

**AFRICAN DEVELOPMENT BANK GROUP**



**MALAWI**

**AGRICULTURAL SECTOR ADJUSTMENT PROGRAMME II**

**Project Performance Evaluation Report (PPER)**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

**20 February 2001**

## TABLE OF CONTENTS

	<u>Page</u>
Currency Equivalents, Acronyms and Abbreviations, Summary Ratings Preface, Basic Programme Data, Evaluation Summary	(i-xiv)
<b>1. <u>PROGRAMME BACKGROUND</u></b>	
1.1 Country and Sector Economic Context	1
1.2 Programme Formulation	2
1.3 Objectives and Scope at Appraisal	5
1.4 Financing Arrangements – Bank and Others	6
<b>2. <u>EVALUATION</u></b>	<b>6</b>
2.1 Evaluation Methodology and Approach	6
2.2 Performance Indicators	7
<b>3. <u>IMPLEMENTATION PERFORMANCE</u></b>	<b>7</b>
3.1 Loan Effectiveness, Start-up and Implementation	7
3.2 Adherence to Programme Costs, Disbursements and Financing Arrangements	7
3.3 Programme Management, Reporting, Monitoring and Evaluation Achievements	8
<b>4. <u>PERFORMANCE EVALUATION AND RATINGS</u></b>	<b>8</b>
4.1 Relevance of Goals and Objectives and Quality at Entry	8
4.2 Achievement of Objectives and Outputs (“Efficacy”)	10
4.3 Efficiency	15
4.4 Institutional Development Impact	16
4.5 Sustainability	17
4.6 Aggregate Performance Rating	18
4.7 Borrower’s Performance	18
4.8 Bank’s Performance	19
4.9 Factors that Affected implementation Performance and Outcome	20
4.10 Performance of Co-financiers	20
<b>5. <u>CONCLUSIONS, LESSONS LEARNT AND RECOMMENDATIONS</u></b>	<b>21</b>
5.1 Conclusions	21
5.2 Lessons Learnt	21
5.3 Recommendations	23
5.4 Plan of Action	24

## LIST OF ANNEXES

	<u>No. of Pages</u>
Annex 1: Evaluation Criteria	5
Annex 2: Borrower's Performance	1
Annex 3: Bank's Performance	1
Annex 4: Factors that Affected Implementation Performance and Outcome	1
<b>Annex 5:</b> Key Macroeconomic Indicators	1
Annex 6: Fiscal Deficits and Government Expenditure	1
Annex 7: Evolution of Real GDP: Agricultural/Non-Agricultural	1
Annex 8: Terms of Trade: Agricultural/ Non-Agricultural Goods	1
Annex 9: Aggregate Production and Yield of Major Agr. Products	1
Annex 10: Nominal and Real Wages	1
Annex 11: Recommendations and Follow-Up	2
Annex 12: List of Documents Consulted/Used	2
Annex 13: Retro-Methodology of Project Design and Evaluation (MPDE)	3

---

This Project Performance Evaluation Report was prepared by Messrs. E. K. N. MPANDE, Principal Agricultural Economist (OPEV), and L. MERID, Macro-Economic Policy Analyst (Consultant), following their mission to Malawi from 25 July to 11 August 2000. Further enquiries should be addressed to Mr. G. M. B. KARIISA, Director, Operations Evaluation Department, on extension 4052, or Mr. Mpande on extension 4750.

## CURRENCY EQUIVALENTS

### Currency Equivalents

(Period Average)

<u>Year</u>	<u>Malawi Kwacha per US\$</u>	<u>Malawi Kwacha per UA*</u>
1992 – Appraisal	3.60	4.99
1993	4.40	6.14
1994	8.74	12.51
1995	15.28	20.31
1996	15.31	22.46
1997 – PCR	16.44	21.79
1998	31.07	36.30
1999	44.09	59.73
2000**	47.18	64.48

\* UA rates for 1995-99 are end-of-month (end-of-quarter for 1992-94) rates averaged over the year (and not end-of-year rates as stated on page XV of the Compendium). ADB, Compendium of Statistics on Bank Group Operations -- 2000, 2000. Dollar rates are yearly averages (except for 2000) from IMF, International Financial Statistics, July 2000.

\*\* Dollar rates averaged over January-April 2000, UA rates are average end-of-month for January-July 2000.

## ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
ADMARC	Agricultural Development and Marketing Corporation
ASAC	Agricultural Sector Adjustment Credit
ASAP	Agricultural Sector Adjustment Programme
CSR	Center for Social Research
FEWS	Famine and Early Warning System
IBs	Intermediate Buyers
GOM	Government of Malawi
LDP	Letter of Development Policy
MASIP	Malawi Agricultural Sector Investment Programme
MK	Malawi Kwacha
MOAI	Ministry of Agriculture and Irrigation
MOFEP	Ministry of Finance and Economic Planning
MOU	Memorandum of Understanding
MPDE	Matrix of Project Design and Evaluation
MRFC	Malawi Rural Finance Company
NEA	National Environmental Agency
NEAP	National Environmental Action Plan
NSCM	National Seed Company of Malawi
NSO	National Statistical Office
PBL	Policy-based Lending
PCR	Project Completion Report
PSIP	Public Sector Investment Programme
RBM	Reserve Bank of Malawi
SFFRFM	Smallholder Farmers Fertilizer Revolving Fund of Malawi
SGR	Strategic Grain Reserve
ToT	Terms of Trade

### Fiscal Year

July 1 to June 30 of the following year.

**SUMMARY RATINGS**

<b>Evaluation Criteria</b>	<b>PCR</b>		<b>PPER</b>	
Relevance	NA	Not Available	3	Satisfactory
Achievement of Objectives (Efficacy)	NA	“ “	2	Unsatisfactory
Efficiency	NA	“ “	1	Highly Unsatisfactory
Institutional Development	NA	“ “	1	Highly Unsatisfactory
Sustainability	NA	“ “	2	Unsatisfactory
Aggregate Indicator	2	Satisfactory	2	Unsatisfactory
Borrower Performance	2	Satisfactory	1	Highly Unsatisfactory
Bank Performance	1	Unsatisfactory	2	Unsatisfactory

Ratings Code

<u>PCR</u>	<u>PPER</u>	
3	4	Highly Satisfactory
2	3	Satisfactory
1	2	Unsatisfactory
0	1	Highly Unsatisfactory

## PREFACE

1. This is a Programme Performance Evaluation Report (PPER) of the Agricultural Sector Adjustment Programme (ASAP) of Malawi. ASAP was conceived in response to the Government's **need** to allow consolidation of gains from past adjustment efforts and to address the new economic and food insecurity problems ushered in by the 1992 drought. GOM, therefore, in 1992 requested the African Development Fund for financial assistance in support of the follow-up actions and measures envisaged under ASAP.
2. ASAP's goal was to provide balance of payments **assistance** to support the government's economic reform efforts and to minimize the adverse impact of the drought on Malawi's external position and food security.
3. Owing to the severe drought that hit Malawi in 1992 and the balance of payments difficulties, the GOM required adequate external finance to implement ASAP. The total donor financing was projected at US\$145.10 million to be jointly financed by the World Bank (US\$75 million), United Kingdom (US\$25 million) African Development Fund (US\$2 1.5 million) the Netherlands (US\$10.6 million) and the German Government (US\$9.0 million). In response to the GOM's request ADF approved on 03 September 1993 a loan of UA 15.66 million, about 15% of the total programme financing. The loan agreement was signed on 01 October 1993, and the loan was declared effective about seven months later, i.e. on 19 May 1994.
4. Although ASAP was expected to have been disbursed fully by December 1994. it experienced long slippages. At effectiveness, it was delayed by about 11 months. and closed in December 1997 – three years after the planned closure date. The Project Completion Report (PCR) was concluded in June 1999.
5. The PPER is based on the findings of a two-man mission to Malawi, which has had an opportunity to review secondary data, the literature on Malawi: and held first-hand discussions with Malawian policy-makers and others inside and outside government.
6. The PPER provides an independent evaluation of the performance of ASAP, the borrower and the Bank Group. It also provides a careful review of the economic and social conditions in Malawi at the time of Appraisal and its evolution since the early 1990s.

### BASIC PROGRAMME DATA

**Country** Malawi  
**Programme Title :** Agricultural Sector Adjustment Programme  
**Loan Number :** F/MLW/ASAP/93/25  
**Borrower** Government of Malawi  
**Executing Agency :** Ministry of Finance

<b>A.</b>	<u>Loan Particulars</u>	<u>Appraisal</u>	<u>Actual</u>
1.	Loan Amount	UA 15.66 million	UA15.29 million
2.	Interest		
3.	Service Charge	0.75% p.a. of outstanding balance	Same
4.	Repayment Period	50 years (incl. 10 years grace)	Same
5.	Repayment Schedule	1% of principal yearly from 1 lth to 20th year plus 3 % yearly thereafter	Same
6.	Loan Negotiation Date	February 1993	10-12 Feb. 93
7.	Loan Approval Date	March 93	03 Sept. 93
8.	Loan Signature Date	May 93	01 Oct. 93
9.	Date of Entry into Force	June 93	19 May 94

#### **B.** Proaamme Data

1.	Total Cost	UA 106.90 million	
2.	<u>Financing Plan</u>	<u>UA million</u>	<u>UA million</u>
	ADF	15.66	15.29
	World Bank	58.37	58.31'
	United Kingdom	18.47	N/A
	Netherlands	7.80	N/A
	Germany	6.60	N/A
3.	Deadline for First Disbursement	July 1993	19/07/94
4.	Deadline for Last Disbursement	31/12/95	27/05/97

#### **C.** Implementation Performance Indicators

1.	Cost Overrun/underrun	Nil
2.	Time Overruns/underruns	
	- Slippage on Effectiveness	11 months
	- Slippage of Completion Date	18 months
	- Slippage on Last Disbursement	2 years
	- No. of Extensions of Last Disbursement	1

<sup>1</sup> As per the PCR of ASAC, IDA extended a credit of SDR 56.6 million (including SDR 4 million of reflows) to GOM and 99.9 percent was disbursed by end of 1992.

	<u>PCR</u>	<u>PPER</u>
3.	<b>Project Implementation Status</b> Completed	
	- Project start-up date 1994	SAME
	- Project completion date 1997	SAME
4.	<b>Institutional Performance</b> Satisfactory	N/A
	- Contractor's Performance Satisfactory	N/A
	- Consultant's Performance Satisfactory	N/A

**D. Missions**

	<u>Dates</u>	<u>No. of Persons</u>
- Identification		
- Preparation	15-30/11/92	3
- Appraisal	15-30/11/92	3
- Supervision	13-27/4/94	3
- Supervision	13-23/6/95	2
- PCR	3-18/12/97	3

<b>E. <u>Disbursement</u></b>	<u>Appraisal Estimates</u> (UA million)	<u>Actual</u> (UA million)	<u>Percentage</u> <u>Disbursed</u>
- Total disbursed by ADF	15.66	15.29,	97.65%
- Ave. Annual Disbursement	7.83	5.10	N/A
- Amount Cancelled	Nil	Nil	Nil
- Unexpended Balance	0	0.37	2.35%

**F. Contractor(s)/Supplier(s)**

- Name : Deloitte and Touche
- Responsibility : External Audits

**G. Consultant**

- Name : Mr. A. Sahu
- Responsibility : Carried out the Programme's Mid Term Review

**H. Other Projects financed by the Bank Group in the count&sector**

No	Sector	No of Operations by Sectors	Cumulative Loans, Grants, Equity – Approvals – UA Mil.	Cumulative Disbursement UA Million	Disbursement as % of Approvals
A	Agriculture and Rural development	23	118.27	60.98	51.6
B	Industry, Mining and Quarrying (Including Lines of Credit)	5	21.66	16.51	76.2
C	Transport	16	133.37	81.87	61.4
D	Water Supply & sanitation	10	55.79	42.58	76.3
E	Power/Energy	5	51.88	17.83	34.4
F	Communications	3	35.30	29.73	84.2
G	Social	8	59.50	43.05	72.3
H	Multi-sector*	5	33.98	19.69	57.9
	Total	75	509.74	312.22	61.2

\* 4 were policy-based lending (PBL).

Source:

ADB, Compendium of Statistics on Bank Operations, Vol. XXIII, 2000, p. 130.

## EVALUATION SUMMARY

### The Programme

1. The Agricultural Sector Adjustment Programme (ASAP) was designed in response to Malawi's BOP constraints and food insecurity following the drought of 1992 and to address medium- to long-term structural and institutional policy issues in the agricultural sector. Such a response was made even 'more urgent because of several external shocks – political uncertainties, elections, a second drought in 1994, and flooding. These calamities exposed Malawi's precarious macroeconomic situation and the pervasive poverty and social deprivation.
2. The objectives of the Programme are provided in the retrospective Methodology of Project Design and Evaluation (MPDE, ref. Annex 13). According to the MPDE the overall objectives of the Programme were to promote economic growth in Malawi and reduce rural poverty. Given the important role the agricultural sector plays and the impact of the drought, the Programme aimed at (i) increasing household (individual) food supply, (ii) unleashing the supply response and short- and long-term opportunities in the agricultural and rural economy, and (iii) increasing the income of small farmers by removing the restriction barring them from producing burley tobacco. The African Development Fund provided a credit of UA 15.66 million (US\$21.5 million) for the purchase of maize and other food items, fertilizer and pesticides, and spare parts. On its part the government agreed to implement macroeconomic and agricultural sector reforms. The macroeconomic reforms focussed on management of the external sector and public finance. Agricultural reforms focussed on measures to improve incomes and food security among smallholders, and to promote land use efficiency in the estate sector.

### The Evaluation

3. The report used simple ratios based on the national accounts data, producer and consumer prices assembled by the Famine and Early Warning System (FEWS), and other data from the National Statistical Office (NSO) to make its assessments. A trend of the key parameters (i.e. inflation, fiscal deficit, terms of trade, etc.) is provided to facilitate a comparison of the situation before and after ASAP. In addition to the before/after scenario, it makes its qualitative judgement on the counterfactual of what would have happened to the stated objectives if the Bank did not make an intervention through ASAP.
4. The performance indicators are given in the Retrospective MPDE in Annex 13 and Annexes 5-10. The indicators in those Annexes could be compared with the projections of key macroeconomic indicators provided in Annex VI of the Appraisal Report to make judgement on the extent to which the targets have been achieved. It was projected that real GDP would grow by 3.0 percent in 1993 and 4.5 percent in 1994 and 1995. Inflation would be maintained at 5 percent per annum between 1993-95. Likewise, fiscal deficit was projected to decline from 7.3 percent of GDP in 1992 to 4.5 percent in 1995 (before grants)? and 3.5 percent down to 2 percent (after grants) during the same period.

## Evaluation Conclusions and Ratings

5. ASAP addressed relevant policy issues and was within the context of the government's and the Bank's policies. GOM's request for the Fund's assistance brought out the need for drought recovery, continuation of the macroeconomic reforms and promoting policy changes initiated in the agricultural sector. The operation was also consistent with the Bank's country strategy for Malawi as outlined in the Country Prospects and Country Programming Paper (1993-95). Several components of ASAP were in line with the Bank's crosscutting thematic policies. Moreover, other development partners of Malawi supported most of the policy issues in ASAP in similar operations. However, the ADF-funded ASAP was weak at entry due to a conflict between the long-term nature of the objectives and the short-term BOP instrument used, weak analytical support, and lack of engagement in the policy dialogue.

6. The PPER's assessment of the extent to which the objectives (i.e. efficacy) have been met is mixed. Malawi continues to face the same macroeconomic ailments (i.e. inflation, high interest rate, overvalued exchange rate (Annex 5), fiscal deficit, and misallocation in government expenditures (Annex 6), deterioration in the domestic terms of trade (TOT, Annex 8). Nevertheless, some positive gains have been made in terms of poverty reduction (Annex 7), agricultural production (Annex 9) and the practice of agricultural input and output marketing and pricing. However, whatever weaknesses or gains that have materialized could not be attributed to the ADF-funded ASAP alone. ASAP provided some BOP support but was not active in the policy dialogue. In this regard the Programme was rated unsatisfactory.

7. As the Annexes show, actual inflation in 1995 was over 80 percent compared to the projected 5 percent; and fiscal deficit (after grant) was about 17 percent compared to the projected 2 percent. The TOT had declined from 1.61 in 1992 to 0.74 in 1995. On the other side, following the good weather, real GDP increased by 13.9 percent in 1995 (after a contraction of 11.6 percent in 1994) compared to the projected 4.5 percent. In per capita terms, rural income in 1995 had not yet recovered to its level in 1993, but it set a stage for a modest improvement in subsequent years. Likewise, the production of maize more than doubled between 1992 and 1995 mainly as a result of good weather. Qualitatively, the diversity of food crops grown increases with drought resistant and root crops looming large in the production mix.

8. From the point of efficiency, ASAP is rated highly unsatisfactory. Identifying and valuing the social costs (and benefits) of a policy-based operation are often extremely difficult – more difficult than in the case of the traditional agricultural or industrial projects. The difficulty is due to several reasons. First, the impact of PBL is economy-wide and it is difficult to identify a specific socio-economic (or income) group(s) that benefited from the operation or sustained welfare loss from it. Second, the impact could be different in the short- (i.e. negative) and long-term (i.e. positive). The third reason is one of valuation. A US\$1 welfare gain (loss) to the poor group cannot be considered equal to US\$1 welfare gain (loss) to the non-poor. This raises the issue of what weight to attach to the gains/losses falling to different income groups.

9. Responding to the efficiency criteria would require a General Equilibrium Model (CGE) and a Social Accounting Matrix. This essentially implies taking each of the policy measures and tracing how the policies are mediated through markets, and how each socio-economic group is impacted by the policy during the first and subsequent rounds.

10. The efficiency of the various policy reforms under ASAP (e.g. exchange rate, fiscal management, agricultural pricing and marketing, rationalization of ADMARC, fertilizer subsidy removal, and the burley policy) have been evaluated qualitatively. There is an additional cost to the economy when the loan has to be repaid since the Government would have to raise revenue (i.e. put on a tax) and also buy foreign exchange.

11. Taking all the policy issues together and qualitatively tracing the costs/benefits, the PPER rates ASAP's efficiency highly unsatisfactory.

12. ASAP had several institutional development aspects, however, these were not effectively implemented, neither were they advanced forward carefully. First, the National Steering and Technical Committees were meant to encourage dialogue among the relevant agencies within government (and outside) on the specific elements of the ASAP conditions and related economic matters, and to monitor the implementation of the policy measures. There is no record to show that the Committees met more than once and played any meaningful role in practice. Second, ASAP would have also served as a vehicle for private sector development in agricultural trade. This was not recognized as an additional advantage of ASAP at Appraisal stage, and no positive support was provided in the Programme.

13. There have been several developments that ensure the sustainability of the objectives advanced by ASAP, but these are not comprehensive. There is political commitment for the reform agenda. Many in the legislative and executive arm of government come from the private sector and they are likely to stand in support of the reform agenda. The concern is that individual interest could take precedence over national interest. NGOs are proliferating unlike the situation in the late 1980s. In addition to supporting poor households in different development areas, NGOs play limited check and balance role in the political and administrative arena now. However, the civil service seems weak and disinterested, and the administrative capacity to initiate, design, and implement projects/programmes is questionable. Similarly, another episode of drought could create severe damage to agricultural production and push many households (and individuals) further down into distress. Essentially, the resilience of the agricultural sector and Malawi's economy to another spell of drought is still in serious question.

14. Overall: ASAP was a highly unsatisfactory operation. Even though, ASAP touched the key economic and social issues in Malawi. Yet, not too much effort was put into understanding the complex economic situation in the country during the design of the project. ASAP was neither properly monitored by the client nor supervised by the Bank. An important output of Policy-Based Lending (PBL) is the dialogue it fosters between the Bank and the client. The dialogue is as important as

the BOP support since it facilitates understanding the issues better, ideally builds the client's capacity and fosters partnership. The fact that no dialogue took place is symptomatic of the weak performance.

### **Conclusions**

15. Although the programme performance was rated unsatisfactory, ASAP addressed relevant policy issues and was within the context of the government's and the Bank's policies. ASAP aimed at promoting growth and poverty reduction in Malawi by continuing the macroeconomic stabilization and structural adjustment programmes that had already been initiated by the IMF and the agricultural policy reforms of the World Bank under ASAC. On the macroeconomic front the two key components were the maintenance of a flexible exchange rate and supporting a depreciation of the Kwacha in real terms through the maintenance of fiscal discipline. ASAP further advanced a rationalization of public expenditures so that more public resources would be re-allocated in favor of key social and economic sectors, including agriculture.

16. ASAP brought in focus the central policy issues related to the agricultural sector. These were (a) opening up the production of burley tobacco to the smaller smallholder- farmers, including female farmers, (b) liberalisation of domestic and foreign trade in agricultural inputs and outputs, (c) privatization of ADMARC, the state procurement and distribution agency, and (d) removal of the fertilizer subsidy.

### **Lessons Learnt**

17. In the design of agricultural input and output policies, it is important to have a thorough understanding of the social, economic, and resource condition of each country. In the context of Malawi, the fertilizer subsidy removal should have provided careful attention to land fragmentation and the small size of farms in the country. Removal of the subsidy should have been accompanied with finely targeted subsidy to those small farmers that cultivate less than half a hectare. Similarly, agricultural pricing and marketing policies would need to take account of the severe food insecurity and the fact that close to 30 percent of farm household is net buyers of food.

18. Better sequencing of agricultural input and output policy reforms could facilitate easy implementation of the reforms and enhance their impact. It is noted that GOM should have liberalized the maize sector first, followed by groundnut export sector. Once a supply response was generated, input subsidies could have been phased out. This sequence would have minimized the adjustment costs of smallholder farmers and would have reduced the negative impact on maize productivity and food security.

19. The implementation of an operation could be seriously impeded (or derailed) if it is designed to rely on inputs from third parties (not bound by any contractual obligation). It would therefore be prudent to avoid dependence on third parties for an important component of a project. An example is the targeting means that UNDP (ref. para. 4.1.6) was supposed to develop for targeting food to drought stricken households. This did not materialize because UNDP was not aware that it would prepare a targeting means.

Even if UNDP was aware, it is not always possible for it to move at the pace required by the operation. Thus, putting a condition on the government would be unfair, and an important objective of an operation would fail to be implemented.

20. The experience above, in addition to the insight it gives to exercising caution, calls for more and better coordination with other donors. This is particularly true if the other donors are also working in similar operations, and the operations are contemporaneous (ref. paras. 4.1.7, 4.8.4). For instance, USAID's and ADF-funded ASAP run in parallel. If properly coordinated, the Bank could have used USAID's information to make judgement on whether or not a certain condition was met: The information gathering aspects could have also been done jointly or shared. This would have cut resources needed in supervision. Once the information was generated, decision could have been made independently.

21. If an operation, such as a PBL, involves more than one government agency, it is incumbent upon the Bank to make sure that each one of them understood their responsibilities (ref. para. 4.1.7). The flow of information within government agencies is very poor, and often, conditions relating with PBL are kept with secrecy. Thus, agencies whose functions are affected by a Loan Agreement may not know about it at all. To avoid such surprises Bank staff would need to liaise with all the relevant agencies.

22. In PBL (and other similar operations), it is wise to limit the number of conditions, to define them very clearly (e.g. avoid such phrases as "... satisfactory to the Bank") and to reward actual implementation than promises (ref. paras. 1.3.10, 4.1.4).

23. Using a positive list for PBL is distortionary, and given that money is fungible (ref. para. 1.3.12), it is difficult to determine how the money is used (on the margin). It would therefore be preferable to revert to a negative list of items to which the loan proceeds cannot (or should not) be used.

## **Recommendations**

### **For the Bank Group**

24. Since September 1995, the Bank Group has instituted a wide ranging reform programme one of whose four main objectives is to improve the quality of the Bank's operations. The reform measures have focussed on improving project quality and the development effectiveness of the Bank's lending programme. However, the Bank would still need to put in more resources in preparation, appraisal and supervision in order to enhance its operational effectiveness (ref. paras. 4.1.5-4.1.7, 4.3.2, 4.6.2, 4.8.4-4.8.5). The preparation and implementation of projects and programmes, including PBL, are resource intensive activities and the Bank need not be short-handed if quality matters to it in order to generate effective projects.

25. The Bank, guided by its CSPs, would need to continue concentrating its efforts in a few sectors in each country. Given its limited resources, the Bank could achieve more if it selects one or two sectors in a country and focus on those limited sectors, instead of thinly spreading itself (implied in paras. 4.1.5-4.2.1, 4.3.2, 4.6.2). This would need to be supplemented by a comprehensive and long-drawn plan of intervention. For Malawi, for instance, it could choose the agricultural sector. It could then commit itself to work there for 10-15 years. In so doing, it would bring its entire arsenal (PBL, TA and project lending) to make a tangible difference over an extended period. This could facilitate further sharpening the Bank's understanding of the sector and improving the policy dialogue, as well as creating a better match between its instruments and the policy goals (para. 1.3.9).

26. The Bank would need to use more specialists (ref. paras. 4.1.6, 4.8.3). Many policy issues that outwardly look simple and commonplace can be complex when examined closely. For instance, the design of public works and other targeted programmes (such as drought related food distribution) require the input of specialized professionals. ASAP had good intentions in proposing importation and distribution of food, but this aspect was not thoroughly defined in the project document.

#### For the Bank Group and Borrower

27. The management of project-related documents within government needs major improvement. If management of documents does not change, the Bank should hold back disbursements on all operations. This has to be monitored on regular bases (ref. paras. 2.1.1-2.1.2, 4.7.1). Every year, by a certain date (e.g. June 30) the Bank and the Borrower could review the status of documents (including Audit Reports). If the government is not up-to-date and the understandings are not met to the satisfaction of the Bank, the Bank should reserve the right to disburse or withhold any loan moneys. The same rule could be applied to regular or special reports promised under one or the other project. If the Bank becomes serious, the Borrower would also work towards becoming up-to-date. The borrower, on its part, should take the matter seriously.

28. Since the Bank does not have field presence in most RMCs including Malawi, it depends very much on the inputs provided by staff assigned by government to oversee Bank projects (ADB Desk Officers). If those officers are not effective (ref. paras. 1.2.4, 3.3, 4.7.3-4.7.4), the Bank does not have anything to rely on. It would therefore be important to negotiate with government so that the quality and credibility of such staff is as high as possible. The PPER has, however, noted that as part of a medium-term plan to gradually strengthen its presence in RMCs, the Bank has started opening up offices. This will enable it to monitor more closely its portfolio and to coordinate better its operations with clients and other development partners.

29. The Bank and the Borrower would need to design a long-drawn programme and strategy focussed on the adoption of the improved seed varieties, improving the assembly and dissemination of information (including prices), improving rural infrastructures, and creating opportunities for markets to thrive, reforming the Ministry of Agriculture and Irrigation to make it fit to support a private sector led agriculture sector strategy, supporting the creation and development of rural institutions, and supporting the GOM to design a strategy of diversification to

minimize the reliance on tobacco. Similarly, ADF could play a catalytic role to improve the flow of public resources to rural areas by working on public expenditure issues with GOM and other donors. Public safety and rural security is becoming a serious concern to raising livestock and maintaining on-farm stocks of food. There is room to work with GOM in this area as well.

#### For the Borrower

30. Borrowers should also see to it that staff assigned to interface with donors are highly qualified, motivated and tend to act responsibly (pat-as. 4.7.3 - 4.7.4). Obviously, it is difficult to make staff in one section or department different from the rest in the ministry or the civil service. The problem is more **systemic** (or system wide). While ad hoc measures would address the specific problem at hand, the systemic problems need to be addressed. This essentially means that GOM would need to reassess the size and incentives structure of the civil service (and more generally the scope of government as well).

31. The implications of the lessons learnt as well as the recommendations, together with an assignment of responsibility, are presented in a matrix in Annex 11.

## 1. PROGRAMME BACKGROUND

### 1.1 Country and Sector Economic Context

1.1.1 Malawi is a small, densely populated, and land-locked agricultural country. Unlike its neighbors, it has limited known mineral resources. Its manufacturing sector is mainly agro-based (excluding a few plants producing construction materials and miscellaneous consumer and intermediate products). The service sector, other than public services, is geared to supporting the agricultural sector. Public services have a much wider scope but have so far tended to be biased against the rural and agricultural sectors.

1.1.2 The agricultural sector depends on a weak technical base. The use of oxen drawn plough is limited to the Northern Province where mixed livestock and crop farming is practiced. Since there is ample expanse of unutilized land in the North, farm sizes are larger and combining mixed cultivation practices has become common.

1.1.3 Malawi's agriculture is known for its government sanctioned dualism. Until the early 1990s, estate agriculture co-existed with smallholder agriculture, the former producing mainly commercial exportable crops such as tobacco, tea and sugar. The smallholder sector was sanctioned to produce maize – the staple crop – and the less lucrative varieties of tobacco. The estates marketed their produce directly – locally or internationally. The only channel for marketing of smallholder produce and procurement of inputs was the state marketing agency – Agricultural Development and Marketing Corporation (ADMARC). ADMARC essentially collected the surplus from the smallholder sector to invest the resources into the non-agricultural and urban sectors. Some of the surplus was reverted to the agricultural sector through fertilizer subsidies. Towards the late 1980s, ADMARC had a diversified portfolio of about 17 urban-based enterprises. It had a wide network of markets and over 200 warehouses spread all over Malawi to handle its fertilizer distribution and crop procurement functions. In 1988, with the dialogue on fertilizer subsidy removal, the Smallholder Farmer Fertilizer Revolving Fund of Malawi (SFFRM) was set up to distribute donor provided fertilizer to the smallholder sector.

1.1.4 Malawi is one of the poorest countries in Sub-Saharan Africa (SSA). Income, nutrition and other social indicators paint a dim picture of deprivation. Other than the explicit and implicit policies of the previous government to keep Malawians rural and agricultural with limited scope for diversification, and as suppliers of cheap labor to the estate sector, Malawi's poverty is caused by structural constraints. For an agricultural country such as Malawi, production and rural income depend on labor and land availability. Both factors of production are in short supply, however. After a process of land fragmentation, the average holding size in 1998/99 was estimated to have reached 0.45 hectares. In 1980/81, about 55 percent of holdings were below one hectare. By 1992/93, the less-than-a-hectare holdings had risen to 73 percent. After further fragmentation, the ratio had again risen to 78 percent in 1998<sup>2</sup>. As a result, the phenomenon of 'landless or near landless rural labor, akin to countries such as India and Bangladesh, has emerged. The severity of land constraint is less pronounced in the Northern Province (where land is still relatively abundant) and extremely serious in the Southern province. In the Southern province, about 60 percent of rural income comes from off-farm activities, including *ganyu* labor<sup>3</sup>.

<sup>2</sup> R. Poulin, J. Greenham, J. Tabor, G. Simons, N. Ngwira, K. Sichinga, and M. Mwabumba. Malawi Rural Sector Assessment, DAI, prepared for USAID, July 1999.

<sup>3</sup>Daily labor paid in cash or in-kind

1.1.5 Shortage of labor emanates from the high dependency ratio of poorer households and the prevalence of female-headed households – a phenomenon very common in rural Malawi<sup>4</sup>. About 2.5 percent of all Malawian households and 30 percent rural households are female-headed<sup>5</sup>. Other than male migration, female-headship is compounded by divorce, single-ness, and by the loss of the husband (being widowed)<sup>6</sup>. Although about a quarter of female-headed households receive remittances, the amounts are meager to hire-in labor to do the arduous tasks in the agricultural cycle.

1.1.6 Malawi was commended for its prudent economic policies until the late 1970s. However, in the late 1970s and the early 1980s, a series of external shocks made its vulnerability very stark. The rise in the price of petroleum, the sharp drop in the price of basic commodities, the closure of the shortest exit to the ocean (via the ports of Nacala and Beira) due to the political problems in Mozambique, the inflow of a large number of Mozambican refugees (about a million at its highest towards the end of the 1980s) caused major macroeconomic imbalances. Thus, Malawi became among the first countries to usher in stabilization and structural adjustment policies in the early 1980s. Yet, the problems persisted well into the late 1980s due to additional external shocks and lukewarm implementation of the programmes.

1.1.7 In the late 1980s, it was found that Malawi's vulnerability extended beyond the macroeconomic sphere. Despite large food reserves maintained at the national level, it was laid bare that a large proportion of Malawians were food insecure, malnourished, illiterate, and suffered from the commonly known ailments in SSA. Malawi's household level vulnerability was not regarded a serious issue by policy-makers until the late 1980s. The view was that trickle-down would take care of improvements in the well-being of rural Malawians. In the period 1992-95, the situation was exacerbated by intermittent droughts followed by flooding.

1.1.8 In the early 1990s, with poverty reduction taking center stage in international economic discussions, poverty reduction in Malawi itself also started to be discussed more openly. It was at this stage that the Government of Malawi (GOM) and its development partners recognized that policies as usual would not work and a radical departure would be needed to address the grave and faltering human condition. These developments on the economic and social front opened the way for radical reforms in the political arena that led to the democratic elections in 1994.

## 1.2 Programme Formulation

1.2.1 The Agricultural Sector Adjustment Programme (ASAP) was launched in 1992 with broad economic and social goals and concerns for poverty reduction. ASAP was the third of the four ADB-funded policy-based lending (PBL) operations in Malawi. Since Malawi joined the ADB Group in July 1966, a total of 75 projects have been approved (i.e. 12 ADB loans and 63 ADF loans and grants). As of December 31, 1999, five had not been signed while the others were already implemented (or were still on-going). Of the 75 loans, 4 were multi-sector (or PBL) operations.

<sup>4</sup>Refer to J. Alwang and P.B. Siegel, Labor Shortages on Small Landholdings in Malawi: Implications for Policy Reforms. World Development, Vol. 27, No. 8, August 1999.

<sup>5</sup>Before independence, male Malawians left their wives behind and migrated to the current Zambia, Zimbabwe, Botswana and South Africa for a good part of a year to work in the mines and commercial farms there. In the 1970s and 1980s, the same pattern continued in a more formal way with South Africa. As a result, many Malawians, over a quarter at its highest, went to South Africa every year through the agreement entered between the two governments.

<sup>6</sup> The World Bank, Malawi: Human Resources and Poverty – Profile and Priorities for Action, November 1995. The situation could have been exacerbated by HIV/AIDS.

1.2.2 In December 1992, at about the same time that ASAP was being appraised, ADB issued its Country Prospects and Country Programming Paper<sup>7</sup> for the period 1993-95'. The Paper addressed several issues and sectors including socio-economic indicators, social sectors and poverty, the agricultural sector and the impact of the drought of 1992. The Paper stated that ADB would place emphasis on growth, sustainable development, improved standards of living of the rural poor and development of human capital. It underlined that it would support GOM in avoiding severe adverse effects of the drought. It stated that special attention would be given to **projects/programmes** oriented to poverty reduction with emphasis on agricultural growth and provision of social services. In the lending programme of 1993-95 (ADF-VII), it explicitly stated that resources would be earmarked for an agricultural adjustment programme. The agricultural strategy elaborated that ADB would support efforts in promoting efficient marketing systems and providing producer incentives.

1.2.3 According to the Appraisal Report of ASAP, the Ministry of Finance (currently the Ministry of Finance and Economic Planning – MOFEP) had been charged with the execution and implementation of ASAP while the Reserve Bank of Malawi (RBM) was delegated to open and maintain a Special Account in a foreign bank. There is no explicit mention of the degree to which the two agencies were involved in the design of ASAP. The Ministry of Agriculture and Land Development (MOALD) – currently the Ministry of Agriculture and Irrigation (MOAI) – was mentioned (para. 3.3.1) only as an agency “responsible for co-ordinating agricultural services to the smallholder sub-sector” not as an actor in the design of ASAP. In the opinion of the Post-Evaluation team MOALD should have played a leading role given that the operation centered on agricultural sector policy matters. Based on discussion with experts of MOFEP during the Post-Evaluation mission, MOFEP seemed to have played a very limited role during the design or implementation phases.

1.2.4 With the benefit of hindsight, several design-related (or programme formulation) issues were not properly accommodated. First, it seems that some of the policy proposals should have been more critically examined and the trade-off between the different policy measures carefully analyzed. For example, considering the issue of fertilizer subsidy removal and that of food security, the former is a sound policy from the point of fiscal management and cutting the deficit. However, in a country such as Malawi, where the average holding size is less than half a hectare, removing the subsidy reduces the utilization of fertilizer, impacts production adversely, and exposes households to serious food insecurity. In its starkest form, the choice was between providing subsidized fertilizer up-front or subsidized (or free) food during the second half of the crop year. In this respect, other than the fiscal impact, the only concern of subsidy could be that the beneficiaries of the subsidized fertilizer might not be only the poor. If such leakage to the non-poor was a concern, removal of the subsidy should have been accompanied with fine targeting to those small farmers that cultivate less than half a hectare.

1.2.5 Second, the same argument could be made about maize marketing and pricing and ensuring food security at the household level. In Malawi, a disproportionate number of smallholders (and rural households) are net-buyers of food items, mainly maize. Under normal circumstances, 20-30 percent of rural households harvest enough maize to take them only 8-9 months of the year. Moreover, due to the demand for liquidity, they cannot hold onto their crop until prices rise again on seasonal bases. Thus, they sell their crop immediately after harvest (or while it is on the field) and end-up buying food (if they have the cash) during a good part of the second half the year. An agricultural pricing policy that does not take these dimensions of the Malawian situation is likely to cause severe adverse effect.

<sup>7</sup>African Development Bank. Malawi: Economic Prospects and Country Programming Paper. 1993-1995. ADB/BD/WP/92/143, December 29, 1992.

12.6 Third, the policy of indexing the statutory minimum wage to inflation should have been avoided. This was contrary to the policy of encouraging employment opportunities, may have contributed to inflationary pressure through wage-price link (akin to many Latin American countries) and must have been difficult to enforce in the informal sector. In a country such as Malawi where the unemployment and under-employment is high care should have been exercised in advising GOM to take such a policy measure.

12.7 Fourth, the policy of putting on a **cess** (an export tax on producers) was not the right policy given that the whole idea of pricing reform was to remove distortions that create a wedge between international and producers' prices.

1.2.8 Fifth, although the Appraisal Report mentioned the oligopolistic situation in the transportation sector, it opted to solve the transportation problem by **proposing** satellite depots. It may have been better to support the government to make the transport sector more competitive. The modification to the Loan Agreement to retroactively finance transport vehicles may have partly addressed the real problem.

1.2.9 Sixth, there was a mismatch between the instrument selected (i.e. short-term BOP operation) and the medium-term or long-term nature of the institutional and policy issues addressed in the operation. Admittedly, the concern of the Bank was the critical BOP situation and the urgency of addressing the impacts of the drought. If drought relief was the primary concern, the operation should have gone without any conditions to make disbursement easy or it should have **focused** only on those conditions that related to the distribution of food (or agricultural inputs), such as whether food would be distributed for free or would be tied to work, if so, the design of the work to be done, and logistical issues (transport, storage, distribution, etc.). If, on the other side, there was a need to tie the operation to medium-term (i.e. post-drought) policy issues, it should have taken up very simple policy issues (e.g. studies, setting up committees, opening up a Special Account, etc.) which were less likely to delay disbursement.

12.10 Seventh, the conditions in the Appraisal Report, and more so as stated in the Loan Agreement, were not sharply **defined**<sup>8</sup> and were too many in number. Vagueness in the definition of the conditions (e.g. "... satisfactory to the Bank") may have been acceptable if it was intended to give flexibility for interpretation of the conditions later on. However, since the Loan Agreement is a legal document, the conditions should have been defined more sharply so that whether or not a certain condition was met was clear to both parties and others'. As found out later, the Bank and the Borrower had to go into several exchanges of letters to clarify what was required by the Bank. As a result, disbursement was delayed unnecessarily. Moreover, the large number of conditions that had to be met compounded the problem. For example, first and second **tranche** combined, there were 18 conditions (excluding those promises explicitly or implicitly made by the Borrower), which appeared to be an' overload.

12.11 Eighth, a positive list of goods to which the proceeds of the loan could be used was distortionary. This would force consumption of goods and services for which loan funds are available and deprives the government the flexibility in resource allocation. It would have been better to use a negative list to which the proceeds of the loan could not be used (e.g. armaments,

<sup>8</sup>ADF. Loan Agreement between the Government of the Republic of Malawi and the African Development Fund (Agricultural Sector Adjustment Programme), No. F/MLW/ASAP/93/25, signed October 1, 1993.

<sup>9</sup>E.g. One of the conditions in the Loan Agreement [Section 4.02(8) and Annex III (c)] is a "phased reduction of fertilizer subsidies". Does this mean reduction from say 30 percent to 25 percent the first year (say 1994) or from 30 percent to 29.5 percent? Moreover, what was government expected to present to show that the condition has been met? For instance, elimination of a certain budget item, or change in the law (Bill or Act), etc.

tobacco, etc). In any case, given that resources are fungible, it is not clear how the proceeds from the loan were (or may have been) used, on the margin, without a complete knowledge of the import list and public expenditures.

1.2.12 Ninth, observers of Malawi note that the sequencing of agricultural input and output market reforms adopted in the 1980s was not ideal. It is suggested that GOM 'should have liberalized the maize sector first, followed by groundnut export sector, and once a supply response was generated, input subsidies could have been phased out. This sequence would have minimized the adjustment costs of smallholder farmers and would have reduced the negative impact on maize productivity 'and food security.'<sup>10</sup>

### 1.3 **Objectives and Scope at Appraisal**

1.3.1 The objectives of the Programme are provided in the retrospective Methodology of Project Design and Evaluation (MPDE, ref. Annex 13). According to the MPDE the overall objectives of the Programme were to promote economic growth in Malawi and reduce rural poverty. Given the important role the agricultural sector plays and the impact of the drought, the Programme aimed at (i) increasing household (individual) food supply, (ii) unleashing the supply response and short- and long-term opportunities in the agricultural and rural economy, and (iii) increasing the income of small farmers by removing the restriction barring them from producing burley tobacco.

1.3.2 The scope of the Programme covered both macroeconomic and agricultural sector reforms. Macroeconomic reforms focussed on management of the external sector and public finance. Agricultural reforms centered on measures to improve incomes and food security among smallholder farmers, and land use efficiency in estates. Six policy issues were addressed (ref. para. 5.2.3. Appraisal Report); viz., (i) maintenance of flexible exchange rate policy, (ii) keeping the fiscal deficit at levels that can be financed largely with concessional external resources, (iii) reduction of fertilizer subsidies, (iv) focus the public sector investment programme on areas of high priority, and returns, (v) continuation of reforms to ensure adequate producer incentives and improve marketing efficiency, by expanding the role of the private sector, in the smallholder agriculture, and (vi) continuation of reforms to improve the functioning of the labour market.

1.3.3 A comparison of the statement of objectives in para. 5.2.3 and those in the MPDE of the Appraisal Report reveals that (i) there was a disconnection between the two statements of objectives, (ii) a confusion between objectives and inputs, (iii) lack of logical consistency in the Hierarchy of Objectives, (iv) lack of specific and quantified Verifiable Indicators", (v) the inadequate identification of the Means of Verification<sup>12</sup>, and (v) incomplete assessment of the Assumptions and Risks".

<sup>10</sup>M. Kherallah and K. Govindan. The Sequence of Agricultural Market Reforms in Malawi, Journal of African Economies, Vol. 8, No. 2, July 1999.

<sup>11</sup>For instance, the MPDE states that fertilizer subsidies will be phased-out but it does not mention the starting level of subsidy in 1992/93 and the targets for subsequent years.

<sup>12</sup>For instance, MOV lists that it would use survey data on income and expenditures, living standards, etc. But, it is not clear whether the National Statistical Office had planned to launch such surveys, whether it had been budgeted for, and that the logistical issues were being looked into.

<sup>13</sup>For instance, consider the Activity stated as "drought recovery support". The conditional statement considering the Assumptions would read "If drought recovery support is provided, and GOM is committed to alleviate food insecurity and mitigate the effects of the drought, then widespread starvation and food insecurity will be reduced." This conditional statement would hold only if some more Assumptions had been included. The mission would mention the absence of infrastructural, transportation and logistical support.

## 1.4 **Financing Arrangements – Bank and Others**

The Appraisal Report (para. 5.3.1) and the Project Completion Report (para. 4.6)<sup>14</sup> indicate that the overall financing had been projected at US\$147 million, of which five donors, including ADF, contributed US\$145 million. ADF's contribution is put at US\$21.5 million (UA 15.66 million) or 15 percent of the total. It is not however clear whether the estimated financing gap, which ADF's BOP support was supposed to bridge, was for a single year or for more than one year. Moreover, the year(s) to which the gap relates are not stated. Similarly, the role and relationship of ASAP with the other actors was not clear except that it provided a parallel and/or additional financing.

## 2. **EVALUATION**

### 2.1 **Evaluation Methodology and Approach**

2.1.1 A two-man mission visited Malawi for two weeks starting end of July 2000, to discuss with relevant government officials and others, and to collect data and information for the Post-Performance Evaluation. During its mission to Malawi, the PPER team encountered several difficulties in assembling information and data. The first was the absence of project-related documents at either MOAI or MOFED or RBM. Second, many government officials and experts were transferred to their current positions in the last two years. This left no institutional memory to draw upon. Third, document assembly, storage, and dissemination of information, including essential economic data, at many government agencies, including the Reserve Bank, are not up-to-date. Thus even if the data were available, being able to use them was a big challenge<sup>15</sup>.

2.1.2 Under the circumstances, it would be difficult to pass judgement on specific project-related milestones and to second guess the PCRs findings with respect to procurement, accounting, auditing, and the like. Instead, the PPER aimed to shed light on the effectiveness and impact of ASAP based on secondary sources of data, and on a review of the academic literature on Malawi, studies of the rural and agricultural sectors in Malawi commissioned by USAID and the World Bank, and the PCR of World Bank's ASAC<sup>16</sup>. The PCR of ASAP undertaken by the OCDS – Country Department South -- contains useful information and data to draw from, and these were used extensively. While in Malawi, the mission visited 25 entities comprising government ministries and agencies, non-governmental organizations, academic and research institutions, and donor agencies; and held consultations with over 30 individuals in Lilongwe, Blantyre and Zomba<sup>17</sup>. The findings from these meetings have been reflected in the report.

<sup>14</sup>African Development Fund, Malawi: Agricultural Sector Adjustment Programme – Project Completion Report, ADF/BD/IF/99/120. June 18, 1999.

<sup>15</sup> For instance, the economic data published in the regular RBM report is stored in an old program called *Ventura* and is not accessible in commonly used programs such as Excel. Despite the mission's perusal to obtain RBM's data on diskette, it was informed that it would have to enter the data by itself and that RBM itself enters the data in a similar manner every time it issues its regular economic report.

<sup>16</sup>The list of documents reviewed is attached (ref. Annex 12).

<sup>17</sup>The mission's request to interview farmers and to interact with rural households was denied by officials of MOAI who were charged to facilitate the mission. In lieu of the first hand contact, the mission held conversation with officials of the National Smallholder Farmers' Association of Malawi (NASFAM) and NGOs.

2.1.3 The report used simple ratios based on the national accounts data, producer and consumer prices assembled by the Famine and Early Warning System (FEWS), and other data from the National Statistical Office (NSO) to make its assessments. A trend of the key parameters (i.e. inflation, fiscal deficit, terms of trade, etc.) is provided to facilitate a comparison of the situation before and after ASAP. In addition to the before/after scenario, it makes its qualitative judgement on the counterfactual of what would have happened to the stated objectives if the Bank did not make an intervention through ASAP.

## 2.2 Performance Indicators

The performance indicators are given in the Retrospective MPDE in Annex 13 and Annexes 5-10. The indicators in those Annexes are compared with the projections of key macroeconomic indicators provided in the Appraisal Report (Annex VI) to make judgement on the extent to which the targets have been achieved. At Appraisal, it was projected that real GDP would grow by 3.0 percent in 1993 and 4.5 percent in 1994 and 1995. Inflation would be maintained at 5 percent per annum between 1993-95. Likewise, fiscal deficit was projected to decline from 7.3 percent of GDP in 1992 to 4.5 percent in 1995 (before grants), and 3.5 percent down to 2 percent (after grants) during the same period. No other indicator was given.

## 3. IMPLEMENTATION PERFORMANCE

### 3.1 Loan Effectiveness, Start-up and Implementation

3.1.1 The PCR addresses the difficulties in implementation in a thorough manner (para. 4.1.1 - 4.5.2). The implementation issues discussed in the PCR relate to the (i) effectiveness and start-up, (ii) modifications made to the positive list, (iii) adjustments to and unmet conditions for the release of the second tranche, (iv) lack of satisfactory reporting by the Borrower, and (v) purchases from non-Bank Group members. To avoid redundancy, the PPER would provide commentary on some of the implementation issues dealt with in the PCR.

3.1.2 According to the Appraisal Report, the loan was expected to become effective in June 1993 contrary to the actual effectiveness date of May 1994 -- after a delay of almost a year. Once it became effective, the first tranche was released two months later. On this issue the PCR states that (para. 4.1.3) "... the time allotted at appraisal for fulfillment of loan conditionalities in the country's critical needs given the drought prevailing at the time, as well as the quick-disbursing nature of the loan, the timetable is reasonable". The major cause for the delay in effectiveness and disbursement was the conflict between the objective of drought relief and the instrument chosen (i.e. PBL tied to conditions for tranche release) (ref. para. 1.2.10).

### 3.2 Adherence to Programme Costs, Disbursements and Financing Arrangements

3.2.1. There are no major issues pertaining to the project costs and the financing arrangement. However, there are two points of concern that relate to the disbursement schedule and the management of the Special Account. Considering the political economy of Malawi in the early 1990s, it was clear that the first tranche conditions would not be met in such a short time. Obviously, four of the first tranche conditions required very protracted negotiations. These were (Appraisal Report, para. 7.2.1) the Memorandum of Understanding (MOU) between GOM and ADMARC, second payment for burley, opening up burley production to the smaller smallholders and women farmers, and the Action Plan to progressively, increase the smallholder quota for burley.

3.2.2 These policy measures would have not materialized without the radical measures taken by the donors to halt disbursement to Malawi entirely. This put pressure on the government to uphold the popular request for democratization and to liberalize the economy. A referendum and election were held in 1993 and 1994, respectively. As a result, the core of the burley oligarchy in Malawi lost power. It was at this point that the burley issue could be handled as a purely economic and income distribution issue. This opened the way for meeting the conditions and facilitated disbursement.

### 3.3 **Programme Management, Reporting, Monitoring and Evaluation Achievements**

3.3.1 The MOFEP was designated to act as the implementing and executing agency. The National Steering and Technical Committees were to be set up to support the Ministry in programme management, reporting, monitoring and evaluation. However, MOFEP or the Committees had submitted no report. Judging from the absence of reports on the progress of ASAP and the lack of documents, it can be inferred that the Committees may have been constituted just to meet the conditions. Given that the purpose of adjustment operations such as ASAP was to promote dialogue between donors and the government, within different arms of government and between government and the society at large, it would have been beneficial if the Committees continued to exist and functioned effectively.

3.3.2 The Technical Sub-Committee was supposed to be the core of monitoring and evaluation since it was designed to have representation, just as the Steering Committee, from all the relevant agencies. It was intended to be responsible for, among other things, preparing quarterly progress reports, which were supposed to be discussed by the National Steering Committee before they would be submitted to the Bank. This was never done.

## 4. **PERFORMANCE EVALUATION AND RATINGS**

### 4.1 **Relevance of Goals and Objectives and Quality at Entry**

4.1.1 By late 1980s, Malawi's weakness at the macroeconomic, sectoral and household levels had become clear. A determined effort was therefore afoot to change the course of economic policies and the dialogue between GOM and the major donors. At the same time, the authority of the Malawian political elite -- Malawi Congress Party -- was being challenged. The drought and flooding had also made addressing food insecurity and poverty reduction a central aspect of policy dialogue.

4.1.2 Most of the policy issues addressed under the operation were relevant and within the context of the government's and the Bank's policies (ref. Annex 1 for ratings). GOM's request for the Bank's assistance brought out the need for drought recovery and continuation of the macroeconomic reforms and policy changes initiated in the agricultural sector. The operation was also consistent with the Bank's country strategy for Malawi as outlined in the Country Prospects and Country Programming Paper (1993-95). Explicitly or implicitly, the operation aimed to advance several broader goals of the Bank's policies and strategies -- such as poverty reduction (e.g. burley policy, public expenditures, public works, drought relief, etc.), fostering gender equality (e.g. more specific conditions in the burley sector), protecting the environment (e.g. estates to allocate land for fire wood, environmental policy), human resources development (e.g. allocation of public expenditures to social sectors), institutional development (e.g. development of markets for agricultural products and inputs), and expanding the private sector (e.g. trade in inputs and outputs).

4.1.; ASAP was also relevant, as an instrument to carry-on the policy reforms initiated by the World Bank's ASAC, and the macroeconomic policies of the IMF. ASAC was initiated in 1990 and was closed when ASAP was coming into existence. Given that the two overlapped over most of the policy issues, ASAP would have been the "bearer of the policy torch". The fact that USAID was also working on the same agricultural policy issues and had an operation named ASAP, no doubt, gives more credence to ADF's operation.

4.1.4 ASAP was however weak at entry. First, as stated above, there was a conflict between the emergency nature of the objectives (i.e. drought relief and critical BOP constraint) and the time required in implementing the conditions. As a result, disbursement of the first tranche did not materialize for the drought in 1992 but for the one in 1994. In addition, from the macroeconomic side, the financing gap of US\$147 million, including ADF's contribution, was not available at the time expected. The shortfall in BOP resource must have had adverse macroeconomic implications<sup>18</sup>. The shortfall could have contributed to lower-than-expected growth (or contraction) in GDP, higher inflation or appreciation of the exchange rate.

4.1.5 Second, ASAP was not supported by sufficient analysis (or review) of the socio-economic conditions of Malawi, and did not reflect the conditions on the ground in the design of the policies". Granted that it was necessary to remove fertilizer subsidies to maintain fiscal balance, it was not out-rightly clear as to how to do it given Malawi's critical land constraint and the rampant poverty and food insecurity even under normal circumstances. If the conditions on the ground were taken into account properly, ASAP would have been a critical vehicle to engage the other donors and the government on a constructive dialogue that would have balanced the poverty and the macro objectives. Although explicit fertilizer subsidy has been removed now, this is still an unfinished policy agenda. The government is still grappling with so many fertilizer and credit initiatives (e.g. the Starter Pack Programme (SPP), the Supplementary Inputs Programme (SIP), and the Agricultural Productivity Investment Programme (APIP)) considering the difficult position in which 20-30 percent of rural Malawians find themselves.<sup>20</sup> Agricultural pricing and marketing would have also required a careful balance between the incentive issues and the poverty dimension.

4.1.6 Third, the inclusion of the public works programme was in the right direction. But, it was not fully articulated at Appraisal. ASAP mentions that UNDP would prepare a targeting mechanism, which would be used in the implementation of targeted poverty reduction programmes. But, UNDP was not aware that it was supposed to prepare a targeting means to be used for the purposes of ASAP. A properly designed public works programme for food or inputs (i.e. fertilizer and seed) or cash or some combination of the three would have facilitated achieving several of ASAP's goals. This would also have saved ASAP from supporting an indexation of statutory minimum wage to changes in the cost of living. Although this may have been a popular policy, it has set a wrong precedent for macroeconomic adjustment and for enhancing Malawi's competitiveness in the international market in the future<sup>21</sup>. A public works programme designed to

<sup>18</sup>To the extent that this was done to force the government to accept the popular demands for political and radical economic policy changes, there may be some merit in the delay.

<sup>19</sup>According to the PCR a total of only 30 man-days was used up in preparation and appraisal. Even if more time was used, it does not show in the analysis and policy design.

<sup>20</sup>In the early 1990s, rural credit was politicized excessively to the extent of advising farmers not to repay their debts, thereby causing the demise of the Smallholder Agriculture Credit Administration (SACA).

<sup>21</sup> The mission was informed that a poultry in Malawi was closed due to competition from Zimbabwe and South Africa. This may have been caused partly due to the lower productivity and higher wages (per unit of output) in Malawi.

kick-in during the off-peak labour demand season would have boosted the demand for labor, raised the market wage rate, and eliminated the need for legislative wage setting.

4.1.7 While the purpose of BOP support and policy-based lending (PBL) is to engage the government and the donor agencies in a perpetual and constructive dialogue in the pursuit of policy reform and economic growth, ASAP seems to have left out the dialogue aspect largely out of its purview<sup>22</sup>. Several government agencies that were explicitly or implicitly affected by the operation were not aware of ADB's ASAP and yet they were the subjects of the policy reforms negotiated between GOM and ADB. Examples are the National Environmental Agency, Department of Land Valuation, and Controller of Labour. This weakened ASAP's quality at entry.

## 4.2 Achievement of Objectives and Outputs ("Efficacy")

### 1. Rating of Achievements

4.2.1 The PPER's assessment of the extent to which the objectives have been met (i.e. efficacy) is mixed. As reviewed below, Malawi continues to face the same macroeconomic ailments (i.e. inflation, high interest rate, overvalued exchange rate, fiscal deficit, and misallocation in government expenditures). Nonetheless, some positive gains have been made in terms of poverty reduction and liberalization of agricultural input and output marketing and pricing. However: whatever weaknesses or gains that have materialized were not due to ASAP alone. ASAP provided some BOP support but was not active in the policy dialogue. ASAP's achievement of objectives and outputs is therefore rated unsatisfactory.

### 2. A Review of Achievements

4.2.2 Macroeconomic Policies: ASAP aimed at promoting growth and poverty reduction in Malawi by continuing the macroeconomic stabilization and structural adjustment programmes. On the macroeconomic front the two key components were the maintenance of a flexible exchange rate and supporting a depreciation of the Kwacha in real terms through the maintenance of fiscal discipline. ASAP further advanced a rationalization of public expenditures so that more public resources would be re-allocated in favour of key social and economic sectors, including agriculture.

4.2.3 Despite ASAP and the effort of other donors, Malawi still suffers from the same macroeconomic ailments (ref. Annex 5). Inflation is still high. In 1995, following the election-related fiscal slippage, inflation had reached 83 percent (compared to a target of 5 percent). In 1999 it declined to about 45 percent, and continued to decline in 2000. However? despite the recent decelerations, it was still over 25 percent in mid-2000. On the exchange rate side, since 1994, a managed floating exchange rate system had been put in place. As a result the Kwacha depreciated from an average of MK 8.74 to the US Dollar in 1994 to an average of MK 47.42 in April 2000, and close to MK60 in August 2000. As a result of the much higher inflation in Malawi compared to its major trading partners, the real exchange rate is still over-valued, except with the Zimbabwe Dollar and the South African Rand. Likewise, the bank-lending rate increased from about 20 percent in 1992 to about 50 percent currently. Despite such increases: the banking sector has experienced negative real rates intermittently. Of late, the sector has started to be more aggressive in its pricing, thereby aiming at offsetting the effects of inflation, safeguarding itself against future defaults, and slightly making up for its past non-performing loans (bad debts). More importantly, since the banking sector is very narrow, there is hardly any competition either in the financial or foreign exchange markets. These high rates have made investment in the real sector extremely onerous.

<sup>22</sup> For the relevance of the policy dialogue in the effectiveness of aid, refer to The World Bank, *Assessing Aid: What Works, What doesn't and Why*. A World Bank Policy Research Report, 1998.

4.2.4 Fiscal Policies: The main cause of Malawi's poor macroeconomic performance has so far been the weakness in fiscal management. The latter, in turn, is manifested in the weakness in the capacity of the government to raise revenue and cut expenditures, and general indiscipline in expenditure controls. In the mid-1990s, particularly between 1993-96, the fiscal deficit was excessively high – ranging between 10-28 percent of GDP before grants (7-17 percent after grants) (ref. Annex 6). These were higher than the 5-6 percent deficit to which GOM committed itself to as per the Letter of Development Policy accompanying ASAP. Although some prudence has been introduced to fiscal management, particularly with the effort to introduce cash budgeting, expenditures are not yet contained within domestic revenue and donor support.

4.2.5 A radical change is required in fiscal management. Doing more and better of the same things would not take Malawi out of its fiscal difficulties. The changes would require a re-definition of the scope of government in the new market-driven and private sector led economy. Critical questions such as what should government do and what should be left for the private sector need to be answered. Thereafter, the government would need to organize and staff itself to deliver the services that are truly public goods in a more efficient manner. Once these are done, government expenditures should be geared to supporting these agenda.

4.2.6 The experience in the government's recent performance does not portend that such a critical re-thinking has taken place (or is taking place). With good intentions, GOM has over exerted itself to providing social services such as education and health freely for all Malawians. The removal of school fees has boosted enrolment at all levels of the educational hierarchy. The National Health Plan aims at improving health services at all levels. Both sectors are highly labor-intensive and have caused the number of the civil service to double in less than 10 years. Together with these, government has started several initiatives, programmes and agencies without clear thought about their long-term sustainability. As a result, the wage bill has become onerous to the public sector. The wage bill, together with interest payments, has resulted in insufficient expenditure on operations and maintenance that has become a stumbling block to the provision of satisfactory public services.

4.2.7 Growth and Poverty: Since 1992, when ASAP came into force, the productive sector in Malawi has passed through a series of supply-side shocks. In 1992 and 1994, Malawi, like many countries in Southern Africa, went through serious drought spells. This was followed by flooding and uncertainty due to the political transition. Yet, excluding the two years, Malawi maintained positive real growth in GDP – with an average rate of about 5 percent for the late 1990s (ref. Annex 7). Allowing for population growth of slightly over 3 percent, this led to a growth in per capita GDP of about 2 percent per year. More importantly, this growth was achieved mainly due to improvements in agricultural production and the rural sector where most of the poor operate. GDP per capita in the rural areas at 1977-78 prices increased from MK 52 in 1995 to MK 72 in 1999 – by about 40 percent over the five years. For a poor country such as Malawi, this is a significant improvement. Real urban income, on the other side, declined from MK 426 to MK 385 during the same period". Because of the opposing trends, the disparity between urban and rural income declined from 8.2 to 1 to 5.4 to 1 between 1995 and 1999. Other studies based on micro-level data have similarly found that rural income has by and large improved in the 1990s despite the drought and the flooding Malawi experienced in the recent past<sup>24</sup>.

<sup>23</sup> These figures are arrived at by dividing real agricultural GDP by the rural population and the non-agricultural GDP by the urban population.

<sup>24</sup> Janis E. Evans, Rapid Assessment of the Impact of Policy Changes on Rural Livelihoods in Malawi, a report prepared for the World Bank, June 1997.

4.2.8 There have also been several qualitative and quantitative improvements. With the opening up of burley for smallholder farmers through the policy reforms, close to 200,000 registered and un-registered farmers grow burley now. Assuming a family size of about 5 people, it essentially means that the life of close to 1 million people (about 10 percent of Malawi's population) is impacted by the burley policy. Now, smallholders could, in principle, and do indeed sell their burley at the auction market where the product commands higher prices. But, not all burley growers sell their produce at the auction due to lack of transportation, remoteness, lack of storage barns, and liquidity constraints. As a result, intermediate buyers (IBs) have emerged in the market.

4.2.9 Maize production, the staple crop, has also risen as a result of the introduction of hybrid varieties that meet the taste, pounding characteristics, and storability under local conditions. Despite the new varieties however a larger proportion of the growth in production **resulted** from an increase in land under cultivation rather than through increases in yield. The yield level has not increased as expected due to the exorbitant price of fertilizer resulting from the elimination of subsidies, the exchange rate adjustment, and depressed price of maize due to a series of good harvest in recent years. This was exacerbated by contraction in credit following the collapse of the Smallholder Agricultural Credit Administration (SACA) and more stringent rules applied by the emerging credit agencies such as the Malawi Rural Finance Corp (MRFC). Furthermore, the production of drought resistant crops (such as millet and sorghum), pulses and vegetables has also increased as a result of land expansion.

4.2.10 With the liberalization in the economic and political front, a diverse informal sector has emerged both in rural and urban areas. Unlike the pre- 1990s Malawi, one cannot avoid seeing street side peddlers in the major cities and vegetable and fruit sellers on the major inter-urban highways.

4.2.11 Agricultural Policies: The central policy issues related to the agricultural sector were (i) opening up the production of burley tobacco to the smallholder farmers, including female farmers, (ii) liberalization of domestic and foreign trade in agricultural inputs and outputs, (iii) privatization of ADMARC's – the state procurement and distribution agency – non-agricultural operations and establishing business-like relationships between the government and ADMARC for the commercialization function it played on behalf of the government, and (iv) removal of the fertilizer subsidy.

4.2.12 A closer examination of the situation in the policies would reveal several developments with potentially adverse effect on agricultural production and rural income. First, because of the over 300 percent increase in the price of fertilizer, the absence of credit, the uncertainty in the status of the state marketing agencies such as ADMARC and SFFRFM, and the slow pace at which the private sector moved to fill-in the gap, the annual national consumption of fertilizer had declined from over 200,000 tons in the early 1990s to less than 100,000 tons in 1998 although it recovered in 1999 to reach about 165,000 tons. Second! the manner in which licenses are issued to grow burley by the Tobacco Control Commission (TCC) discriminates against the smaller smallholders – those who cultivate less than one hectare and the target groups ASAP intended to benefit. TCC regulates the process in the tobacco industry starting with the nursery until the leaves are exported. It would register smallholders provided that they organize themselves in a club of 10 members and cultivate over 20 hectares altogether (i.e. an average of 2 hectares each). Since well over 80 percent of Malawian smallholders cultivate less than two hectares each. this policy essentially excluded the smaller smallholders. But some smallholders do produce burley as unregistered growers and market their produce through the IBs at high transaction cost.

4.2.13 The most important aim of agricultural marketing and pricing reforms is changing the terms of trade (TOT) in favour of the agricultural sector, thereby boosting income and production in the rural areas. Historically, ADMARC taxed the rural areas and used the surplus to invest in a diversified portfolio in the urban areas. ASAP's implicit aim was therefore to remove the burden on smallholders resulting from ADMARC's pricing and marketing practices and to advance competition in the marketing of crops. It is therefore important to shed light on whether the TOT has moved in favour of agriculture and the rural areas following the policy **changes**<sup>25</sup>. A very crude and simple approach is to trace the ratio of the implicit GDP deflators for the agricultural and non-agricultural sectors (ref. Annex 8). This attempt shows that the TOT has shifted significantly against the agricultural sector. The index of agricultural and non-agricultural prices in 1992 stood at 1.61. It fell very sharply in 1994 – following the sharp devaluation of the Kwacha and the introduction of the flexible exchange rate. By 1999, the TOT had declined to 0.72 — a deterioration in the TOT of about 45 percent. The data on farm-gate (or **producers** price) currently available runs to 1996 and makes it difficult to make conclusive statements about the movement in the real prices of Malawi's major agricultural products. Yet, from existing evidence, it is clear that the real prices of maize, groundnuts, oriental tobacco and field peas declined between 1992 and 1996.

4.2.14 At least three reasons could be advanced to explain these phenomena. First, the government allowed the devaluation to impact the prices of imported goods, including fertilizer, at full force. Second, the government maintained a cheap maize policy during the period. Since Malawi experienced major spells of drought, flooding and other shocks during this period, and since 20-30 percent of farmers themselves are net buyers, it was felt prudent by the officials to retard the changes in the price of food commodities, more in particular maize. This argument finds credence by the fact that the export of maize was banned during most of this period. The ban was lifted only in May 2000. The third reason is the lack of competition in the product market to facilitate a full pass-through of the impact of devaluation to the producers. There is anecdotal evidence that a good chunk of the difference between export prices and farm-gate prices was garnered by IBs, transporters, and oligopolistic export firms with links to international buyers (i.e. in the case of tobacco).

4.2.15 If the utilization of fertilizer had declined and the TOT of the agricultural sector had deteriorated, how would one explain the increase in agricultural GDP and rural per capita income (ref. para. 4.2.7)? It is postulated that the adverse impact of the contraction in the quantity of fertiliser was mitigated a bit by the shift into high analysis fertilizer and the introduction of smaller packages of 25 kg, 15 kg and 10 kg bags, and the starter packs government provided for free in the late 1990s. New high yielding varieties of maize had also been introduced. These seeds provided higher yield than the local varieties even under unfertilized farming conditions. In addition, the gains in real rural income were achieved as a result of increases in production through increasing the land under cultivation. More gains were made by small farmers due to opportunities opened up to them to grow products, like burley, that was not open for them previously, and by diversifying their production into drought resistant crops, vegetables, sweet potato, etc (ref. Annex 9). In addition, the weather condition was satisfactory for most of the period except during 1992-94.

4.2.16 Food security Policies: Food security at the household level has been a major challenge for Malawian policy-makers for quite some time. Even at a time when Malawi maintained over 200,000 tons of maize in stock, a significant number of rural Malawians did not have enough maize to take them a year round. Several policy initiatives advanced through ASAP have influenced food security in different directions. On the positive side, the introduction of high yielding maize

<sup>25</sup> The changes involved repeal or amendment to the following Acts in 1995-96: the Agricultural and Livestock Marketing Act (repealed); Fertilizer, Farm Feeds and Remedies Act (amended); Seed Act (amended); and Special Crops Declaration Order (de-gazetted); burley policy (issued on Nation Newspaper).

varieties with longer storage potential and that meet the taste of Malawian consumers and the opening up of burley tobacco to smallholders have improved household production and cash income. The fertilizer subsidy removal, in view of the critical land constraint and the small size of plots, would have impacted food security adversely without the introduction of the smaller packages and the Starter Pack Programme (SPP) and similar programmes initiated by GOM. Analysts studying Malawi indicate that the effect of burley, despite the positive cash income effect, has been negative on food security for a large number of burley growers<sup>26</sup>. This is because burley competed with the production of food crops for factors and inputs and that the propensity of spending cash income immediately after selling the tobacco was very high. Thus, households had neither maize nor cash 6-7 months after harvest. The adverse impact could have also been exacerbated by the adverse weather conditions – a shortage of rainfall followed by excessive amount the following year -- the region experienced in the early to mid- 1990s.

4.2.17 Labor market policies: GOM and ADB agreed to support a review of labor market dynamics and to adopt gradually the policies that emerge from the review. Prior to the 1990s, Malawi had a policy of wage restraint whereby the minimum statutory wage was adjusted by a margin not exceeding 5%. Higher adjustment required permission from the Commissioner of Labor. As part of the policy reform, however, the practice of collective bargaining was introduced in 1992/93. In addition, the statutory minimum wage was adjusted at a rate that reflected the rate of inflation. As a result, the real statutory wage rate had risen to about 185 tambalas/day in 1998 compared to about 175 tambalas/day in 1981 (ref. Annex 10). Since nominal changes are made intermittently, the real wage had dropped to 145 tambalas/day in 1999. If these increases were not accompanied by increases in productivity, this would make it difficult to arrest the inflationary pressure and would adversely affect Malawi's competitiveness in the regional market and beyond.

4.2.18 Environmental policies: With the recognition that tobacco can have deleterious environmental effect. ASAP supported the issuance of an environmental policy, and the allocation of some estate land for tree planting to supply the tobacco industry. The Environmental Protection Agency (EPA) has since issued NEAP, and implementation is underway. But, limited work has been done in monitoring the implications of ASAP on the environment. The EPA does not have the capacity to understanding the interrelationships between economic policies and the environment in order to advise government on the environmental implications of policies and to monitor changes.

4.2.19 Land policy does not appear prominently in ASAP, except the condition relating to part of estate land for tree planting to supply the needs of tobacco curing. This condition has not been met. But land policy is critical given the focus of ASAP on the agricultural sector and poverty reduction. Discussions at Department of Land Valuation indicate that the GOM has undertaken studies and is in the process of issuing a land policy, including creating a land market". Legislation was being drafted at the time of the mission.

4.2.20 Gender Policy and Impact: ASAP had made a conscious effort to improve income distribution in favor of the poor and in particular women. The key instrument was the removal of the restriction on burley production and explicit targets in favor of women farmers. Anecdotal evidence indicates that cash income from burley tobacco falling to women farmers has risen. At the same time, however, the burden on women's time has risen. Tobacco is a labor- intensive operation, and its increase in the production mix has called for higher demand for labor. As a result, women have to increase their labor input.

<sup>26</sup>Ibid. Evans, pp. 39-42, and pp. 61-62.

<sup>27</sup>GOM. Final Report of the Presidential Commission of Inquiry on Land Policy Reform: Main Report. March 31, 1999.

4.2.21 Impact on Private Sector Development: Liberalization of markets, including imports, and the restructuring of ADMARC has provided opportunities for PSD in agricultural marketing (e.g. intermediate buyers). –

4.2.22 In conclusion, it is noted that the macroeconomic objectives contained in ASAP have not been achieved. A lot of changes have occurred in agricultural marketing and pricing, yet the domestic TOT has moved against the agricultural sector. On the other side, the opening up of the burley quota to smallholders (and female farmers) has raised the income of a large number of rural Malawians and has facilitated an improvement in income distribution. In spite of these developments, the achievements of ASAP – as an operation – are rated highly unsatisfactory. ASAP did indeed contribute to the BOP support but was not active in the policy dialogue. In PBL, the dialogue (i.e. ideas) was just as important as the additional aid, if not more.

### 4.3 Efficiency

4.3.1 Identifying and valuing the social costs (and benefits) of a policy-based operation are extremely difficult – more difficult than in the case of the traditional agricultural or industrial projects. The difficulty arises due to several reasons. First, the impact of PBL is economy-wide and it is difficult to identify a specific socio-economic (or income) group(s) that benefited from the operation or sustained welfare loss from it. Second, the impact could be different in the short- (i.e. negative) and long-term (i.e. positive). The third difficulty is one of valuation. A US\$1 welfare gain (loss) to the poor group cannot be considered equal to US\$1 welfare gain (loss) to the non-poor. This raises the issue of what weight to attach to the gains/losses falling to different income groups.

4.3.2 Practitioners working on these issues often build large models and a Social Accounting Matrix (SAM) to shed light on the benefits/costs of a policy reform and to trace how different groups fare<sup>28</sup>. Yet, a single model does not respond to all the questions that need to be addressed but, at least, facilitates better understanding of the issues. Such an effort is beyond the scope of the PPER, but it is an area in which the Bank may have to invest in to build its capacities in the future.

4.3.3 Here, an attempt is made to take two closely related policy measures supported by ASAP and qualitatively trace how these policies may have been mediated and identify the likely costs to different groups in Malawi. For example, removing the restriction barring smallholders (and women farmers) from the production of burley tobacco is one of the policy reforms. Together with this policy measure, all burley growers were sanctioned to sell their produce directly or indirectly (through intermediate buyers) at the auction floor. These policies benefited smallholders who are among the poor in Malawi. The question now is who lost (or sustained the cost) in the process. Before the restriction was removed, burley was grown by estate farms and marketed partly by the estates and partly by ADMARC. The first round cost (impact) is the loss of income that estate owners would sustain because of the competition from smallholders. ADMARC also loses one of the main sources of surplus which it used to invest partly in diverse sectors. There are second generation losses (cost) however. Given that tobacco is a labor-intensive crop, estates depended on hired labor for some of the operation. With the decline in estate burley production, the employment in the estate burley sector and wage income from it will be lost. Additional loss in employment and wage income would result from the decline in investment in ADMARC.

<sup>28</sup>While on mission in Malawi, the PPER team met and exchanged ideas with a group of experts from the International Food Policy Research Institute (IFPRI) currently in the process of building a CGE and SAM for Malawi. Their results will be ready in about six months.

4.3.4 Responding to the efficiency criteria would, therefore, demand taking each of the policy measures and tracing how the policies are mediated through markets, and how each socio-economic group is impacted by the policy during the first and subsequent rounds.

4.3.5 An additional cost to consider is the opportunity cost of the credit. At the stage of Programme implementation, the credit is an input (an additional source of foreign exchange). The loan will have to be repaid after the grace period is over. At that stage, the Government will have to raise additional revenue (tax) and generate foreign exchange to settle its obligations. Depending on the type of tax (i.e. direct or indirect), it will be borne by different income groups in different Ways. This will have to be taken into account to provide a comprehensive picture of the costs and benefits.

4.3.6 Taking all the policy issues together and qualitatively tracing the costs/benefits, the PPER rates ASAP's efficiency highly unsatisfactory.

#### **4.4 Institutional Development Impact**

4.4.1 Unlike the PCR (para. 6.1 .1), the Post Evaluation team found that ASAP had several institutional development aspects, which however were not effectively implemented, neither were advanced thoroughly. First. the operation required the setting-up of National Steering and Technical Committees. This was not carried out in earnest. If it did, it would have provided the key economic and social ministries (agencies) an opportunity to brainstorm on key policy issues and forge a common and comprehensive agenda. More specifically, the Committees were meant to encourage dialogue among the relevant agencies within government (and outside) on the specific elements of the ASAP conditions and related economic matters, and to monitor the implementation of the policy measures. But the Committees were established to meet the "letter" of the conditions but not the "spirit". There is no record to show that the Committees met more than once and played any meaningful role in practice.

4.4.2 Second. ASAP was a vehicle for the emergence and development of a private sector in agricultural trade. This was not however explicitly recognized in the Appraisal Report or in the PCR. As a result. no positive support was provided in the project. It was instead felt that as ADMARC was forced to retreat the private sector would fill-in the gap instantaneously by itself.

4.4.3 The most important point is really whether ASAP provided an opportunity for long-lasting and self-sustaining institutional development. Institutions, in this context, refer to practices (i.e. the way policies are initiated), techniques, and systems, as well as the quality and number of professionals. In more practical terms, did ASAP provide an opportunity for GOM to analyze the economic and social conditions in Malawi in an objective ways, design and implement policies and programmes to address development constraints, monitor and evaluate their impact, and learn from the experience to feed into the design of future policies? There was no indication to respond to this question in the affirmative. The limited experience (ref. para. 4.4.1), in fact, indicates that ASAP may have had very limited institutional development impact, if at any. In view of the foregoing, the institutional development impact was rated highly unsatisfactory.

## 4.5 Sustainability

4.5.1 There have been several developments that ensure the sustainability of the objectives advanced by ASAP, but these are not comprehensive and not firmly established. Production of the high yielding varieties of maize is increasing in spite of the exorbitant price of fertilizer<sup>29</sup>. The volume and diversity of drought resistant crops (e.g. millet, sorghum, pulses, root crops, etc.) is rising in the production mix. Yet, the fact that the recent growth was achieved through expansion of area, not only through intensification, is of concern. Similarly, another episode of drought could create severe damage to agricultural production and push many households (and individuals) further down into distress. Essentially, the resilience of the agricultural sector and Malawi's economy to another spell of drought is still in serious question.

4.5.2 Opening up burley to smallholder (and women) farmers has **helped boost** cash income and distribute the benefits to households at the lower end of the income scale. Yet, tobacco is not a "free ticket to riches". Both the environmental effect and the international economic situation do not allow expanding the export of the crop indefinitely. Malawi is already a major exporter of burley and tobacco in general. The market in the West, where most of Malawi's tobacco is destined to, is shrinking. Although the market in the Far East is still increasing not much effort is made at penetrating that market. In general, tobacco is not a promising crop in the medium to the long term. Yet, Malawi's export has become more dependent on tobacco over the years.

4.5.3 There is political commitment for the reform agenda. Many in the legislative and executive arms of government come from the private sector and they are likely to sustain the reform. The concern is that individual interest could take precedence over national interest under the pretext of private sector development. Unlike the situation in the late 1980s, NGOs are proliferating to support poor households in different development areas. In addition, they play a limited check and balance role in the political arena.

4.5.4 The civil service seems weak and disinterested. The lack of strategic vision on the public sector and public expenditures is symptomatic of this weakness. Although major roads have been fixed, there is a serious under-expenditure on other operations and maintenance expenditures. For instance, in the education sector enrolment has increased substantially. But, significant expenditure has not been made for supplies. As a result, the quality of education has deteriorated sharply. Similar intra-sectoral allocations are noticed in the health and agricultural sectors as well.

4.5.5 Since the salary of professional staff is low and career advancement unrelated to productivity and initiative, most staff does not exert itself and demonstrate commitment.

4.5.6 It should be emphasized that technical assistance projects that aim to provide more training, more computers 'and more vehicles, etc. will not fix the problems in the public sector and will not make development efforts sustainable. At this stage, the public sector in Malawi needs a critical re-evaluation. It would therefore be beneficial to take up one or two sectors (or ministries), on a pilot basis, and help the government re-define its roles (and scope) in those one or two sectors (e.g. agriculture and education)? come up with an organization structure that would facilitate the delivery of those services on a sustainable basis, and aim for a staffing framework that emphasizes well-paid and well-equipped cadre of professional civil service. Human resources development and capacity building would then make sense once the structural issues are addressed.

4.5.7 In view of the above arguments, sustainability was rated unsatisfactory

<sup>29</sup>High yielding varieties (HYV) are planted with and without fertilizer. Yield from HYV is higher than the local varieties even without fertilizer.

## **4.6 Aggregate Performance Rating**

4.6.1 Overall, ASAP was an unsatisfactory operation. Undoubtedly, ASAP touched the key economic and social issues in Malawi. Malawi was a highly dualistic agricultural country. The emphasis put on removing the rigidities in the agricultural sector was valid. But, not too much effort was put into understanding the complex economic situations in the country. The resource situation in Malawi is such that the trade-off between efficiency and distribution is stark. For example, if one considers the issue of removing the fertilizer subsidy, it was a sound policy measure from the point of fiscal management and efficiency pricing. However, considering the critical shortage of land and the serious food insecurity at the household level even under the normal conditions, how to remove the subsidy without aggravating the food insecurity is not an easy task. ASAP did not take into account these complex inter-relationships in the design, i.e. at preparation and appraisal stages.

4.6.2 ASAP was not properly monitored by the client, nor closely supervised by the Bank. An important output of Policy-Based Lending (PBL) is the dialogue that it unleashes between the Bank and the client. The dialogue is as important as the BOP support since it facilitates understanding the issues better, ideally builds the client's capacity and fosters partnership. The fact that no dialogue took place is symptomatic of the weak performance.

## **4.7 Borrower's Performance**

4.7.1 The Borrower's performance is rated highly unsatisfactory (ref. Annex 2). The Borrower did not keep any records of the project's history. This, in and of itself, does not indicate a commitment on the part of the Borrower and a willingness to learn from its own experience. Furthermore, the absence of documents has deprived the Post Evaluation team an opportunity to infer the role played by the Borrower in the design of ASAP.

3.7.2 The current situation indicates that the same macroeconomic and (less so) sectoral problems still pervade the environment. Malawi is not yet out of stabilization and adjustment and not on a footing to forge medium- and long-term growth strategies. Inflation, interest rates and the fiscal deficit are still high, and government expenditure not yet rationalized.

4.7.3 The Borrower did not put in place the monitoring arrangements agreed with the Bank. The National Steering and Technical Committees were intended to foster dialogue among different government agencies on aspects of the policies. The Committees have not been used effectively, however. There is no indication that they held meetings beyond the one prior to the first tranche release.

4.7.4 The Executing and Implementing Agency, the MOFEP, did not take its responsibilities very seriously. It should have taken responsibility to facilitate the Post Evaluation team's work and should have provided input on the Borrower's view of ASAP's performance. But, it failed to attend the wrap up meeting. These are not signs of commitment? desire to participate in policy formulation, and to engage a donor in constructive dialogue.

4.7.5 It could also be argued that if it were not for the closer perusal of the other co-financiers, the policies under ASAP might have not been implemented. GOM's performance was therefore highly unsatisfactory.

4.7.6 The management of the Special Account, including the selection of the bank(s) where the account was opened is a troubling issue. The performance of the Auditors and SGS – the pre-shipment inspection company – also left a lot to be desired”.

#### 4.8 Bank's Performance

4.8.1 Although many of the policies in ASAP were consistent with the government's policies, and with the Bank's strategies for the country and with many of the Bank's policies pertaining to the cross-cutting themes, the Bank's performance is rated unsatisfactory (ref. Annex 3). Many of the same policies have also been advanced by other donor agencies. The limitation of the Bank however lay with the design of the programme and its implementation.

4.8.2 Far more than many other countries in SSA, the socio-economic context in Malawi requires balancing several trade-offs in policy design. The cases of fertilizer subsidy removal and pricing and marketing of maize has been mentioned above (ref. para. 4.6.1) and need not be repeated here. ASAP also included many complex issues that are mentioned in the Appraisal Report but not thoroughly developed -- such as public works programme and ensuring food security.

4.8.3 On the other hand, some of the policy issues could be considered wrong (ref. para. 4.2.16). The minimum wage legislation would deprive Malawi of its international competitiveness and make employment generation difficult. The cess intended to finance the satellite storage facilities was an export tax for an earmarked public expenditure. As an export tax it would have acted as a disincentive, on the margin and discouraged export production. Besides it would have fallen on farmers (and the rural areas) contrary to the intent of ASAP. As an expenditure category, earmarked expenditures are often shunned preferring instead applying cost-benefit analysis to all public expenditures and financing them from one source.

4.8.4 The implementation and supervision of ASAP was inadequate. As mentioned above, there were only two supervisions -- one full-fledged technical supervision and a follow-up of the first. The main weakness of ASAP was that the Bank did not put in sufficient resources either in preparation and appraisal (60 man-days) or supervision (50 man-days)". Comparatively, the World Bank used 117 staff weeks (or 585 staff days) for appraisal and supervision of its ASAC<sup>32</sup>. Even if we assume that there are no economies of scope and scale, the World Bank spent 7.3 staff days per US\$1 million compared to 5.1 of ADB's. Looked at from another angle, ASAC cost 293 man-days per year of the project's life, while ASAP cost meager 24 man-days per year of its life. It is not necessary that ADB spend more resources if the design was co-ordinated properly with the other actors and their projects were entirely similar. Like-wise more resources would have not been

<sup>30</sup> The letter from the Reserve Bank of Malawi to MOF dated February 8, 1994 indicates that deposits should be made to the account of Equator Bank Ltd. at Marine Midland Bank in New York. Why GOM did not open the account with Midland directly (without Equator's intervention) or other banks in NY or London is not clear. The address of Equator Bank was not readily available. The Mid-Term Review indicates that Equator Bank is based in the Bahamas!!!! The performance of SGS and Deloitte and Touche (DT) is also less than satisfactory. How would SGS and DT operate on the basis of "verbal assurance" (Audit Report, August 1996, p.8, item 7)? Does GAAP accept "verbal assurance"? The account was not audited after the second tranche. In view of the findings of the report of the Bank's Audit Department and a recent report on IFAD projects, the issue becomes even more troubling. ADB, Final Internal Audit Report No. FR/99/08 on Project Execution Activities Performed by the Government of the Republic of Malawi, August 9, 1999; and MOAI (GOM), Project Completion Report for the Smallholder Food Security Project (SFSP), IFAD Loan No. SRS-35-MW, June 2000, pp. 18-19.

<sup>31</sup> Reading the PCR carefully, one of the two supervision missions (20 man-days) was only tangentially devoted to ASAP. The PPE team is under the impression that time taken for preparation and appraisal may have been understated.

<sup>32</sup> Ibid. The World Bank, Project Audit Report.

required if supervision was delegated to one or the other actor, and a good flow of information was maintained. But this was not the case. Putting in more resources in the preparation and appraisal would have helped the Bank to understand the complexities of the situation in Malawi and to introduce a different perspective to the policy dialogue. In so doing, it would have improved the quality of the dialogue.

4.8.5 ASAP was not properly co-ordinated with the other major actors in the policy dialogue such as the World Bank and USAID. Neither organization was aware that ADB had a programme although they operated in more or less the same areas.

4.8.6 In general, the Bank did not put sufficient resources in the design and supervision of ASAP – for an operation that was complex and multi-faceted. Quality design, sound implementation, and regular supervision are however resource intensive activities, which the Bank should relentlessly have carried out.

#### **4.9 Factors that Affected Implementation Performance and Outcome**

4.9.1 From the discussions so far, the factors that impacted most on the implementation performance and outcome of ASAP should be clear. The performance was affected adversely (ref. Annex 4). on the main, by the limited resources input on the design and implementation of ASAP, on the part of the Bank, and lack of proper attention on the part of the government. These were exacerbated by the mismatch between the urgency of some objectives – drought relief – and conditions attached to tranche release, which took long to implement. This raises the question of whether ASAP should have not been two separate projects – one addressing the immediate BOP and drought aspects and the other addressing the medium- to the long-term structural/institutional aspects of agricultural policy reform.

4.9.2 As designed and implemented, ASAP could have been more successful if GOM paid attention to the agreements entered between GOM and the Bank. It could have been possible for GOM to call regular technical meetings and provoke the National Steering Committee to hold its meetings as well. These would have made substantial difference on implementation.

4.9.3 The achievements of ASAP in the burley policy and agricultural market liberalization were realized because of the existence of World Bank and USAID projects addressing more or less the same issues. Their existence was extremely valuable for ASAP.

4.9.4 As previously noted (paras. 4.3.4 – 4.5.6), administrative capacity is weak not only to ensure the sustainability of future development endeavors but also to implement and monitor programmes in the pipeline.

#### **4.10 Performance of Co-financiers**

##### **1. Performance of World Bank's Programme**

4.10.1 To put the rating of ASAP in broader perspective, it would be instructive to briefly review the contents and performance of ASAC. ASAC was the World Bank's credit of US\$75 million extended to GOM to support reforms in the macroeconomic sphere and the agricultural sector. It was approved in April 1990 and closed in December 1992. ASAC was essentially the forerunner to the ADF-financed ASAP.

4.102 The primary objectives of ASAC were achieving sustainable growth and reducing poverty and food insecurity. The policy reforms supported under the credit were broadly similar to those supported by ASAP and included both macroeconomic and agricultural policies.

4.10.3 In terms of performance both the Project Completion Report (PCR) and the Performance Audit Report (PAR) concluded that ASAC's project outcome was unsatisfactory, institutional development impact modest, and the sustainability of the completed reforms as likely. They underlined that both project design and implementation proved deficient. The measures to liberalize markets did little to change the role and mode of operation of ADMARC. The increase in land tax was insignificant to promote more effective land use practices and to induce estates to produce their own fuel wood. On the positive side, the end of the estate monopoly on burley tobacco, credited mainly to USAID's ASAP, opened up a lucrative sector to poor farmers. The reports stated that ASAC relied on promises of future actions, which resulted in the lack of success. USAID's ASAP, instead, insisted on action before disbursement, which contributed to its success.

### 3. Other Donors

4.10.4 Owing to lack of information it has not been possible to review the performance of other donors' support to the agricultural sector reforms.

## 5. CONCLUSIONS, LESSONS LEARNT AND RECOMMENDATIONS

### 5.1 Conclusions

5.1.1 Although the programme performance was rated unsatisfactory, ASAP addressed relevant policy issues and was within the context of the government's and the Bank's policies. ASAP aimed at promoting growth and poverty reduction in Malawi by continuing the macroeconomic stabilization and structural adjustment programmes that had already been initiated by the IMF and the agricultural policy reforms of the World Bank under ASAC. On the macroeconomic front the two key components were the maintenance of a flexible exchange rate and supporting a depreciation of the Kwacha in real terms through the maintenance of fiscal discipline. ASAP further advanced a rationalization of public expenditures so that more public resources would be re-allocated in favor of key social and economic sectors, including agriculture.

5.1.2. ASAP brought in focus the central policy issues related to the agricultural sector. These were (a) opening up the production of burley tobacco to the small smallholder farmers, including female farmers, (b) liberalisation of domestic and foreign trade in agricultural inputs and outputs, (c) privatization of ADMARC, the state procurement and distribution agency, and (d) removal of the fertilizer subsidy.

### 5.2 Lessons Learnt

5.2.1 In the design of agricultural input and output, policies would need to have a thorough understanding of the social, economic, and resource condition of each country. In the context of Malawi, the fertilizer subsidy removal should have provided careful attention to land fragmentation and the small size of farms in the country. Removal of the subsidy should have been accompanied with finely targeted subsidy to those small farmers that cultivate less than half a hectare. Similarly, agricultural pricing and marketing policies would need to take account of the severe food insecurity and the fact that close to 30 percent of farm households is net buyers of food.

5.2.2 Better sequencing of agricultural input and output policy reforms could facilitate easy implementation of the reforms and enhance their impact. It is noted that GOM should have liberalized the maize sector first, followed by groundnut export sector. Once a supply response was generated, input subsidies could have been phased out. This sequence would have minimized the adjustment costs of smallholder farmers and would have reduced the negative impact on maize productivity and food security.

5.2.3 The implementation of an operation could be seriously impeded (or derailed) if it is designed to rely on inputs from third parties (not bound by any contractual obligation). It would therefore be prudent to avoid depending on third parties for an important component of a project. An example is the targeting means that UNDP (ref. para. 4.1.6) was supposed to develop for targeting food to drought stricken households. This did not materialize because UNDP was not aware that it would prepare a targeting means. Even if UNDP was aware, it is not always possible for it to move at the pace required by the operation. Thus, putting a condition on the government would be unfair, and an important objective of an operation would fail to be implemented.

5.2.4 The experience above, in addition to insight it gives to exercising caution, calls for more and better coordination with other donors. This is particularly true if the other donors are also working in similar operations, and the operations are contemporaneous (ref. paras. 4.1.7, 4.8.4). For instance, USAID's and ADF-funded ASAP ran in parallel. If properly coordinated, the Bank could have used USAID's information to make judgement on whether or not a certain condition was met. The information gathering aspects could have also been done jointly or shared. This would have cut resources needed in supervision. Once the information was generated, decisions could have been made independently.

5.2.5 If an operation, such as a PBL, involves more than one government agency, it is incumbent upon Bank staff to make sure that each one of them understood their responsibilities (ref. para. 4.1.7). The flow of information within government agencies is very poor, and often, conditions relating with PBL are kept with secrecy. Thus, agencies whose functions are affected by the Loan Agreement may not know about it at all. To avoid such surprises Bank staff would need to liaise with all the relevant agencies.

5.2.6 In PBL (and other similar operations), it is wise to limit the number of conditions, to define them very clearly (e.g. avoid such phrases as "... satisfactory to the Bank") and to reward actual implementation than promises (ref. paras. 1.3.10, 4.1.4).

5.2.7 Using a positive list for PBL is distortionary, and given that money is fungible (ref. para. 1.3.12), it is difficult to determine how the money is used (on the margin). It would therefore be preferable to revert to a negative list of items to which the loan proceeds cannot (or should not) be used.

### 5.3 Recommendations

#### For the Bank Group

5.3.1 Since September 1995, the Bank Group has instituted a wide ranging reform programme one of whose four main objectives is to improve the quality of the Bank's operations. The reform measures have focussed on improving project quality and the development effectiveness of the Bank's lending programme. However, the Bank would still need to put in more resources in preparation, appraisal and supervision in order to enhance its operational effectiveness (ref. paras. 4.1.5-4.1.7, 4.3.2, 4.6.2, 4.8.4-4.8.5). The preparation and implementation of projects and programmes, including PBL, are resource intensive activities and the Bank need not be short-handed if quality matters to it in order to generate effective projects.

5.3.2 The Bank, guided by its CSPs, would need to continue concentrating its efforts in a few sectors in each country. Given its limited resources, the Bank could achieve more if it selects one or two sectors in a country and focus on those limited sectors, instead of thinly spreading itself (implied in paras. 4.1.5, 4.2.1, 4.3.2, 4.6.2). This would need to be supplemented by a comprehensive and long-drawn plan of intervention. For Malawi, for instance, it could choose the agricultural sector. It could then commit itself to work there for 10-15 years. In so doing, it would bring its entire arsenal (PBL, TA and project lending) to make a tangible difference over an extended period. This could facilitate further sharpening the Bank's understanding of the sector and improving the policy dialogue, as well as creating a better match between its instruments and the policy goals (para. 1.3.9).

5.3.3 The Bank would need to use more specialists (ref. paras. 4.1.6, 4.8.3). Many policy issues that outwardly look simple and common place can be complex when examined closely. For instance, the design of public works and other targeted programmes (such as drought related food distribution) requires the input of specialized professionals. ASAP had good intentions in proposing importation and distribution of food, but this aspect was not thoroughly defined in the project document.

#### For the Bank Group and Borrower

5.3.4 The management of project-related documents within government needs major improvement. If management of documents does not change, the Bank should hold back disbursements on all operations. This has to be monitored on regular bases (ref. paras. 2.1.1-2.1.2, 4.7.1). Every year, by a certain date (e.g. June 30) the Bank and the Borrower could review the status of documents (including Audit Reports). If the government is not up-to-date and the understandings are not met to the satisfaction of the Bank, the Bank should reserve the right to disburse or withhold any loan moneys. The same rule could be applied to regular or special reports promised under one or the other project. If the Bank becomes serious, the Borrower would also work towards becoming up-to-date. The Borrower, on its part, should take the matter seriously.

5.3.5 Since the Bank does not have field presence in most RMCs including Malawi, it depends very much on the inputs provided by staff assigned by government to oversee Bank projects (ADB Desk Officers). If those officers are not effective (ref. paras. 1.2.4, 3.3, 4.7.3-4.7.4), the Bank does not have anything to rely on. It would therefore be important to negotiate with government so that the quality and credibility of such staff is as high as possible. The PPER has, however, noted that as part of a medium-term plan to gradually strengthen its presence in RMCs, the Bank has started opening up offices. This will enable it to monitor more closely its portfolio and to co-ordinate better its operations with clients and other development partners.

5.3.6 The Bank and the Borrower would need to design a long-drawn programme and strategy focussed on the adoption of the improved seed varieties, improving the assembly and dissemination of information (including prices), improving rural infrastructures, and creating opportunities for markets to thrive, reforming the Ministry of Agriculture and Irrigation to make it fit to support a private sector led agriculture sector strategy, supporting the creation and development of rural institutions, and supporting the GOM to design a strategy of diversification to minimize the reliance on tobacco. Similarly, ADF could play a catalytic role to improve the flow of public resources to rural areas by working on public expenditure issues with GOM and other donors. Public safety and rural security is becoming a serious concern to raising livestock and maintaining on-farm stocks of food. There is room to work with GOM in this area as well.

#### For the Borrower

5.3.7 The Borrowers should also see to it that staff assigned to interface-with donors are highly qualified, motivated and tend to act responsibly (paras. 4.7.3-4.7.4). Obviously, it is difficult to make staff in one section or department different from the rest in the ministry or the civil service. The problem is more systemic (or system wide). While ad hoc measures would address the specific problem at hand, the systemic problems need to be addressed. This essentially means that GOM would need to reassess the size and incentives structure of the civil service (and more generally the scope of government as well).

#### 5.4 **Plan of Action**

5.4. The implications of the lessons learnt as well as the recommendations, together with an assignment of responsibility, are presented in a matrix in Annex 11.

**Evaluation Criteria: Summary Table**

<b>Evaluation Criteria</b>	<b>PCR</b>		<b>PPER</b>	
Relevance	NA	Not Available	3	Satisfactory
Achievement of Objectives (Efficacy)	NA	“ “	2	Unsatisfactory
Efficiency	NA	“ “	1	Highly Unsatisfactory
Institutional Development	NA	“ “	1	Highly Unsatisfactory
Sustainability	NA	“ “	2	Unsatisfactory
Aggregate Indicator	2	Satisfactory	1	Highly Unsatisfactory
Borrower Performance	2	Satisfactory	1	Highly Unsatisfactory
Bank Performance	1	Unsatisfactory	2	Unsatisfactory

Ratings Code

PCR	PPER	
3	4	Highly Satisfactory
2	3	Satisfactory
1	2	Unsatisfactory
0	1	Highly Unsatisfactory

Note:

NA Not Available

**EVALUATION CRITERIA**

No.	Component Indicators	Score (1 to 4)	REMARKS
1	<u>Relevance and quality at entry assessment</u>	3	<b>Satisfactory</b>
i)	Consistency with country overall development strategy	3	With the open debate about food insecurity, the <b>drought</b> and the political changes, <b>there</b> had been policy shift in Malawi towards growth and poverty reduction.
ii)	Consistency with Bank Assistance Strategy	3	The Bank's Economic Prospects and Country Programming ( <b>ADB/BD/WP/92/143</b> ) addresses the issues of poverty and the support for ASAP.
iii)	Macro-economic Policy	3	ASAP addresses exchange rate and fiscal management together with issues of price stability. <b>On</b> the wrong side, it supports wage-price indexation.
iv)	Sector Policy	3	<b>Agricultural</b> input and output pricing and marketing policies are at the core of the operation. Fails to bring the special situation of Malawi. in the articulation of policies (i.e. very <b>small</b> holding sizes, net-buying status. etc.)
v)	Public Policy Reform		ASAP and similar operation are partly responsible to the political changes and the subsequent reforms in Malawi.
vi)	Poverty reduction		Opening up burley to smallholder. the opportunity to sell tobacco on the auction market the <b>drought</b> relief and the public works programs are important poverty reduction issues.
vii)	Social and Gender equality	3	ASAP aimed to open up burley to women.
viii)	Environmental Concerns		With the recognition that tobacco can have deleterious environmental effect ASAP supported <b>the</b> issuance of an environmental policy. and the allocation of some estate land for tree planting to supply the tobacco industry
is)	Human Resources Development		Supported increased allocation of government expenditure on the core social and economic sectors. <b>Advanced</b> the idea of a public sector investment program (PSIP).
x)	Institutional Development	3	Aimed to create markets for <b>agricultural</b> output and inputs. Markets are institutions.
xi)	Private Sector Development	3	<b>Liberalization</b> of markets. including imports. and restructuring of ADMARC provided opportunities for PSD: e.g. intermediate buyers (IBs).
xii)	Regional Economic Integration	NR	Not Relevant (NR); Not explicit in the operation but has had important effect <b>through the</b> exchange rate policy and trade liberalization.
xiii)	Quality at entry (including demandingness. complexity. riskiness. etc.)	1	Conflict between <b>the emergency</b> nature of the operation ( <b>drought</b> relief) and <b>conditions</b> attached: lacked a thorough understanding and analysis of the complex situation in <b>Malawi</b> : missed important components in the positive list (e.g. vehicles): design of public works program not <b>dealt</b> with adequately: proposed some <b>wrong</b> policies (e.g. cess. minimum wage. etc.)

2	Achievement of objectives & Outcomes (“Efficacy”)	2	<b>Unsatisfactory</b>
i)	Policy Goals	1	Malawi has not yet completed the stabilization programs it started in the early 1980s. Conditions are not yet ripe for private sector development
	Macro Stabilization (exchange rate, aggregate price level, fiscal target)	1	Inflation is still high although declining; real exchange rate is overvalued; Fiscal target not honored; Although declining, fiscal deficit is still excessive (not within revenue and grants).
	Public investments and expenditures	1	No comprehensive Public Sector investment Program; increased public expenditure for key sectors but unsatisfactory intra-sectoral and functional allocation
	Monetary Reforms	1	Fiscal deficit is monetized; TBs are regularly used to extinguish maturing Bills; inflation is still high; interest rate is high; limited institutions and instruments.
	Private Sector Regulations and Incentives	2	Private sector regulations are implicit in the objectives. Liberalization of imports of fertilizer and procurement and distribution of agricultural inputs and outputs opened way for PSD; No conscious encouragement given to PSD.
	Input & Output Pricing/marketing: sector-al regulations	3	Central to ASAP. Five Acts relating to pricing and marketing repealed, or amended, or de-gazetted between 1995-96; Changing the role of ADMARC to buyer/seller of last resort; established price band for ADMARC’s intervention (replaced by market pricing); Burley opened up to smallholders (and women farmers); Export ban on maize lifted in May 2000.
	Labor Legislation	1	Since 1969, Malawi practised wage restraint. Labour legislation sanctioning collective bargaining was issued in 1993. Aggressive statutory minimum wage legislation issued; District Labour Officers sanctioned to conduct labour inspection; Study of labour market dynamics not done:
	Cost Recovery	2	Cost recovery for secondary and tertiary education nearing implementation; fees for other services adjusted (e.g. Passport driver’s license, etc)
	Fiscal Restructuring	1	Cash budgeting, Rolling Medium-term budgeting & fiscal decentralization under consideration (or lukewarm implementation).
ii)	Social Objectives and Targets	2	Objectives that have been met satisfactorily were not achieved because of ASAP. ASAP was a by-stander.
	Poverty Alleviation	3	Average rural income has increased: burley has been opened up to smallholders (and womm) farmers: diversity of crops grown has risen. But, average urban income has decreased.
	Protection of Vulnerable Groups	2	Famine averted: but the public works proposal supported by ASAP did not materialize.
	Reduction in income disparities	3	Burley has facilitated distribution of income to smallholders (and women) farmers: rural income has risen compared to urban income.
	Gender Equality	3	Access to education has improved: opportunities to burley has been opened up: but demand for women labour and their work burden has increased.

	Access & quality of social services	3	Access to social sector. education in particular. has increased, but the quality of services has deteriorated.
	Nutrition and Food Security	1	ASAP has availed BOP support for purchase of maize as well as other goods for drought relief; food security and nutrition had worsened for some households; burley was preferred to maize in land and labour allocation, and by credit agencies; burley (cash) income was depleted shortly after marketing season.
iii)	Environment Objectives	1	NEPA does not properly comprehend the interaction between economic policy and the environment. Gains in income could have wme at a cost to the environment.
	Natural Resources Management	1	Estates did not plant wood for tobacco curing as stipulated in ASAP: Agricultural output increased as a result of bringing more land into cultivation (by farming hill tops. and intruding into national parks).
	Environmental Action Plan	2	National Environmental Action Plan (NEAP) was issued in 1997. Capacity of the National Environmental Protection Agency (NEPA) is weak.
iv)	Private Sector Development Objective	1	Objective was implicit: not much done to support the private sector.
	Legal Framework for Private Sector	1	ASAP does not explicitly recognized PSD as an objective although it has had several implications
	Restructuring/Privatization	2	ADMARC's privatization of non-marketing subsidiaries is not complete; commercialization of agricultural marketing tasks underway; over 200 warehouses put in the market for sale or rental.
	TA to private sector	1	Not much is done to support the emergence of a vibrant private sector in agricultural marketing and processing. Assumed that private sector will jump-in and take over the tasks left behind by ADMARC's privatization and commercialization.
<b>3)</b>	<b>Efficiency</b>	<b>1</b>	<b>Highly Unsatisfactory</b>
i)	Economic Costs	1	ASAP was highly costly. This cost refers to the opportunity wst of the credit extended to execute ASAP (US\$21.5 million). The opportunity cost is the foregone benefits from the next best project to which the resources would have been used either in Malawi (or elsewhere in Africa). Benefits in #2 above cannot however be attributed to ASAP.
ii)	Administrative Costs	1	Total staff time used in preparation and appraisal (60 man-days) and supervision was 110 man-days.

	Institutional Development Impact (ID)	1	<b>Highly Unsatisfactory</b>
i)	Nadonal Capacity	1	There were several implicit institutional development aspects, which were not recognized and properly <b>attended</b> to.
	Economic management	1	The National Steering Committee and the <b>Technical Sub-Committee were not function (if at all they had been set up)</b> .
	Poverty Alleviation	1	An oppommity was lost to set-up a <b>Poverty Monitoring System</b> and to build the capacity in this area.
	<b>Support</b> to private sector	1	No positive support was provided to <b>encourage</b> and strengthen the private sector in agricultural trade.
ii)	Executing Agency – Planning/policy analysis & implementation	1	<b>Ministry</b> of Finance did not play an active role in the implementation of the project. ADB did not play an active role in the policy dialogue.
5	Sustainability	2	<b>Unsatisfactory</b> .
i)	Technical Soundness (including O&M facilitation. <b>availability</b> of recurrent funding. spare <b>parts</b> , workshop facilities etc.)	2	Main roads are well repaired. However, public expenditure allocation to O&M is inadequate. The quality of public services has deteriorated. <b>GOM</b> has not yet undertaken a credible public sector reform (including a redefinition) of the scope of the state.
ii)	Continued Borrower Commitment (including <b>legal/regulatory</b> framework)	3	There is political <b>commitment</b> for reform. Many in the legislative and executive arms of government come <b>from the</b> private sector. But the capacity is very weak. Repeated rapture of <b>the</b> budget before election has been noted.
iii)	Socio-political <b>Support</b> (including beneficiary participation, vulnerable groups protection, political stability)	3	Unlike in <b>the</b> past <b>NGOs</b> are mushrooming. The political situation looks stable. However, urban and rural crime has risen significantly. <b>Theft</b> of livestock and storage bins has become a deterrent <b>to</b> mixed farming, and for farm-level storing of food.
vi)	Institutional arrangements (organizational and management)	1	<b>ASAP</b> was poorly managed. There is weak institutional capacity <b>to</b> manage projects and <b>program</b> . Indifference pervades MOFEP (and the other <b>institutions</b> ). No ASAP-related documents were found. Extreme dependence on tobacco is worrisome particularly in the medium-term. New markets have to <b>be</b> developed for tobacco and an exit plan should be conceived.
vii)	Environmental viability	1	Burley has deleterious environmental impact without proper crop rotation. <b>Recent growth</b> was achieved by expansion in land area Link between policy reform and the environment not properly understood and policies <b>attuned to the</b> environment not being initiated.
viii)	Resilience to exogenous Factors	2	More drought resistant crops in the production mix. But BOP and <b>fiscal</b> situation cannot withstand major shocks.
6	<b>Aggregate</b> Performance Indicator		<b>Highly Unsatisfactory</b>



**BORROWER'S PERFORMANCE**

Component Indicators	Score (1 to 4)	Remarks
1. <u>Quality of Preparation</u>	1	GOM did not seem to have played an <b>active role</b> in preparation and appraisal.
Ownership, Beneficiaries Participation	1	There is no indication that GOM staff participated in design and articulation <b>of policies</b> .
Government Commitment	2	Highest level of GOM (both executive and legislative) seems to be committed for market-based and <b>private</b> -sector led economy. Mid-level technocrats seem to be disinterested.
Macroeconomic and Sector Policies	1	Policy-makers seem to have <b>agreed</b> to one set of policies with donors but did other things. Their concerns were not clearly articulated and incorporated in the policy dialogue.
Institutional Arrangement	1	Except for negotiation, there was no <b>effective</b> institutional arrangement (e.g. committee) for design.
2. <u>Quality of Implementation</u>	1	No meaningful effort was put into managing ASAP.
Assignment of Key Staff	1	The effectiveness of Staff assigned to ADB projects is questionable. The role of the Liaison (Desk) <b>Officer</b> in following up ASAP did not seem to be effective.
Management Performance of Executing Agency	1	MOFEP did not seem to play its role as Executing and Implementing agency.
Use of Technical Assistance	NR	Not Relevant (NR).
Mid-Course Adjustments	2	Not collecting <b>cess</b> , not building the storage facilities and the purchase of vehicles were good measures.
Adherence to time schedule & costs	1	Both first and second <b>Tranche</b> releases were delayed. Project delayed for a total of 3 years.
3. Compliance with Covenants	1	Management of the Special Account and purchase of goods from non-member countries raise questions.
4. Adequacy of Monitoring, Evaluation and Reporting	1	National Steering & Technical Committees did not provide effective monitoring. No indication that it met regularly: No reports sent to the Bank.
<u>Overall Borrower Performance</u>	1	<b>Highly Unsatisfactory</b>



**Annex 3****BANK PERFORMANCE**

<b>Component Indicators</b>	<b>Score (1 to 4)</b>	<b>Remarks</b>
At Identification	3	ASAP was consistent with GOM, Bank and other donor strategies for Malawi.
- Project consistency with government development strategy	3	ASAP was consistent with <b>GOM's</b> strategy and key developmental issues in Malawi.
- Project consistency with Bank strategy for country	3	Consistent with the Bank's Country strategy & and its strategies for several special issues such as poverty reduction, PSD, gender balance, etc.
At Preparation & Appraisal of Project	2	Complex policy issues not addressed.
- Relevance & timeliness of Bank support	3	Given the implications of the drought, ASAP was timely.
- Quality of technical, economic, financial, institutional, social, environmental analyses	1	Critical issues were not addressed.
- Relevance of Conditions and covenants	2	Conditions were not sharply defined; Some conditions were unnecessary; some others were in the wrong direction.
- Adequacy of lending instrument	2	Mixed feelings; Urgency of drought need a quick disbursing instruments; contents of ASAP needed relatively longdrawn (i.e. traditional project-type) instrument.
- Quality of coordination with other donors/partners	1	Major actors on the ground in the agricultural and macroeconomic policy arena were not aware on <b>ADB's</b> operation.
Adequacy of monitoring/Supervision	1	Indicators were poorly defined; Supervision was not adequate.
<b><u>Overall Assessment of Bank Performance</u></b>	<b>2</b>	<b>Unsatisfactory</b>

**FACTORS THAT AFFECTED IMPLEMENTATION PERFORMANCE  
AND OUTCOME**

Factors affecting positively (+) or negatively (-) the implementation and achievements of major objectives

Factors	Substantial	Partial	Negligible	N/A	Remarks
1. Subject to Government/ Executing Agency Control					
1.1 Government commitment					Commitment exists at the highest level about the reforms; The same degree of commitment may not exist in the civil service.
1.2 Appointment of key staff					I here was no one knowledgeable about ASAP. Keeping the same person (s) as the focal point through the life would have maintained institutional memory.
1.3 Administrative & Management capacity					Experience in project management (not training per se) – learning-by-doing would be beneficial. This affected implementation as well.
1.4 Staff motivation					Staff at Executing Agency was not motivated and should have been disinterested.
2.0 Unrealistic implementation schedule					There was a mismatch between the objectives and the time frame required for some of the goals.
3.0 Bank Resources devoted to Project					Bank did not put in sufficient resources in preparation, appraisal and supervision.
4.0 Role of other donors	+				Achievement made in the agricultural policy reform, which ASAP covered, were as a result of the efforts made by the other donor (mainly the World Bank and USAID)
5.0 Administrative and civil service Capacity					I here is serious limitation in administrative capacity to implement and monitor development programmes and design new ones.

Key Macroeconomic Indicators

	<u>National CPI</u>	<u>Inflation</u>	<u>Exchange Rate Mk/US\$*</u>	<u>Interest Rate Lending %</u>
1990	100.0		2.72	
1991	108.2	8.2	2.79	
1992	133.4	23.3	3.58	22.0 -
1993	163.8	22.8	4.38	29.5
1994	220.5	34.6	8.76	31.0
1995	404.2	83.3	15.21	47.3
1996	556.2	37.6	15.24	45.3
1997	607.1	9.2	16.48	28.3
1998	787.7	29.7	30.92	37.7
1999	1140.5	44.8	43.87	53.6
2000	1453.3	27.4	46.75	53.5

\* Buying Rate

Sources:

IMF, International Financial Statistics, Various Issues.

RBM, Monthly Economic Review, April 2000

RBM, Financial and Economic Review, Vol. XXXI, No. 4, 1999

### Fiscal Deficits and Government Expenditure

	<u>Deficit w/o Grants</u>	<u>Deficit w/ Grants</u>	<u>Nominal GDP</u>	<u>Deficit w/o Grants/GDP</u>	<u>Deficit w/ Grants/GDP</u>	<u>Health Exp. % of GDP</u>	<u>Educ. Exp. % of GDP</u>	<u>Agric Exp % of GDP</u>	<u>Salaries % of GDP</u>
	<u>Million MK</u>								
1990191	308.0	215.3	<b>5069.9</b>	6.1	4.2	2.0	3.3	3.0	4.7
<b>1991/92</b>	344.8	139.9	6101.8	5.7	2.3	2.4	3.3	3.0	4.2
<b>1992/93</b>	719.7	487.9	7200.6	10.0	6.8	2.5	3.7	3.7	5.8
1993194	1694.7	1410.7	9275.2	18.3	15.2	2.1	3.4	3.4	7.1
1994195	3896.1	2381.1	14133	27.6	16.8	4.4	5.6	3.0	7.2
1995196	3426.4	1140.1	24952	13.7	4.6	3.5	5.5	2.9	6.7
1996197	2689.2	980.7	<b>36915</b>	7.3	2.7	1.8	3.8	1.4	4.8
1997198	4751.4	2659.0	<b>59068</b>	8.0	4.5	1.7	4.1	1.3	6.1
1998199	5522.0	1480.8	67578	8.2	2.2	2.5	3.6	1.7	4.4
1999100									

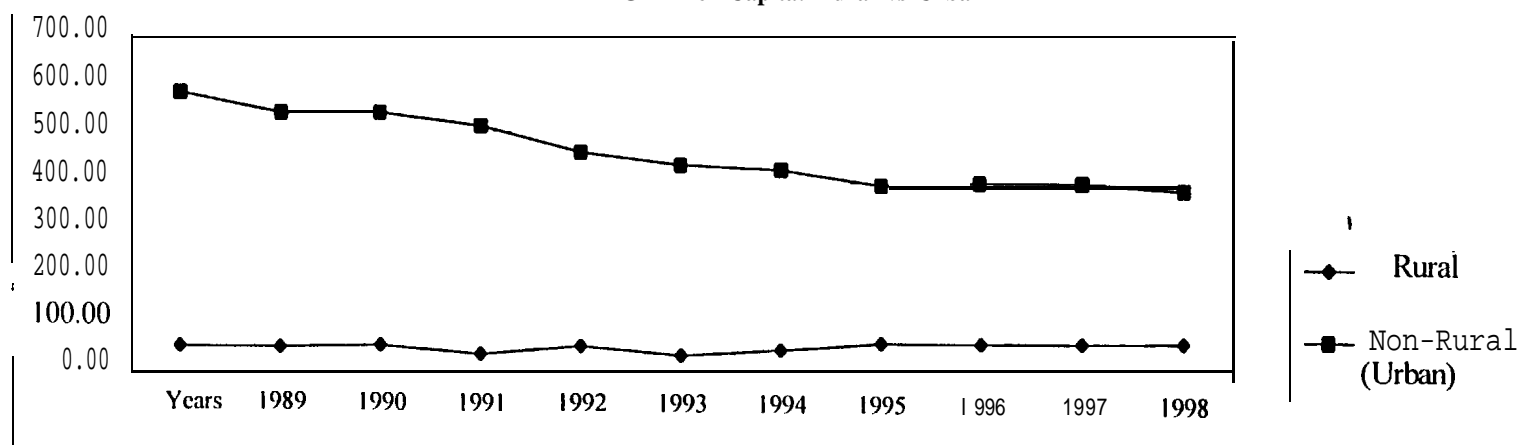
**Sources:**

Ministry of Finance and Economic Planning, data provided to the PPER mission

**Evolution of Heal GDP: Agricultural and Non-Agricultural**

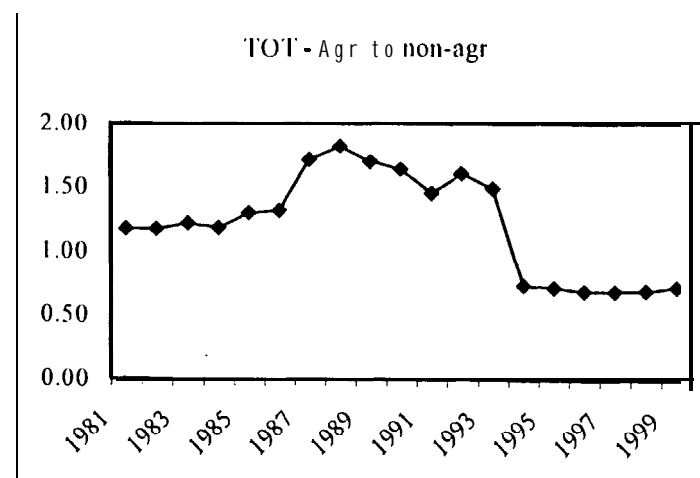
Years	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Growth Rate - Real GDP		4.8	7.8	-7.9	10.8	-11.6	13.9	11.7	5.2	4.0	4.5
	<u>Million MK at 1977-78 Prices</u>										
Real Agricultural GDP	327	326	368	275	421	298	<b>411</b>	555	577	593	637
Real Non-Agricultural GDP	608	654	688	697	656	655	673	656	697	733	748
Kural Population	6.66	6.87	7.03	7.38	7.64	7.88	7.94	8.3	8.47	8.68	8.9
Urban Population	<b>1.05</b>	<b>1.21</b>	1.28	<b>1.36</b>	<b>1.43</b>	<b>1.51</b>	<b>1.58</b>	<b>1.66</b>	<b>1.75</b>	1.84	1.94
	<u>MK at 1977-78 Prices</u>										
Real Per Capita GDP											
Rural	49.04	47.42	52.28	37.29	55.10	37.77	51.81	66.93	<b>68.14</b>	68.29	71.59
Non-Rural (Urban)	579.23	540.17	537.73	512.50	458.67	433.44	<b>426.14</b>	395.24	398.34	398.11	385.42
Ratio -- Urban vs Rural	<b>11.81</b>	<b>11.39</b>	10.29	13.74	8.32	<b>11.48</b>	8.23	5.91	5.85	5.83	5.38

**Real GDP Per Capita: Rural vs Urban**



Terms of Trade: Agricultural and Non-Agricultural Goods

Years	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Implicit Deflators -- Agriculture																			
Agriculture	1.53	1.67	1.89	2.10	2.41	2.76	3.00	4.81	5.45	6.06	6.66	X.23	9.70	7.75	14.87	20.76	23.63	29.57	42.16
Non-agriculture	1.30	1.42	1.50	1.78	1.85	2.08	2.10	2.65	3.21	3.69	4.58	5.12	6.50	10.53	20.78	30.21	34.27	42.75	58.61
TOT-Agr to non-Agr	1.18	1.17	1.22	1.18	1.30	1.32	1.71	1.82	1.70	1.64	1.46	1.61	1.49	0.74	0.72	0.69	0.69	0.69	0.72
Nominal Producer Price (Official) - Tambala/kg																			
	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96			
Maize	6.0	11.1	11.1	12.2	12.2	12.2	12.2	10.6	24	27	27	27	27	43	47	72	144		
Groundnuts (Shelled)	20	20	20	34	45	50	58	58	63	77	85	112	150	198	300	180			
Rice (Faya)	10	10	10	15	17	19	22	27	30	35	37	39	47	90	180	na			
Oriental Tobacco	50.5	50.5	x7	95	106	106	118	180	270	3 to	330	330	3X2	na	na	na			
Grade A I																			
Cotton - Grade A	23	28.5	38	42	46	50	55	65	77	X6	86	90	92	100	250	450			
White Haricot Beans	14	14.5	20	30	40	42	44	44	4x	70	70	70	73	115	115	600			
Field Peas	5.5	5.5	15	15	15	15	15	15	17	35	35	35	35	37	39	40			
<u>Real Producer Price (Official)</u>																			
Maize	5.08	7.80	7.14	6.87	6.59	5.85	5.81	6.27	7.4X	7.31	5.90	5.80	6.61	4.46	3.46	4.77			
Groundnuts (Shelled)	15.40	14.05	12.86	19.14	24.31	23.99	21.62	21.92	19.63	20.85	18.56	21.86	23.06	1X.80	14.44	5.96			
Rice (Faya)	7.70	7.03	6.43	8.44	9.19	9.12	10.48	10.20	Y.35	0.48	8.08	7.61	7.23	8.55	8.66	0.00			
Oriental Tobacco	45.81	41.81	55.04	53.48	57.27	50.86	56.19	08.02	X4.15	83.93	72.05	64.42	5X.74	na	na	na			
Grade A I																			
Cotton - Grade A	17.71	20.03	24.43	23.65	24.X5	23.99	26.19	24.56	24.00	23.28	1X.78	17.57	14.15	9.50	12.03	14.89			
White Haricot Beans	10.78	10.19	12.86	16.89	21.61	20.15	20.95	16.63	14.96	18.95	15.28	13.67	11.22	10.92	5.53	19.86			
Field Peas	4.23	3.86	0.64	8.44	8.10	7.20	7.14	5.67	5.30	9.48	7.64	6.83	5.38	3.51	1.88	1.32			



## Aggregate Production and Yield of Major Agricultural Products

## Production in Metric Tons

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
<b>MAIZE</b>	1369403	1397948	1355202	1294564	1201757	1423848	<b>1509513</b>	1342809	<b>1589377</b>	657000	2033957	818999	1327865	1793461	1226478	1534326	2245824	2290018
Local		1106832	1084592	1058080	1078860	1244351	1220565	963171	1104103	1368282	1032173	534241	659295	864371	667156	746882	778032	793620
Composite		46575	37490	34755	22531	22420	44123	34016	26743	5377	6286	601	2401	25740	21168	30054	84701	182630
Hybrid		245391	233123	<b>201729</b>	<b>100366</b>	157077	244825	345022	521603	283341	<b>995498</b>	284157	666169	903350	538154	757390	1383091	1313768
<b>RICE</b>	25948	34886	34265	37407	28432	32311	45690	43280	<b>63175</b>	23798	65357	41132	39073	72629	65690	68802	92833	71601
<b>GROUNDNUTS</b>	53991	54766	62240	88297	88073	76754	34752	<b>18574</b>	<b>31051</b>	12060	<b>31785</b>	30654	30664	40327	68718	97228	124605	<b>116551</b>
<b>TOBACCO</b>	12369	<b>19545</b>	<b>20515</b>	<b>16117</b>	13650	9238	7934	<b>14000</b>	18729	<b>16544</b>	26924	<b>15507</b>	<b>35439</b>	68978	83566	94062	84555	98675
Burley					54	64	261	324	1627	2759	<b>16516</b>	<b>5815</b>	20659	49786	65781	<b>81181</b>	71690	85963
Others	12369	19545	20515	<b>16117</b>	13596	<b>9174</b>	7673	<b>13676</b>	17102	137x5	<b>10408</b>	9692	14780	<b>19192</b>	17785	<b>12881</b>	<b>12865</b>	12712
<b>COTTON</b>	<b>13134</b>	32600	46106	36235	20957	29286	<b>35106</b>	33026	42780	13632	45339	<b>17014</b>	25197	82591	45122	36336	50589	34907
<b>SORGH &amp; MILLET</b>	8453	22587	32621	30287	23208	33617	31233	<b>25565</b>	26323	7375	36819	26378	32549	74972	55938	<b>61111</b>	61625	56307
<b>PULSES</b>	18026	29479	28132	39099	56803	<b>58157</b>	50390	<b>71385</b>	68514	55849	70094	78251	99772	183094	179226	208895	233811	263368
<b>CASSAVA</b>	143686	258693	209321	218282	169403	134785	154762	144760	167818	128827	<b>216005</b>	250056	328424	534549	713876	829821	895420	2757186
<b>POTATOES</b>		59926	81047	80003	134375	113374	189403	<b>129111</b>	216968	92218	258547	207817	397214	702891	975013	1552721	1840401	2037283

## Yield in Kgm/Hectare

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
<b>MAIZE</b>	<b>1171</b>	<b>1191</b>	<b>1183</b>	<b>1085</b>	<b>1016</b>	<b>1172</b>	<b>1188</b>	<b>999</b>	<b>1142</b>	<b>480</b>	<b>1505</b>	<b>725</b>	<b>1083</b>	<b>1443</b>	<b>994</b>	<b>1187</b>	<b>1640</b>	<b>1596</b>
Local		<b>1037</b>	<b>1034</b>	958	953	1094	1052	<b>813</b>	872	324	938	580	767	<b>1009</b>	730	818	<b>1001</b>	994
Composite		17x7	1746	1729	1635	<b>1199</b>	<b>1760</b>	1400	<b>1417</b>	403	<b>1213</b>	772	1043	1474	1044	1202	<b>1587</b>	1693
Hybrid		2757	<b>3111</b>	2941	2706	2667	2855	2555	<b>2908</b>	<b>1307</b>	3078	<b>1369</b>	<b>1829</b>	2450	<b>1801</b>	2134	2568	2485
<b>RICE</b>	<b>1278</b>	<b>1592</b>	1647	<b>1635</b>	1490	1426	1787	1490	1924	1305	<b>1859</b>	<b>1519</b>	<b>1173</b>	1762	1627	1644	2028	<b>1645</b>
<b>GROUNDNUTS</b>	<b>369</b>	378	<b>458</b>	<b>501</b>	420	437	249	<b>358</b>	444	<b>187</b>	622	322	343	563	686	691	731	689
<b>TOBACCO</b>	448	434	437	424	412	383	370	454	<b>561</b>	510	741	489	672	874	844	825	726	831
Burley					2000	2207	1563	<b>1742</b>	1332	<b>1129</b>	1037	834	846	1076	988	<b>902</b>	795	<b>898</b>
<b>COTTON</b>	403	638	758	698	607	671	<b>735</b>	681	729	234	586	453	482	1044	638	807	<b>951</b>	865
<b>SORGHUM</b>	302	670	674	648	475	723	672	<b>501</b>	598	<b>143</b>	699	306	313	720	471	610	698	669
<b>MILLET</b>	<b>149</b>	542	<b>608</b>	547	477	<b>609</b>	624	516	<b>518</b>	231	673	405	<b>474</b>	579	425	558	601	569
<b>PULSES</b>	217	323	352	344	374	363	338	332	359	255	497	294	339	so9	434	482	537	555
<b>CASSAVA</b>	2421	3174	2608	2994	<b>2611</b>	2182	2125	2354	3243	2014	2763	3466	3467	4587	5674	<b>5461</b>	5390	<b>15253</b>
<b>S. POTATOES</b>		2808	3568	3564	<b>4182</b>	3576	4049	<b>3181</b>	3658	2166	5332	4450	5234	8669	9358	10583	<b>11193</b>	<b>11479</b>
<b>L. POTATOES</b>					<b>4119</b>	3701	<b>3485</b>	7668	7182	8394	8763	<b>11055</b>	<b>10216</b>	<b>11770</b>	<b>11558</b>	9364	<b>11519</b>	<b>11199</b>

Sources:

MOAT, Malawi Agricultural Statistical Bulletin, 1996/97

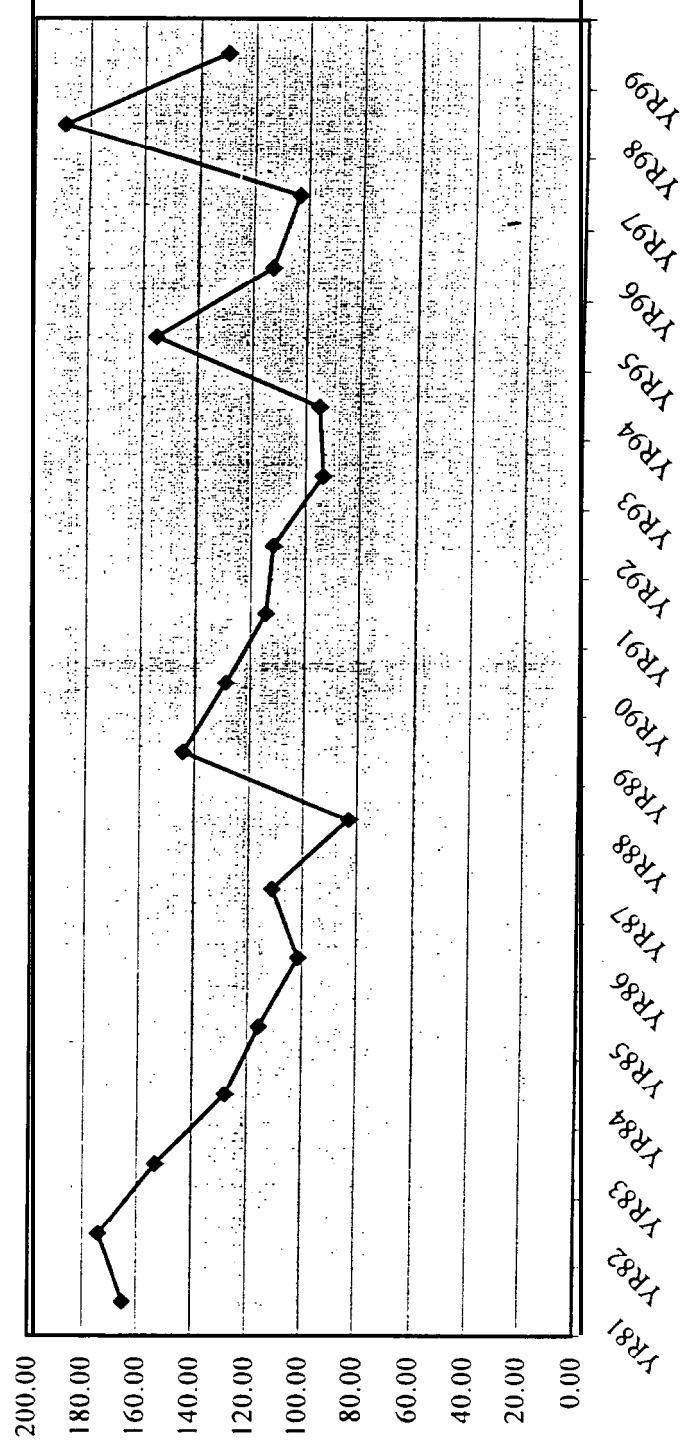
FEWS, Data File

Nominal And Real Wages

YR81	YR82	YR83	YR84	YR85	YR86	YR87	YR88	YR89	YR90	YR91	YR92	YR93	YR94	YR95	YR96	YR97	YR98	YR99
42.36	46.52	52.80	63.38	70.04	79.88	100.00	133.88	150.57	168.35	189.58	232.62	278.34	374.80	687.11	945.44	1031.47	1314.10	1908.73
70.00	81.00	81.00	81.00	81.00	81.00	111.00	111.00	217.00	217.00	217.00	260.00	260.00	355.00	1065.00	1065.00	1065.00	2480.00	2480.00
165.25	174.11	153.40	127.81	115.64	101.40	111.00	82.91	144.12	128.90	114.46	111.77	93.41	94.72	155.00	112.65	103.25	188.72	129.93

Consumer price index (1987=100)  
 Nominal Wages - Blantyre  
 (tambala/day)  
 Real Wages

Real Wages (Tambala/day)



**Recommendations and Follow Up**

<b><u>Key Recommendations</u></b>	<b><u>Follow Up Actions</u></b>	<b><u>Responsibility</u></b>
Allocate more resources for project/programme preparation, appraisal and supervision	<ul style="list-style-type: none"> <li>i) Prepare a Work Programme for each country for 3-5 years</li> <li>ii) Identify the skill profile and estimate the magnitude of staff time required to carry out the work program</li> <li>iii) Estimate the financial implications and use estimates in annual budgeting</li> <li>iv) calibrate the amount depending on Bank-wide budget availability</li> <li>v) increase the operational budget of the Bank</li> </ul>	<p><b>OCOD</b> <b>OCDs</b> <b>FBFP</b></p>
Concentrate effort in fewer sectors in each country (utmost 1-3 operations depending on the size of ADF allocations)	<ul style="list-style-type: none"> <li>i) identify a few operations for Bank's engagement in each country</li> <li>ii) reallocate staff time based on the focussed work programme</li> <li>iii) provide an integrated package of support to the country in the selected sectors (PBL, sector operations, TA, etc)</li> </ul>	<p><b>OCOD</b> <b>OCDs</b></p>
Use specialists in each area.	<ul style="list-style-type: none"> <li>i) Determine the skill requirements based on the work program</li> <li>ii) design recruitment and training based on the critical skill shortages</li> </ul>	<p><b>CHRM</b> <b>CADI</b></p> <p style="text-align: right;">OCDs</p>
Co-ordinate with and use of products (including reports) of other multilateral and bilateral donors in a more effective manner	<ul style="list-style-type: none"> <li>i) identify pilot countries and sectors for intensive collaboration</li> <li>ii) share ADB's work programme, obtain their work program and identify areas and level of collaboration</li> <li>iii) intensify co-ordination and promote more effective partnership with other donor agencies</li> <li>iv) regularly monitor the progress in the effectiveness of collaboration</li> <li>v) avoid policy conditions that involve inputs/outputs from other donors (such as UNDP's targeting mechanism to be used for ASAP)</li> </ul>	<p><b>OCDs</b></p>
Co-ordinate with and embrace national agencies (other than the executing/implementing agency) that are affected by a project/program	<ul style="list-style-type: none"> <li>i) identify all institutions (government, private, NGOs) to be affected by an operation</li> <li>ii) determine how they are impacted and the degree of the impact (positive as well as negative)</li> <li>iii) make them aware of their involvement (i.e. that they are impacted and the extent of the impact)</li> <li>iv) solicit their reaction and cooperation</li> </ul>	<p><b>OCDs</b></p>

<p>Design and specify conditions in adjustment and other lending operations</p>	<ul style="list-style-type: none"> <li>i) limit the number of effectiveness and second tranche conditions (5-7 conditions)</li> <li>ii) define the policy conditions very precisely; e.g. what constitutes meeting conditions, what should government produce to show that a particular condition has been met, which department in government is responsible for meeting that condition, etc.</li> <li>iii) use "side notes" that would form an integral part of an Appraisal reports and Loan Agreements to spell out the details of the conditions as in (ii)</li> <li>iv) avoid policy proposal that are not supported by proper studies (e.g. cess and minimum wage policies of ASAP)</li> <li>v) shift from promises to actual performance for tranche releases</li> </ul>	<p><b>CLEG OCDs OCOD</b></p>
<p>Use a negative (as against a positive) list of goods and services to which proceeds of loan/credit could not be used</p>	<ul style="list-style-type: none"> <li>i) avoid the use of a positive list in BOP operations</li> <li>ii) conduct a regular review of the import list (national import) and public expenditures</li> </ul>	<p><b>RMCs OCDs</b></p>
<p>Improve the management of project-related documents in government ministries and agencies</p>	<ul style="list-style-type: none"> <li>i) conduct a review of the systems currently in place in different ministries and other government agencies and identify the problems in document storage and retrieval</li> <li>ii) provide recommendations on how to improve the maintenance of project-related and other relevant documents</li> <li>iii) establish a system of handing over government property (including documents) upon the departure of a staff on transfer, retirement, promotion, or other reasons</li> </ul>	<p><b>RMCs OCDs</b></p>
<p>Co-ordinate with in-country ADB Desk Officers</p>	<ul style="list-style-type: none"> <li>i) seek from government so that ADB would be consulted upon the appointment, promotion, performance evaluation and departure of ADB Desk Officers in different government agencies</li> <li>ii) provide training and orientation to ADB Desk officers on the Bank's practices upon their appointment; provide refresher programmes once in a while</li> <li>iii) maintain regular formal and informal contact with such officers</li> <li>iv) request Desk Officers be present in the country when the Bank mounts missions to that country</li> </ul>	<p><b>OCDs</b></p>

LIST OF DOCUMENTS CONSULTED/USED

ADB / ADF Documents:

Compendium of Statistics on Bank Group Operations, Vol. XXIII, 2000

Agricultural Sector Adjustment Programme in Malawi – Mid-Term Review Report, No Date

Appraisal Report: Agricultural Sector Adjustment Programme, Republic of Malawi, with covering letter ADF/BD/WP/93/06, 28 January 1993

Loan Agreement between the Government of the Republic of Malawi and The African Development Fund, No. F/MLM/ASAP/93/25, 1 October 1993

Malawi: Agricultural Sector Adjustment Programme: Programme Completion Report, ADF/BD/IF/99/120, 18 June 1999

Malawi: Programme Performance Evaluation Report for Industry and Trade Policy Adjustment Programme and Entrepreneurship and Capital Market Adjustment Programme, ADF/BD/WP/99/13, 27 April 1999

Malawi: Economic Prospects and Country Programming Paper, 1993-95, ADB/BD/WP/92/143, 29 December 1992

Malawi: Country Strategy Paper 1999-2001, ADF/BD/WP/99/137, 11 November 1999

Final Internal Audit Report on Project Execution Activities performed by the Government of the Republic of Malawi, FR/99/08, 9 August 1999

Evaluation Guidelines of Project Completion Report (PCR), Evaluation Note, and Project Performance Evaluation Report (PPER) – Presentation Note on Proposed Changes, No Date

ADB: Thirty Five Years at the Service of Africa, Annual Report – 1999, May 2000

Government of Malawi Documents:

Project Completion Report for the Smallholder Food Security Project (SFSP) – Loan No. SRS-35-MW, IFAD Project, June 2000

National Statistical Office, Malawi: Monthly Statistical Bulletin, March 2000

Reserve Bank of Malawi, Financial and Economic Review, Vol. XXXI, No. 4, 1999

Reserve Bank of Malawi, Monthly Economic Review, April 2000

Ministry of Education, Education Basic Statistics – Malawi 1997, 1997

Ministry of Health and Population, Malawi: Fourth National Health Plan – 1999-2004, May 1999

MOAI, Malawi Agricultural Statistical Bulletin – 1996/97, No Date

Privatization Commission, Annual Report – 1999,

Presidential Commission of Inquiry on Land Policy Reform. Main Report, Vol. 1, 31 March 1999

**Other Sources:**

Alwang, Jeffrey and P.B. Siegel, Labor Shortages on Small Landholdings in Malawi: Implications for Policy Reform, *World Development*, Vol. 27, No. 8, 1999

Kherallah, M. and K. Govindan, The Sequencing of Agricultural Market Reforms in Malawi, *Journal of African Economies*, Vol. 8, No. 2, July 1999

Orr, A., 'Green Gold'? Burley Tobacco, Smallholder Agriculture, and Poverty Alleviation in Malawi, *World Development*, Vol. 28, No. 2, 2000

The Economist Intelligence Unit, Malawi: Country Report, 3<sup>rd</sup> Quarter 1999

Evans, Janis E.. Rapid Assessment of the Impact of Policy Changes on Rural Livelihoods in Malawi, a report prepared for the World Bank, June 1997

IMF, International Financial Statistics, July 2000

IMF, Malawi – Recent Economic Developments, October 1997

Poulin, Roger and Others, Malawi – Rural Sector Assessment, prepared for USAID, DAI, July 1999

The World Bank. Accelerating Malawi's Growth: Long-term Prospects and Transitional Problems, September 1999

The World Bank, Malawi: Human Resources and Poverty – Profile and Priorities for Action, November 1995

The World Bank. Republic of Malawi: Agricultural Sector Adjustment Credit, Report No. P-5189-MAI, March 6, 1990

The World Bank. Agricultural Sector Adjustment Credit (Credit 2121-MAI) – Project Completion Report, Report No. 13603, October 14, 1994

The World Bank. Agricultural Sector Adjustment Credit (Credit 2121-MAI) – Performance Audit Report, Report No. 15641, May 23 1996

**Agricultural Sector Adjustment Programme (ASAP)**  
**Retro-Methodology of Project Design and Evaluation (MPDE)**

1. This note accompanies the attached retrofitted MPDE for ASAP. Several comments are provided above in the main text and footnotes pertaining to the MPDE of the Appraisal Report. A well-formulated MPDE (Logical Framework) does indeed facilitate project (programme) design, supervision and **post**-performance evaluation. The purpose of a retrofit is not however straightforwardly clear; neither is its construction simple since with the benefit of hindsight it may be found that the project may have not been the right one in the first place. Moreover, risks that may not have been foreseen at the start (that are known now) could have derailed the project entirely. If the knowledge was available at the start, a different project could have been considered or the design of the current project would have been different. The attached MPDE is prepared with a view that we are back in 1992 and we look into the future.
2. Let us examine the Hierarchy of Objectives (HOs). At the lowest level there are four activities (instruments) over which the policy-maker (PPER mission) has control. These are labeled D1, D2, D3, and D4. The corresponding Risks/Assumptions are given in column 4. It is proposed to **read D1 as follows**:
  - If additional BOP support is extended, and GOM is committed to drought relief, resources are allocated for the purpose and logistical constraints are removed, then national food supply will be increased.
3. We would want to monitor the flow of BOP support every quarter and yearly and compare them with the amounts in the Disbursement Schedule (OVI). ADB's Finance Department, MOF, RBM would be required to maintain a regular database showing composition of purchases and amounts spent. Auditors would ascertain the details every year (MOV).
4. At the Output/Results level, HO and Risks/Assumptions would read:
  - If national food supply is increased, and logistical constraints are removed and food distribution plan is completed, short-term household (individual) food supply is increased.
5. The food distribution plan would include whether the food is distributed through the market or other means. If market is the means of distribution, how would those that do not have cash income get access to the food? This will take us into the design of public works programs (including forms of payment – cash or food) or free food programs for the infirm.
6. We would want to monitor the stock of maize – the staple crop – on a monthly basis (OVI). The Ministry of Agriculture and Irrigation and the management of the Strategic Grain Reserve (SGR) would create and maintain database (if one does exist already) – indicating location of the warehouse, quantity at hand, and quantity in transit.
7. The same procedure is applied to other HOs at the Activities level.

**Retro-Methodology of Project Design and Evaluation (Retro-MPDE)  
Agricultural Sector Adjustment Programme (ASAP)**

<b>Hierarchy of Objectives</b>	<b>Objectively Verifiable Indicators</b>	<b>Means of Verification</b>	<b>Risks/Assumptions</b>
<p><b>National/Strategic Goal(s):</b></p> <p>Pro-poor growth promoted.</p>	<p>GDP growth Annual Composition &amp; growth of exports Income distribution Gini Coefficient Swings &amp; investment</p>	<p>NSO EPD (MOF) <u>MOCI</u></p>	
<p><b>Development/Social Objectives:</b></p> <p>B 1 Short-term household (individual) food supply increased 132 Supply response unleashed (short as well as long-term opportunities) B3 Income of small (and female) burley farmers increased</p>	<p>B 1, B2, B3 Annual survey data on income &amp; expenditure, food consumption, &amp; anthropometrics  B 1 Hospital anthropometric records  B2 Agricultural production</p>	<p>B 1, 132, B3 NSO – integrated survey B2 MOAI – production survey B 1, B2, B3 EPD (MOF) – analysis, income distribution B1 MOI IP – hospital records</p>	<p>R1 intra-household distribution improved; more burley income used to improve household welfare  B2 Storage and transportation situation improved; price incentive unaffected adversely</p>
<p><b>Results/Outputs:</b></p> <p>C 1 National food supply increased C2. 1 Relative prices changed in favor of traded goods C2.2 Inflation lowered (due to fiscal restraint) C3 Access to quality social services improved C4 Production of burley by small farmers and female farmers increased</p>	<p>C 1 Monthly stock of maize in tons C2. 1 Monthly movements in the real exchange rate C2.2 Monthly CPI C3 Primary, secondary enrolment, progression annual; vaccination rate – annual C4 Production, grade statistics</p>	<p>C1 Strategic Grain Reserve, MOAI <b>C2. 1 RBM, IMF data</b> <b>C2.2 NSO</b> c3 MOE, MOHP c4 MOAI. TCC</p>	<p>C 1 Logistical constraints removed; Food distribution plan (e.g. free, public works, cash) completed =&gt; B 1  C2 , C3 Weather condition improved; infrastructural problems (including flow of information) addressed =&gt; B2  C4 Favorable international &amp; auction prices of tobacco maintained; tobacco arrived at auction floor in good time =&gt; B3</p>
<p><b>Activities:</b></p> <p>D1 Additional BOP support extended D2 Policy reforms initiated (exchange rate depreciated, fiscal deficit reduced).</p>	<p>D 1 Disbursement of US\$21.5 million (with negative list of goods) – quarterly &amp; yearly (compare with Disbursement Schedule) D2. 1 Starting indicators for 1992 and</p>	<p>D1 ADB Finance Dept., MOF, RBM, Auditors Report  D2. 1(a) RBM</p>	<p>D1 GOM committed to drought relief &amp; allocates resources; &amp; logistical constraints are absent (or removed) =&gt; C 1  D2, D3, D4 GOM implemented policies,</p>

<p>pricing/marketing crops liberalized)  D3 Public expenditures restructured towards social/key economic sectors  D4 Restriction on burley production by smallholder and female farmers lifted.</p>	<p>targets for 1993, 1994, 1995 for (a) exchange rate, (b) fiscal deficit (monthly)  D2.2 Monitor prod./consumer prices of agricultural products (monthly)  D2.3 Number of registered agr. Product /input dealers (retail, wholesale, import) – yearly  D3 Budgeted &amp; actual releases of <b>Sectoral</b> and sub-sectoral public expenditure (including for key items, e.g. drug) – monthly; purchases of key supplies  D4 Land under burley tobacco and size distribution of burley farms -- yearly</p>	<p>D2.1(b) and (c) MOF, Sector Ministries   D2.2 MOAI, FEWS, NSO  D2.3 MOCI   D3 MOF, Sector Ministries   D4 MOAI, TCC</p>	<p>Private sector and markets emerged =&gt; C2   D3 Allocations are released; Key supplies (e.g. drugs, textbooks) purchased; Civil service motivated; household demand for social services enhanced. =&gt; C3   D4 Resistance from estate owners eliminated; Regulatory (registration) hurdles removed,; input supply improved; favorable weather condition existed =&gt; C4</p>
---	--	--	---

