTHORITY

Reserve Bank of Malawi
P.O. Box 30063
Lilongwe 3
Malawi

1.0 BACKGROUND

The Government of Malawi, with support from the World Bank is implementing the Financial Inclusion and Entrepreneurship Scaling (FInES) Project, which is aimed at increasing access to financial services, promote entrepreneurship and capabilities of MSMEs in Malawi including addressing Covid-19 implications. The project cost is USD86 million with the entire amount financed by an IDA loan from the World Bank (WB). The borrower of the IDA funds is the Republic of Malawi, represented by the Ministry of Finance (MoF). The Grievance Redress Committee (GRC) whose terms of reference are thus packaged is a complementary unit set to complete the Grievance Redress Mechanism (GRC) of the FInES Project. The GRC will work on Environmental and Social related grievances which are not otherwise captured in current systems. The GRC will be responsible for consolidating and keeping all records on grievances that will arise in the FInES Project by ensuring that the FInES PIU is consolidating records of grievances coming in from PFIs that will have been resolved at their level, consolidating disputes from the Financial Services Appeal Committee (FSAC) and the FSR. All these three bodies will together make up the GRM of the FInES Project. This means that the FSAC and FSR will continue to act as per their respective mandates and together with GRC (with focus on Environmental and Social related grievances) output will constitute a complete GRM for the FInES Project. Another major function of the GRC will be to resolve grievances that PFIs have failed to resolve at their level. As such the GRC will sit on need basis for resolving referred grievance from the PFI level.

1.1 Project Development Objective

The Project Development Objective (PDO) is to increase access to financial services, promote entrepreneurship and capabilities of MSMEs in Malawi including addressing Covid-19 implications.

1.2 Project Components

Component 1: Liquidity Enhancement to MSMEs:

The component aims at increasing the supply of wholesale financing to the project's participating financial intermediaries (PFIs) and scaling lending and/or investments to MSMEs.

Component 2: Scaling Entrepreneurship and Building Firm Capabilities

The component will facilitate the building of firms' capabilities, with measures to enhance the quality of business support provided by private and public BDSs.

Component 3: Enhancing the Enabling Environment for Supporting the Financial Inclusion and Growth of Entrepreneurs

The component builds on activities supported under the Financial Sector Technical Assistance Project (FSTAP). This component will finance the implementation of activities that make it possible for MSMEs to access financing from financial institutions and to improve their prospect to grow.

Component 4: Project Implementation Support

The Component will support the process of strengthening the capacity of Reserve Bank of Malawi to manage the project and the provision of technical assistance for preparation of phases of the project.

The project will be managed by a Project Implementation Unit (PIU) under the Reserve Bank of Malawi. The PIU will oversee the day-to-day project implementation; monitor progress; coordinate the utilization of project funds; and establish mechanisms to account for this utilization. To fulfil these roles, the Project will be headed by a Project Manager at the PIU, as well as the required technical and fiduciary experts in accordance to criteria established in the PIM.

2.0 ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT IN FINES PROJECT

The RBM's Environmental and Social Risk Management (ESRM) Policy was reviewed and aligned to World Bank Environmental and Social Framework and provides guidance on the approach for the integration of environmental and social issues in the assessment of eligibility of PFIs to access credit under the FINES Project. The policy seeks to introduce a systematic approach to the identification, rating and management of social and environmental issues relevant to all on-lending by RBM to PFIs under the FINES project. The policy further ensures that all the implementing institutions are equipped with adequate skills and resources needed to effectively implement this Policy. This policy is a demonstration of RBM's commitment to integrate environmental and social considerations in the PFI activities to be funded under this project to minimize, avoid or eliminate the potential negative impacts arising from such activities. In addition, the policy encourages MSMEs to put in place measures that enhance the positive impacts of the projects. The project will thus fund activities with positive environmental and social outcomes through lines of credit to eligible PFIs for on lending to MSMEs.

The RBM recognises that in the course of implementing the project, it will be exposed to environmental and social risks through the PFIs - to the E&S risks associated with the business activities of the sub-borrowers and sub-projects they finance. It is envisaged due to the small-scale nature of the MSMEs involved and the modest levels of funds being made available to each, the risks and impacts will largely be of low magnitude, not extensive and reversible. However, the potential for sub-projects to develop high or substantial level risks and impacts remains and RBM's ESRM will seek to mitigate any impacts to acceptable levels. It is however noted that management of E&S risks is behavioural in nature and as such, the MSMEs that embrace E&S risk management are likely to continue to do so as they graduate into large scale enterprises. The policy calls upon the MSMEs to integrate E&S management in their core business strategies. In addition, it is globally recognised that the initial cost of integrating sustainability into the core business strategy, and reporting on it, can (at least in the long term) be more than offset by cost savings, reduced risk, positive brand association, and the ability to meet consumer, investor, and supplier demand for environmentally conscientious products and services.

The policy supports the capacity development of PFIs to develop and maintain adequate system procedures and a capacity for identifying, managing and monitoring risks and impacts of sub-borrowers and sub-projects commensurate with the amount of funds on-lent, the size of the MSME and the nature of the activities to be implemented. This will be achieved primarily by through development, by each PFI, of an Environmental and Social Management System (ESMS), as defined in this Policy.

3.0 GRIEVANCE REDRESS MECHANISM

RBM recognizes the importance of accountability and that stakeholder concerns should be addressed in a manner that is fair, objective, and constructive. The purpose of a grievance mechanism is to establish a way for affected individuals, groups or communities to communicate their enquiries, concerns or formal complaints. The grievance mechanism will address affected persons' concerns and complaints promptly, using an understandable and transparent process that is gender responsive, culturally appropriate, and readily accessible to all segments of the affected parties. The GRM for FInES Project is designed not to impede access to the already established judicial and administrative remedies which have legal mandate of managing banking and finance related disputes as FSR and FSRAC. The GRC will thus capture social and environment related grievances that will be refffered to the Committee from PFIs. The GRC will also ensure that the FInES PIU is consolidating all grievances from PFIs, FSR and FSAC. The project-affected parties requiring to accelerate grievances to be solved at GRC level will submit the complaints in writing regarding the project to the World Bank Corporate Grievance Redress Service (GRS). The FINES GRM will therefore comprise of the existing RBM Grievance Mechanism that largely dwells on finance and banking related grievances. The ESMS in PFIs will be strengthened by having a clear GRM system within their individual ESMS. These systems will encourage non finance and banking grievances which then constitute the Environment and Social related grievances to be sorted at PFI level and if failed will be escalated to the Grievance Redress Committee as suggested by the Technical Working Group (TWG) of the FINES Project. These three spaces of Finance and Banking GRM; the PFI GRM and the GRC will define the structures of grievance handling and management.

3.1 RBM Grievance Mechanism

The Financial Services Act 2010, in Part VIII, establishes the Financial Services Appeals Committee (FSAC) with the mandate to review regulatory decisions of the Registrar of the financial institutions and hear appeals from financial institutions. The Act provides for the Committee to consist of three members, one of whom shall be designated as Chairperson and others as ordinary members. The members are appointed by the Minister of Finance. The Rules prescribe the procedure for the conduct of proceedings brought before the FSAC. Under the Rules, a person affected by the decision of the Registrar may appeal against the decision by filling a Notice of Appeal with the Secretary within 21 days of date of the decision.[27]

The notice of appeal must among other information contain a copy of disputed decisions, grounds for appeal relief sought by the applicant, grounds and urgency of the appeal. At the conclusion of the appeal FSAC delivers its decision in writing to the parties. A copy of the decision and the reasons for the decision are published on the FSAC website.

The right to appeal the decision of the Registrar is well known by the Banks and Financial Institutions and the PFIs will be reminded of this remedy during stakeholder engagement meetings.

3.2 PFI Grievance Mechanisms

The Registrar in 2016 issued a directive to all financial institutions on the requirement of an internal complaint handling system by all the financial institutions to assist in resolving complaints by customers of financial institutions in relation to financial services and products. It is in this context that the Registrar of Financial Institutions issued a Complaints Handling Directive. The Objectives of Complaints Handling Directive are to:

(d) Ensure that a financial institution has in place avenues for resolving complaints lodged by financial consumers;
(e) Promote transparency in the process of handling financial consumer complaints to improve service delivery; and
(f) Ensure that financial institutions timely report data on complaint to the Registrar.

The Registrar outlined procedures for complaints handling as follows:

(h) A consumer reports complaint to financial service providers (FSPs) through designated officers and once received, officers must record complaints and strive to timely resolve the complaint;
(i) Provide feedback on complainants;
(j) Complaints handling should be guided by internal process approved by the Board and reviewed by the Registrar;
    - Complaint resolution rule - 0/10/30 rule - should apply where simple complaints be dealt with immediately; complaints that require investigation should be dealt within 10 working days and complex complaints be resolved within 30 days;
    - Longer periods should be approved by management and specifically flagged in complaints register;
    - Response should be in line with how the complaint was lodged;
    - Institutions must inform complainants about the right to appeal to an internal appeals committee, if available, the Registrar of Financial Institution and contacts, or to a civil court - file a lawsuit.

3.3 The Focus for the GRC

The FIs are under the directive obliged to submit complaints reports to Registrar on quarterly basis highlighting the number of complaints received, nature of complaints and the resolutions.

[27] See Financial Services (Financial Services Appeal Committee Procedures (Rules)

All the FIs consulted indicated that they have internal grievance redress mechanism although not all reported to be submitting report to the Registrar on quarterly basis as required. Some reported to submit reports to the Registrar upon request. Most grievances received by FIs and the Reserve Bank relate to financial services such as poor customer care services, technology failure, lack of transparency and full disclosure of all financial risks as well as reward of their products, unfair contract terms and misrepresentation of financial services and deceptive advertising. However, the potential grievances of much interest to this project are those related to the negative environmental and social impacts arising from the implementation of the subprojects. There are various acts of parliament and regulations that provide remedies to grievances related to land disputes as well as negative environmental and social impacts.

The EMA 2017, created a Tribunal to address issues of environmental and social impacts to the extent that "any person who has reason to believe that his right to a clean or healthy environment has been violated by any person may, file a written complaint to the Tribunal outlining the nature of his complaint and particulars. The Tribunal shall, within thirty (30) days from the date of the filing of the complaint, institute an investigation into the activity or matter complained about and shall give a written response to the complainant indicating what action the Tribunal has taken or shall take to restore the claimant's right to a clean and healthy environment, including instructing the Authority to take such legal action on the matter as the Authority may deem appropriate". Similarly, the Customary Land Act has put in place alternative land dispute settlement mechanism. It has created customary land committees (CLCs) at group village headman (GVH) level to manage land within a Traditional Land management Area (TLMA). Land dispute resolution under the Act are through Land Tribunals. These are Customary Land Tribunals at Traditional Authority and district level. At the Central the Act established the Central Land Board to be presided over by a Resident Magistrate. If the complainant is not satisfied with a decision of a land tribunal, he or she can appeal to the next level or the high court. The grievance mechanisms outlined above are not directly linked and it is the duty of the relevant GRC to ensure that project affected persons are given the option of using the grievance redress mechanisms that are led by local authorities where project led negotiations have not been able to provide a satisfactory solution to the complaint. The project is duty bound to forward to the relevant local authority the complaints they receive that are, in their view, can be better resolved by the local government led dispute resolution systems. The PFIs will be duty bound to use in-house intelligence mechanisms and routine supervisory visits to register grievances affecting the disadvantage and vulnerable groups.

4.0 SCOPE OF THE ASSIGNMENT OF THE GRIEVANCE REDRESS COMMITTEE

The Grievance Redress Committee was set up by the Technical Working Group (TWG) of the FINES Project and suggested members included:-

i. Reserve Bank of Malawi
ii. Ministry of Trade and Industry
iii. Bankers Association of Malawi
iv. Malawi Microfinance Network
v. Malawi Union of Small and Medium Enterprises

The PIU also recommended inclusion of Environmental Affairs Department (EAD) being the Government of Malawi legal custodian of the Environmental and Social Legal Framework. The PIU Environmental and Social Specialist and Assistant Environmental and Social Specialist will function as the secretariat of the GRC.

The GRC will perform the following duties:-

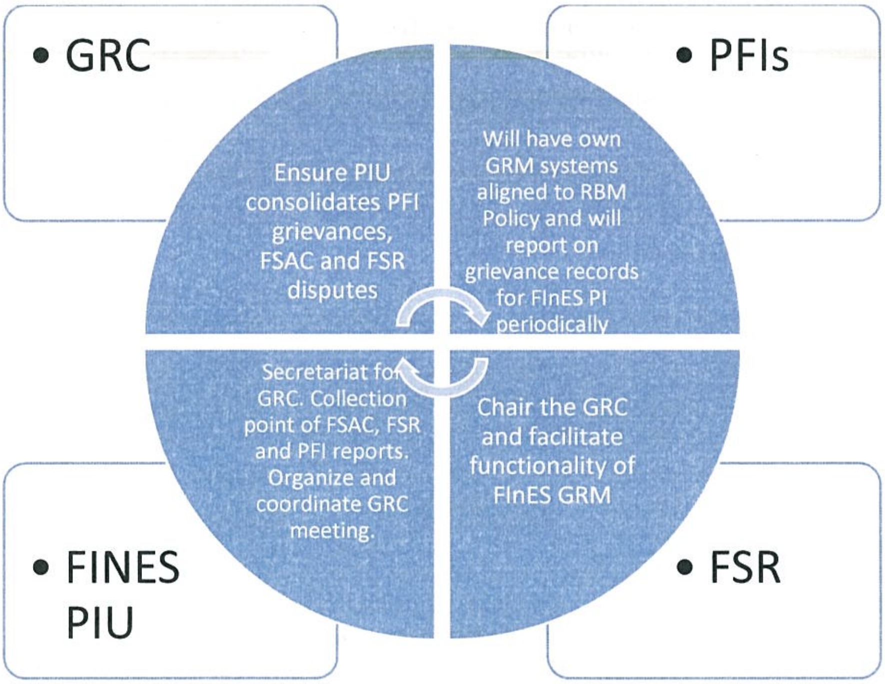
a) Constitute a Chairperson of the GRC suggested as the Directorate of FSR in Reserve Bank of Malawi. The FSR is already mandated to deal with Finance and Banking related grievances by law. As such they are the most relevant department in RBM to manage GRM in the Project.
b) Make a formal request for FSAC and FSR to inform FInES PIU on any disputes registered in their respective portfolios about FInES related disputes for recording.
c) Create a subset of the Committee to deal with Gender imbalances redress, sexual exploitation and abuse related nature of grievances at all levels of the FIES Project implementation.
d) Empower the subset committee to create a follow up mechanism for post gender imbalance or sexual exploitation or abuse victims as they integrate back in the community.
e) Facilitate for GBV service providers and referral pathways for survivors if need arises.
f) Convene quarterly or as need arise to resolve Environmental and Social related grievances referred to the committee by PFIs after they could not resolve at their level.
g) Consolidate and keep a record of all grievances received and resolved at PFI level for purposes of record keeping and reporting to World Bank.
h) Ensure ESMS from PFI have a GRM component accessible to all stakeholders.
i) Review from time to time adequacy of access to FINES GRM platforms and recommend improvements if need be.
j) Ensure that Project partners channel all confidential information correctly and handled with the utmost discretion.
k) Ensure feedback is given to all those who grieve and closure is achieved.
l) Facilitate reprogramming of Project activities based on recurrence or nature or extent of presented grievances.
m) Oversee the provision of special training on grievance handling by various stakeholders including the GRC, PIU, PFI and all stakeholders required to have adequate capacity for GRM.

5.0 DURATION OF THE ASSIGNMENT

The assignment is for the FINES Project implementation period that goes to September 2025.

6.0 REPORTING AND FLOW CHART

The GRC will be expected to report their findings to the PSC and PM through the ESS Specialist for purposes of informing the World Bank on GRM status and functionality.



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Designation	:	Project Manager
Signature	:	
Date	:	28/11/2022