

CR 2624-MAI

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Report No. P-6236-MAI

MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED CREDIT
IN THE AMOUNT EQUIVALENT TO SDR 16 MILLION
TO THE REPUBLIC OF MALAWI
FOR A SECOND INSTITUTIONAL DEVELOPMENT PROJECT

MAY 17, 1994

MICROGRAPHICS

Report No: P- 6236 MW
Type: MOP

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CURRENCY EQUIVALENTS

Currency Unit: Malawi Kwacha (MK)

US \$1 = MK 4.3

MK1 = US\$ 0.23

MK1 = 100 Tambalas

ABBREVIATIONS AND ACRONYMS

ADP	Agricultural Diversification Project
ASM	Agricultural Sector Memorandum
ASP	Agricultural Services Project
BMR	Budget Management Review
CBI	Cross Border Initiative
CEM	Country Economic Memorandum
CSR	Civil Service Reform
DPD	Data Processing Department
DPMT	Department of Personnel Management and Training
DSB	Department of Statutory Bodies
EDDRP	Entrepreneurship Development and Drought Recovery Program
EP&D	Economic Planning and Development
ESAMI	Eastern and Southern Africa Management Institute
FESDP	Financial Sector and Enterprise Development Project
FMIS	Financial Management Information System
HIID	Harvard Institute for International Development
HNP	Health and Nutrition Project
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICID	Inter-ministerial Committee on Institutional Development
ID	Institutional Development
IDA	International Development Association
LCB	Limited Competitive Bidding
MIM	Malawi Institute of Management
MIS	Management Information System
MOF	Ministry of Finance
MPSR	Malawi Public Service Regulations
NEAP	National Environment Action Plan
OPC	Office of President and Cabinet
PIAS	Poverty Impact Assessment Study
PMIS	Personnel Management Information System
PFPP	Policy Framework Paper
PFPS	Population and Family Planning Study
PPF	Project Preparation Facility
PSDP	Private Sector Development Project
PSMIU	Public Sector Management Improvement Unit
PSMR	Public Sector Management Review
RFSP	Rural Financial Service Project
SDF	Social Development Fund
SDR	Special Drawing Rights
SPC	Secretary to the President and Cabinet
SSA	Sub-Saharan Africa
TA	Technical Assistance
TDAC	Trade and Distribution Adjustment Credit
TOR	Terms of Reference
UNDP	United Nations Development Program
USAID	United States Agency for International Development

FISCAL YEAR

April 01 - March 31

REPUBLIC OF MALAWI
SECOND INSTITUTIONAL DEVELOPMENT PROJECT
CREDIT AND PROJECT SUMMARY

Borrower: Republic of Malawi

Main Beneficiaries: Department of Personnel Management and Training
Ministry of Finance
Department of Statutory Bodies
Malawi Institute of Management

Amount: SDR 16 million (US\$22.6 million equivalent)

Terms: Standard IDA terms with 40 years maturity

Financing Plan: IDA US\$22.6 million
(in US\$ million) Government US\$3.0 million

TOTAL: US\$25.6 million

Economic Rate of Return: Not Applicable

Poverty Category: Not Applicable

Staff Appraisal Report: Report No. 12668-MAI

Map: IBRD No: 24575

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**MEMORANDUM AND RECOMMENDATION OF THE
PRESIDENT OF THE INTERNATIONAL DEVELOPMENT
ASSOCIATION TO THE EXECUTIVE DIRECTORS ON A
PROPOSED CREDIT TO THE REPUBLIC OF MALAWI
FOR A SECOND INSTITUTIONAL DEVELOPMENT PROJECT**

1. I submit for your approval the following memorandum and recommendation on a proposed credit to the Republic of Malawi of SDR 16.0 million (US\$22.6 million equivalent), to help finance a Second Institutional Development Project. The proposed credit would be granted on standard IDA terms with 40 years maturity. The Government would contribute US\$3.0 million equivalent. Part I of the memorandum discusses country policies and Bank Group assistance strategy. Part II discusses the proposed project.

PART I: COUNTRY POLICIES AND BANK GROUP ASSISTANCE STRATEGY

A. Recent Economic and Social Performance

2. The single most important development since Malawi's independence in 1964 -- the country's recent move to a multiparty democracy -- provides an opportunity for a thorough update of the country's assistance strategy. The effects of transition are not limited to political governance but also have wider consequences for economic management and growth prospects for one of the poorest countries in the world.

3. **Historical Perspective.** During the 1960s and 1970s, Malawi's development strategy emphasized infrastructure and estate agriculture as prime vehicles for increased production and growth. Over two decades, Malawi's economy was open and world market prices for its major exports (tobacco, tea, coffee, and cotton) were relatively high, real GDP more than doubled, and real per capita income grew by 3 percent per year. The period of strong growth ended in the early 1980s with the onset of economic problems and external shocks, including deterioration of terms of trade, oil crises, disruption of external transport routes through Mozambique, and weather-related shocks. In combination, these shocks led to an economic crisis culminating in 1986/87 with a decline in per capita income and policy setbacks which reversed the openness of the economy and discouraged private sector investment and output.

4. The adoption of a strategy in 1989/90 based on "Growth Through Poverty Reduction" was a crucial point in Malawi's development. Efforts have been made to develop structural policies focused on removing the binding constraints to sustainable growth while simultaneously addressing the roots of pervasive poverty. The new attempt to reliberalize the economy included reforms to redress the policy bias against smallholders, remove constraints on private sector participation in all sectors of the economy, and move toward a more liberal external sector policy. Increasing adoption of fertilizer and hybrid seed in the smallholder sector combined with expanding private sector participation in production and marketing resulted in per capita GDP growth of 2 percent annually during 1989-91.

5. **Developments in the 1990s.** Economic management was challenged by new internal and external developments, including bilateral donors' decision at the May 1992 Consultative Group meeting to withhold all new non-humanitarian aid pending tangible and irreversible reform in Malawi's approach to governance issues and the unprecedented drought throughout southern Africa in 1992. Following several years of macroeconomic stability and positive per capita growth, Malawi's economy contracted by nearly 8 percent in 1992.

6. The return of normal weather during the 1992/93 crop season helped facilitate recovery of production in the agricultural sector, allowing overall GDP to grow by some 11 percent in 1993. Following the June 1993 referendum that endorsed the move to multiparty democracy and subsequent steps taken by the Government (general elections are to be held on May 17, 1994), donors agreed to resume economic aid and financial support at the December 1993 Consultative Group meeting.

7. **Monetary and Fiscal Developments.** After several years of fiscal and monetary discipline, macroeconomic balances started to deteriorate in early 1992. In response to the withdrawal of donor support and the impact of the drought, the Government tightened its fiscal and monetary policies in June/July 1992 through various measures, including increase in the rediscount rate and devaluation of the kwacha. Yet, the weakening of the economic and financial situation persisted. Given the substantial shortfall in external financing and the additional requirements for drought-related financing, the Government became a major user of domestic credit in 1992/93. In mid-1993, further tightening of monetary policies supported a general improvement in the rate of broad money growth and inflation. By January 1994, the annual rate of inflation had declined to 20 percent (compared to 33 percent in March 1993).

8. The fiscal deficit (before grants) rose from 6.3 percent of GDP in 1991/92 to 9.1 percent of GDP in 1992/93 (15.7 percent of GDP including drought-related operations); largely on account unexpectedly high increase in civil service wages in 1992, and the weakened revenue performance caused by lower economic activity in the wake of the drought. Early in 1993/94, the Government introduced additional revenue and expenditure measures that helped achieve economic stabilization, brought the fiscal program back on track, and reduced the deficit (before grants) to 6.6 percent of GDP in FY93/94.

9. **External Policies and Exchange Rate.** In 1992, the sharp reduction in non-humanitarian aid put extreme pressure on foreign exchange reserves and consequently on Malawi's import liberalization program. Despite two major devaluations in 1992, the external value of the kwacha remained under considerable pressure largely as a result of economic difficulties and inappropriate fiscal and monetary policies in 1992/93. In February 1994, in response to continuing decline in external competitiveness, the Government replaced the fixed exchange system with a market-based exchange system under which the exchange rate is determined by supply and demand conditions at weekly wholesale fixing sessions. After eight weeks of operation under this market-based system, the exchange rate had effectively depreciated by 25 percent; the rate has stabilized at around 7 kwacha per 1 US\$. The new system also provides for licensing of additional foreign exchange dealers, brokers, and bureaux de change to enhance competition in the financial sector. Additional trade liberalization measures have been introduced to complement the exchange system as part of the ongoing trade and tariff reform program, including elimination of the remaining exchange controls on imports, removal of the surrender requirement for export earnings (except for a temporary 10 percent surrender requirement on traditional exports), and removal of export licensing requirements for ten agricultural commodities.

10. **Structural Policies.** Despite some of the worst economic setbacks since independence, Malawi has sustained its structural policy reforms over the past couple of years, though at a slower pace than originally envisaged. In the agricultural sector, reforms continued to improve food security, smallholder incomes, and efficiency of resource use. Restrictions on smallholder production of high-value crops have been lifted, and access to high yielding inputs has been further expanded. Private sector participation in the marketing

and distribution of agricultural products and imports was expanded to include cotton and tobacco. Business registration and land lease procedures were streamlined and an Investment Promotion Act was promulgated to eliminate barriers to private sector entry and enhance investment. Although new foreign banks have not come into Malawi, the expansion of existing financial institutions into wholesale banking has increased competition. A cornerstone of the parastatal sector reform, the restructuring of the Agricultural Development and Marketing Corporation (ADMARC), has been largely completed with the sale of two subsidiaries and partial divestiture of two others during 1991 and 1992, a return to net profitability during the past 5 years, and the transfer of ADMARC's investment portfolio into the ADMARC Holding Company in August 1993. To support human resource development, the Government (in line with the recommendations of the 1990 Public Expenditure Review) has also increased expenditure shares for health and education in the face of overall resource constraints, expanded child-spacing activities, and supported strengthening of institutions in the social sector.

11. **Recent Social Developments.** The impacts of negative growth during the drought year, high inflation, and high population growth have precluded any serious increase in per capita consumption since 1990. During the drought year, per capita consumption declined by 2.7 percent; only substantial humanitarian assistance from donors helped to prevent a more drastic decline and widespread starvation. In 1993 the rural poor benefitted from the strong recovery of the agricultural sector; per capita private consumption increased by 15 percent. A significant portion of this recovery was the result of structural changes in agriculture, particularly the rising adoption rates of hybrid seed and fertilizer by smallholders between 1989 and 1992.

12. Recent improvements in several social indicators show that the Government's increased emphasis on human resource development is helping to reverse the deteriorating trends of the 1970s and 1980s. The annual population growth rate declined from 3.6 percent in the mid 1980s to 3 percent in the early 1990s, the total fertility rate dropped from 7.6 to 6.7, the average infant mortality rate dropped from 138 to 136, and the under-five mortality rate dropped from 246 to 234. Life expectancy, however, is estimated to have declined as a result of AIDS mortality from 46 years in the 1980s to 44 years in 1993.

13. **Sustainability of Reforms.** Although Malawi has made progress in deregulating the economy in recent years, development of the private sector has remained sluggish, the supply response has not been adequate for sustained growth and balance-of-payments viability, and there has been little diversification out of the traditional exports of tobacco, tea and sugar. The formal economy remains highly concentrated, and financial markets are narrow and fragmented. Investment response has been obstructed by official caution and long delays in decisionmaking. The trade tax regime has not been sufficiently oriented toward export markets on which Malawi's future production and employment growth will rely heavily. Most importantly, with regard to sustainability, the design and implementation of reform programs have not been underpinned by systematic consultation with, or involvement of, a broad cross-section of the Malawian society.

14. While Malawi has not exhausted its structural adjustment agenda. Long-term prospects for achievement of positive per capita income growth are greatly enhanced by Malawi's success in keeping its adjustment program largely on track. The core elements of a sound macroeconomic framework, tight fiscal and monetary policies and a market-based exchange system, have already been put in place. With stabilization of the political situation

and the full resumption of donor support, Malawi will be able to continue its macroeconomic reforms, regain the adjustment momentum achieved between 1988 and 1991, and implement additional policy measures necessary to underpin the adjustment efforts. Sustainability of the adjustment process will critically depend on further deepening and expanding those structural reforms that have been implemented over the past four years as well as more systematic participation of various stakeholders in the design and implementation of future reform programs.

15. Of particular concern are the declining trends in investment and savings ratios. Domestic savings dropped from 9.4 percent of GDP in 1990 to 1.8 percent of GDP in 1992, and only partially recovered in 1993 through private sector savings due to an excellent agricultural crop. Private sector investment declined from 11.3 percent of GDP in 1990 to 3.2 percent of GDP in 1993, mainly because of the overall weak economic performance in the drought year and the subsequent tight foreign exchange situation. Sustainable future growth will critically depend on increased domestic savings to finance a larger share of total investment. Prerequisites for increased domestic savings include continued improvements in the financial position of the public sector, higher private savings generated through reforms in the financial sector and improved profitability of the enterprise sector, and substantial reduction in transport costs as a result of the re-opening of lower-cost transport routes to the sea through Mozambique.

16. In the short term, economic prospects are overcast by continued weak world market prices for tobacco, uncertainty resulting from the ongoing political transition, and a relatively poor 1993/94 maize crop due to erratic rainfall and many farmers' inability to purchase fertilizer on credit as a result of failing to repay loans from the last crop season. Maize production in recent years has fluctuated between 1.6 million MT in 1990/91 to 660,000 MT in the 1991/92 drought year, 2 million MT in 1992/93, and around 830,00 MT projected for 1993/94. Despite relatively high carry-over stocks from the last season, the Government has already put out an official appeal for international assistance to the tune of at least 300,000 MT of maize imports to avoid famine later in the year. The first issue on the agenda of the Government (after the May 1994 elections) will be to reestablish the rural credit system which collapsed in the wake of the 1992 drought and the recent political transformation process, and to avoid a continuing downward spiral of low credit, low fertilizer uptake and poor harvest.

B. External Environment

17. Malawi's economy remains extremely fragile and vulnerable to external shocks due to the landlocked position and potential interruption of external transport links, the narrow resource base which increases susceptibility to movements in world commodity market prices, and the continued vulnerability to weather-related shocks.

18. **Weather-Related Shocks.** Extreme fluctuations in weather in the past decade caused drastic drops in food production. Consequently, poverty has been exacerbated by widespread food insecurity. Except in periods of extraordinary droughts (such as 1991/92), establishing of the Strategic Grain Reserve (SGR) has helped the country achieve national food security in most years. Because of Malawi's heavy dependency on agriculture, any weather-related setbacks in agricultural production also trigger a decline of economic activity in other productive sectors as a result of reduced demand, decline in domestic savings, and suppressed investment. In the long term, Government plans to reduce susceptibility to weather-related

shocks by promoting agricultural and economic diversification, promoting small-scale irrigation where economically viable, and promoting the development and adoption of drought-resistant maize varieties and water-conserving cultivation techniques.

19. **Rehabilitation of External Transport Routes.** As a landlocked country Malawi is dependent on its neighbors, especially Mozambique, for transport routes to the sea. In the 1980s, civil war in Mozambique played havoc with external trade routes; almost all imports and exports were directed -- at considerable cost -- through South Africa and Tanzania rather than along the much shorter traditional railway link through Mozambique to the Indian Ocean. Loss of the Mozambican routes increased the insurance and freight component in total cost of imports from 22 percent in 1980 to 41 percent in the early 1990s. The additional transport cost to the economy, most of which is in foreign exchange, has been around US\$75 million (equivalent to approximately 5 percent of GDP) p.a. on average since the 1980s.

20. In response to these pressures, Malawi has joined various initiatives for regional economic integration (South African Development Community and Preferential Trading Area for Eastern and Southern Africa) and has pursued complementary external transport strategies such as development of the Northern Transport Corridor to Dar es Salaam. With the 1992 Mozambique peace accord, the routes to Beira and Nacala are rapidly regaining their importance for Malawian trade. Although the Nacala line reopened and has been partly rehabilitated, current traffic along this line is still only about one third of capacity. Further traffic increases along the Nacala line are unlikely unless rehabilitation work is completed and operating efficiency of the railways is increased; a restructuring plan for Malawi Railways is currently being developed with coordinated donor support. Upgrading the Nacala line to full capacity status, could reduce the insurance and freight margin to 35 percent and save about US\$25 million in annual transport cost. This will boost profitability in the manufacturing sector and enhance Malawi's external competitiveness, thus facilitating economic diversification.

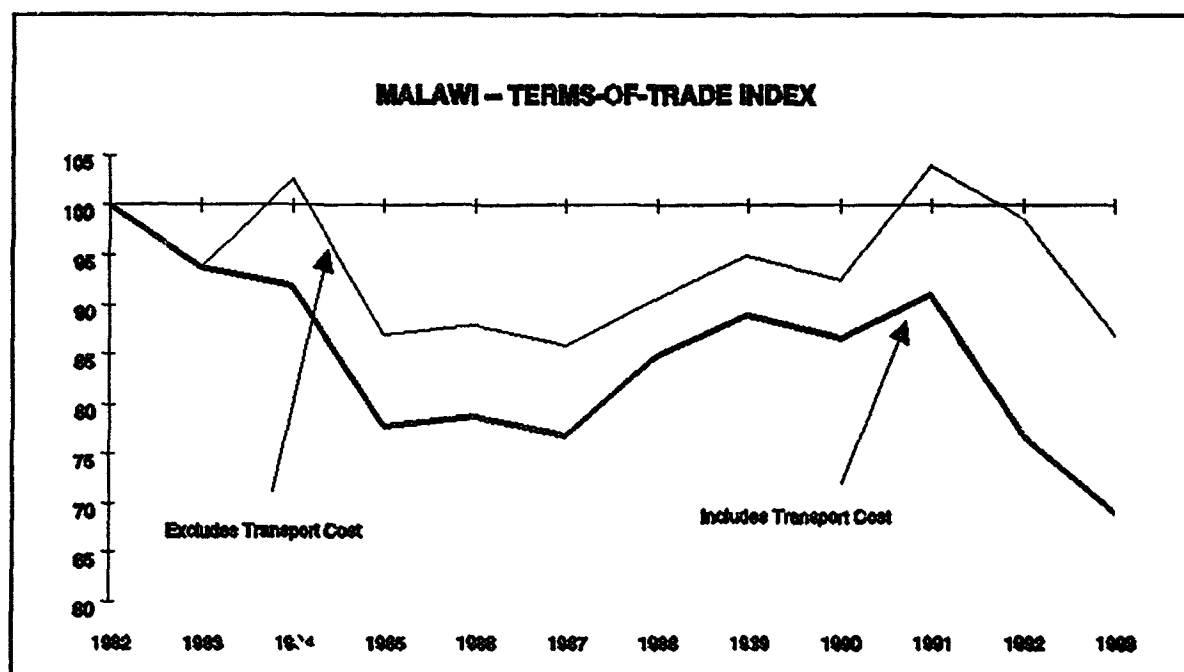


Figure 1

21. **Terms of Trade Developments.** Malawi's export base, almost exclusively centered around tobacco (on average accounting for 70 percent of all export revenues in the past four years), is one of the most concentrated in the world. In view of declining world market prices for primary commodities in general and for tobacco in particular, Malawi has been subject to tremendous terms-of-trade shocks over the past two years (Figure 1). In 1992 and 1993, these losses were equivalent to 4.8 and 6.7 percent of real gross national income, respectively; in dollar terms, the terms of trade loss over the past two years amounts to some US\$200 million. This terms-of-trade shock is comparable to the oil crises experienced by industrialized countries in the early seventies. Malawi's medium-term balance-of-payment prospects will continue to be largely determined by its terms-of-trade. Over the next three years, unit values for Malawi's exports are expected to improve only moderately (at about 2 percent in US\$ terms) because of the unfavorable outlook for world market prices of tobacco.

22. Nevertheless, exports are expected to be favorably affected by the broad-based liberalization of production and marketing of non-traditional agricultural crops through accelerated removal of remaining barriers to competition. In the medium term, the volume of non-traditional manufactured exports is expected to grow by 10 percent annually as a result of a more liberalized business environment and a flexible exchange system; recent development in assembly and export of electronics, textiles, and even buses are indicative of private sector potential in manufacturing. The external current account deficit (excluding grants) is expected to decline from 12.4 percent of GDP in 1993 to 8.4 percent of GDP in 1996. This would support the stabilization of Malawi's debt service ratio at about 23 percent of exports of goods and nonfactor services over the medium-term; current policies with regard to meeting all debt service payments on time and limiting external borrowing largely to concessional long-term loans will be continued.

23. **External Financing Requirements.** Although Malawi's adjustment effort will help support a reduction in its external financing requirements in the long term, and notwithstanding the prospects for improvement in some external conditions, Malawi will continue to face balance of payments pressures over the next three to five years. Currently, over 85 percent of the development budget is financed by external partners, which exemplifies the country's high dependence on external assistance. Total financing requirements for 1995-1997 are estimated at US\$2,136 million. Disbursements from Malawi's own resources and from existing and identified expected commitments of grants and loans will provide about 90 percent (US\$1,918 million) of the total financing requirement. This leaves a residual financing gap of US\$218 million, of which US\$164 million will be required as balance of payments support.

24. Although the lion's share of public investment will continue to be financed by external assistance, over the medium term domestic savings and direct foreign investment are expected to finance an increasing share of total investment. The drive to attract foreign private investment will be a key element of the overall development strategy. In view of the increasing competition for private investment within the region and around the world, Malawi is one of first countries committed to accelerated removal of barriers to Cross Border Investment (CBI), which is jointly supported by the AfDB, the EU, the IMF and the Bank.

C. Country Development Objectives and Policies

25. Poverty Alleviation. Malawi's central problem is poverty and consequently, poverty alleviation is at the core of its development agenda for the 1990s (as outlined in Government's Statement of Development Policies for 1987-96). Successive adjustment programs since the early 1980s have not succeeded in lifting Malawi out of the ranks of the poorest developing countries in the world; despite following good macro-economic management, economic gains have not been distributed broadly across the population. Although Malawi's social indicators and human resource base have slightly improved in recent years, these continue to compare unfavorably even with other sub-Saharan countries.

26. More than half the population lives below the poverty line, almost entirely in rural areas, including about 60 percent of smallholders and estate workers. The principal factors behind the pervasive problem of low incomes include limited employment opportunities, exacerbated by time constraints for female-headed households, unequal access to land, low physical productivity of land and labor in agriculture, low levels of human capital, and rapid population growth. In the past, these problems have, inter alia, been linked with governance issues, manifested in patterns of resource allocation that were explicitly directed toward development of infrastructure and larger estates and were not sufficiently responsive to the needs of the poor majority, and which placed serious constraints on aspiring or new participants in economic activity.

27. In recognition of the need to directly address poverty-related issues and broaden the base of economic growth, the Government has integrated poverty reduction into its overall growth strategy through a three-tier approach:

- Expanding employment opportunities through a liberal environment for private sector entrepreneurship and initiative, expanded access to financial capital, and policies and programs that encourage labor-intensive activities and participation by women;
- Enhancing agricultural productivity for poor, small farmers and ensuring sustainable use of land resources; and
- Expanding access to human capital through increased public expenditures for education, health and other social services.

This approach is being further supported by an integrated family-planning strategy to curb rapid population growth and reduce overall fertility rates, targeted agricultural and nutritional transfer programs, and greater involvement of nongovernmental organizations in poverty reduction.

28. Enhanced Supply Response. In the long term sustainable poverty reduction will require a lasting supply response and expansion in the rate and quality of investment, especially from the private sector. The Government's major challenge is to open the economy and facilitate participation in the economic process of those economic agents who were excluded in the past. Government's strategy now is to place greater emphasis on policies and structural reforms that would promote a greater supply response by reducing ownership concentration in manufacturing, distribution and finance sectors, enhancing domestic competition, accelerating economic diversification, raising average productivity across all

sectors, improving external competitiveness, and allowing all segments of the population to participate in economic activities without restrictions by area or type of activity.

29. *Agriculture will continue to be a major source of growth in Malawi*, providing employment and subsistence for some 80 percent of the population. Agricultural productivity has stagnated over the past decade as a result of limited adoption of improved inputs and technologies by smallholders, and the consistently declining average size of landholding. However, the sector has untapped potential for growth which can be mobilized through liberalizing markets and prices of agricultural products and abolishing the monopoly power of public enterprises. The Government recognizes that agricultural diversification led by the private sector will lay the foundation for long-term economic growth through a broader base of agricultural production, improved farm incomes and new employment opportunities, and will also stimulate growth and employment in the non-farm sectors.

30. Over the past three years, the Government has been pursuing fertilizer and seed marketing reforms, expansion and deepening of agricultural credit, strengthening of extension and research, supporting the dissemination of fertilizer/hybrid maize technology, and extending licenses to smallholders to grow high-value crops, including burley tobacco. Recent refinements in sector policy include measures to support the smaller farmers (with less than one hectare of land) who face the greatest food insecurity, to improve land utilization in the estate sub-sector, and to promote diversification away from tobacco production. Government's goal is to reduce the export share of tobacco from presently 70 percent to much less than 50 percent by the end of the decade.

31. *Growth in the manufacturing sector* is expected to be generated by liberalization of the exchange system, rationalization of the external tariff structure, and the indirect effects of agricultural sector growth. The development strategy for the industrial sector will emphasize removal of constraints on private sector activity, elimination of economic monopolies held by parastatals and private conglomerates, and the maintenance of a market-determined pricing system. It is Government's strategy to broaden the overall ownership base in the industrial sector through attracting more domestic and international investment. To facilitate broad-based participation of Malawians in the country's productive process, the Government plans to establish unit trusts comprising investments currently held entirely by public enterprises or private conglomerates. Orientation of the sector toward export production will be encouraged through further streamlining of export incentives (export duty drawback, export credit guarantee schemes, inbond manufacturing) and consolidating the investment enhancing measures introduced under the Investment Promotion Act and to ensure that cumbersome administrative procedures, such as obtaining land leases, are rapidly eliminated.

32. **Natural Resource Conservation.** Environmental protection and resource management are integral components of Malawi's development strategy. Rapid population growth and low agricultural productivity have led to an increasingly unsustainable demand on land and forest resources, as shown by growing soil erosion rates, declining soil fertility, widespread deforestation, increasing scarcity of potable water, and overfishing in Lake Malawi. It is Government's policy to strengthen management of natural resources, with emphasis on indigenous forest management, afforestation, fisheries, and soil conservation. A relatively strong institutional and policy framework has been set up in response to specific environmental problems. Existing programs will support improved cultivation and livestock practices, social forestry, and new energy demand management measures. The Government plans to finalize a National Environmental Action Plan (NEAP) by June 1994 through a

participative process involving public and private sector institutions, NGOs, and the rural communities. Policy reforms to be implemented from 1994/95 onward will include: frequent adjustment in fuelwood rates and urban and district water tariffs, stricter enforcement of estate conservation and afforestation covenants, strengthening of the regulatory framework for pesticide use and industrial pollution, development of new soil conservation measures, and institutional strengthening in environmental policy formulation.

33. Human Resource Development. Adequate attention to human resource development is an important factor contributing to poverty alleviation and a greater supply response. Low education and health levels have limited the ability of small farmers, particularly women, to respond to incentives and have limited the potential for broadening sources of income for the economy. An improved public investment planning process is now in place to facilitate the shifting of resources to social sectors. The Government's strengthened commitment to the social sectors has been reflected in proportionately higher budgetary allocations for education (increase from 11 percent in 1991/92 to 18 percent in 1994/95) and health (increase from 7 percent in 1991/92 to 10 percent in 1994/95), although much of this increase has so far been directed toward urban and semi-urban areas.

34. Increasing attention is now being given to improving the efficiency and effectiveness of expenditures in the social sectors through better focusing of such expenditures: on rural areas, where most of the poor live, rather than cities; on primary education and cost-efficient secondary education, from which the majority of the poor can benefit, rather than universities; and on low-cost rural health centers rather than expensive urban hospitals. To address the problem of high population growth rates and population density, the Government is committed to strengthening family planning activities, including increased population education in school curricula, expansion of child-spacing services, and support for a new National Family Welfare Council. The use of modern contraceptive methods has increased, while fertility and infant mortality rates have declined. However, the recent spread of AIDS, in epidemic proportion, is posing a new challenge which is only beginning to be addressed: HIV infection in the 15-49 age group is estimated to be among 20% of the urban and 8% of the rural population, giving a national average of almost 9.7%.

35. As part of the overall objective of human resource development, reaching, organizing and improving the lot of women have become integral to Malawi's goals. About 90 percent of Malawian women live in rural areas and 30 percent of households are headed by women, many of them poor. There is a particular need for labor-saving technologies that can relieve the constraints on women's time and enable them to seek other income-earning opportunities. The Government has provided increased support to organizing women's groups to boost their access to technical information and credit in the agriculture and small-scale enterprise sectors. A strong institutional framework has been developed with the recent establishment of the National Commission on Women, and women-in-development (WID) programs in several ministries. Although many WID initiatives have not reached their full potential, there have been several noteworthy accomplishments, including: expansion of the child-spacing program; increased access and retention rates for girls in secondary education; and implementation of pilot credit programs for women's participation in small-scale, income-generating activities, as well as schemes for appropriate technology dissemination.

36. Capacity Building. Enhancing civil service productivity and capacity building to improve implementation of development projects are key elements underpinning the above strategy. The relatively undeveloped state of human resources, shown by pervasive shortages

of trained personnel in critical areas of project management, accounting and procurement, and frequent turnover of higher level staff in Government, has adversely affected development projects in Malawi. There is a need to use and develop human resources available outside Government, including the involvement of NGOs and local communities in project planning and implementation. Pilot efforts are currently underway to build capacity at the district level for more decentralized implementation of programs in community development and social services.

37. The civil service has been increasingly beset by declining productivity and morale, in part due to inadequate compensation, but also to the extreme top-down, control-oriented style of management and lack of transparency and accountability under the single-party system of government. The Government's strategy is to enhance civil service efficiency by restoring appropriate compensation levels, improving working conditions, and strengthening training. In the new political environment, the Government has also begun to make efforts towards greater openness and transparency in decision-making. However, it is clear that the Government's capacity to carry out policy reforms and implement projects will remain limited during the current period of political transition. Any new government is likely to need some time to articulate its economic policies and strategy. These factors add uncertainty and complexity to the overall context in which the Bank's assistance strategy and lending programs for Malawi can be formulated.

D. Bank Group's Country Assistance Strategy

38. **Status of Policy Dialogue.** In the late 1980s and early 1990s there was frequent tension in the policy dialogue between the Bank and Malawi resulting from differences in opinion about the rigor and scope with which the country was to tackle its pervasive poverty problems. The recent change in Malawi's political environment not only provides an opportunity for accelerated adjustment, but has also distinctly improved the dialogue between the Government and the Bank. This is shown by Government's frequent consultation with the Bank on critical economic decisions, joint chairing by Government and the Bank of economic briefings for the private sector and political opposition, and increasing convergence of views about the necessary fundamental changes in Malawi's economic policies. The latter was manifest in the negotiations for the 5th PFP (issued on March 11, 1994).

39. As part of a broader effort to improve the quality of its projects and sector work and its dialogue with the Government and with other donors, the Bank is increasingly emphasizing systematic client feedback in design and management of projects (e.g., government task forces for project design, project launch workshops, mid-term reviews, country portfolio performance reviews). Experience with systematic client consultation (SCC), such as in the preparation of the National Environmental Action Plan, the Agricultural Sector Memorandum, and the Country Economic Memorandum has been very positive so far contributing effectively to local ownership and relevance of policy recommendations. SCC will become integral to the processing of future operations (for instance, the proposed Social Development Fund) and forthcoming economic and sector work. It must be recognized, however, that a consistent and broad effort to further local ownership and to ensure that projects are planned and administered by competent local personnel could well entail some slowdown in project preparation and implementation.

40. **Portfolio Performance and Management.** Since the Bank's first operation in Malawi in 1966, the Executive Board has approved 64 IDA credits, and 10 Bank loans. Although 78 percent of Malawi's completed projects were rated satisfactory by OED (compared to the Bank-wide average of 75 percent), problems in implementation of investment projects have increasingly become of concern. The Government's limited capacity to implement a large number and wide variety of projects has been a key constraint to project implementation. Two Country Implementation Reviews (November 1992 and May 1993) identified the lack of trained personnel in project management, accounting, auditing and procurement as major constraints to project implementation. In FY93 these existing weaknesses were compounded by additional difficulties resulting from the drought and the withdrawal of donor support. The consequences included operational expenditure cuts (including local funding of projects) across all sectors and unfilled vacancies in key civil service positions. Portfolio performance deteriorated in FY93 vis-a-vis FY92; average project ratings dropped from 2.04 to 2.13 and the number of problem projects increased from 3 to 5.

41. The Bank is addressing these constraints on several fronts. The Bank's Resident Mission is collaborating with two committees created by Government to monitor and act on issues identified in the May 1993 Country Implementation Review. The portfolio of IDA-financed projects has been reduced through scheduled project completion from 23 operations in FY92 and FY93 to 17 operations in FY94. This reduced portfolio is more in line with the absorptive capacity of the country, especially given that IDA-funded projects are part of a larger portfolio funded by external aid agencies. Increased resource allocations to project supervision and the practice of mid-term reviews will facilitate continuous fine-tuning of projects. Particular emphasis has been given to increased staffing and adequate levels of local funding for project implementation. As a result of intensified project supervision and filling of key vacancies in project implementation units, three of the five FY93 problem projects have either been upgraded already or are expected to be upgraded in the current fiscal year; the remaining two problem projects were approaching their closing dates and will be phased out as scheduled. Finally, in important areas where local funding was constrained by fiscal adjustments and the drought, the IDA shares were increased to facilitate faster project implementation.

42. Procurement and disbursement-related issues are being effectively addressed through visits by staff from headquarters twice a year to assist implementing agencies with their specific problems and remove backlogs, hold seminars and workshops to build local capacity in procurement and disbursement procedures, and assist Government in the reform of procurement legislation. In addition, a grant from the Bank's Institutional Development Fund has been initiated to finance two specialists who will work with staff in implementing agencies to build capacity in procurement and accounting. Increased importance is also being attached to compliance with audit covenants. Frequent advance communications has resulted in a significant reduction of overdue audit reports. The continuing foreign exchange shortage has led to increasing problems with meeting the 30-day threshold in meeting debt service payments. This emerging problem is currently being addressed by giving Government monthly updates of forthcoming debt service due dates.

43. The Resident Mission's responsibilities in portfolio management and project preparation have been continuously upgraded over the past two years. Several operations, especially those with problem components (such as in infrastructure and agriculture), are closely supervised by Resident Mission staff. Two long-term local consultants have been recruited to assist in portfolio management and project preparation in the agricultural sector;

an additional local consultant will be hired shortly to work on macroeconomic issues. The Resident Mission is expected to further expand its involvement in project preparation, monitoring of problem projects, maintaining follow-up with Government on the Country Implementation Reviews, and preparation of the FY95 Country Portfolio Performance Review.

44. **Composition of Bank's Assistance Program.** The overarching objective of the Bank's work in Malawi is getting results in the field that support *sustainable poverty reduction*. With the view to achieving *economic growth and equity* the Bank's assistance strategy is putting emphasis on *accelerating the supply response* from the private sector and on *strengthening the human resource base*. The Bank and Government agree on the strategic issues facing the country. The country's development agenda and policies are consistent with the policies advocated by the Bank. In the short term, increased emphasis on supervision and portfolio management will enable the Bank to react quickly and flexibly to the changing needs of the country. Over the medium and long term, Malawi's economic reform program will be supported by appropriate economic and sector work and new lending operations (Table 1).

45. **Economic Diversification and Broad-Based Private Sector Participation.** The Government and Bank agree on the rigor and timing of the accelerated economic liberalization process. The Bank's assistance is geared toward facilitating the country's diversification away from tobacco into other exports. Two critical economic and sector reports will provide the analytical basis for the Bank's lending activities. In the context of the Agricultural Sector Memorandum, strategy options have been identified that will help trigger broad-based agricultural growth. The Country Economic Memorandum, currently underway, will analyze the reasons for the elusive supply response by focusing on financial, institutional, and infrastructure constraints to private manufacturing sector development.

46. Under the ongoing adjustment operation (EDDRP) barriers to entry were removed, investment enhancing measures have been introduced, and the dispersion and levels of external tariffs were reduced. Further deepening of these measures will be supported by the proposed Trade and Distribution Adjustment Credit (TDAC) which will also support policy measures to broaden the ownership base and remove the economic monopolies of public sector enterprises and private conglomerates. Sound macroeconomic policies to be promoted under TDAC will include completion of the tariff and trade tax reform, and consolidation of investment and export promotion activities. As part of the CBI the TDAC will promote policy changes to increase regional trade and private investment flows.

47. With regard to project lending, the Bank will focus on providing institutional and physical infrastructure to support private sector activities. The proposed Agricultural Diversification Project will promote broad-based and private sector-led agricultural diversification by building upon the liberalization of economic policies and institutional arrangements completed under adjustment operations. The project will provide investment financing to support viable private agricultural diversification schemes, support dissemination of production, processing and marketing technologies, provide financial support for essential infrastructure components such as cooling and storage facilities, and develop a market intelligence system to facilitate private sector marketing decisions. In this context, efforts are underway to develop more integrated sector approaches by coordinating this effort with other donors.

48. Bank support for the development of small enterprises and private manufacturing is currently provided under the Financial Sector and Enterprise Development Project (FSEDP). These efforts will be deepened under the proposed Private Sector Development Project through financing investment in export-oriented activities, deepening the financial sector to provide wider and improved financial services to the private sector, and consolidating the operations of financial and other support institutions serving small- and medium-scale enterprises to ensure that the most efficient institutions will achieve cost recovery, while those that cannot attain commercial viability are phased out.

49. The Bank's investment operations in the infrastructure and energy sectors also provide indirect support to private sector development and economic diversification. The ongoing Power V hydroelectric scheme is designed to ensure that electricity supply is not a binding constraint to growth in the manufacturing sector. Another power project in the outer years would be necessary to help ensure implementation of the least-cost power development program and help meet the economic and social needs of Malawi. The ongoing Infrastructure Project is providing for expansion and maintenance of the road infrastructure to provide efficient connections between industrial centers and Malawi's border points. The forthcoming Malawi Railways and Lake Services Restructuring Project will complement private sector development and economic diversification by reducing Malawi's external transport costs.

50. *Improvement of Social Indicators.* Policies that affect poverty reduction, education, health, family planning, food security, and gender issues in development remain in the forefront of the Bank's assistance strategy. In this context, the Bank's agricultural sector strategy and rural poverty reduction are inseparably interlinked. A Poverty Impact Assessment is currently being carried out to analyze the impact of past and ongoing projects and programs on the poor. By evaluating the effectiveness of different approaches and identifying the factors that lead to good or poor performance, the study will form the basis for proposals to expand and replicate successful programs (for instance under the proposed Social Development Fund).

51. Critical support to strengthen primary health care programs, increase family planning activities, and improve medical support services is being provided through the Population, Health and Nutrition (PHN) Sector Credit and the proposed Health and Nutrition Project. After initial implementation problems, this operation is now providing increased support to peripheral health services. Continued support to the sector will focus on improving rural health services, including strengthening preventive health care regarding STD/AIDS, malaria, diarrhea and cholera.

52. Although interventions under the PHN Sector Credit have contributed to increased awareness of the linkages between population, health and nutrition, the level of support to family planning has been low due to political sensitivities. The coming socio-political change has created an opportunity for fertility reduction efforts; these are needed if the benefits from past investments in health and sustainable poverty reduction are to be realized. The Bank will carry out a Population and Family Planning Study to assess the linkages between population and poverty, unemployment and gaps in basic services, as well as changes in official attitudes and socio-cultural reaction to population and family planning activities. The study will provide the ground work for programmatic family planning interventions and activities (under the proposed Health and Nutrition Project and Social Development Fund) that would substantially reduce Malawi's total fertility rate and slow its rate of population growth, thus supporting higher per capita income growth rates.

53. Ongoing Bank operations in the education sector (Education I and Education II) focus on the expansion and quality enhancement of primary education and increased efficiency in resource use. With the forthcoming Education Sector III Credit, the Bank will take on a slice of the Government's sectoral investment program, concentrating on those elements having direct bearing on poverty alleviation, equity in access to basic education (such as low cost construction of rural and urban primary classrooms), and improving educational quality and management of the sector through strengthening of pedagogical skills and upgrading teachers' training. Human resource development in Malawi continues to suffer from one of the lowest secondary school enrollment ratios worldwide. The Bank will help broaden access to secondary education through policy measures to reduce unit costs. Concurrently, the Bank will help put in place mechanisms for mobilizing resources from the private sector and the community at large for education and training.

54. The 1992 drought has amplified the need for additional investment in the development of rural water supplies and measures to enhance food security. Under the proposed National Water Development Project, the Bank will help improve access to clean water (especially in rural areas), reduce the incidence of water-borne diseases, and reduce the negative effects of future droughts. With regard to the emerging drought in the current crop season, the potential role of the Bank to assist the Government in ensuring food security is currently being discussed.

55. Within the context of the above operations, supporting activities that focus on women's economic, sociological and cultural roles in the context of poverty alleviation are given special emphasis, particularly in health care and family planning, participation in small-scale income-generating activities in- and outside of agriculture, and schemes for appropriate technology dissemination and credit provision.

56. Indirect support to poverty alleviation is also being provided through increase in private sector employment generating activities and economic diversification. The ongoing Agricultural Services Project and Rural Financial Services Project will help expand the range of support services (including credit) to poor smallholders, with specific emphasis on women. Similarly, the conservation of natural resources and sound environmental policies are preserving the employment base for the rural poor.

57. *Environmentally Sound Policies.* The Bank's lending portfolio reflects a clear response to the growing need for environmental control and natural resource conservation. The central environmental issue of land degradation through soil and nutrient loss is being addressed through promotion of environmentally sound practices under the Agricultural Services Project. With the forthcoming Environmental Support Project, the Bank will assist Government to implement priority actions emerging from the National Environmental Action Plan (NEAP) and the Forestry Policy Review. The project will seek to reduce population encroachment of critical protected areas, support local communities' efforts to conserve and manage local woodlands, prevent and reverse the process of catchment degradation (thereby conserving rivers as breeding habitat for endemic fish), and help Government address the environmental problems of deforestation, natural resources degradation and soil erosion found in the settlement areas now abandoned by Mozambican refugees.

58. *Capacity Building.* Given implementation constraints in several key ministries, the Bank is providing technical support to strengthen public sector management through the

ongoing Institutional Development I Project and the forthcoming Institutional Development II Project which is based on a recent Public Sector Management Review. Very good results have been achieved in developing local management through support for the Malawi Institute of Management. Eventually these efforts will reduce Malawi's dependence on foreign consultants and expatriate managers and will supply the high caliber manpower needed for developing the domestic private sector. Appropriate measures to streamline and improve the budgetary process are being developed under the Budget Management Review. Overall streamlining of civil service management will enhance the transparency of public decisionmaking, thus reinforcing an important aspect of economic governance. The problems of high staff turnover and unfilled vacancies which have been a persistent obstacle to effective public sector management are also being addressed.

59. The Bank's approach to institutional development will contribute to overall macroeconomic stability by enhancing transparency and supporting greater continuity in public sector decision making. Capacity building initiatives are being expanded to the parastatal sector by strengthening the monitoring and management functions of the Department of Statutory Bodies and assisting the sector to develop the next phase of parastatal divestiture. Under the ongoing Local Government Development Project, the Bank helps to improve the financial and administrative capacity of the local government system to provide and maintain municipal services and infrastructure at a level consistent with the enhanced emphasis on private sector development.

60. **Level of Bank Support.** Bank lending in FY94 will be limited to one investment operation of US\$22 million. This is in line with the emphasis on consolidation of the portfolio in the short term, in view of the likely preoccupation of policy makers with the political transition, and in recognition of likely difficulties in implementing sensitive policy changes before the general elections. In addition, the Bank is actively examining the possibility of supplementary financing of US\$20 million under the ongoing adjustment operation to help finance the unexpected balance of payments shortfall resulting from this year's severe drought. Starting in FY95, the Bank could embark on a three-year base case lending scenario comprising 7 operations (6 investment projects and 1 adjustment operation) with an average annual IDA allocation of US\$66 million (in line with Government's implementation capacity, but slightly below pre-drought and pre-transition levels). The base case lending scenario requires that the Government's overall development priorities and the scope and timing of further structural policy change remain focused on equity and growth, and agreement is reached on the macroeconomic framework between the Government, the Bank, and Fund. The base case scenario would support real GDP growth of 4.5 percent p.a. in the medium term and a deceleration in the rate of inflation to 5 percent. It would allow the Government to reduce the fiscal deficit (after grants) to 1 percent of GDP, and move closer to a sustainable balance of payments position.

61. If the environment for effective implementation were to deteriorate, the lending levels for FY95-FY97 could be reduced to a low case scenario with 4 investment projects and an average annual IDA allocation of US\$33 million. The low case lending scenario would be triggered by the adjustment program falling off track or by a considerable slow-down in the Government's decisionmaking process, particularly with respect to policies that are essential underpinnings for the Bank's operations. Under increasing macroeconomic difficulties and limited implementation capacity, the Bank's strategy would focus on implementing the ongoing portfolio and new activities that support the provision of basic services to the social sectors without requiring major policy changes in the areas of economic liberalization.

**TABLE 1:
MALAWI
Policy Goals and Major Instruments**

POLICY GOALS	INSTRUMENTS	TIMING
Support stable macroeconomic framework	PFP Trade and Distribution Adjustment Credit (TDAC) Country Economic Memorandum (CEM) Budget Management Review (BMR)	FY95, FY96 FY97 FY95 FY94
Liberalize private sector activities	TDAC CEM Agricultural Sector Memorandum (ASM) Private Sector Development Project (PSDP)	FY96 FY95 FY95 FY97
Enhance availability and access to financial services	Financial Sector and Enterprise Development Project (FESDP) Rural Financial Service Project (RFSP)	FY92 FY93
Increase and diversify agricultural production	Agricultural Services Project (ASP) ASM TDAC Agricultural Diversification Project (ADP)	FY93 FY96 FY96 FY96
Improve efficiency and capacity of public sector	ID-II Pay and Employment Study BMR	FY94 FY95 FY95
Maintain and expand key infrastructure	Railways Restructuring Project National Water Development Project Infrastructure II Project Urban Housing Review	FY95 FY95 FY97 FY96
Improve natural resource management	National Environmental Action Plan (NEAP) Forestry Policy Review Environmental Support Project	FY94 FY95 FY96
Expand and improve basic education	BMR Education Sector Credit III	FY95 FY96
Reduce population growth	Poverty Impact Assessment Study (PIAS) Social Development Fund (SDF) Population and Family Planning Study (PFPS)	FY95 FY97 FY95
Improve health status	BMR Health and Nutrition Project (HNP)	FY95 FY97
Support empowerment of women	PIAS SDF PFPS HNP	FY95 FY97 FY95 FY97
Target programs to reach vulnerable groups	PIAS SDF HNP	FY95 FY97 FY97

62. But if the Government's commitment to accelerated structural change and economic liberalization is demonstrated by swift decision making and energetic implementation of the basic prerequisites for an accelerated supply response (including effective redressing of existing economic monopolies and further liberalization of the external sector), the Bank's lending levels could be upgraded to the high case scenario. The number of operations for FY95-97 would be increased to 10 (with an average annual allocation of US\$105 million), entailing specifically the processing of those projects that would enhance the supply response and private sector development.

63. **Aid Coordination and Relationship with IMF.** The Bank's position as a lead donor in Malawi has been enhanced through formal donor coordination under the SPA and through CGs. In addition, the Bank has frequently sponsored informal donor meetings in Malawi, including debriefings of macroeconomic missions and economic briefings for the donor community and opposition parties. These meetings have helped to achieve broad consensus in development strategies, as well as providing donors with a forum to express their concern to Government. During the recent interruption of non-humanitarian aid flows, the Bank's leadership was central in helping to sustain the adjustment process.

64. At the request of the Government and with broad concurrence of the donor community, the Bank convened a CG meeting in December 1993 where donors confirmed resumption of economic aid and financial support to Malawi in recognition of the exceptional progress made in political transformation and of the macroeconomic policy measures undertaken in the ongoing adjustment process. Total donor pledges for 1994 consisting of existing and new commitments amounted to US\$305 million, of which US\$63 million were new pledges. The Bank is prepared to convene another CG meeting in 1994 if requested by the Government.

65. The Bank is also taking a lead in coordinating co-financing and parallel financing arrangements for individual projects. With regard to investment projects in the agricultural infrastructure, human resources, environment and energy sectors, the Bank will continue to work closely with the AfDB, IFAD, USAID, ODA, KfW, CDC, AfDB and EIB. Parallel financing for the EDDRP has come from the AfDB, EC and OECF, and the ASAC has been supported by ODA, AfDB, USAID and KfW.

66. Aid coordination on a sector-by-sector basis is still in its initial stages and basically takes place through local donor meetings, with particular success in agriculture and the social sectors. More formalized donor coordination on a sectoral level is being pursued through, for instance, the Public Sector Investment Program and the forthcoming Budget Management Review. The Bank will coordinate the implementation of policy measures under the CBI. Aid coordination will continue to be an integral part of the Bank's assistance strategy in Malawi to help ensure that donor project financing remains consistent with sectoral priorities and in line with overall macroeconomic objectives, and adequate balance-of-payment support is available to back the adjustment program.

67. Over the past two years, close collaboration between the Bank and Fund has been critical in adjusting the macroeconomic framework in response to a series of destabilizing external and internal shocks. There are no differences with the Fund on the scope and timing of structural and macroeconomic policies. The fourth arrangement under the Fund's Enhanced Structural Adjustment Facility (ESAF) was approved in September 1991 and the second tranche was released on March 31, 1994. With the major elements of the

macroeconomic framework now in place, the Fund's management is prepared to support acceleration of the structural policy reform in Malawi with a new arrangement under the Extended Enhanced Structural Adjustment Facility later in 1994. It is planned to update the fifth PFP to cover the period 1994/95-1996/97.

68. **IFC and MIGA Activities.** IFC's equity participation and lending commitments total about US\$33 million (gross) and include seven investments in textiles, sugar, tourism, ethanol, plywood, a development finance corporation, and a leasing and finance corporation. All credits are fully disbursed and IFC is looking for new investment opportunities in Malawi. The Bank's assistance strategy supports policy reform in areas of concern to IFC. Signature is pending for approval of IFC's equity participation in a recently established merchant bank. Possible areas for future IFC involvement include participation in setting up of a unit trust fund to broaden the ownership base of the economy, and enhancing domestic savings. IFC's equity participation could also become an important catalyst in the restructuring and broadening of the ownership base of selected parastatal investments (ADMARC's investment portfolio) and private sector conglomerates. There are no MIGA operations in Malawi.

69. The activities of the Foreign Investment Advisory Service (FIAS) under Bank supported operations (FSEDP and EDDRP) have been instrumental in developing the agenda for recent investment policy reforms. FIAS will continue to coordinate, with other arms of the Bank, the expansion of opportunities for private sector development and investment. FIAS' continued support will remain critical to consolidate the achievements made under the Investment Promotion Act and to assist the Malawi Investment Promotion Agency to become fully operational.

E. Agenda For Board Consideration

70. In response to the political uncertainties, economic difficulties, and significantly reduced donor support during the past two years, the Bank adjusted its country assistance strategy as reflected in reduced lending activities and emphasis on assisting the Government in managing the economy under significant fiscal constraints. Over the past twelve months, progress with regard to timely and full implementation of conditions under various IDA operations has shown Government's commitment to adjustment even under difficult circumstances. In the period following the current political transition, the Bank expects to remain a major partner in helping Malawi tackle its day-to-day economic problems as well as in addressing long-term economic and social issues of development. The Bank's lending strategy specifies the trigger mechanisms that would lead to a deviation from the base case lending scenario. In addition, three additional risks are inherent in the proposed strategy.

- Although, at this time, a significant deterioration of internal conditions appears unlikely, a small probability remains that the political transition process might not continue as smoothly as anticipated and the recent restoration in private sector confidence and economic stabilization could be reversed. *Depending on the degree of political and economic destabilization, the Bank would respond appropriately, for example, by limiting project lending, postponing new adjustment operations, and retaining a special focus on portfolio management.*
- The Bank's expectations of the next Government's willingness to collaborate (particularly if there is a change after May 1994) might be overstated and significant

differences in opinion about adjustment could emerge after the elections. *Reaching early agreement on specific policy actions necessary to delink economic and political powers and broaden the ownership base, and managing the transition out of tobacco, would be indicative of congruity between the Government's and Bank's development strategies.* The completion of the Country Economic Memorandum and the preparation of the next adjustment operation, the Trade and Distribution Adjustment Credit, will be central in reaching consensus on the path and timing of policy measures. Should preparation of the adjustment operation stall because of fundamental differences in opinion between Government and the Bank, the Bank's lending activities would be limited to the low case scenario. If Government moves aggressively ahead with economic liberalization, the Bank would move several operations forward and upgrade the lending strategy to the high case scenario. A clear indicator for Government's commitment to supply response and private sector-led growth would be implementation of policy actions critical to enhanced foreign and domestic private sector investment, such as actions to remove private and public sector monopolies.

- Even if the political transition continues smoothly and the next Government is in full agreement with the proposed strategy, the expected supply response could be delayed by negative developments in Malawi's external environment. The adjustment process in Malawi will take time and sudden negative terms of trade movements or serious droughts could temporarily jeopardize economic performance and compromise the timing of the reform program. *Under such adverse circumstances, it is expected that the donor community – including the Bank – would continue to assist Malawi, especially through additional quick-disbursing balance of payments support, provided that the Government remains committed to its medium-term adjustment goals.*

PART II. PROPOSED PROJECT

71. **Background:** The civil service in Malawi provided reasonably adequate support for the successive structural adjustment programs implemented in the country in the 1980s. It was also one of the few civil service institutions in Sub-Saharan Africa whose staff were paid close to decent salaries. But there were some important weaknesses, first highlighted in the Civil Service Commission report of 1985 and documented in detail in the **Public Sector Management Review (PSMR)** undertaken jointly by the Government and the Bank in 1991 and issued as a Grey Cover Report in 1993. The PSMR found that the performance of the civil service was low because of poor definition of responsibilities, inadequate and poorly targeted training, failure to undertake program evaluation and poor financial management. On civil service pay and employment, the PSMR found that existing pay levels are inadequate to attract and retain staff in the professional and technical areas, thereby creating vacancy rates of about 35 percent. In contrast, there is overstaffing in the junior ranks where staff salaries are comparable to those in the other sectors. According to the PSMR, the problems of the parastatal sector include lack of clarity in the definition of the role of the Department of Statutory Bodies (DSB) charged with managing the interface between parastatals and the Government.

72. As a follow-up to the PSMR report, Government has requested IDA support to implement some of the reports' recommendations through a second institutional development

project (ID II). ID II would be a successor to the on-going IDA-supported institutional development project (ID I) that is being implemented with UNDP co-financing. UNDP is providing assistance for strengthening financial management, accounting and auditing and the modernization of the tax system in the Ministry of Finance while the IDA credit of US\$11.0 million credit is devoted to the establishment of the Malawi Institute of Management with a small proportion for the tax modernization program. UNDP also provided US\$4.2 million to MIM for technical assistance and training. Implementation of ID I is scheduled for completion in June 1994. Significant progress has been recorded in implementing the Tax Modernization Program but Government is still experiencing difficulties in revenue estimating and would like assistance provided under ID II. The UNDP-supported institutional strengthening actions in the Ministry of Finance, reconstituted as a "Government Financial Management Development" project in 1992, was still being reviewed in November 1993 due, in part, to reduced funding. In the circumstance, Government has decided to transfer the design and installation of a forward budgeting system to ID II. Although MIM has been firmly established as a training and consulting institution and its physical infrastructure is nearing completion, two main areas of further support have been identified: (i) technical assistance and training and (ii) campus management staff housing. The Department of Statutory Bodies also requires strengthening if it is to effectively supervise the parastatal sector.

73. Project Objectives: The objectives of the project are to: (i) address specific systemic management issues that now constitute bottlenecks to efficiency and effectiveness in the civil service; (ii) assist the Department of Statutory Bodies to better manage the interface between the parastatal sector and the Government; and (iii) strengthen the Malawi Institute of Management (MIM).

74. Project Description: The project would be implemented over a five-year period (1994-99) and has five main components:

(i) **Improving Civil Service Policy and Information Framework (US\$3.3 million):** This component will be concerned with issues that cut across ministries and departments of the civil service, beginning with the policy and legislative framework. Government would take steps to promulgate a Public Service Act and adopt a Statement of Policy on Institutional Development and Civil Service Reform. The other main issue addressed is the design, installation and implementation of appropriate management information systems for the personnel and finance functions. The project will finance a civil service census which is a critical first step in the development of a personnel management information system. The project will also finance the design, development and implementation of a computerization plan for financial management.

(ii) **Strengthening the Capacity of the Department of Personnel Management and Training (US\$4.0 million):** The project will provide support to DPMT in the form of TA, equipment and training to enable it improve its performance with particular reference to key personnel management functions. Specifically, the project will finance: (a) review of the institutional arrangements for determining remuneration; (b) re-design of the pay structure and rationalization of fringe benefits and allowances, linked to job evaluation; (c) preparation of procedure manuals covering functions undertaken by personnel common services staff; (d) development and implementation of an open-performance appraisal system; and (e) development and introduction of career paths. The project will also support the re-structuring of the Department and the enhancement of the skills of its staff.

(iii) **Strengthening Institutional Capacity of the Ministry of Finance (US\$5.5 million):** The project will finance: (a) the installation and implementation of forward budgeting; (b) the design and implementation of a new public accounting system; (c) support to the tax policy analysis unit; and (d) skills development in both budgeting and accounting through the provision of short-term TAs, training fellowships and the organization of workshops and study tours.

(iv) **Support to the Department of Statutory Bodies (US\$1.9 million):** The project will finance activities relating to (a) clarification of the role and functions of DSB and its relationships with other supervisory agencies; (b) strengthening DSB's role in promoting improved financial and economic performance of parastatals; (c) development of a government privatization policy; and (d) enhancement of the skills of DSB staff.

(v) **Strengthening the Malawi Institute of Management (US\$8.1 million).** MIM will be given further support to assist it in consolidating the solid achievements it has recorded under ID I. Project funds would be used to finance: (a) a second phase of technical assistance (essentially on short-term arrangements) that would help to strengthen the Institute's capacity in training and consultancy; (b) staff training; (c) fellowships to MIM's courses; (d) books and equipment for the Institute's Learning Resource Center; and (e) construction of management staff housing on the Institute's campus in Lilongwe.

75. Project Financing: The total cost of the project is estimated at US\$25.6 million of which IDA will provide US\$22.6 million and local contribution would be US\$3.0 million. The IDA credit would finance approximately 88 percent of total project costs net of duties and taxes. A PPF of US\$1,000,000 approved in October 1992 and May 1994 is being used to finance project preparation activities. A breakdown of costs and financing plan are shown in **Schedule A**. Amounts and methods of procurement and disbursement arrangements and schedule are shown in **Schedule B**. A time-table of key processing events and the status of Bank Group operations in Malawi are shown in **Schedules C and D**. The Staff Appraisal Report, No. 12668 dated April 22, 1994, is attached, as well as map number 24575.

76. Project Implementation: A Public Sector Management Improvement Unit (PSMIU) will be established in the Office of the President and Cabinet (OPC) to provide overall direction and coordination to ID II. The PSMIU will be headed by a Project Manager who shall report to the Secretary to the President and Cabinet (SPC) through the Principal Secretary, (Administration) OPC, who serves as the de facto deputy to the SPC. In addition to the Project Manager, the unit will comprise two other professional staff members: an Information Technology Coordinator who will provide direction and coordination for the management information systems development and related elements of ID II and a project accountant who would be responsible for all ID II financial management and accounting activities. The PSMIU's coordinating function will be complemented by the presence of a Project Coordinator in three ID II beneficiary agencies: MOF, DPMT and DSB. These organization-based Coordinators will work in close liaison with the PSMIU. However, in the spirit of building management capacity and promoting project ownership, responsibility for project implementation will be devolved as much as possible to the beneficiary agencies. The Management of MIM will be directly responsible for the implementation of the MIM component, as is currently the case under ID I. Overall policy guidance for the project would be entrusted to an Inter-ministerial Committee on Institutional Development (ICID) chaired by the Principal Secretary, (Administration) OPC. Members of the ICID would be drawn from the main ministries and departments involved in the project. Attention would also be paid to

ensuring adequate representation of line ministries. This would help to deepen project ownership. The ICID would meet quarterly and present progress reports to the SPC. The PSMIU will act as the secretariat to the ICID.

77. Project Sustainability: The project would help translate government commitment to management improvement and strengthening institutional capacity into concrete actions that could be further consolidated and expanded with Government's own resources after the life of the project. In this connection, Government has indicated its determination to institutionalize the PSMIU at the end of the project and make it responsible for promoting public sector management improvement on a continuing basis. In the case of the Malawi Institute of Management, it is envisaged that self-reliance in financial terms would be achieved in the course of the project.

78. Lessons Learned from Previous Bank Involvement: Lessons learned from Bank experience in supporting institutional development both in the specific context of Sub-Saharan African countries (notably as reported by the Operations Evaluation Department in 1990, "Free-Standing Technical Assistance for Institutional Development in Sub-Saharan Africa") and at the global level, include: (i) the need to involve key country stakeholders at all stages of the project cycle (the participation imperative); (ii) reliance on project implementation through existing institutional structures; (iii) attention to the borrower's institutional absorptive capacity; and (iv) the fact that institution building requires long-term assistance and continuity in implementation. These same lessons have been highlighted in Bank's TA projects in Malawi that have sought to strengthen institutional capacity over the past decade (TA I: Ln 2027-MAI and TA II: Cr. 1428-MAI). Attention has been paid to these important lessons in the design of the project. Thus, project preparation that began with the joint Government-Bank PSMR in 1991 continued over a 36-month period in order to foster government ownership and commitment. Significantly, too, the project's implementation strategy seeks to avoid institutional overload through reliance on existing institutional structures. The long-term view of institutional development is reflected in the five-year time frame and the provision of assistance for continued strengthening of the Malawi Institute of Management, established under the first Institutional Development project.

79. Rationale for IDA Involvement: From experience with the structural adjustment process since the early 1980s, the Bank is well placed to assist the Government in its efforts aimed at achieving management improvement in the civil service. This in turn should help strengthen economic and financial management in both the core and sectoral ministries that are implementing IDA-supported projects. In the case of the Ministry of Finance, IDA's contribution under ID II would complement on-going institutional strengthening actions being supported by the UNDP as a component of ID I. Since IDA financed the first phase of the development of the Malawi Institute of Management (with UNDP co-financing) under ID I, further strengthening of the Institute under ID II would help to consolidate and build on the achievements recorded with a view to nurturing it into a self-reliant management development institution.

80. Links with Country Assistance Strategy: The project's objectives are consistent with the Country Assistance Strategy for Malawi which focuses on, among others, improved portfolio management and capacity building. The project will lead to improvements in systems and procedures for managing the core personnel, budgeting and financial management functions in the civil service. This will enhance implementation capacity and impact favorably on portfolio management. The technical assistance and training elements in the project are

carefully targeted to enhance capacity in the three beneficiary departments and ministry (MOF, DPMT and DSB) and in the Malawi Institute of Management.

81. Agreed Actions: At negotiations, the Government gave assurances that it would: (i) follow IDA procurement guidelines for procuring works and goods and IDA guidelines for selection of consultants and use World Bank's standard bidding documents; (ii) submit to IDA annual accounts and financial statements audited by independent auditors acceptable to IDA within nine (9) months of the end of its fiscal year; (iii) make provision for a proportion of the recurrent cost of the PSMIU to be agreed with IDA in the annual budget of the OPC; (iv) ensure that MIM meets the targets agreed with IDA regarding the progressive phasing out of the fellowships to its courses; (v) ensure that the Malawi Institute of Management submits to IDA by December 31 of every year an annual report on the progress made toward self-financing through its Endowment Fund; (vi) follow the project implementation plan agreed with IDA; (vii) submit to IDA annual progress reports within three months after the end of each calendar year; (viii) conduct a joint Annual Review of project implementation not later than June 30th after the end of the year under review and carry out a comprehensive mid-term project review by December 31, 1996; (ix) ensure effective functioning of the Public Sector Management Improvement Unit through provision of adequate staffing and operational resources; (x) install an accounting and audit system for the project; and (xi) implement the training program agreed with IDA, beginning with the detailed program for the first year of the program. Before Board presentation, Government adopted a Statement of Policy on Civil Service Reform and Institutional Strengthening and submitted to IDA the draft of legislation on Public Service Act. Effectiveness of the credit will be subject to the following conditions: (i) submission to IDA copy of the Public Service Act promulgated by Parliament; (ii) appointment of an independent auditor acceptable to IDA; (iii) appointment of Head, Census Executing Unit as well as Chief Technical Officer and Accountant of the Unit; (iv) appointment of project coordinators for the components on DPMT, DSB and MOF; and (v) adoption a model consultancy contract acceptable to IDA, including a sample letter of invitation, for the recruitment of technical assistance personnel under the project. And the following are **Conditions of Credit Disbursement for specific project components:** Regarding the training category of the project credit for the component on the Department of Personnel Management and Training, Government will confirm (i) merging the Manpower Planning and Training Divisions of DPMT and (ii) creation of Human Resources Management Units (HRMU) on a pilot basis in the ministries of Agriculture, Education, Finance, Works and Health. Regarding all categories of project credit for the component on the Malawi Institute of Management, Government will confirm the appointment of a professionally qualified accountant who would be responsible for the financial management of the component.

82. Environmental Impact: The environmental category of the credit is C. The civil works envisaged for MIM, campus management staff housing in Lilongwe, would not have any significant impact on the physical environment. Furthermore, as was the case under ID I, the architectural design to be used would be modest and rely on maximum use of natural ventilation and local materials.

83. Program Objective Categories: Human and institutional capacity building is a major issue addressed in the current country strategy for Malawi. It is also the case that successful implementation of management improvement measures to be financed under the project would enhance quality of public service delivery and benefit the entire citizenry, including the poor.

84. Project Benefits: Improved performance of personnel, budgetary and financial management would enhance efficiency and effectiveness throughout the entire civil service system. This will help to enhance macroeconomic stability. The conduct of government business would benefit from the predictability, transparency and accountability fostered by provisions in the Public Service Act. All this would favorably affect the implementation of development programs and projects, including those supported by the Bank. Better management of the government-enterprise relationship by the Department of Statutory Bodies would enable Government to derive more substantial benefits from its parastatals. And the development of a privatization policy would help to rationalize the parastatal sector and to prepare the ground for a privatization program. Continued success of the Malawi Institute of Management in providing training and consultancy services to government, parastatals and the private sector would eventually enhance the quality of national economic management.

85. Project Risks: The evolving governance situation in the country would be marked by periodic problems that could hinder effective implementation of some management improvement measures. While this needs to be acknowledged, the gains from a distinct trend toward openness and transparency would limit its negative consequences. Furthermore, given the context of impending elections, the leaders of some of the opposition parties as well as representatives of the media were briefed on the main features of the project. Attention was drawn to its apolitical character: a project that will help enhance the quality of public management to the benefit of both the governors and the governed. A major problem encountered in implementing the component on the Ministry of Finance under ID I was rapid staff turnover. Although this persists, the existence of a core staff at the PSMIU together with designated coordinators for project components under ID II would limit the negative consequences. The weak implementation capacity noted at the country implementation reviews held in 1991 and 1993 could slow project implementation at the initial stage. However the corrective measures already in place together with a robust government implementation plan for ID II would help to minimize the risk. Implementation of pay reform measures might be difficult because of the tight budgetary constraint which could continue for the foreseeable future. But increased revenue mobilization and prudent financial management could help provide the necessary resources.

86. Recommendation: I am satisfied that the proposed credit would comply with the Articles of Agreement of the Association and recommend that the Executive Directors approve it.

Attachments
Washington, D.C.
May 17, 1994

Lewis T. Preston
President

Malawi - Selected Indicators of Bank Portfolio Performance and Management

<i>Indicator</i>	FY91	FY92	FY93	FY94** (current)
<i>Portfolio Performance</i>				
Number of projects under implementation	20	23	23	17
Average implementation period (years)	1.85	2.38	2.75	3.37
Average ratings	--	--	--	--
Development objectives	1.85	1.83	1.78	--
Overall status	2.25	2.04	2.13	--
Percent (#) of projects rated 3 or 4	--	--	--	--
Development objectives	13.6 (3)	4.3 (1)	0	--
Overall status	22.7 (5)	13.0 (3)	21.7 (5)	--
Canceled during FY	0	0	0	--
Disbursements ratio (%)	21.7	22.55	17.6	--
Disbursement lag (%)	-72.8	-110.6	-110.4	--
Memorandum item: % completed projects rated unsatisfactory	Up to CY1992: of 37 rated projects, 22% were unsatisfactory			
<i>Portfolio Management</i>				
Supervision resources (total US\$)	853,537	900,738	1,096,875	971,798
Average supervision (US\$/project)	42,677	39,163	47,690	57,165
Supervision resources by location (in %)	100	100	100	100
Percent headquarters	73	85	91	80
Percent resident mission	27	15	9	20
Supervision resources by rating category (US\$/project)				
Projects rated 1 or 2	37,398	34,992	43,731	36,379
Projects rated 3 or 4	58,513	66,967	61,945	79,246
Memorandum item: date of last/next CPPR				May '93/FY95

** All dollar figures for FY94 have been pro-rated.

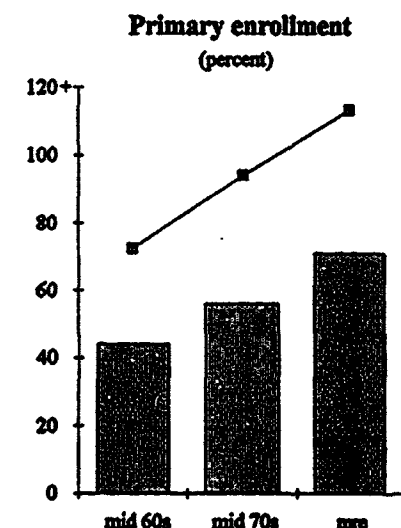
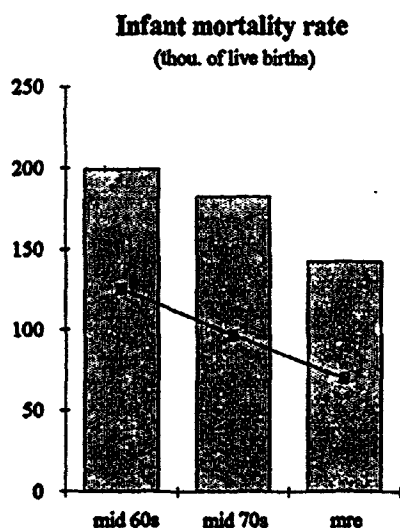
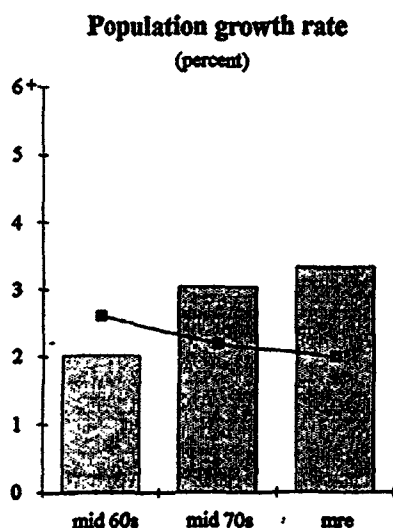
Malawi Bank Group Fact Sheet, FY 91-97

IBRD/IDA Lending Program, FY 91-97

Category	Past			Current	Planned		
	FY91	FY92	FY93	FY94	FY95	FY96	FY97
Commitments (US\$m)	103.5	204.2	76.8	28.3	40.0	50 -- 140	110 -- 135
Sector (%)							
Agriculture	8	3	92			0 -- 11	0 -- 14
Industry and finance	31						0 -- 26
Energy							
Power		27					
Public sector management				85			
Infrastructure and urban development		12			100		0 -- 30
Human resources	54					21 -- 60	18 -- 45
Environment						14 -- 40	
Mining and other extractive							
Multisector	7	58	8	15		0 -- 54	0 -- 68
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans	7	71	8	15		0 -- 54	0 -- 68
Specific investment loans and others	93	29	92	85	100	46 -- 100	32 -- 100
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US\$m)	70.9	101.7	136.4	72.3	61.0	59.0	105.0
Adjustment loans	21.9	41.7	82.7	43.7	5.0	6.0	50.0
Specific investment loans and others	49.0	60.0	53.7	28.6	56.0	53.0	55.0
Repayments (US\$m)	11.0	12.0	13.0	9.0	9.0	10.0	12.0
Interest (US\$m)	13.0	14.0	14.0	9.0	10.0	11.0	12.0

Malawi: Priority Poverty Indicators

Indicator	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region/income group		Next higher income group
					Sub-Saharan Africa	Low-income	
POVERTY							
Upper poverty line	local curr.	..	..	..	..	..	..
Headcount index	% of pop.	..	..	..	..	..	..
Lower poverty line	local curr.	..	..	..	..	..	..
Headcount index	% of pop.	..	..	..	..	..	..
GNP per capita	US\$	60	120	230	350	350	1,610
SHORT TERM INCOME INDICATORS							
Unskilled urban wages	local curr.	..	..	..	..	..	..
Unskilled rural wages	"	..	..	..	..	..	..
Rural terms of trade	"	..	..	..	..	..	..
Consumer price index	1987=100	..	..	190	..	..	..
Lower income	"	..	..	..	..	..	..
Food	"	..	..	195	..	..	..
Urban	"	..	..	..	..	..	..
Rural	"	..	..	..	..	..	..
SOCIAL INDICATORS							
Public expenditure on basic social services	% of GDP	..	..	2	..	..	..
Gross enrollment ratios							
Primary	% school age pop.	44	56	71	70	113	100
Male	"	55	67	77	76	122	106
Female	"	32	44	64	60	106	98
Mortality							
Infant mortality	thou. live births	200	183	143	104	70	40
Under 5 mortality	"	..	..	195	177	98	53
Immunization							
Measles	% age group	..	..	65	40	73	70
DPT	"	..	..	75	35	81	74
Child malnutrition (under-5)	"	..	..	60	..	..	..
Life expectancy							
Total	years	39	42	45	51	63	67
Females/males	ratio	1.03	1.03	1.02	1.06	0.95	1.08
Total fertility rate	births per woman	7.8	7.7	7.6	6.4	3.7	3.5
Maternal mortality rate	100,000 live births	..	..	380	..	..	..



■ Malawi
 — Low income

Malawi: Resources And Expenditures

Indicator	Unit of measure	25-30 years ago	15-20 years ago	Most recent estimate (mre)	Same region/income group		Next higher income group
					Sub-Saharan Africa	Low-income	
HUMAN RESOURCES							
Population (mre-1991)	thousands	3,975	5,244	8,796	488,932	3,127,265	773,803
Age dependency ratio		0.93	0.98	0.98	0.97	0.66	0.71
Urban	% of pop.	4.9	7.7	12.0	28.7	40.1	53.9
Population growth rate	annual %	2.4	3.0	3.3	3.0	1.9	1.7
Urban	"	4.5	7.6	5.0	5.0	5.2	3.1
Labor force (15-64)	thousands	1,943	2,382	3,592	203,947	1,448,104	302,448
Agriculture	% of labor force	92	87	"	"	"	"
Industry	"	3	6	"	"	"	"
Female	"	45	45	41	37	33	32
Female per 100 males							
Urban	number	"	73	"	"	"	"
Rural	"	"	119	"	"	"	"
NATURAL RESOURCES							
Area	thou. sq. km	118	118	118	23,066	38,828	23,990
Density	pop. per sq. km	34.0	44.0	69.0	20.0	77.0	31.0
Agricultural land	% of land area	40.7	43.8	45.2	51.0	47.4	41.8
Change in agricultural land	annual %	0.3	0.3	0.5	0.0	0.0	0.0
Agricultural land under irrigation	%	0.0	0.3	0.4	5.5	13.7	12.6
Forests and woodland	thou. sq. km	50	48	37	6,651	9,197	5,396
Deforestation (net)	annual %	-0.4	-0.4	-2.9	"	"	"
INCOME							
Household income							
Share of top 20% of households	% of income	51	"	"	"	"	"
Share of bottom 40% of households	"	22	"	"	"	"	"
Share of bottom 20% of households	"	10	"	"	"	"	"
EXPENDITURE							
Food	% of GDP	"	42.2	22.9	"	"	"
Staples	"	"	20.1	6.8	"	"	"
Meat, fish, milk, cheese, eggs	"	"	6.8	8.5	"	"	"
Cereal imports	thou. metric tonnes	19	41	115	7,838	36,008	44,418
Food aid in cereals	"	"	0	175	2,677	6,669	4,047
Food production per capita	1979-81=100	90	98	77	94	122	101
Fertilizer consumption	kg/ha	3.0	7.0	20.0	14.5	47.5	94.2
Share of agriculture in GDP	% of GDP	48.0	34.8	32.0	29.2	28.7	"
Housing	% of GDP	"	4.9	6.8	"	"	"
Average household size	persons per household	"	3	"	"	"	"
Urban	"	3	4	"	"	"	"
Fixed investment: housing	% of GDP	"	3.6	1.1	"	"	"
Fuel and power	% of GDP	"	2.1	3.6	"	"	"
Energy consumption per capita	kg of oil equiv.	25	46	41	100	350	1,249
Households with electricity							
Urban	% of households	"	"	"	"	"	"
Rural	"	"	"	"	"	"	"
Transport and communication	% of GDP	"	6.0	7.8	"	"	"
Fixed investment: transport equipment	"	"	6.7	2.2	"	"	"
Total road length	km	"	"	12,192	"	"	"
INVESTMENT IN HUMAN CAPITAL							
Health							
Access to health care	% of pop.	"	"	"	"	"	"
Population per physician	persons	47,321	"	45,737	"	"	"
Population per nurse	"	40,979	3,972	1,800	"	"	"
Population per hospital bed	"	"	"	645	1,328	1,048	509
Access to safe water	% of pop.	"	"	55.0	36.7	70.6	"
Urban	"	"	"	97.0	74.3	79.3	"
Rural	"	"	"	50.0	24.2	62.8	"
Oral rehydration therapy (under-5)	% of cases	"	"	14	35	32	"
Education							
Gross enrollment ratio							
Secondary	% of school-age pop.	2	4	4	18	44	56
Female	"	1	2	3	14	37	"
Pupil-teacher ratio: primary	pupils per teacher	40	61	64	39	39	25
Pupil-teacher ratio: secondary	"	20	19	27	"	20	"
Pupils reaching grade 4	% of cohort	"	67	69	69	"	"
Repeater rate: primary	% of total enroll	"	16	21	"	"	"
Illiteracy	% of pop. (age 15+)	78	"	59	51	39	"
Female	% of fem. (age 15+)	"	"	69	62	52	"
Newspaper circulation	per thou. pop.	"	3	"	5	"	"

Source: World Bank International Economics Department, April 1993

MALAWI- Key Economic Indicators

	1989	1990	Actual 1991	1992	Estimated 1993	1994	Projected 1995	1996
National Accounts (% GDP at current market prices)								
Agriculture /a	31.2%	29.7%	31.5%	25.6%	34.7%	33.6%	33.6%	33.5%
Industry /a	17.3%	18.1%	17.7%	19.6%	17.7%	18.3%	18.6%	18.8%
Services /a	40.8%	41.6%	41.4%	45.1%	39.8%	40.9%	40.9%	41.0%
Total consumption	95.5%	90.6%	92.1%	98.2%	94.9%	93.2%	89.2%	87.1%
Gross domestic investment	20.2%	19.1%	20.0%	18.8%	12.9%	15.4%	17.2%	17.9%
Private investment (includes increase in stocks)	15.0%	14.3%	12.0%	9.4%	5.5%	6.8%	7.3%	7.9%
Government investment	5.2%	4.8%	8.0%	9.4%	7.4%	8.7%	9.8%	10.0%
Exports GNFS /b	18.8%	24.0%	23.4%	23.0%	16.7%	21.5%	21.1%	21.3%
Imports GNFS /b	34.5%	33.8%	35.6%	40.1%	24.5%	30.1%	27.4%	26.3%
Gross domestic savings /1	4.5%	9.4%	7.9%	1.8%	5.1%	6.8%	10.7%	12.8%
Gross national savings /c	6.9%	11.3%	8.0%	0.2%	4.7%	4.0%	7.4%	9.5%
Memorandum items								
Gross domestic product (million US\$ at current prices)	1589.9	1861.3	2191.8	1850.7	2027.3	1818.2	1948.5	2084.7
Gross national product per capita (US\$, Atlas method)	170.0	200.0	230.0	210.0	226.6	204.5	200.1	198.4
Real annual growth rates								
Gross domestic product at market prices	5.0%	4.7%	6.7%	-8.0%	9.3%	1.9%	4.5%	4.4%
Gross Domestic Income	6.0%	4.2%	8.2%	-12.3%	10.0%	5.0%	4.9%	4.7%
Real annual per capita growth rates								
Gross domestic product at market prices	1.6%	1.4%	3.1%	-11.6%	6.3%	-1.1%	1.5%	1.4%
Total consumption /1	12.1%	-4.7%	3.5%	-11.8%	1.4%	0.3%	0.8%	1.3%
Private Consumption /1	-11.0%	8.2%	8.3%	19.7%	18.4%	12.2%	3.5%	1.9%

1/ Saving and consumption excludes emergency grants and imports related to displaced persons.

MALAWI- Key Economic Indicators

	1989	Actual		1992	Estimated	1994	Projected	1996
		1990	1991		1993		1995	
Balance of Payments (US\$m)								
Exports (GNFS) /b	298.7	447.3	512.7	425.6	334.2	392.7	418.5	452.4
Merchandise f.o.b.	268.8	411.6	475.5	397.3	310.6	368.2	392.6	424.7
Imports (GNFS) /b	447.4	537.5	686.6	701.9	544.0	550.9	544.2	558.5
Merchandise f.o.b.	251.1	304.2	373.6	350.0	262.9	324.5	328.9	336.4
Resource balance	-148.7	-90.2	-173.9	-276.3	-209.8	-158.2	-125.7	-106.1
Net current transfers (including official current transfers)	-13.9	-11.1	-33.3	-26.1	-3.7	-3.9	-17.8	-19.0
Current account balance (after official capital grants)	-138.1	-63.5	-194.3	-222.9	-118.3	-154.4	-156.2	-136.5
Net private foreign direct investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MLT loans (net)	57.4	106.5	114.8	89.2	154.3	135.3	87.7	91.9
Official /1	46.6	98.7	112.0	87.0	152.5	129.4	79.0	82.6
Private	10.8	7.8	2.8	2.2	1.8	5.9	8.7	9.3
Other capital (net, including errors and omissions)	43.5	-25.5	83.5	-7.5	-5.9	20.7	0.0	0.0
Change in reserves(- increase) /d	33.8	-23.1	-9.9	97.6	6.0	-44.6	-20.7	-23.8
Memorandum items								
Resource balance (% of GDP at current market prices)	-9.4%	-4.8%	-7.9%	-14.9%	-10.3%	-8.7%	-6.5%	-5.1%
Real annual growth rates (1990 prices)								
Merchandise exports /2 (f.o.b.)	-10.0%	45.7%	4.6%	-1.3%	-2.9%	6.5%	3.1%	4.6%
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports /3 (c.i.f.)	11.6%	13.3%	15.1%	5.4%	-12.5%	1.4%	-0.5%	1.3%
Public finance (% of GDP at current market prices) /e								
Current revenues /4	21.8%	19.5%	18.8%	17.6%	16.5%	17.9%	19.0%	19.2%
Current expenditures /4	22.8%	19.6%	19.3%	19.5%	17.0%	17.1%	15.5%	15.0%

1/ Public enterprises loans are included here.

2/ Figures in 1989-92 are affected by substantial stocks carried over at end-1989 and, to a lesser extent, at end-1990 and end-1991.

3/ Excluding purchases of the airplane in 1991 and drought-related maize in 1992-1993.

4/ Fiscal year beginning in April of the year indicated; excluding special drought-related operations in 1992/93 and 1993/94.

MALAWI- Key Economic Indicators

	1989	1990	Actual 1991	1992	Estimated 1993	1994	Projected 1995	1996
Current account surplus (+) or deficit (-)	-1.0%	-0.1%	-0.5%	-1.9%	-0.5%	0.8%	3.5%	4.2%
Capital expenditure	6.7%	6.1%	5.1%	7.0%	6.1%	6.7%	6.7%	6.7%
Foreign financing	6.5%	7.9%	5.2%	8.0%	9.9%	5.5%	5.0%	4.5%
Monetary Indicators								
M2/GDP (at current market prices)	16.7%	16.2%	16.3%	18.3%	..	..	..	..
Growth of M2 (%)	5.4%	12.4%	21.6%	21.8%	..	..	..	..
Private sector credit growth/total credit growth	1.5	3.4	1.7	0.4	0.1	..	..	..
Price indices (1990=100)								
Merchandise export price index	96.0	100.0	109.7	93.3	79.0	80.5	81.0	82.7
Merchandise import price index	93.5	100.0	104.5	105.0	98.8	96.7	95.6	96.6
Merchandise terms of trade index	102.7	100.0	105.0	88.9	80.0	83.2	84.7	85.6
Real exchange rate /1 (US\$/LCU /f)	99.7	100.0	104.5	97.7	95.9	95.9	95.9	95.9
Real interest rates /2	1.3%	3.1%	2.2%	-0.3%	2.3%	..	..	..
Consumer price index (%) growth rate)	15.7%	11.5%	8.2%	23.2%	22.1%	19.8%	6.9%	5.0%
GDP deflator (% growth rate)	22.3%	10.6%	13.3%	17.9%	22.4%	19.7%	7.0%	5.0%

1/ Figure for 1993 is taken from January 1994 IFS.

2/ Prime lending rate of commercial banks.

/a GDP components are estimated at factor cost.
 this fact should be added.

/b "GNFS" = "goods and nonfactor services."

/c Includes net unrequited transfers excluding official capital grants.

/d Includes use of IMF resources.

/e Refers to central government.

MALAWI-Key Exposure Indicators

	1989	1990	Actual		Estimated 1993	1994	Projected	
			1991	1992			1995	1996
Total debt outstanding and disbursed (TDO) (US\$m) /a	1299.0	1476.6	1613.1	1583.9	1770.0	1895.2	1937.4	2006.6
Net disbursements (US\$m) /a	98.6	81.0	198.2	81.7	148.5	156.1	87.6	91.9
Total debt service (TDS) (US\$m) /a	117.9	104.1	108.6	103.2	86.4	91.0	92.7	105.0
Debt and debt service indicators (%)								
TDO/XGS /b	420.2%	323.4%	310.2%	366.8%	525.8%	475.0%	454.3%	434.6%
TDO/GDP	61.7%	79.3%	73.6%	85.6%	87.3%	104.2%	99.4%	96.3%
TDS/XGS /b	39.5%	23.3%	21.2%	24.3%	25.8%	23.2%	22.1%	23.2%
Concessional (1) /TDO	76.0%	76.1%	79.8%	86.1%	85.4%	86.6%	89.9%	89.7%
IBRD exposure indicators (%) (1)								
IBRD DS/public DS	25.7%	19.5%	14.7%	19.5%	0.0%	18.1%	16.4%	18.2%
Preferred creditor DS/public DS	96.0%	79.2%	60.8%	77.9%	60.5%	68.1%	73.9%	92.4%
IBRD DS/XGS /b	4.8%	3.3%	2.9%	3.5%	0.0%	3.3%	2.8%	2.6%
IBRD portfolio share	..	..	..	..	..	..	..	..
IFC (US\$m)								
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity and quasi-equity /c	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0
MIGA								
MIGA guarantees (US\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1/ Data on this section come from DRS which are based on existing commitment as of end 1992.

/a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

/b. "XGS" denotes exports of goods and services, including workers' remittances.

/c. Includes equity and quasi-equity types of both loan and equity instruments.

Status of Bank Group Operations in Malawi

Statement of IBRD Loans and IDA Credits

LOA data as of 2/28/94

Loan or credit no.	Fiscal year	Borrower	Purpose	Amount in US\$ million (less cancellations)			Undisbursed relative to appraisal projection (US\$ million)	Last ARPP supervision rating	
				IBRD	IDA	Undisbursed		Development objectives	Overall Status
Credits									
47 credits closed					697.25				
C16490-MAL	1985	MALAWI	AGRI RES.		23.80	0.61	0.61	2	2
C17670-MAL	1987	MALAWI	ED. SECTOR CREDIT I		27.00	1.39	1.39	2	2
C18510-MAL	1988	MALAWI	AGRICULTURE CREDIT		5.90	0.27	0.27	2	2
C18790-MAL	1988	MALAWI	TRANSPORT I		13.40	2.59	2.59	2	3
C19660-MAL	1989	MALAWI	AGRI. MARKETING & EST		18.30	3.38	3.38	2	2
C19900-MAL	1989	MALAWI	ENERGY I		46.70	14.93	14.93	1	1
C20360-MAL	1989	MALAWI	INSTIT.DEV		11.30	2.84	1.44	2	2
C20690-MAL	1990	MALAWI	INFRASTRUCTURE I		28.80	9.52	8.89	2	3
C20830-MAL	1990	MALAWI	EDUC. SECII		36.90	24.72	21.36	1	2
C22200-MAL	1991	MALAWI	PHN SECTOR CREDIT		55.50	44.97	37.47	2	3
C22210-MAL	1991	MALAWI	FINANCIAL & ENTERPRI		32.00	19.51	9.21	2	2
C22250-MAL	1991	MALAWI	FISHERIES DEV.		8.80	7.49	1.66	2	3
C23790-MAL	1992	MALAWI	LOCAL GOVT.		24.00	22.54	8.75	1	2
C23860-MAL	1992	MALAWI	POWER V		55.00	53.12	18.74	1	2
C23960-MAL(S)	1992	MALAWI	ENTREPRENEUR DEV & D		124.30	5.26	5.26	2	2
C25130-MAL	1993	MALAWI	FINANCIAL SERVICES		25.00	25.02	6.82	2	2
C25140-MAL	1993	MALAWI	AGRIC SERVICES		46.80	45.15	4.53	2	2
TOTAL					582.50	283.11	145.3		
Loans									
10 Loans(s) closed					104.52				
Total disbursed (IBRD and IDA)					<u>1384.27</u>				
Of which has been repaid					<u>79.95</u>				
Total now held by IBRD and IDA					<u>1304.42</u>				
Amount sold									
Of which repaid									
Total undisbursed						<u>283.12</u>			

Central Government Budgetary Operations 1984/85-1993/94
 (K million)

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92 Actual	1992/93 Approved	1992/93 Revised	1993/94 Estimate
Total Revenue and Grants	393.7	489.6	544.6	652.4	962.1	1,162.6	1,155.9	1,389.9	1,499.0	1,606.2	1,728.6
Revenue	353.2	442.0	492.9	583.4	752.9	991.0	1,043.2	1,181.9	1,291.3	1,315.7	1,572.7
Grants	40.5	47.6	51.7	69.0	209.2	171.6	112.7	208.0	207.7	290.5	155.9
Total Expenditure	432.0	529.2	632.6	750.3	858.7	1,292.9	1,371.9	1,506.5	1,866.2	2,169.4	1,918.7
Recurrent Expenditure	289.1	364.8	425.6	560.5	616.5	962.8	1,060.3	1,191.6	1,339.0	1,701.7	1,407.3
Development Expenditure	142.9	138.4	160.2	189.8	207.4	295.3	311.6	314.8	427.2	467.7	511.3
Extra-Budgetary		26.0	46.7		34.8	34.8	0.0	0.0	100.0	0.0	0.0
DEFICIT:											
Before Grants	-78.8	-87.1	-139.7	-166.9	-105.8	-301.9	-328.7	-324.6	-574.9	-853.7	-345.9
Overall Deficit	-38.3	-39.5	-88.0	-97.9	103.4	-92.7	-92.7	-116.6	-367.2	-563.2	-190.0
Financing	38.3	39.5	88.0	97.9	-103.4	92.7	92.7	116.6	367.2	563.2	190.0
Foreign Loans (net)	53.0	73.5	99.5	80.0	163.0	190.6	265.4	333.3	295.0	202.4	295.0
Borrowing	102.7	143.2	219.8	198.2	258.3	284.6	403.2	408.2	412.4	319.9	412.4
Repayment	49.7	69.7	120.3	118.2	95.3	94.0	137.8	74.9	117.4	117.5	117.4
Domestic Borrowing (net)	-14.7	-34.0	-11.5	17.9	-266.4	-97.9	-172.7	-216.7	72.2	360.8	-105.0
(as per cent of GDP)											
Revenue (excluding grants)	20.7	22.7	22.5	21.2	21.2	21.9	20.6	19.8	20.9	21.6	25.5
Recurrent Expenditure	16.9	18.7	19.4	20.3	17.4	21.3	20.9	20.0	21.7	27.9	22.8
Development Expenditure	8.4	7.1	7.3	6.9	5.8	6.5	6.1	5.3	6.9	7.7	8.3
Deficit Before Grants	-4.6	-4.5	-6.4	-6.1	-3.0	-6.7	-6.5	-5.4	-9.3	-14.0	-5.6
Overall Deficit	-2.2	-2.0	-4.0	-3.6	2.9	-2.0	-1.8	-2.0	-5.9	-9.2	-3.1
GDP at Current Market Prices	1,707.7	1,949.9	2,191.2	2,756.5	3,552.3	4,527.0	5,069.9	5,969.9	6,174.5	6,101.8	6,174.5

Source: Ministry of Finance

**MALAWI
INSTITUTIONAL DEVELOPMENT PROJECT II**

PROJECT COST SUMMARY

	(Mal Kwacha'000)			(US\$'000)			% Foreign Exchange	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
1. Civil Serv. Policy & Info. Framework	2,097.4	11,066.1	13,163.5	487.8	2,573.5	3,061.3	84	13
2. Department of Personnel Mgmt & Training	1,796.4	13,884.6	15,681.0	417.8	3,229.0	3,646.8	89	16
3. Ministry of Finance	239.5	21,452.5	21,692.0	55.7	4,989.0	5,044.7	99	22
4. Dept of Statutory Bodies	150.1	7,720.7	7,870.7	34.9	1,795.5	1,830.4	98	8
5. Malawi Inst. of Mngt	13,917.8	16,409.7	30,327.5	3,236.7	3,816.2	7,052.9	54	30
6. PSM Improvement Unit	5,424.8	1,571.3	6,996.1	1,261.7	365.4	1,627.0	22	7
7. PPF	-	4,300.0	4,300.0	-	1,000.0	1,000.0	100	4
	-----	-----	-----	-----	-----	-----	----	----
Total Baseline Costs	23,626.0	76,404.7	100,030.7	5,494.4	17,768.5	23,263.0	76	100
Physical Contingencies	76.8	2,485.7	2,562.4	17.9	578.1	595.9	97	3
Price Contingencies	4,547.8	3,016.9	7,564.7	1,057.6	701.6	1,759.2	40	8
	-----	-----	-----	-----	-----	-----	----	----
Total Project Costs	28,250.6	81,907.3	110,157.9	6,659.9	19,048.2	25,618.1	74	110

FINANCING PLAN (US\$'000)

	LOCAL	FOREIGN	TOTAL
IDA	3,509	19,048	22,557
Government	3,061	-	3,061
	-----	-----	-----
TOTAL	6,570	19,048	25,618

Table: Summary of Proposed Procurement Arrangements
(US\$'000 equivalent)

Project Element Total	Procurement Method				
	ICB	LCB	Other	N.B.F.	Cost
1. Works					
1.1 Buildings	-	688.3 (619.5)	-	-	688.8 (619.5)
2. Goods					
2.1 Equipment/Computer	(3,838.3)	-	-	-	(3,838.3)
2.2 Vehicles	-	-	(282.4)	-	(282.4)
2.3 Furniture	-	22.7 (20.4)	-	-	22.7 (20.4)
2.4 Books					
Ref. Books	(515.8)	-	-	-	(515.8)
Manuals/Journals/Per.	-	-	347.2 (340.0)	-	347.2 (340.0)
3. Consultancies					
3.1 Technical Assistance	-	-	-	-	(6,483.8)
Project Prep. & Implem. Support			(1,391.3)		
Capacity Building			(5,092.5)		
3.2 Training	-	-	(6,619.3)	-	(6,619.3)
4. Miscellaneous					
4.1 Operating Costs	-	-	3,672.3 (2,831.6)	2,141.9	3,672.3 (2,831.5)
4.2 Refinancing PPF	-	-	(1,006.0)	-	(1,006.0)
Total	(4,354.2)	711.1 (639.9)	18,411.0 (17,563.1)	2,141.9	25,618.1 (22,557.2)

N.B.F.: Not Bank financed

Figures in parentheses are the amounts financed by the IDA credit.

DISBURSEMENT ARRANGEMENTS

CATEGORY	Amount of the Credit Allocated (Expressed in SDR Equivalent) (US\$ million)	% of Expenditures to be Financed
(1) Civil Works (MIM)	0.6	90%
(2) Equipment, Vehicles, Furniture and Books	4.5	100% of foreign expenditures and 90% of local costs
(a) MIM	0.9	
(b) Other	3.6	
(3) Technical Assistance	5.8	100%
(a) MIM	1.0	
(b) Other	4.8	
(4) Training	5.9	100%
(a) MIM	1.4	
(b) DPMT	1.1	
(c) Other	3.4	
(5) Incremental Operating Costs	2.5	100% of foreign expenditures and 70% of local costs
(a) MIM	0.7	
(b) Other	1.8	
(6) Refunding of Project Preparation Advance	1.0	Amounts due pursuant to Section 2.02 of this Agreement
Unallocated	2.3	
TOTAL	22.6	

ESTIMATED IDA DISBURSEMENT (US\$'000)

	Project Year					
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Annual	4,673	8,246	5,325	2,607	1,582	124
Cumulative	4,673	12,919	18,244	20,851	22,433	22,557

REPUBLIC OF MALAWI
SECOND INSTITUTIONAL DEVELOPMENT PROJECT

Timetable of key Project Processing Events

(a) Time taken to prepare	About 4 years
(b) Prepared by	Government with IDA assistance*
(c) First IDA mission	January 1991
(d) Appraisal mission departure	October 18, 1993
(e) Negotiations	April 1994
(f) Board approval	June 1994
(g) Planned date of effectiveness	October 1994

* This report is based on the findings of a Bank appraisal mission which visited Malawi in October/November 1993, comprising Messrs Ladipo Adamolekun (Principal Public Sector Management Specialist and mission leader), Gerard Boulch (Public Sector Management Specialist), Noel Kulemeka (Economist), Frank Molobi (Development Economist), and Marc Maleta (Consultant, Public Enterprise Management Specialist). Djordje Jovanovic (Senior Country Officer) and Malcolm Holmes (Public Financial Management Specialist) assisted in appraising some of the project components. Mike Stevens (Senior Economist) was the Lead Advisor and Katrina Sharkey (Public Sector Management Specialist) was Peer Reviewer. Ms Brigida Tuason helped to prepare the project cost tables and Ms Sylvie Lelièvre provided secretarial support in the preparation of the report. Messrs Praful Patel and Stephen Denning are managing Division Chief and Department Director respectively for the operation.

Run Time: 03/24/94 at 16.19.21

Schedule D
Page 1 of 3

MALAWI
Status Of Bank Group Operations In MALAWI
PFDBR25 - Summary Statement Of Loans and IDA Credits
(LOA data as of 2/28/94 - MIS data as of 03/24/94)
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By Country
Country: MALAWI

Loan or Credit No.	Fiscal Year	Borrower	Purpose	Amount in US\$ million (less cancellations)		Undis- bursed	Closing Date
				Bank	IDA		
Credits							
47 Credits(s) closed					697.25		
C15490-MAL	1985	MALAWI	AGRI RES.	23.80		.61	10/31/93(R)
C17670-MAL	1987	MALAWI	ED. SECTOR CREDIT I	27.00		1.39	12/15/94(R)
C18510-MAL	1988	MALAWI	AGRICULTURE CREDIT	5.90		.27	06/30/95
C18790-MAL	1988	MALAWI	TRANSPORT I	13.40		2.59	06/30/94
C19660-MAL	1989	MALAWI	AGRI.MARKETING & EST	18.30		3.38	06/30/96
C19900-MAL	1989	MALAWI	ENERGY I	46.70		14.93	12/31/94
C20360-MAL	1989	MALAWI	INSTIT.DEV.	11.30		2.64	12/31/94
C20490-MAL	1990	MALAWI	INFRASTRUCTURE I	28.80		9.52	12/31/95
C20830-MAL	1990	MALAWI	EDUC.SEC.II	36.90		24.72	06/30/96
C22200-MAL	1991	MALAWI	PHN SECTOR CREDIT	55.50		44.97	06/30/97
C22210-MAL	1991	MALAWI	FINANCIAL & ENTERPRI	32.00		19.51	06/30/97
C22250-MAL	1991	MALAWI	FISHERIES DEV.	8.80		7.49	06/30/99
C23790-MAL	1992	MALAWI	LOCAL GOVT.	24.00		22.54	12/31/99
C23860-MAL	1992	MALAWI	POWER V	55.00		53.12	06/30/98
* C23960-MAL(S)	1992	MALAWI	ENTREPRENEUR DEV & D	120.00		.95	06/30/94
* C25130-MAL	1993	MALAWI	FINANCIAL SERVICES	25.00		25.02	12/31/96
* C25140-MAL	1993	MALAWI	AGRIC SERVICES	45.80		45.15	09/30/99
* C23962-MAL(S)	1994	MALAWI	ENTREPRENEUR DEV & D	4.30		4.31	06/30/94(R)
TOTAL number Credits = 18					582.50	283.12	
Loans							
10 Loans(s) closed				104.52			
All closed for MALAWI							
TOTAL number Loans = 0							
TOTAL*** of which repaid				104.52	1,279.75		
TOTAL held by Bank & IDA Amount sold				51.55	28.30		
of which repaid				52.97	1,251.45		
TOTAL undisbursed						283.12	

Notes:

* Not yet effective

** Not yet signed

*** Total Approved, Repayments, and Outstanding balance represent both active and inactive Loans and Credits.

(R) indicates formally revised Closing Date.

(S) indicates SAL/SECAL Loans and Credits.

The Net Approved and Bank Repayments are historical value, all others are market value.

The Signing, Effective, and Closing dates are based upon the Loan Department official data and are not taken from the Task Budget file.

MALAWI

**Statement of IFC Investments
as of December 31, 1993**

FY	Type of Obligor	Business	Loan	Equity US\$ million	Total
1987	VIPHYA PLYWOOD	PLYWOOD	3.9	0.5	4.4
1986	LEASING & FINANCE CO.	MONEY/CAPITAL MARKETS	0.7	0.2	0.9
1982	ETHANOL CO. LTD.	CHEM/PETROCHEM	2.3	0.2	2.5
1980//84	MALAWI HOTELS LTD.	TOURISM	2.1	--	2.1
1979	INDEBANK	DEVELOPMENT	--	0.6	0.6
1977/81	DWANGA SUGAR CORP.	SUGAR	11.3	--	11.3
1982	D. WHITEHEAD & SONS	TEXTILES	10.8	--	10.8
	TOTAL GROSS COMMITMENTS		31.1	1.5	32.6
	LESS: CANCELLATIONS, EXCHANGE ADJUSTMENTS, REPAYMENTS WRITE-OFFS & SYNDICATE SALES		26.1	1.1	27.2
	TOTAL IFC COMMITMENTS		5.0	0.4	5.4

MALAWI

SECOND INSTITUTIONAL DEVELOPMENT PROJECT

Disbursement Delays

The Bank's portfolio in Malawi is fairly large and includes 17 ongoing operations. While some improvement in project implementation was recorded, the Government's limited capacity to implement projects remains the major issue. One of the issues observed in project implementation is slow disbursement, i.e., slower than originally anticipated in the SAR. As indicated in the attached Table, the overall disbursements (as of February 28, 1994) were about 51% of the approved credits. The major generic problems in disbursements are: (a) shortage of trained/experienced staff resulting in inadequate knowledge of Bank's disbursement procedures; (b) frequent turnover of disbursement staff; (c) lack of counterpart funds; and (d) lack of staff incentives. On the Bank's side, disbursements are slowed down by: (a) too complex project components; (b) occasional Bank's staff delays in procurement approval; and (c) project budget issues not resolved at project negotiations. To remedy the problems, a number of disbursements workshops were carried out. In addition, the following actions were taken in FY93 and FY94: (i) two disbursement workshops have been carried out in Malawi (and will continue in future once a year) for disbursement officers working in the Government and in parastatals; (ii) Bank disbursement officers have visited Malawi periodically to assist various ministries/agencies in resolving pending disbursement issues and clearing the backlog. As a long-term approach, following the CIR (May 1993), the Government has prepared an action program on how to improve project implementation including improvement in disbursements.

