Government of the Republic of Malawi

LOCAL DEVELOPMENT FUND (LDF)

OPERATIONAL MANUAL

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and Rural Development
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Acronyms and Abbreviations

ABB	Activity Based Budgeting
ADC	Area Development Committee
AEC	Area Executive Committee
AIDS	Acquired Immune Deficiency Syndrome
AIP	Annual Investment Plan
AMC	Assets Maintenance Committee
CBO	Community Based Organisation
CDC	Community Development Committee
CEO	Chief Executive Officer
CONGOMA	Council for Non Governmental Organisation
CW	Community Window
CMP	Community Managed Projects
CSO	Civil Society Organisation
DA	District Assembly
DACC	District AIDS Coordinating Committee
DAIP	District Annual Investment Plan
DAT	District Advisory Team
DC	District Commissioner
DDF	District Development Fund
DDP	District Development Plan
DDPF	District Development Planning Framework
DEC	District Executive Committee
DFID	Department for International Development
DoF	Director of Finance

DPD	Director of Planning and Development
DPW	Director of Public Works
DIS	District Information System
DSP	Development Strategic Plan
FMRs	Financial Monitoring Reports
GoM	Government of Malawi
HIV	Human Immune Virus
ICB	International Competitive Bidding
IGFT	Inter Governmental Fiscal Transfer
IFMIS	Integrated Financial Management Information System
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
LA	Local Authority
LAW	Local Authority Window
LAMIS	Local Authority Management Information System
LAN	Local Area Network
LDF	Local Development Fund
LGA	Local Government Act
MALGA	Malawi Local Government Association
MASAF	Malawi Social Action Fund
MDG	Millennium Development Goals
MGDS	Malawi Growth and Development Strategy
M&E	Monitoring and Evaluation
MEPD	Ministry of Economic Planning and Development
MIS	Management Information System
MLGRD	Ministry of Local Government and Rural Development

MoF	Ministry of Finance
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
NDP	National Decentralisation Programme
NGOs	Non Governmental Organization
NLGFC	National Local Government Finance Committee
ODPP	Office of the Director of Public Procurement
OVC	Orphans & Vulnerable Children
PC	Procurement Committee
PF	Performance Fund
PFMA	Public Finance Management Act
PMC	Project Management Committee
PRA	Participatory Rural Appraisals
PRSP	Poverty Reduction Strategy Paper
PSRP	Public Sector Reform Programmes
PSIP	Public Sector Investment Programme
PWP	Public Works Programme
SCDP	Secondary Centres Development Programme
SDP	Strategic Development Plan
SEP	Social Economic Profile
TA	Traditional Authority
TS	Technical Supervisor
UA	Urban Assembly
UAP	Urban Assembly Plan
UDSP	Urban Development Strategic Plan

UEC	Urban Executive Committee
UW	Urban Window
UTHA	Unplanned Traditional Housing Areas
VAP	Village Action Plan
VDC	Village Development Committee
WDC	Ward Development Committee
WEC	Ward Executive Committee
WS	Works Supervisor

CHAPTER 1
INTRODUCTION

1.1 Purpose of the Manual

This Operational Manual (OM) provides guidelines and procedures intended for the smooth, efficient and effective operations of the LDF funded activities at the Local Assembly and Community levels. The manual will also guide service providers, NGOs and CBOs that will use resources from the LDF.

The Manual aims at ensuring consistency, transparency and accountability on the part of those involved in managing LDF financed activities.

The Manual is a summary of guidelines and procedures intended for the smooth operation of the LDF as detailed in specific LDF Manuals, Handbooks and Frameworks.

1.2 Application of the Manual

This Manual will be used by Local Authorities in the day to day operation of projects / activities financed from the LDF. The Manual will also act as reference material to all stakeholders of the LDF. While the provisions of this manual are generic guidelines, specific operational guidelines are provided in handbooks.

1.3 Structure of the Manual

The Operational Manual contains the following major chapters:

Chapter 1, Introduction: provides introductory information on the purpose of and outline of the Manual.

Chapter 2, Background: presents information that relate to the genesis of the LDF.

Chapter 3, Description of the LDF: describes the Objectives of the LDF and provides a detailed description of the Funding Windows available. This includes objectives of each window, the funding criteria, suggested project types and implementation modalities.

Chapter 4, Institutional Framework: provides the set up of the major players in the management of the LDF operations.

Chapter 5, Local Development Planning and Budgeting: provides an overview of Local Development Planning (Programming) and budgeting process within the context of the Medium Term Expenditure Framework (MTEF)

Chapter 6, Financial Management and Accountability: presents the interface between the national and local set-ups of the inter-governmental fiscal transfer

system. It includes a summary on the financial management and accountability, audit aspects in the context of LDF management. Finance management and accountability issues are detailed in the Finance Management Manual.

Chapter 7, Procurement: presents the procurement procedures prescribed under the Public Procurement Act, 2003, which apply to all public procurements. The procurement processes are detailed in the LDF ***Procurement Handbook.***

Chapter 8, Cross-Cutting Issues – HIV and AIDS Gender, Environment and other Social concerns: provides guidelines for use by the Local Authorities, beneficiaries and other stakeholders in the mainstreaming of crosscutting issues in the implementation of the LDF. Government recognizes the importance of mainstreaming cross cutting issues of HIV/AIDS, Gender and Environment in the implementation of the LDF in order to foster sustainable development.

Chapter 9, Project Management Support Systems: provides a description of project management systems that are critical for ensuring quality and effective delivery of LDF activities.

CHAPTER 2
BACKGROUND

2.1 Introduction

The Government of Malawi (GoM) has established the Local Development Fund (LDF) as a nationwide, standardized and transparent development financing mechanism for local governments. As part of the inter government fiscal transfer system, the LDF will be the only source of discretionary public development grant financing to local governments. The establishment of the LDF follows a study commissioned by GoM and its Cooperating Partners on the Review and Improvement of Local Government Financing Mechanisms in 2005.

The Establishment of the LDF is in tandem with the Paris Declaration on Aid Effectiveness of 2nd March, 2005 and strengthened by the Accra Agenda for Action (AAA) of September, 2008, which advocate for the harmonization of Development Aid approaches and alignment of such towards the beneficiary country's own policy and implementation frameworks.

2.2 Challenges of Multiple Financing of Local Development Initiatives

The GoM has been providing resources for local development through sector ministries. Similarly there are several Government projects that have been contributing to local service delivery funded by development partners. The implementation of these projects and programmes has faced challenges that have limited their effectiveness in contributing towards improved service delivery. Some of the major challenges are:

i. Poor alignment between the National Planning System and the Local Development Planning System;
ii. Uncoordinated budgeting of resources available for service delivery reduced the effectiveness of government and donor support towards poverty reduction;
iii. Multiple monitoring systems in each sector in response to multi-donor demands resulted in counter-productive deliverables
iv. Difficulties in identifying areas where more resources could produce results emanating from allocative efficient competencies of development service providers or facilitators;
v. Weak expenditure management systems;
vi. Overstretching of capacities at the LA level due to demands from multiple projects funding sources and reporting procedures resulting in underperformance;
vii. Lack of ownership of projects at the LA level due to poor synchronization of priorities between funding agencies, the LA and sectors leading to sustainability problems; and
viii. Slow pace of devolution inhibiting evolution of viable LA entities.

2.3 Rationale for a common financing mechanism

In the wake of the challenges above and the limited availability of resources for development, Government has been working on an approach that would lead to the harmonization of budgeting efforts with service delivery by developing a single budgeting system for delivering predictable results. It is the hope of Government that through this harmonization, better development outcomes would be realized, largely arising from better alignment between local and national development priorities, focusing on achievement of results and reduction of transaction costs associated with the current disjointed efforts.

The establishment of the LDF will promote harmonization and achieve fiscal discipline, improve pro-poor resource allocation, implement development as prioritized in the District/Urban Development Plans, strengthen budget execution for results, and enhance budget public accountability. Resources raised through the LDF will be transferred directly to local authorities and communities. This is consistent with a devolved local government system as proposed in the Decentralization Policy and Programme.

2.4 Policy Framework

The Malawi Growth and Development Strategy (MGDS) provides the overarching policy framework for the LDF. The MGDS has prioritized key areas of:

i. Agriculture and food security;
ii. Irrigation and water development;
iii. Transport infrastructure development;
iv. Energy generation and supply;
v. Integrated rural development, and
vi. Prevention and management of nutritional disorders, HIV and AIDS.

2.4.1 Integrated Rural Development

Integrated Rural Development in particular aims at transforming rural areas into socially, politically and economically viable enclaves that contribute positively and significantly to growth and overall sustainable development of Malawi. The major activities include the development of infrastructure and Local Economic Growth Points (Community Production centres) in order to create a conducive environment for investment to stimulate sustainable economic growth and support the vulnerable groups in society with access to basic needs of life including local initiatives such as community based organizations to support HIV and AIDS victims.

CHAPTER 3

DESCRIPTION OF THE LOCAL DEVELOPMENT FUND

3.1 Local Development Fund (LDF)

The Local Development Fund (LDF) is an Inter-governmental Fiscal Transfer mechanism established under the Public Finance Management Act, 2003 under the Ministry of Finance. The LDF will be used to support and strengthen the decentralisation process in Malawi in order to devolve political and administrative powers, and responsibilities to Local Authorities. The project planning, implementation, management and operations will be managed in ways that are appropriate to the level and type of development. The LDF will use the principle of subsidiarity (which ensures that the best possible appropriate services are delivered at the lowest possible cost at the most appropriate level by the most appropriate institutions), to ensure that the development activities are effective and efficient.

3.2 Purpose and Objectives of the Local Development Fund

The purpose of the LDF is to establish and provide a nation-wide, sustainable, standardized and transparent financing mechanism which is open for financing by Government and Cooperating Partners, so that Local Authorities (LAs) in Malawi can support decentralized and sustained development.

The overall objective is to mobilise financial resources for equitable economic growth and development in order to reduce poverty and improve service delivery in line with the development aspirations of the country.

The specific **objectives** are:

i. To support planning and management of development resources at the assembly and community levels
ii. To facilitate the implementation of the Integrated Rural Development Strategy
iii. To provide resources which ensure that development investments respond to prioritised community development needs;
iv. To protect financial resources for pro-poor development activities and service delivery at LA and Community levels;
v. To enhance the accountability of Local Authorities to their constituents.
vi. To finance capacity enhancement of local governance institutions at National, LA and Community levels

3.3 Funding Windows

In order to facilitate the implementation of the National Decentralisation policy; and to enhance the accountability of Local Authorities to their constituents funding windows will be used by Local Authorities in the management of different types of investments. The LDF will have four funding windows:

i. The **Community Window** to finance demand-driven community socio-economic infrastructure investments and services directly managed by communities.

ii. The **Local Authority Window** to finance capital investments, labour-intensive public works programmes and local development initiatives contained in Local Authority Plans through projects managed by Local Authorities;

iii. The **Urban Window** to finance socio-economic infrastructure in urban areas[1] (including growth centres) which are both labour and capital intensive as prioritised in the District Development Plans or Urban Development Plans.

iv. The **Performance Window** to finance capacity development requirements of Local Authorities in the management of their core functional areas and to reward good performance through annual performance assessments.

The windows are described briefly below:

3.3.1 Community Window

3.3.1.1 Objectives of the CW

The Community Window will use the principle of direct financing. The objectives of the CW are:

i) To enhance the capacity of communities to plan, manage and sustain their own development.
ii) To contribute to the improvement of the welfare of poor communities by increasing the availability, access and use to quality social and economic infrastructure.

3.3.1.2 Types of Projects

The CW will finance a variety of community managed projects intended to close service gaps and other sector specific interventions in Health, Education, Water and Sanitation, Transport and Communication and Food Security. The respective service gaps will reflect community priority needs in any of the following sectors:

i. *Health*: Under Five clinic and Community Essential Health Package (i.e. anti-malarial, family planning etc), HIV and AIDS interventions;
ii. *Education:* Teachers houses, school sanitation projects, desks, classroom blocks, skills centres;
iii. *Water and Sanitation:* protected shallow wells, sanitation platforms, drainage systems;
iv. *Transport and Communication :* foot bridge, single span bridges, drifts, culverts, telecenters;
v. *Economic empowerment – skills training,* IGA related projects for vulnerables; enterprise development; and
vi. *Food security* – irrigation, community markets

[1] Urban areas include cities, towns, municipalities, district centres (Boma) rural growth centres and all human settlements as classified in the National Physical Development Plan (NPDP)

Under Enterprise Development, eligible proposals/projects would include:-

i. Association building and savings mobilisation;
ii. Skills enhancement (technological / business);
iii. Facilitating market linkages;
iv. Business development services for local entrepreneurs;
v. Matching grants;
vi. Knowledge exchange and study tours for business services provision; and
vii. Capacity building for business development service providers.

Gender, HIV and AIDS, and the environment will be mainstreamed in all CW investments.

3.3.1.3 Criteria for Community Window Projects

The CW will finance two types of interventions:

i. Sub-projects managed by communities
ii. Enterprise Development activities managed by finance service providers, CBOs and NGOs.

These projects would be characterized by different management structures and financing thresholds.

For projects to be funded by the CW but directly managed by communities, the following criteria should be met:

i. Projects must be included in the approved LA Annual Investment Plan;
ii. Minimum Community contribution of 10% of the total project cost, except for capital intensive sub-projects such as a borehole, where the minimum contribution would be 5%;
iii. Projects must be simple enough for the community to manage and maintain;
iv. Projects must use either standard or specific designs;
v. The cost of a project will not exceed US$40,000;

vi. For Enterprise Development projects managed by finance service providers and NGOs, the following initiatives will be demonstrated:
vii. Promotion of formation of local business organisations or economic clusters of enterprises and value chains;
viii. Mobilising community assets and putting them into productive use;
ix. Promoting economic development partnerships and alliances between Government, business entities and communities; and
x. At least 80% of the resources should go towards capacity building of members.

3.3.1.4 Implementation Modalities

The beneficiary communities and Local Assemblies will have direct responsibility for identification, preparation, implementation, management and maintenance of the projects funded under this window. Details are provided in the Community Window Handbook.

Officials from Ministries responsible for the Gender, the Youth, and Trade, Finance Service Providers, NGOs and individual experts, will manage contracts for enterprise development against signed contracts with Local Assemblies.

3.3.2 Local Authority Window (LAW)

3.3.2.1 Objective of the Local Authority Window

The objectives of the Local Authority Window are:

i. To improve incomes and reduce food insecurity among the poor households through investment projects which use labour intensive methods of implementation;
ii. To contribute to the improvement for the welfare of communities by increasing the availability, access and use to quality social and economic infrastructure of public goods.

3.3.2.2 Type of Projects

The LAW will support projects of public investment nature for raising incomes such as *public works activities* and other *socio-economic activities* that cannot be managed at community level. The types of projects to be supported by the LAW will be those that enhance revenue generation of Local Authorities, improve the urban environment, and are within their mandate and are operated and maintained by Local Authorities (or subcontracted).

Examples of socio economic projects include low cost urban roads, street lighting, community concrete deck bridges (maximum of 2 span), drifts, markets, improvements / extension to public water supply and sanitation systems, shelters for bus stations, boreholes, low cost housing for rental purposes and slaughter houses.

For Public Works activities, the following criteria will apply:

i. The projects shall be labour intensive with not less than 40% of the project costs going into cash transfers.
ii. The projects shall address food security related shocks that affect households.
iii. The projects shall assist the vulnerable and mitigate the socio-economic impact of disasters;
iv. Beneficiaries shall work for a defined period in line with the specific objective of the activity.

Eligible projects would include:-

i. Afforestation projects
ii. Village access roads
iii. Small gravity irrigation projects
iv. Water harvesting structures
v. Soil conservation,
vi. Agroforestry projects
vii. Solid waste disposal
viii. Water drainage systems
ix. Small scale irrigation projects; and
x. Farmer field schools

3.3.2.3 Criteria for Local Authority Fund Projects

The LAW will be available to Local Assemblies. To qualify for the LAW, the following criteria will apply:

i. Projects will benefit multiple communities;
ii. Project components whose value will not exceed US$60,000;
iii. Projects must be financially sustainable and economically viable and provision for operations and maintenance assured;
iv. Infrastructure projects which will enhance the opportunities for revenue collection for the Local Authority;
v. Where the structures will be in urban centres, the development must comply with provisions of the Outlining Zoning Plan (OZP); and
vi. Availability of land without any incumberances.

3.3.2.4 Implementation Modalities

The Local Authority will manage implementation of the projects. LAs will ensure that the assets created are operational and being maintained. The LA will hire contractors and supervisors to help with the implementation of LAW projects, where necessary.

3.3.3 Urban Window (UW)

3.3.3.1 Objective of the Urban Window

The objectives of the Urban Window (UW) are:

i. To develop and improve socio - economic infrastructure in urban centres to stimulate local economic development for private investment and especially for low income groups;
ii. To improve the management capacity of the Local Authority in implementing larger investments

3.3.3.2 Type of Projects

The types of projects to be supported by the UW will be those that can spur local economic development. The identified projects will be prioritised through assessment of Productive Investment Plans formulated by each Local Authorities. The UW will support projects such as dedicated basic socioeconomic infrastructure, human capital development and value chain development for focus commodities. Examples of projects to be funded include markets, public water and sanitation facilities, shelters for bus stations, urban water and sanitation facilities, sewerage systems, abattoirs, recreational / botanical parks, housing estates, shopping kiosks, and agricultural/ livestock processing centres.

3.3.3.3 Criteria for Urban Window

The Urban Window will be available to urban areas within the Districts and Urban Assemblies. To qualify for the UW, the following criteria will apply:

i. UW projects should benefit more than one community and are likely to benefit multiple communities.
ii. UW project will have been identified as a priority investment in the AIP;

iii. UW projects must be financially sustainable and economically viable and provision for operations and maintenance assured;
iv. Infrastructure projects which will enhance the opportunities for revenue collection for the Local Authority;
v. Local Authorities have the capacity to manage the UW project and involve a defined priority beneficiary group and beneficiaries in identification, implementation and subsequent management;
vi. The Local Authorities must have Urban Development Plan or Urban structure plans in place;
vii. Master plans[2] for solid waste disposal, drainage, water and sanitation in place if these to be funded;
viii. Ability to demonstrate that it can operationalise and maintain an investment project.

3.3.3.4 Implementation Modalities

The Local Authorities will be responsible implementation of UW projects. The TST will provide guidance on implementation modalities as well as backstopping support services. Services provided by the TST will include assistance in the hire of contractors and supervisors, and certification of payment to service providers where necessary and processing of direct payments.

3.3.3 Performance Window (PW)

The **Performance Window** will focus on supporting the development of a comprehensive framework for addressing capacity needs of LAs in the effective management of the LDF, performing the functions allocated to them under the fund, and preparing them to perform anticipated responsibilities.

3.3.4.1 Objectives of the PW

The overall purpose of the Performance Window is to strengthen mechanisms for improving service delivery and innovation at the local level.

Specifically, the objectives of Performance Window are:

- To strengthen Local Authorities organizational and institutional capacity for improved and innovative service delivery through the provision of incentives for good performance;
- To provide a mechanism through which capacity development activities at the national, LA, and community levels can be identified, implemented and monitored.

In addition, the PW will provide for rewards of good performance of Local Authorities.

3.3.4.2 Support under the Performance Window

[2] MLGRD (NDP II) will support the development of these

The Performance Window will provide financing for:

- Conducting the LA assessments;
- Capacity building; and
- Provision of rewards through the bonus.

3.3.4.3 Accessing the Funds under the Performance Window

The Performance Window will have the supply side and the demand side in terms of accessing the funds.

- Supply Side will involve the centre conducting assessments, capacity building initiatives and provision of rewards;
- Demand Side will involve LAs submitting proposals to the LDF on capacity building.

3.3.4.4 The Relationship between the PW and the other Windows

The PW will assess LAs on the utilisation of funds in the other 3 windows. Those LAs that perform well will be rewarded. On the other hand, assemblies that perform below the agreed thresholds will be assisted with capacity building funds.

The Performance Window, therefore, can be regarded as a service window to the other 3 windows.

3.3.4.5 Implementation Modalities

A system of Local Authority assessment has been devised to inform decision making on which Local Authority accesses the LDF and other windows, what type of capacity building to undertake and which Local Authority receives rewards.

For these reasons there will be 2 types of assessments:

- The MAC, to determine the minimum safeguards for the assemblies to access the LDF;
- The PAM to determine the level of service delivery.

The MAC will address short term or immediate capacity needs to ensure safe guards are available for the utilization and management of the LDF, whilst the PAM will address medium and long term and strategic capacity gaps. The PAM will also provide the basis for giving incentives to the LAs through bonus in order to improve the overall performance of the assemblies in managing the LDF.

CHAPTER 4

INSTITUTIONAL FRAMEWORK

4.1 Introduction

The implementation of the LDF will involve the participation of several players at national and local government levels; each with clear responsibilities to ensure successful delivery and achievement of design objectives. The key institutions are described below.

4.2 The Steering Committee (SC)

The Steering Committee will be chaired by the Secretary to the Treasury. The other members include: Secretary for Local Government and Rural Development, Secretary for Economic Planning and Development, Principal Secretary responsible for Public Sector Reform in the Office of the President and Cabinet, Executive Director of Malawi Local Government Association (MALGA), Executive Director of the National Local Government Finance Committee (NLGFC), and Executive Director of CONGOMA.

The SC will have policy oversight for the LDF and will be supported by the National Technical Advisory Committee (NTAC). The Steering Committee will ultimately become the LDF Board after 2011. The Secretariat will be from the LDF Technical Support Team (TST). The TST will be a permanent government unit with specific functions of technical advice, quality assurance and providing day to day operational backstopping services to LAs.

4.3 The National Technical Advisory Committee (NTAC)

This will be a Committee and chaired by MLGRD. The other members include: Ministry of Economic Planning and Development, Ministry of Education, Ministry of Transport and Public Works, Ministry of Health, Ministry of Lands and Natural Resources, Ministry of Irrigation and Water Development, Ministry of Industry, Trade and Private Sector Development, Ministry of Agriculture, Ministry of Women, Child Development and Community Services, The Executive Director for MALGA, The Executive Secretary for NLGFC, The Executive Secretary for CONGOMA, and the President of the Malawi Institute of Physical Planners (MIPP).

i. The NTAC shall be responsible for the following:
ii. Reviewing and recommending for approvals of projects to the SC that will access financing from the LDF financing windows.
iii. Provide advice to the Steering Committee
iv. Report on the operations and management of the LDF
v. Ensuring adherence to the sector norms, standards and accountability benchmarks
vi. Provide monitoring and evaluation reports.
vii. The Secretariat will be from the LDF Technical Support Team.

4.4 GOM/Donor Review Forums

The GOM/Donor Review Forum will be held biannually to bring together Government and Cooperating Partners aimed at enhancing management and coordination of the implementation of the LDF and serve as a point of close communication and information sharing between the cooperating partners.

Membership will be drawn from GOM and Cooperating Partners. The GOM/Donor Review Forum will be chaired by the Secretary to the Treasury with the TST providing the secretariat.

4.5 Ministry of Finance

The Ministry of Finance (MoF) will responsible for the following:

i. Resource mobilization from Cooperating Partners and within Government
ii. Provision of policy guidelines on LDF
iii. Securing agreements with CPs contributing to the LDF
iv. Establish and manage the basket fund from which the LDF will draw its resources
v. Establish and maintain a TST for LDF in managing the implementation of the LDF.

4.6 Ministry of Local Government and Rural (MLGRD)

The MLGRD will have the following functions:

i. Provision of leadership in the institutionalization of the LDF as a mechanism for local development planning and financing through local governments
ii. Provide policy directions on sector devolution of functions and resources for better local service delivery.
iii. Provide a critical linkage between Local Authority Planning process and National Planning process.
iv. Managing the annual performance assessment of Local Authorities
v. Coordinate and provide capacity building for better service delivery
vi. Oversee the implementation of the Performance Window of the LDF.

4.7 The Ministry of Development Planning and Cooperation (MDPC)

The MDPC will monitor and evaluate the outputs and outcomes of the LDF at national level as they relate to achieving the Malawi Growth and Development Strategy.

i. Integrate local development projects into the Public Sector Investment Programme (PSIP).

4.8. The National Local Government Finance Committee (NLGFC)

The NLGFC will be responsible for:

i. Advising MoF on the Inter-Governmental Fiscal Transfer Formula (IGFTF) for allocating financial resources to the Local Authorities in line with the LDF principles and guidelines.

ii. Regulating the functioning of Local Authorities with respect to resource budgeting, mobilization and utilization.
iii. Ensuring fiscal discipline for LAs in the implementation of the LDF.
iv. Ensuring the LDF financial management system is incorporated into the Integrated Financial Management Information System (IFMIS) and rolled out to LAs.

4.9 The National Audit Office (NAO)

The NAO is responsible for providing guidance on external audit functions both at central and Local Authority level. It will therefore be responsible for the external audit of the LDF.

4.10 Sector Ministries

Sector ministries will be responsible for providing guidance on sector policies and standards for better service delivery at the local level. These will be coordinated through NTAC with respect to implementation of the LDF.

4.10.2 The Office of the Director of Public Procurement (ODPP)

The ODPP will be responsible for providing guidance on procurement procedures, regulations and desk instructions. Auditor General and procurement Audits will be undertaken by independent agents and the reports will be discussed at NTAC meetings for relevant action to be made as appropriate.

4.11 The Anti-Corruption Bureau

The Anti-Corruption Bureau is responsible for curbing corruption in Malawi. It investigates and prosecutes individuals and/or public bodies engaged in corrupt practices and activities. Its role will be to civic educate and bring public awareness on the negative effects of corruption and help empower people to detect and act on corrupt practices within the LDF.

4.12 The MASAF Technical Suppor 14

The Technical Support Team will provide advisory services on the operation of the LDF. It will also serve as the Secretariat to LDF activities – this will include servicing the Steering Committee and the NTAC. The TST will be the custodian of all LDF Manuals, Frameworks and Handbooks. Activities facilitated by the TST will trigger fund release. The TST will work with the Anti-Corruption Bureau in ensuring transparency in LDF operations. Specifically the TST will provide backstopping services to Local Authorities.

4.13. The Local Authority

The Local Authority shall be responsible for:

i. Approving DDPs/UDPs and all Investment Plans
ii. Accessing LDF resources
iii. Manage LDF resources transferred to them
iv. Monitoring the implementation of projects
v. Providing financial and physical progress reports on projects implementation.

4.13.2 District and Urban Executive Committees

The Secretariat to the Assembly is the District Executive Committee (DEC) in District Assemblies and Urban Executive Committee (UEC) for Town/Municipal/City Assemblies. They are responsible for giving technical and advisory support to the Assemblies and communities in planning, budgeting and implementation of projects. The Executive Committees are responsible for the implementation of all aspects of the DDP.

The membership of the Executive Committees includes Government heads of departments, representatives of parastatal organisations and NGOs.

4.14 Area and Ward Development Committees

The Area Development Committee (ADC) in District Assemblies and Ward Development Committees (WDC) in Town/Municipal/City Assemblies provide a forum for community participation in decisions related to development. Their main functions are community resource mobilisation, project cycle management and planning. The ADC will submit their consolidated plans to the DEC.

The membership of the ADC/WDC includes representatives from: the Ward, religious faiths, the youth and women's groups and business community.

4.15 Village Development Committee and Neighbourhood Committees

The Village Development Committee (VDC) in District Assemblies and Neighbourhood in Town/Municipal/City Assemblies are institutions representing communities at the lowest level. The VDC and Neighbourhood are to facilitate participation of community members in planning, project identification and supervising implementation processes.
The VDC and Neighbourhood generate project ideas from a group of villages which are consolidated and forwarded to the ADC/WDC.

4.16 Area Executive Committee

The AEC is the advisory and executive wing of the ADC. It comprises all the extension workers representing different sectors and NGOs working in the traditional authorities.

The AEC has a facilitation role in the communities. Specifically their functions will be to:

i. Assist communities to come up with VAPs/CAPs using participatory methodologies;
ii. Assist the communities, VDCs, and ADCs in the preparation of project proposals;
iii. Carry out field appraisals of project in the area in liaison with DEC members;
iv. Assist in project monitoring and supervision in the area; and
v. Assist the communities and PMCs manage projects during implementation.

4.17 Project Management Committee

Although Project Management Committees (PMCs) do not form part of the institutional framework below the Assemblies, they are critical for project implementation management. PMCs facilitate the participation of communities in development issues and are effective in implementing community managed projects.

There may be several (or none) PMCs falling under one ADC/WDC depending on the number of projects approved and being implemented. The Project Management Committees (PMCs) will be an existing (functioning) democratically elected committee at VDC level. Examples of such committees are School Management Committees, Village Natural Resource Management Committee, and Village Health and Water Committee.

CHAPTER 5

LOCAL DEVELOPMENT PLANNING AND BUDGETING

5.1 Introduction

The LDF will use the existing Planning and Budgeting systems and procedures while mainstreaming Community Driven Development (CDD) approaches.

The procedures contained herein are not exhaustive of all the techniques that can be applied in the development planning process. Detailed guidelines on the process to be undertaken in Planning and Budgeting can be found in the following handbooks:

i. "Development Planning System Handbook for District Assemblies", Department of Local Government, September 2001;
ii. "Development Planning Systems Handbook for Urban District Assemblies", Department of Local Government August 2003.
iii. "Village Action Planning Handbook", Ministry of Local Government and Rural, November 2004;
iv. National Physical Development Planning Policy Document, 2001

The LDF implementation will emphasise the need for local development planning that fully encompasses:

i. a bottom up planning process;
ii. the need for community input in the planning process;
iii. the need to link planning and budgeting within the context of District Planning Framework; and
iv. the central role of the Local Authority in service delivery and development planning.

The main objective of the Local Development Planning and Budgeting is to derive from the Local Authorities, priorities to be supported by LDF and thus allocate resources objectively for ***Integrated Rural Development***. As such the LDF will rely on the District Development Plans (DDP)/Urban Development Plan (UDP), which serves as a point of reference for effective implementation and monitoring activities and utilisation of funds in the Local Authorities area of jurisdiction.

It is acknowledged that there is varied Local Authority capacity for planning. The planning capacity will be strengthened over time through the Performance Window for LAs with in adequate planning capacity.

5.2 Planning Cycle

5.2.1 Village Action Planning (VAP)/Neighbourhood Action Planning

The planning cycle starts at the community level with the development of the Village Action Planning (VAP)/Neighbourhood Action Planning (NAP), which is an integral part of the DDPs / UDP. The members of the community participate in the analysis of the local situation and develop action plans that will form the basis of the DDP,

facilitated by local facilitation teams (Extension Officers). The VAP/Neighbourhood process employs participatory appraisals and strategic planning exercises to establish the priority constraints and to identify the strengths and weaknesses of the area. The action plan is then forwarded to the Area Development Committee (ADC)/Ward Development Committee (WDC), who in turn consolidates several Village Action Plans/Neighbourhood Plans and submits them to the Local Authority. The output of the VAP is a community situational analysis and action plan, which will feed into the district level production of the Social- Economic Profile (SEP)/Urban Profile (UP) and the DDP/UDP.

5.2.2 Socio-Economic/Urban Profiles

The Socio-Economic Profiles (SEP)/Urban Profiles (UP) are prepared by the DEC/UEC, using information provided by the VAP/NAP and administrative data. The SEP/UP gives an overview of the overall physical, social and economic situation in the district in relation to the National Physical development Plan . It brings together sector reports on district status and sector programmes, an area description, status and location of programmes mapped.

5.2.3 District Development Plan Framework

The VAPs / Neighbourhoods and SEPs / UPs form the foundation of the District Development Plan Framework (DDPF). The DDPF articulates the overall planning objectives, district vision, strategic directions and priorities in the context of current national policy frameworks and priorities as championed by the MDPC. Once the DDPF is approved by the Assembly, it will be a roadmap for all development-related decision making in the district. Programmes and projects will be selected on the basis of the analysis developed within the DDPF. The Local Authority will then have a basis for guiding communities on the approved development framework in the district.

5.2.3.1 Project Identification

The NLGFC will through its collaboration with MoF will provide Indicative Planning Figures (IPF) for each Local Authority before the ensuing fiscal year for the Community, and the Local Authority Windows. Based on the IPF, the Local Authority will invite communities through the ADCs/Neighbourhoods to confirm proposed projects using simple project proposal forms which would state the sector, the beneficiaries, the commitment to contribute and how the project contributes to the DDP. District level projects that involve more than one community can also be identified at this stage by ADC/Ward or DEC/UEC members in their own context and through work with communities. Projects could also have evolved during the preparation of the village/neighbourhood action plans.

The VDC/Neighbourhood Development Committee will discuss, screen and prioritise project ideas based on consensus of the community and compile a final list of proposed projects. These will be submitted to the ADCs/Wards that will consolidate all proposed projects for their area and then submit to the DEC.

5.2.3.2 Project Appraisal

The DEC/UEC will then compile a list of the proposed projects from all ADCs/Wards to ensure consistency with the DDPF.

The Development Advisory Team (DAT), a sub-committee of the DEC/UEC will undertake a desk appraisal to check completeness and compliance of the proposal forms.

After the desk appraisal, the DAT will conduct field appraisals to verify information contained in the project proposals. Projects that do not meet the appraisal criteria during field appraisal are deferred for resubmission. The project proposals are then refined and cost estimates are revised. The appraisal report will be submitted to the DEC/UEC Chairperson.

5.2.4 District/Urban Development Plan

The DDP/UDP will reflect the envisaged programmes and projects developed from the people's needs through the district development planning system described above.

The DDP/UDP is primarily a guide in directing resources to priority areas to address community felt needs. The DDP/UDP is also a tool used to project investment packages in a consistent and coordinated manner, promoting socio-economic and political development. The DDP/UDP will normally be implemented for a period of 5 years before it is reviewed.

5.2.5 Annual Investment Plan

From the DDP/UDP, the district will formulate the Annual Investment Plans (AIPs), this will be approved by the Assembly. Once the AIP is approved by the Assembly, it will be submitted to MDPC through MoLG&RD at least 3 months before the ensuing financial year.
The process of planning is summarised in Figure 2.

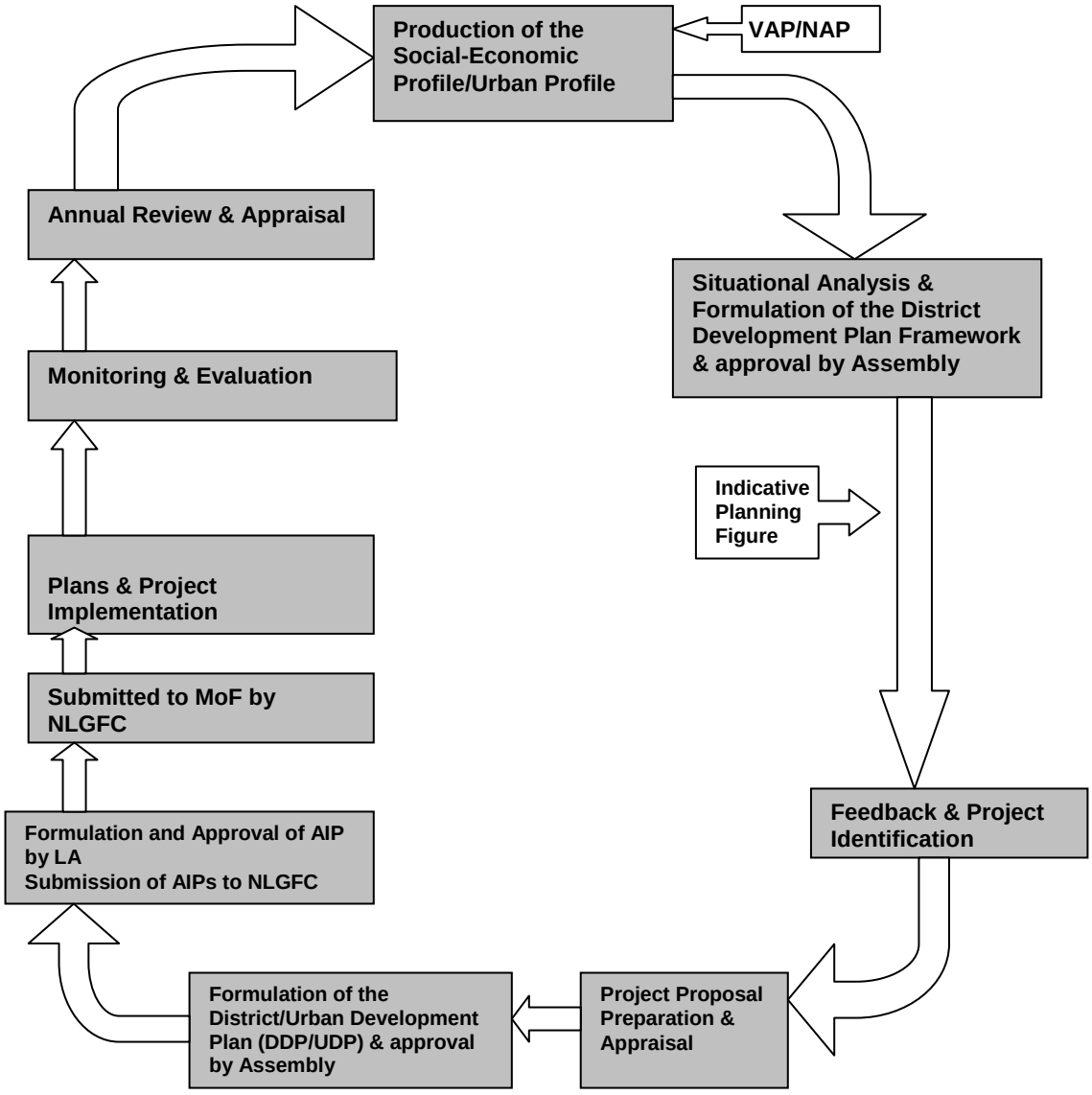


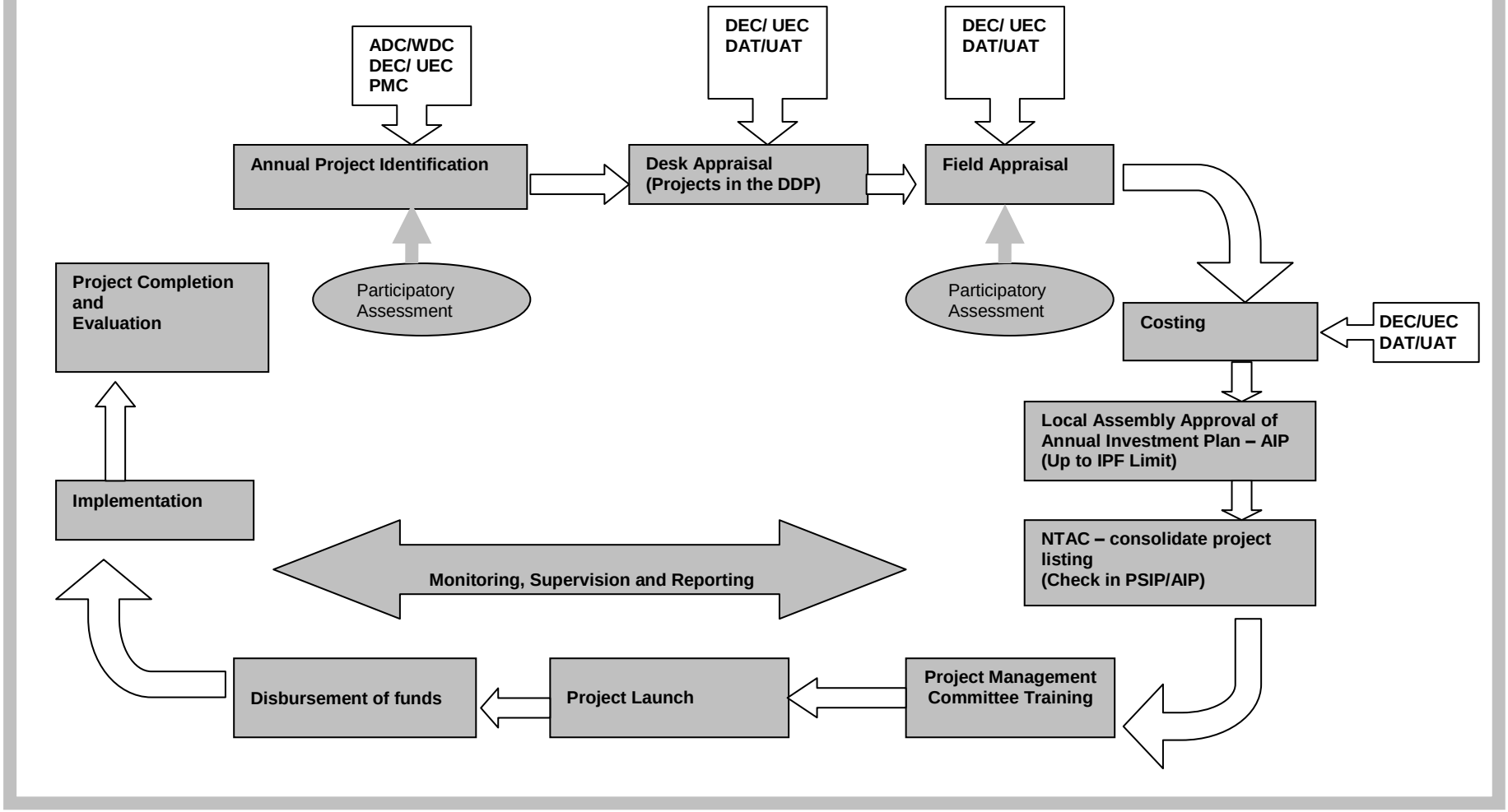
Figure 2 District / Urban Planning System

5.3Generic Project Cycle Management

The project cycle presents a stage by stage process of how the sub projects will be processed from identification through implementation to completion. Project cycle management issues are detailed in handbooks for particular Windows

The generic project cycle is provided in Figure 3.

Figure 3 LDF Generic Project Cycle



5.4 Budgeting

The NLGFC will provide the Indicative Planning Figures (IPF) for each Local Authority before the ensuing fiscal year for the Community and Local Authority Windows. The IPF will be based on an agreed formula and any bonus the Local Authority may have earned through the performance assessment mechanism.

5.4.1 The Budgetary Process

The DC/CE, following the LA budget calendar shall initiate the budget excises by issuing a circular memorandum together with guidelines and IPF (as obtained from the NLGFC) to all involved in the budget process to prepare their budget requirements in line with relevant policy guidelines. There shall be a budget committee that shall consolidate all such budgets for the LAs.

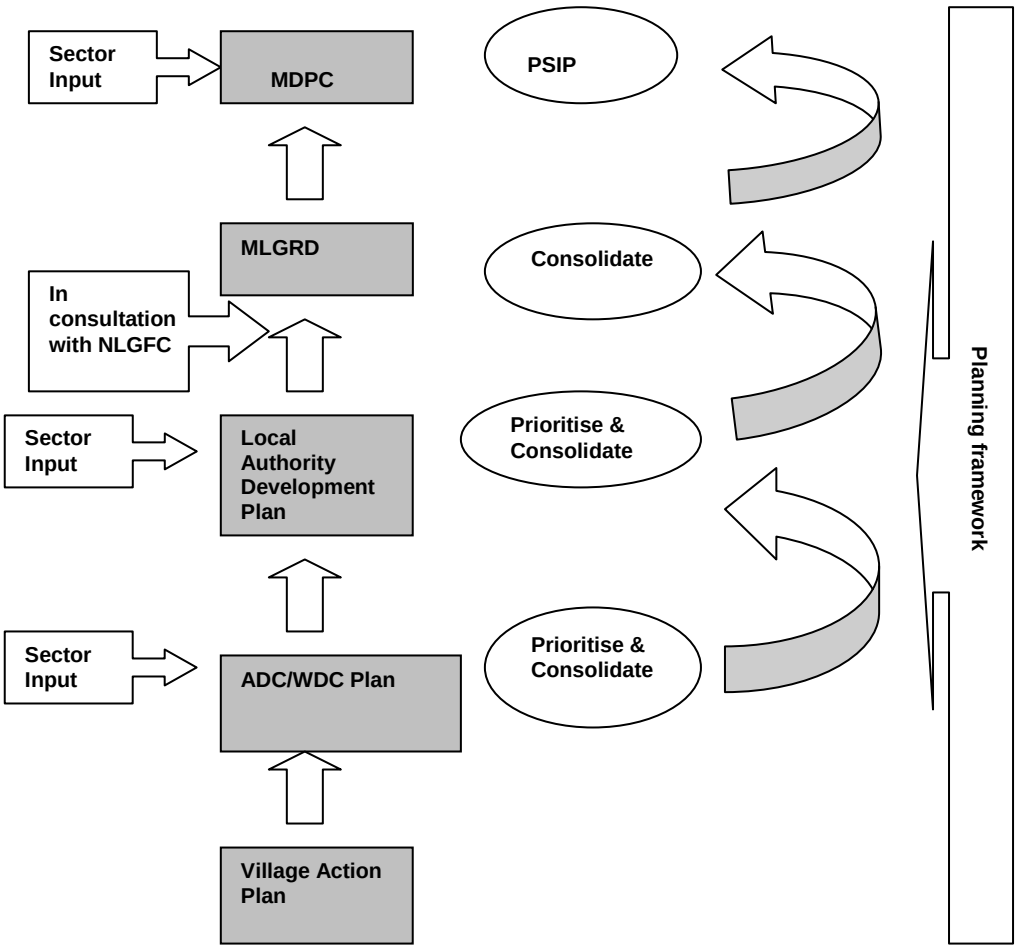
The planning and budgeting cycle shall take a participatory bottom approach. The detailed planning and budgeting cycle under each financing window of the LDF is presented in respective handbooks of the LDF financing windows;-

5.4.2 LDF Budget Approval Process

The budgets approval process shall be as follows,

i. The draft LDF budget as consolidated by the budget committee shall be presented to management for discussion
ii. The draft annual budget shall be presented to the finance and development committees for scrutiny and recommendations to full assembly
iii. The chairperson committee shall present the draft LDF budget, as incorporated into the draft Assembly budget to the full assembly for approval .
iv. The DC/CE shall forward the approved annual budget of the Assembly with accompanying full assembly minutes to the NLGFC for consideration and consolidation, ninety (90) days before the commencement if the financial year ensuing
v. The NLGFC shall extract and submit the consolidated LA LDF Budget on NTAC.
vi. The final approval budget shall be communicated back to the Assembly by the NLGFC.

Figure 4 Planning Linkage to National Policy (5 year period)



5.4.3 Allocation of Funds - Indicative Planning Figure (IPF)

The IPF allocation is based on Inter governmental fiscal transfer formula. The IPF seeks to provide Local Authorities with predictable resource allocations in a manner that is transparent and objective.

The use of the IPF in allocating funds aims at providing the Local Authorities with an incentive for planning, and encouraging accountability between the Local Authority and beneficiary communities. The IPF promotes efficient and effective utilisation of funds provided.

Before the Local Authorities access the IPF, they will have to meet the Minimum Access Conditions (MAC) for a particular Window. These will be updated yearly in line with guidelines provided for meeting priorities identified and the MGDS targets. Operations based on **earmarked resources** in the first years of rolling out the LDF up to 2011.

CHAPTER 6

FINANCIAL MANAGEMENT AND ACCOUNTABILITY

6.1 Introduction

The LDF approach aims to harmonise funds management methods by Local Authorities in line with the spirit of the Paris Declaration as enhanced by the Accra Agenda for action. This single Intergovernmental fiscal transfer system will be the only source of discretionary development grant financing to local Governments.

Detailed Financial Management Procedures for the LDF are contained in the LDF Financial Management handbooks.

6.2 Sources and Flow of Funds

Cooperating Partners (external resources) and Government of Malawi (Internal resources) will constitute the principal financiers of the LDF.

6.2.1 External Resources

The financing partners will enter into a financing agreement with the Ministry of Finance, supported by the Ministry of Justice. The Agreement will specify the conditions of the financing. The Ministry of Finance will ensure that all the conditions of the financing are complied with during and after implementation. The flow of funds, unless otherwise agreed with Government, will involve the financing partners opening an account in respect of the agreement (loan, credit, or grant account) for the benefit of the Government of Malawi. The Ministry of Finance will open dollar denominated special account and a Kwacha holding account at the Reserve Bank of Malawi. The TST with approval from the Accountant General will open an LDF account at a Commercial Bank. Funds will flow through these accounts based on specified triggers to the implementing agencies. Figure 5 provides an outline of the flows.

6.2.2 Internal Resources

Counterpart or stand alone funds, made available for the LDF activities by the Government, will flow from RBM (Consolidated Account) to a Holding Account within RBM. Flows commence once funds are approved in Parliament. The designated implementing agencies will access the funds by way of transfers from Ministry of Finance facilitated by the TST following the path outlined in 5. Again, funds will flow through these accounts based on specified triggers.

6.3 Transfer of Funds to Local Authorities

6.3.1 Local Authority Bank Account

The Local Authorities will open an "LDF Bank Account" with a commercial bank into which transfer of funds from the Treasury for all Funding Windows will be made. The opening of the bank account will be processed through the Office of the Accountant General.

The signing arrangements will be guided by provisions of Treasury Instructions as provided by the Accountant General.

LDF Window specific ledgers shall be maintained by Local Authorities in respect of the LDF financing.

6.3.2 Funds Transfer

The Ministry of Finance shall transfer funds to Local Authority LDF bank accounts through the Credit Ceiling Authority financing arrangement.

The Credit Ceiling Authority System was introduced by the Malawi Government in order to improve the cash budget system. Under the system, funds are kept at the RBM in a related holding account to a commercial bank. The following applies to the holding account and the commercial bank operating account:

i. The corresponding commercial bank account where the account is held is informed of the credit ceiling for the month;
ii. The commercial bank only clears the project's cheques up to and not exceeding the amount of the ceiling;
iii. The commercial bank claims refunds from the holding account not exceeding the monthly allocation and cleared henceforth.
iv. If cheques or cash are deposited into the commercial bank account, a supplementary credit ceiling has to be obtained from the Accountant General in order for the deposited amount to be withdrawn.

Funds will be disbursed to Local Authorities to be used across the Funding Windows, based on approved projects. The Local Authority will also have furnished the MOF with duly completed LDF Bank Account details.

1. The Community Window

The disbursement of funds for the Community Window (CW) will involve the following activities:

i. Ministry of Finance will disburse a first allocation of 50% of the approved projects under the Community Window of the LDF.
ii. The Local Authority shall use the tranching principle in transferring financing to communities with the first tranche being an equivalent of 50% of the approved projects.

iii. A final disbursement to the Local Authority of the balance of 50% shall be made by the Ministry of Finance as long as the Local Authority has accounted for at least 70% of the first allocation using agreed reporting formats.
iv. The Local Authority will subsequently only pay out to a project, upon the community justifying at least 70% of the first instalment.
v. The project will account to the Local Authority the remaining 30% from the first disbursement and 100% of the final disbursement in order to fully account for the funds disbursed to the project.

The Local Authority will in turn submit its final justification to the MOF through the NLGFC. The Local Authority will keep original receipts and any other documentation for post review.

2. The Local Authority Window

The following disbursement principles shall apply:

i. A first disbursement of 50% of the approved budget to the Local Authority.
ii. A final allocation to the Local Authority of the balance of 50% as long as the Local Authority has accounted for at least 70% of the first disbursement using agreed reporting formats.
iii. The Local Authority will justify to the NLGFC the balance 30% from the first disbursement and 100% of the final disbursement in order to fully account for the funds disbursed to the project. The Local Authority will keep original receipts and any other documentation for post review.

3. The Urban Window

The disbursement of funds for the Urban Window (UW) shall be on the basis of approved work schedules and will involve the following:

i. Funding for technical studies whose outputs will include investment needs for growth points; and
ii. Funding for productive investments based on work plans, detailed contracts and progress of individual activities as they are being carried out.

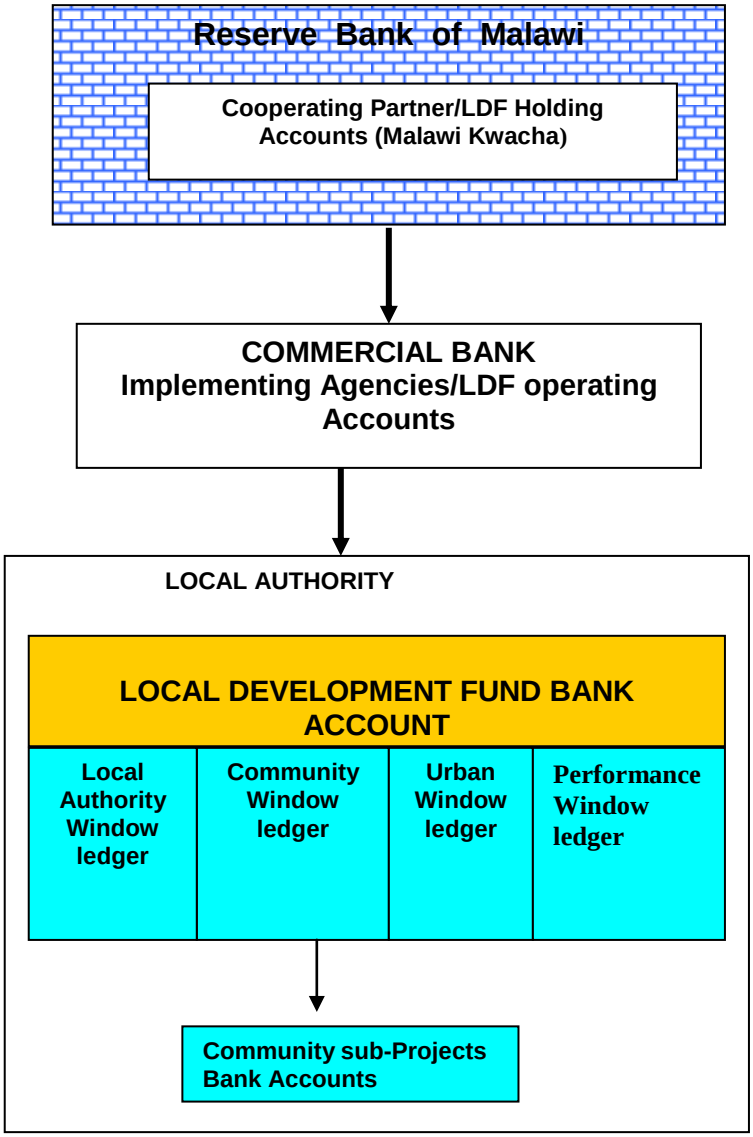
The mode of funding will be two fold: direct funding to Local Authorities for some activities and direct transfers for larger single contracts i.e more than US160, 000 per single payment request.

4. The Performance Window

Local Authorities that qualify for bonus payments under the annual Performance assessments shall determine projects and corresponding LDF financing window under which the projects will be implemented. Funds disbursement modalities for the relevant financing window shall therefore apply.

Local Authorities will further access both supply and demand driven capacity enhancements based on the assessments to be conducted on an annual basis. Funding will be provided depending on the cost centre of the particular activity.

Figure 5: LDF fund flow



6.5 LDF Management Costs at the LA

Local Authorities will be eligible to access 10% of the total investment for administration purposes, as funds that will contribute to pre-investment servicing and monitoring of the projects. The resources provided should be split into two i.e. (i) 50% for pre-investment servicing / and PMC capacity building and (ii) 50% for monitoring costs. The 50% pre-investment cost should be used by Local Authorities for mobilisation, procurement of specialist services i.e. consultants in areas which the Local Authorities might otherwise not have the capacity, and capacity building for PMCs. This is to ensure that investments made provide real value for money. Examples of specialised services would include engineering services, designs, technical guidance, etc. The 50% for monitoring costs can be used to meet any administrative or monitoring expenses which Local Authorities may incur in order to ensure that the correct services are delivered or projects are successfully implemented. All Local Authorities should ensure that sector heads, DATs and M& E Officers obtain access to the resources provided.

In addition, the Local Authorities will incur expenditure arising from capacity building of beneficiaries in various aspects of project management including procurement and mainstreaming of cross cutting issues. The Local Authority will provide to NTAC a budget for capacity building at the same time they submit their AIP. Once approved by NTAC, the MOF will be advised to disburse the funds to the Local Authority relative to the tranches on Funding Windows as described above.

The administrative costs will only be replenished on satisfactory accounting for expenditures with reports acceptable to MOF using agreed financial reporting formats.

6.6 Accounting System

Accounting for LDF resources shall be streamlined within the prescribed Local Authority and Financial Management system. A computerised Integrated Financial Management Information System (IFMIS) shall be used for the LDF accounting function by Local Authorities. Detailed accounting and financial management procedures are contained in the LDF Accounting and Financial Management handbook for Local Authorities.

6.7 Financial Reporting

The LDF will have well defined reporting systems to facilitate the production of financial reports on monthly basis which will be sent to the National Local Government Finance Committee (NLGFC). The NLGFC shall consolidate the financial reports on a quarterly basis and submitted to the National Technical Advisory Committee (NTAC). The monthly financial reports shall further be submitted to the Finance Committee of the Assembly and to the Full Assembly on a quarterly basis.

Annual LDF financial statements shall be prepared by Local Authorities within four (4) months of the financial year end. The LDF financial statements shall be streamlined within the annual financial statements of the Assembly.

6.8 Internal Control Arrangements

The Chief Executive or District Commissioner will be responsible in ensuring that all internal control arrangements are followed. The internal control systems and procedures will be defined and articulated in such a way as to provide reasonable assurance to the attainment of the LDF accounting objectives of:

- Effectiveness and efficiency of LDF operations;
- Reliability and credibility of financial reporting environment;
- Compliance with applicable laws and regulations; and
- Adherence to approved budgets and various agreements between the Government of Malawi and Development Partners that have subscribed to the Memorandum of Understanding.

6.9 External Auditing

LDF policies on institutional governance include undertaking of internal and external audits. The audits are aimed at:

- Ensuring accountability and transparency across all LDF activities;
- Ensuring that the LDF management framework (the project delivery mechanism) is functioning to the required standards;
- Safeguarding assets from various types of risks; and
- Adherence to statutory requirements and internal rules and regulations;

The LA will prepare annual consolidated financial statements within 4 months of the financial year end. The audit of all funds relating to the LDF will be conducted by the Auditor General or his Appointee in line with the provisions of the Public Audit Act, 2003.

All audit opinions and management letters relating to the audit of the LDF will be submitted to the Assembly, the NLGFC, the MLGRD and the MOF not later than 6 months following the end of the financial year. It is expected that the relevant bodies will act on the audit findings in an appropriate manner including addressing the weaknesses identified in the audit reviews expeditiously.

6.10 Internal Auditing

The Internal Audit functions shall include an independent appraisals of the financial, operational, and control activities in the LDF.

The Internal Auditors responsibilities will include reporting on the adequacy of internal controls, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with financial procedures and Government laws and regulations.

The NLGFC shall coordinate the internal audit function of the Local Authorities and shall collaborate with the Assembly Internal Auditors and the Central Internal Audit Unit in the Ministry of Finance.

Where incidences of funds mismanagement are discovered, the NLGFC will exercise its legal mandate to disallow the expenditure and surcharge the appropriate officer (s) in line with the NLGFC Surcharge Guidelines.

Cases of fraud, corruption, and mismanagement of funds will further be referred to the Directorate of Public Prosecution as well as the Anti-Corruption Bureau.

6.10.1 Community Auditing

The Communities shall set up an audit committee to track usage of project resources. The Chairperson of the PMC in consultation with the Chairperson of the Community auditing committee shall on a regular basis call for community meetings to provide an account regarding the use of sub-project resources backed by an assurance report by the Chairperson of the Community auditing committee.

The Local Assembly may stop or suspend the works of a Sub-Project if it becomes evident that the PMC is not performing its roles and responsibilities satisfactorily.

CHAPTER 7

PROCUREMENT

7.1 Procurement Principles

The Public Procurement Act, 2003 (PPA), Procurement Regulations and Desk Instructions will guide procurement under LDF funding windows. The LDF Procurement handbook, which essentially is simplified version of the desk instructions and regulations, will be the user guide in the procurement processes.

7.2 Internal Procurement Committee

The PPA 2003, calls for the establishment of Internal Procurement Committees(IPC) in all Public Procurement entities.
There is in each Assembly an Internal Procurement Committee's (IPC). Section 8(3) of the PPA 2003 empowers the IPC to undertake the following functions

i) Ascertaining the availability of funds to pay for each procurement
ii) Opening of the bids
iii) Examination, evaluation, and comparison of bids and the selection of the successful bidder

7.2.2 The Assembly

The Assembly will manage and implement all LAW activities. A Specialised Procurement Unit (SPU) will manage the procurement processes. Depending on the projects being implemented, procurement will be carried out for materials, contractors, transporters and consultants.

In accordance with ODPP regulations, contract award recommendations shall be submitted to the IPC for approval.

7.2.3 Community Level

The communities will implement projects in the Community Window. Procurement at community level will be carried out by a Procurement Committee with the guidance and technical support of the District Advisory Team (DAT), as outlined in the LDF Procurement Handbooks.

Procurement at community level will be carried out for materials, contractors and transporters.

7.3 Procurement Methods

7.3.1 Local Assembly Level

The PPA 2003 recognises Open tendering as the default method of procurement. Use of other methods other than open tendering requires prior approval by the Director of Public Procurement.
The Desk Instructions issued by the ODPP give guidance on procurement of goods, works and services on the following general procurement methods defined in the Public Procurement Act, 2003 and Public Procurement Regulations, 2004:

Item No.	***Procurement Method***	***Conditions for Use***	***Main Procedures***
1	Tendering	Normal method for procurement of goods, works and routine services (non-consultancy services)	• Open solicitation of tenders or applications to pre-qualify • Objective and performance based technical specifications • Complete contract terms included in bidding documents • Public bid opening • Evaluation of tenders and selection in accordance with pre-disclosed evaluation criteria • No negotiation
2	Restricted Tendering	• Object available only from limited number of suppliers, known to procuring entity. (*ground a*) • Economy and efficiency in procurement do not justify preparation and evaluation of alarge number of bids (*ground b*)	• (*in the case of ground*) invite all suppliers • (*In the case of ground b)* Invite as many as practicable enough to engender real competition (e.g at least 3 bidders) • Except for restricted solicitation, procedures of tendering

			proceedings apply
Item No.	***Procurement Method***	***Conditions for Use***	***Main Procedures***
3	Two Stage Tendering	• Not feasible or not advisable to finalise technical specifications • Procuring entity wishes to consider various technical or contractual variants, prior to finalizing specifications	• In first stage, bidders submit the particular technical and contractual proposals in response to general, tentative specifications only, and no financial proposals submitted at this stage • Procuring entity reviews proposals and may engage in technical discussions with bidders as to their proposals • Following conclusions of those discussions, procuring entity finalizes specifications
4	Request for Proposals for services	• Procurement of consultant services	• Solicitation to a short list of bidders • Emphasis on quality and technical aspects of proposals in the selection process. • Selection either on the basis of quality, or on combination of quality and cost, or by least cost method.

Item No.	***Procurement Method***	***Conditions for use***	***Main Procedures***
5	Request for quotations	• Procurement of standardized, off-the shelf goods or routine services or minor works services.	• Solicitations of quotations from a minimum of three bidders • One quotation per bidder no negotiation. • Award to lowest price quotation responsive to requirements
6	Single source procurement	• Object available for sole source • Urgency, not due to dilatory conduct or negligence of procuring entity; imminent danger to person or property. • Standardization • Artistic works	• In cases of emergency procurement, limit to amount required to meet the emergency

Detailed procedures applicable under LDF are explained in the **"Procurement Guidelines for LDF"**

7.3.2 Community Level

Procurement at community level shall be carried out using Community Procurement Committees (CPC). Each CPC shall comprise of 6 members; 4 of which shall be elected democratically from the beneficiary community. The other 2 members shall be from the Project Management Committee, which will in most cases, use the existing management structures e.g. School Management Committee for Education projects.
Depending on thresholds, the contract award recommendations by the PC shall be submitted to the IPC at the LA for approval. Outlined below is a brief description of the requirements.

i. Procurement Planning
Bills of Quantities should be used to determine the types, quantity and quality of goods to be procured based on stage of implementation. List of materials should be developed any time the committee is proceeding on a buying trip, with guidance from the Local Assembly.

ii. Shopping for Goods or Services
Under this method, the Procurement Committee shall solicit quotations from at least three qualified suppliers based on simplified quotation forms

that include a description of the goods or materials and detailed specifications. All quotations shall be made in writing and signed.

Quotations shall be opened in a public ceremony attended to the extent possible by bidders and community members. Quotations received shall be evaluated by at least 3 Evaluation Committee members. The comparison of prices shall be carried out using a standard form provided in Annex 3. As a general rule, a qualified supplier who offers goods or materials that meet the specifications at the lowest price shall be recommended for award of the contract. The Evaluation Committee shall produce and sign minutes of the evaluation process.

Award recommendations shall be submitted to the LA Internal Procurement Committee (IPC) for approval and the LA Procurement Officer shall assist in drafting the Contract for the supply of materials to be signed by the LA and the supplier. All contracts shall be on a lump sum fixed price basis and in the form provided in Annex 4.

Communities shall undertake procurement of goods, works and services through shopping procedures up to a contract value or order estimated to cost **MK3 million** equivalent). Any procurement estimated to cost **MK3million** or more will be undertaken by Local Authorities through National Competitive Bidding.

iii. Local Bidding for Works or Labour Contracts

This method will be applicable for use by Local Authorities and communities. Under this method the bid will be advertised locally using media such as in local newspaper, radio, posting notices at strategic places, circulating such notices or reading them out in community meetings or other public gatherings. The advert will principally target contractors within the vicinity of the beneficiary community.

The request for bids shall spell out the work needed, the criteria for selection and the deadline for submission of bids. All applications will be opened at the same time and in the presence of the Procurement Committee. The committee will evaluate the applications based on qualifications, experience, skills, price and proximity of the contractor to the project site. The committee shall seek assistance of the Director of Public Works (DPW) or Building Supervisor (BS) from the LA's office in the selection of the contractor.

For labour contracts, after this initial evaluation, the committee will invite the qualified and experienced contractor who submitted the lowest evaluated price for interviews to ascertain his experience and skills, with the assistance of the DPW or BS. When satisfied with his experience and qualifications, the committee will proceed to negotiate a contract with the contractor. Contractors' fees should be agreed prior to the start of the work. Upon agreement, a contract such be signed in the format provided in the Procurement Manual

Payment should be agreed in stages e.g. at Foundation, Window, Roof and Finishing levels.

Local bidding for Works shall be for contracts estimated to cost less than **MK5million.**

iv. Procurement of Transport Services

The processes involved will be similar to those of Local Shopping. The committee shall shop around and get a minimum of three quotations. Some of the places where transport may be obtained are PVHO, Transport Companies, Private Vehicles, NGO etc. The quotations should be in written form. After getting quotations, the committee should proceed to evaluate based on capacity of vehicle; Hire rate (the charge), vehicle road worthiness and evidence of road tax and insurance.

v. Single Sourcing

Communities may procure goods through Single Sourcing contracting where:

i. goods are proprietary in nature;
ii. As continuation of a previous contract awarded through a competitive process; or
iii. Where there is one supplier and the cost of obtaining quotation may not be cost effective as would be the case for remote districts.

Communities may procure goods or services through Single Sourcing for contracts estimated to cost MK150,000.00 equivalent or less.

Single Sourcing above MK1,500.00 and below Mk150,000.00 shall require prior review by the IPC at the LA.

Single Sourcing contracting above MK150,000.00 shall require prior review by the ODPP.

7.4 Procurement Training

In order for Local Authorities and PMCs to undertake the anticipated procurement activities outlined above, there will be need for training to be carried out at those levels. The TST in liaison with the ODPP will facilitate procurement training of the Local Authorities.

7.5 Technical and Procurement Audits

On an annual basis, the Auditor General in conjunction with ODPP or their appointee will undertake Technical and Procurement Audit to cover activities that took place during the previous year.

CHAPTER 8

CROSS CUTTING ISSUES: HIV and AIDS, GENDER, ENVIRONMENT and Other SOCIAL SAFEGUARDS

8.1 Introduction

Government recognizes the importance of mainstreaming cross cutting issues of HIV and AIDS, Gender, Environment and Social Safeguards in the implementation of the LDF in order to foster sustainable development.

The mainstreaming processes will involve creating awareness and supporting communities to implement specific interventions that deal with the crosscutting issues. To strengthen the capacity of Local Authorities, the DEC will be trained on cross cutting issues at trainers of Trainers level. Skills obtained during the training will be transferred to extension workers.

8.2 HIV and AIDS

In line with the National HIV and AIDS Policy and the HIV and AIDS Mainstreaming Framework, specific organisational responses to HIV- and AIDS on the LDF operations relate to:

i. Putting in place policies and practice that protect staff from vulnerability to infection and support staff that are living with HIV and AIDS and its impacts. This particularly relates to human resource planning, recruitment and training, which takes into consideration future staff depletion rates and increased disruption caused by increased morbidity and mortality.

ii. Ensuring that those infected or affected are able to benefit from programme activities and that sector activities do not increase the vulnerability of the communities with which they work.

Internal mainstreaming concerns how the public service can address staff-related issues and the internal functioning of public sector organisations. This will involve:

i. Measuring and predicting the impacts of HIV and AIDS on LAs and their staff: recording the number of staff that will become sick and die because of AIDS and the impacts of HIV and AIDS on the morale, indicate skills transfer needs and similar factors that may disrupt the functioning of the organisation.

ii. Working with staff and all stakeholders to reduce susceptibility to infection and to support people living with HIV and AIDS.

iii. Minimising the impact of HIV and AIDS on the functioning of the LAs and consider response measures.

External mainstreaming concerns the external work of the sector i.e. the services it provides to the general public. The key issue to be considered are:

i. How activities of the LDF may increase vulnerability to HIV infection or reduce the capacity of the public to deal with the impacts of HIV and AIDS.

ii. How HIV and AIDS may impact on the services provided by the LAs and what the sector should do to respond[3].

8.3 Gender

To effectively mainstream gender issues, all LAs need to consider the different roles, needs and interests of men and women at the earlier stages of the programme cycle and the highest levels of policy formulation. LAs, supported by the TST, will need to analyse information on gender roles and needs, including the nature and extent of gender-based discrimination and on possible barriers to participation by women, the youth and vulnerable groups in and benefit from the capacity development strategies and programme activities. LAs will further need to ensure capacity development strategies benefit all gender groups. Where some groups are currently seriously disadvantaged, LDF operations should consider the design of specific activities or positive action measures[4].

In accordance with the National Gender Policy, implementing LAs will need to:

i. Consider whether explicit provisions need to be made to ensure that all groups benefit equally from the planned activities and determine the measures necessary to develop the institutional capacity towards the promotion of gender equality.

ii. Ensure that LDF activities benefit all gender groups

iii. Ensure that sufficient human and financial resources are allocated for any gender specific activities.

8.4 Environment and Resettlement

Environmental concerns will be actively integrated into all LDF project processes to ensure that the programme contributes to the sustainable management of the natural habitat and minimize the risk of some micro projects triggering resettlement. In LDF Environmental and Social Management Framework (ESMF) will be emphasised to ensure sub-projects will be designed and implemented in an environmentally and socially sustainable manner, taking into account Malawi's relevant sector legislation and Policies. The objectives of the ESMF are:

i. To ensure that all sub-projects are screened for potential adverse environmental and social impacts and appropriate mitigation and monitoring measures, including cost estimates, are identified and implemented by qualified personnel at the community, district and national levels;

ii. To support and empower communities to carry out the environmental and social screening process as outlined in this handbook, including the implementation and monitoring of mitigation measures of all sub-projects as necessary.

Implementation of environment and social screening processes will be carried out in accordance with the Environmental Management Act 1996 and the Malawi Land Policy 2002, LDF Resettlement Policy Framework, July 2009 and LDF Environmental Management Framework, July 2009.

[3] Reference: HIV/AIDS Mainstreaming: A Definition, Some Experiences and Strategies, DFID, 2003

[4] Reference: International Labour Organisation, Gender Mainstreaming: A How-To Manual, K. Landuyt

All environmental and social screening processes will be mainstreamed into normal LA service delivery operations. Environmental and social screening will be implemented in coordination with the relevant sector ministries as appropriate.

8.4.2 Implementation Modalities

All projects will be screened for environmental and social effects. Social safeguards will in addition aim to synchronise resettlement planning within project implementation by ensuring that resettlement related cases are avoided at the earliest opportunity.
The objectives of the screening process will be to:

i. Determine the level of environmental work required (i.e. whether an EIA is required or not; whether the application of simple mitigation measures will suffice; or whether no additional environmental work is required);
ii. Determine appropriate mitigation measures for addressing adverse impacts;
iii. Incorporate mitigation measures into the sub project plans;
iv. Determine which construction and rehabilitation activities are likely to have potential negative environmental and social impacts;
v. Indicate the need for a Resettlement Action Plan (RAP), which would be prepared in line with the Resettlement Policy Framework (RPF) prepared;
vi. Facilitate the review and approval of the screening results regarding construction and rehabilitation proposals; and
vii. Provide guidelines for monitoring environmental and social screening parameters during the construction, rehabilitation, operation and maintenance of the infrastructure service facilities and related project activities.

Resources for mitigating environment and social safeguards will be the responsibility of the implementing agency (LAs and communities). Community participatory project monitoring will include discussions on environmental and social screening processes.

Use of Checklists: General sectoral checklists for environmental and social assessment will be used to facilitate environmental and social assessment and action planning for mitigation measures. Main features of the checklists include a detailed description of the activities to be undertaken, potential negative effects/concerns, mitigation measures to be undertaken and the organization/person responsible for each activity.

8.5 Other Social Safeguards

Other social concerns to be considered on LDF activities include climate change, occupational safety and health, and safety at use for facilities created.

8.6 Capacity Building for Cross cutting issues

The LDF will support capacity building for stakeholders on cross cutting issues. Specifically capacity building will be targeted towards PMCs, Village Development Committees and their sub committees during pre-launch training. Project specific ESMF will be discussed in community meetings at project launch and monitored by

the VDC during implementation. The launch will also be used as a platform for information dissemination on cross cutting issues outlined in various handbooks and outlining mitigation measures as required. Projects that contribute to the rehabilitation of the environment such as, afforestation, using suitable tree species and those that mitigate against vulnerability will be prioritized by the Local Assemblies as they consolidate Village Action Plans into the District Development Plan.

The LDF will assist in providing targeted messages to Local Authority Level and communities designed to increase environmental and social screening awareness and promoting tree planting, soil conservation, and the use of alternative technologies where appropriate.

CHAPTER 9

PROJECT MANAGEMENT SUPPORT SYSTEMS

9.1 Management Information Systems (MIS)

A computerised MIS will be put in place to cater for the information needs of (a) local assembly development planning (b) community level investments (c) project management and administrative functions and (d) other local assembly level information needs. LAs will utilise the MIS to monitor operations in the implementation of the LADF (local and community level investment projects). In the context of Intergovernmental Fiscal Transfers, the MIS will help to address two major concerns:-

i. efficiency and accountability in the utilization of resources; and
ii. Ability of the local level structures to account for results.

The MIS will ensure timely availability of information to aid decision making and reporting as well as being an important tool for strategic and annual planning, resource allocation and sector harmonization of data stored by sector ministries. This will be an important tool that ensures that accurate, timely and continuous reporting is available for Central Government, Development Partners and other stakeholders.

Standard data management procedures and processes will be put in place to ensure flexibility in the utilization of the MIS and provision of reports. Specifically, the MIS will be used to:

i. Track the sub project processes;
ii. Manage finances, budgets and procurement;
iii. Provide relevant reports.

Under MASAF 3 APL1, the Local Accountability Management Information System (LAMIS) was put in place at the LA level to ensure that there is improved accountability on resource allocation to sub projects (inputs) and reporting on results. Simple modifications were made to the system to make it more generic and allow for the tracking of physical and financial information for LA-wide community level investments. This system will continue to be utilised as a stop gap measure to provide requisite information to aid decision making at various levels of operation. Certificates from LAMIS will be retained at the Local Assembly in readiness for inspection by any interested stakeholder including Ministry of Finance and NLGFC.

9.2 Development Communication

Development Communication i.e. Information, Education and Communication (IEC) activities will be critical in raising awareness on LDF programme activities and sensitise key stakeholders on various aspects of the programme, including their roles and responsibilities.

Through the IEC, stakeholders will be sensitised on how to access LDF funds and the related responsibilities in the implementation of the subprojects.

Each LA will develop a communication strategy in which the following will be highlighted: major communication themes; type of messages; target group for the messages; channels to be used; and responsible persons. The LA will be assisted where necessary to build competencies and capacity to handle the IEC activities.

9.3.1 Monitoring, Evaluation and Reporting

The overall objective of the LDF Monitoring and Evaluation function is to track programme performance towards achievement of LDF programme goal. The LDF M&E system will generate data and information from different information sources including communities, LAs and other implementing agencies to aid decision making and programme accountability. The following tools and methods will be used to ensure systematic performance measurement of the LDF:

i. Results framework- that constitutes clearly defined goals, objectives, outputs and activities with corresponding indicators, means of verification and key assumptions;
ii. M&E strategy for processes, information requirements, tools and methodologies for data collection, analysis and reporting;
iii. Comprehensive M&E plan with clear roles and responsibilities relating to data collection and reporting;
iv. Management Information System to cater for LA information needs;
v. Internal and external periodic assessments and evaluation (i.e. *Annual tracking studies, Baseline studies, Impact Evaluation, Implementation Support Missions; beneficiary assessment*s and Joint Annual Programme reviews).

Both financial and physical progress on the specific LDF windows will be tracked using Key Performance Indicators throughout implementation of the LDF.

At the LA level, Monitoring and Evaluation Officers will coordinate all M&E activities. Data on various LDF interventions will be collected using existing LA progress reporting framework. The M&E officers will also provide technical assistance to communities to ensure that all relevant subproject information is recorded for consolidation at the LA and for feedback to other community members.

In terms of reporting, each LA will produce a quarterly report that will cover both financial and physical progress on the respective LDF windows. The report will be sent to the Ministry of Local Government and Rural Development, with copies to Ministry of Finance and Ministry of Economic Planning and Development.

9.3.2 Participatory Community Monitoring and Accountability

Social Accountability tools particularly the Community Score Card and Citizen Report Card will be used to generate information on the performance of services or subprojects. Community score card process is a community based tool that is used to demand social and public accountability from service providers, at the local or facility level. On the other hand Citizen Report Card is an assessment of public services by local government from the point of view of the users. It is based on the understanding that feedback on service quality, collected from the communities with the help of simple survey, provides a reliable basis for communities and local governments to engage in a dialogue and partnership action to improve the delivery of public services.

The LDF will facilitate institutionalisation of these tools as part of community based performance assessment approach to ensure that services work for the poor.

9.4 Knowledge Management and Application

Throughout the implementation of LDF interventions, experiences and lessons will be generated, documented and shared among key stakeholders to prompt feedback and application for continuous improvement of the programme. Apart from other evaluative activities such as tracking studies, impact evaluation, beneficiary assessments, the LDF provides for a 'Leadership Challenge Facility' to allow LA staff and other stakeholders conduct operational research through reflective and analytical work on specific areas under the LDF. This initiative seeks to assist LA staff and other stakeholders build their skills and generate insights that could add value to the implementation of future LDF interventions.

The Knowledge Management and Application initiative will also promote systematic preservation of available documentation on LDF, including manuals, study reports and other instruments developed under the LDF so that these are pooled both electronically and in hard copies as a '*knowledge bank'* from which references could be drawn in the implementation of future LA and contribution towards Community Driven Development process in Malawi.