

**AFRICAN DEVELOPMENT BANK GROUP**



**MALAWI**

**PROGRAMME PERFORMANCE EVALUATION  
REPORT FOR THE FOLLOWING PROGRAMMES:**

- **INDUSTRY AND TRADE POLICY ADJUSTMENT PROGRAMME**
- **ENTREPRENEURSHIP AND CAPITAL MARKET ADJUSTMENT PROGRAMME**

**OPERATIONS EVALUATION DEPARTMENT  
(OPEV)**

**27 April, 1999**

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## **ABBREVIATIONS AND ACRONYMS**

ADB	African Development Bank
ADF	African Development Fund
ADMARC	Agricultural Development and Marketing Corporation
ASP	Agricultural Services Project
BOP	Balance of Payments
CBI	Cross Border Initiative for Eastern and Southern Africa
CBM	Commercial Bank of Malawi
CG	Consultative Group
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
ECMAL	Entrepreneurship and Capital Market Adjustment Loan
ECMAP	Entrepreneurship and Capital Market Adjustment Programme
ECU	European Currency Unit
EDRP	Entrepreneurship Development and Drought Recovery Programme
EIB	European Investment Bank
EPZ	Export Processing Zone
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FAO	Food and Agricultural Organisation of the United Nations
FRDP	Fiscal Restructuring and Deregulation Programme
FY	Fiscal Year
GOM	Government of Malawi
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Association
IMF	International Monetary Fund
INDEBANK	Investment and Development Bank
INDEFINANCE	Industrial Development Finance Company
INDEFUND	Investment and Development Fund
ITPAC	Industrial and Trade Policy Adjustment Credit
ITPAL	Industry and Trade Policy Adjustment Loan
ITPAP	Industry and Trade Policy Adjustment Programme
LFC	Leasing and Finance Company
LDP	Letter of Development Policy
MASAF	Malawi Social Action Fund
MDC	Malawi Development Corporation
MEDI	Malawian Entrepreneur Development Institute
MEPC	Malawi Export Promotion Council
MIPA	Malawi Investment Promotion Agency
MK	Malawi Kwacha

MOALD	Ministry of Agriculture and Land Development
MOE	Ministry of Education
MOF	Ministry of Finance
MOH	Ministry of Health
MPDE	Methodology for Project Design and Evaluation
MSB	Malawi Savings Bank
MSE	Malawi Stock Exchange
MTEF	Medium-Term Expenditure Framework
NBM	National Bank of Malawi
NBS	New Building Society
NICO	National Insurance Company
NRA	National Revenue Authority
NSO	National Statistical Office
ODA	Overseas Development Association
OGL	Open General License
PAP	Poverty Alleviation Programme
PCR	Programme (or Project) Completion Report
PFP	Policy Framework Paper
PMU	Poverty Monitoring Unit
POSB	Post Office Savings Bank
PPER	Programme Performance Evaluation Report
PSIP	Public Sector Investment Programme
QR	Quantitative Restriction
RBM	Reserve Bank of Malawi
READI	Rural Enterprises and Agribusiness Development Institutions.
SAL	Structural Adjustment Loan
SAP	Structural Adjustment Programme
SDR	Special Drawing Rights
SEDOM	Small Enterprise Development Programme
SGR	Strategic Grain Reserve
SME	Small and Medium Enterprises
SUCOMA	Sugar Company of Malawi
UA	Unit of Account
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Educational Fund
USAID	United States Agency for International Development
VAT	Value Added Tax
WHO	World Health Organisation

## **PREFACE**

1. This Programme Performance Evaluation Report (PPER) reviews Malawi's Industry and Trade Adjustment Programme (Loan N°. F/MLW/SAL/-IND/TRA/89/17) for which an ADF loan of UA 13.6 million was approved on December 1988, and the Entrepreneurship and Capital Market Adjustment Programme (Loan N°. F/MLW/ECMAP/92/22) for which an ADF loan of UA 9.2 million was approved in October 1991. The programmes were co-financed with other donors for a total of US\$220.5 million and US\$310.8 million respectively. The Borrower was GOM, the Executing Agency was RBM and the Co-ordinating Agency was the MOF.

2. The planned and actual contribution of the Fund for ITPAP was UA 13.6 million, which was disbursed in two equal tranches. Disbursement of the first tranche took place in November 1989, five months behind schedule, while the second tranche was disbursed in March 1992, about 2 years behind schedule. The delays in tranche release did not materially affect the overall implementation of the programme. Similarly, the planned and actual contribution of the Fund for ECMAP UA 9.3 million was disbursed in two equal tranches in December 1992, (one year behind schedule), and December 1993, 6 months behind schedule. Except for the extreme scarcity of foreign exchange during the implementation of ECMAP, the delays had no major effect on the overall implementation of the programme. Counterpart funds generated from the sale of foreign exchange from these loans were made available to the Government for purposes of supplementing its budget, and were not earmarked for specific expenditure categories.

3. The main objective of ITPAP was to stimulate growth in industry, trade and finance sectors through trade, price and exchange rate liberalisation, fiscal reduction, tax reform, export promotion, the promotion of small-scale enterprises and the reform of the financial system. The objective of ECMAP (which was a sequel to ITPAP) was to remove direct and indirect controls and other impediments to private sector initiative, investment and growth in the industry and trade, financial, labour sector and in the capital market. To achieve these objectives, the GOM implemented a series of macroeconomic, financial and structural reforms aimed at restoring domestic and external balance and economic growth in the medium term. The programmes were sector-focused continuations of the SALs which were begun in the early 1980s.

4. The Operations Department prepared a Project Completion Report for ITPAP in 1994 and one for ECMAP in 1995. Although both PCRs concluded that the programmes were satisfactorily implemented, the conclusion of this PPER is that the programme outcomes were mixed—there were some positive achievements in the economy which can be attributed to the programmes, while certain aspects of the economy's performance are still worrisome.

**BASIC PROGRAMME DATA****A. The Borrower**

Country	:	The Republic of Malawi
Programmes	:	(i) Industry and Trade Policy Adjustment (ii) Entrepreneurship and Capital Market Adjustment
Loan Numbers	:	(i) F/MLW/SAL/IND/TRA/89/17 (ii) F/MLW/ECMAP/92/22
Beneficiary	:	Government of Malawi
Executing Agency	:	Ministry of Finance

**B. The Loans****Planned****Actual**

(i)	Amount (UA millions)	13.6	13.6
	Date Approved	February 28, 1989	February 28, 1989
	Date Signed	1st October, 1989	September 22, 1989
	Effective Date	Not Stated	November 1989
	Date of First Disbursement	June 1989	November 1989
	Date of Final Disbursement	December 1990	December 1992
	Completion Date	December 1990	December 1992
(ii)	Amount (UA millions)	9.2	9.2
	Date Approved	October 1991	October 1991
	Date Signed	October 1991	January 1992
	Effective Date	December 1991	November 23, 1992
	Date of First Disbursement	December 1991	December 30, 1992
	Date of Final Disbursement	October 1993	December 1993
	Completion Date	October 1993	December 1994

**C. Bank Missions to Malawi**

	<u>Mission Type</u>	<u>Date</u>	<u>N° of Weeks</u>	<u>N° of Persons</u>	<u>Man/weeks</u>
(i)	Appraisal	September 1988	2	2	4
	Follow-up	1-13 Sept. 1989	2	2	4
	Follow-up	16-30 March 1990	2	1	1
	Supervision	29/01-8/02 1991	1.5	1	1.5
	Supervision	14-24 June 1992	1.5	1	1.5
	PCR	November 1993	1	2	2
(ii)	Preparatory	June 1990	1	1	1
	Pre-appraisal	March 1991	1	1	1
	Appraisal	August 1991	2	2	4
	Supervision	April 1993	1	1	1
	Supervision/MTR	November 1993	2	2	4
	PCR	March 1995	2	3	6

**D. The Programmes****Planned****Actual**

**(i) Sources of Funding (Millions)**

ADF (UA)	13.6	13.6
World Bank (US\$)	70.0 equivalent	70.0 equivalent
OECD (US\$)	30.0 equivalent	30.0 equivalent
EU (ECU)	12.5 equivalent	12.5 equivalent
Federal Republic of Germany (DM)	20.0 equivalent	20.0 equivalent
Netherlands Finance Company for Developing Countries (FL)	12.8 equivalent	12.8 equivalent
ODA (£)	10.0 equivalent	10.0 equivalent
USAID (US\$)	25.0 equivalent	25.0 equivalent

**Total Cost of Programme: US\$220.5 million**

**(ii) Sources of Funding (Millions)**

ADF (UA)	9.2	9.2
Government of Japan (US\$)	70.0 equivalent	70.0 equivalent
EU (US\$)	39.3 equivalent	39.3 equivalent
Government of Germany (US\$)	10.5 equivalent	10.5 equivalent
Government of Switzerland (US\$)	1.7 equivalent	1.7 equivalent
World Bank (US\$)	130.5 equivalent	130.5 equivalent

**Total Cost of Programme: US\$266.0 million**

**E. Performance Indicators**

<b>(i)</b>	Cost overruns	:	NIL
	Implementation Performance	:	Satisfactory
	Project Outcome	:	Satisfactory
	Bank Performance	:	Satisfactory

<b>(ii)</b>	Cost overruns	:	NIL
	Implementation Performance	:	Satisfactory
	Project Outcome	:	Satisfactory
	Bank Performance	:	Satisfactory

## **1. EVALUATION SUMMARY**

### **1.1 Objectives and Scope**

1.1.1 In 1981/82, the Government of Malawi embarked upon an adjustment programme designed to reverse the downward slide of the economy which started in the 1970s. The programme was successfully implemented and the economic performance improved until 1985, when it again started experiencing problems. Between 1985 and 1987, the economy deteriorated in several important respects. To deal with these problems, the Government outlined a new development strategy in its Statement of Development Policies (1987-96) from which grew the three-year structural adjustment programme called the Industry and Trade Adjustment Programme (ITPAP). This programme was supported by the ADF to the tune of UA 13.6 million and by other donors.

1.1.2 Most of the structural problems constraining the growth of the economy were identified to be in the areas of industry, trade, and financial sectors. The industrial sector was rudimentary, and operated inefficiently under high tariff protection. It was constrained by foreign exchange scarcity, and the financial sector was characterised by lack of competition, the use of direct instruments of monetary control as opposed to market instruments. The Industry and Trade Policy Adjustment Programme was conceived as an economy-wide structural adjustment programme with sectoral focus. The major objectives of the programme were to restore macroeconomic stability, economic growth, liberalise the trade regime, and thereby enhance external competitiveness, and export expansion, particularly of non-traditional exports. Additional objectives of the programme were to deregulate the economy through the decontrol of prices, interest rates, and free entry into the financial sector, particularly the banking sector. It was also aimed at improving the efficiency of resource mobilisation and resource allocation through a rationalisation of the tax system and improvement of the investment climate, particularly for small and medium enterprises.

1.1.3 The appraisal report was silent on the quantitative indicators by which to measure the response of the economy. However, from the parallel World Bank operation, it was observed that under the programme, the reforms outlined were expected to raise the GDP growth rate from 1.5% in 1987 to 4% in 1991. The fiscal deficit was expected to decline from 10% to 6% of GDP while the annual rate of inflation was to decline from 26% to 5%. The current account balance was expected to rise from 4% to 11% of GDP, in order to permit a higher level of imports that would improve capacity utilisation and support a higher level of investment. Gross investment was expected to increase from 12% of GDP in 1987 to 18% in 1991, and private sector investment was to increase from 6% to 10% of GDP. While the bulk of the increased investment was to come from foreign sources, domestic savings would continue to finance about a third of gross investment.

1.1.4 The ITPAP was successfully implemented, but some structural problems persisted, while new ones emerged. In particular, in spite of the liberalisation imports and improvement in the environment for undertaking investment, actual investment did not improve significantly and the supply response was slow in coming, while the absence of skilled manpower still constituted a barrier to private sector activities. To deepen the adjustment process and correct the identified sectoral problems, the Entrepreneurship and Capital Market Adjustment Programme (1992-94/95) was put in place. The macroeconomic objectives of ECMAP were similar to those of ITPAP with the added objective of addressing outstanding problems in the capital and labour markets. At appraisal, it was expected that the rate of inflation would decline from 13.5% in 1992 to 5% in 1995. The growth rate of GDP would increase from - 4% in 1992 to 5% thereafter. The investment ratio would stay more or less the same at 19.5%, but private investment ratio would increase from 12.9% to about 14% in 1995. The deficit ratio, including grants, would also decline from 3.5% to

2%, while gross official reserves would increase from US\$ 159.4 millions to US\$ 237 millions in 1995.

1.1.5 The methodology adopted in this PPER is to compare the outcome of both programmes with the objectives and targets set at appraisal for each. Because of the absence of quantitative indicators in both appraisal reports, what was actually done was to evaluate the general response of the economy to the policy measures contained in the programmes in a “before and after” sense. Discussions and interviews were held with relevant government officials, representatives of the donor community, relevant Bank staff, and the business community. In addition, documents produced by some other donors on their parallel versions of these loans were consulted. Relevant Bank Group documents related to both operations, were also consulted.

## 1.2 Programme Implementation

Despite the delays associated with the implementation of both programmes, they were satisfactorily implemented. The programmes have laid the necessary legal and institutional framework for the emergence of a vibrant private sector and investment growth. However, the needed supply response has failed to materialise thus far. External factors tended to dictate the course of the economy, particularly donor reactions to internal developments within the country and the periodic droughts.

## 1.3 Institutional Aspects

1.3.1 The Borrower was the GOM and the Executing Agency was the Reserve Bank of Malawi (RBM) while the Co-ordinating Agency was the Ministry of Finance (MOF) for both programmes. The Government was fully committed to the implementation of the programme at the highest political level, and was not deterred in this either by the adverse external shocks particularly during the implementation of ECMAP, including the first change of Government since independence. Initial lack of co-ordination and communication among the implementing ministries and caused some delays in programme implementation.

1.3.2 The Bank did not participate in the design of the ITPAP, but undertook an appraisal mission, fielded supervision and mid-term review missions and prepared a PCR at the end of the programme. It was however, fully involved in the design of the ECMAP and also monitored its implementation and issued a PCR at the end of the programme.

## 1.4 Programme Impact

1.4.1 **Aggregate Impact:** The outcomes of the programmes were mixed, but can be described as satisfactory on the whole. ITPAP reversed the declines in the economy that were evident in the years before the implementation of the programme and restored positive per capita income growth. Inflation rate was reduced as a result of the fiscal and monetary discipline exercised by the government, but inflation did not decline to the extent anticipated at appraisal. The pressure on the balance of payments continued and the current account balance was –10.8% of GDP in 1991. The implementation of the ECMAP was marred by several simultaneous external shocks -- two major droughts and a minor one, a nation-wide industrial unrest, terms of trade deterioration, financing of the first multi-party election in about 30 years, and suspension of financial flows from bilateral donors for about 18 months. The result was large declines in GDP in 1992 and 1994, recourse to deficit financing in the face of shortfalls in bilateral donor aid flows, and the huge cost of holding the multi-party elections. As a consequence, inflation soared, reaching 86.3 percent in 1995 before declining to 9.2 in 1997.

1.4.2 The exchange rate has been liberalised progressively, and floated, with significant nominal devaluations. However, because of high domestic inflation rate, real devaluation was eroded after each depreciation of the currency. This has resulted in lack of supply response in the export sector.

1.4.3 The implementation of both programmes has improved the country's medium term economic prospects through the deregulation and liberalisation of the economic system. This has enhanced competition within the economy. The legal and regulatory changes which were introduced have produced an environment conducive to the establishment of private sector initiative.

1.4.4 **Sectoral Impact:** In the industry and trade sectors, the reform measures have created a conducive environment for efficient domestic production and export growth. However, the expected supply response has not taken place, partly because it takes time for this to materialise. The production structure has undergone substantial changes as firms which were unable to compete in the new environment have folded up, while new firms have sprung up. Some existing firms have been forced to cut costs or become more efficient in order to survive. Export production has however not grown very much and export diversification has not taken place as expected.

1.4.5 In the financial sector, new market based instruments of monetary control have been introduced and the interest rate deregulated. There is competition for deposits, where in the past the existence of excess liquidity in the economy has made banks indifferent about accepting deposits. Three new banks have come into the picture between 1993 and 1996, thereby improving financial intermediation. However, the rudimentary nature of the capital market and the lack of coordination among specialised institutions for granting term credit, particularly to the small scale sector, means that long term financing is still in short supply and the expected impact on investment is not being realised.

1.4.6 In the area of private sector development, the administrative impediments to doing business have been greatly reduced. The time required for registration of new businesses has been reduced, and the informal sector has grown very fast. However, the privatisation programme has not progressed very much because of the absence of a timetable for its accomplishment, and the delay in putting in place the administrative and legal machinery for its actualisation. Small and medium enterprises still find that they face stiff obstacles in obtaining financing without adequate collaterals.

1.4.7 In the labour market, steps have been taken to increase minimum wages and correct for the erosion of real wages caused by inflation over the years, while a mechanism for automatic adjustment of the minimum wage which is indexed to inflation has been put in place. Steps have also been taken to ensure more democratic methods of settling labour disputes and for negotiating contracts and improving the industrial bargaining processes. However no effort has been made to ensure that labour productivity is factored into all of these. The tenancy arrangement has been improved and real incomes in the rural and agricultural sectors were given a boost by the liberalisation of the burley tobacco-growing quota.

1.4.8 **Socio-economic impact:** There has been an increase in the share of education and health in both recurrent and development budgets. These are areas that directly benefit the poor. The announcement of universal free primary education by the new Government has put a lot of poor children in school and reduced the size of the unemployment problem. Several of the measures introduced have benefited the rural poor. For example, the increase in smallholder burley tobacco growing quota has put substantial amounts of money in the rural economy. Persistent

droughts however cast a shadow on the agricultural production and the poor. Women also benefit from several aspects of the programmes, particularly in the social sector.

### 1.5 **Sustainability**

The implementation of both programmes has brought to light the strong commitment of the Government to the adjustment process. This has correspondingly restored investor confidence in the economy. The macroeconomic environment has also improved, in spite of the impact of the external shocks during 1992-94.

### 1.6 **Conclusion**

The overall assessment of the programme outcomes is that they were satisfactory, despite the lack of adherence to original time schedules and the absence of reporting on the part of the GOM. The Government has re-established a conducive macroeconomic environment after the effects of the external shocks have been overcome.

### 1.7 **Feedback**

The main lesson from both programmes is that a strong commitment and a conducive macroeconomic environment are important for the success of any adjustment effort and are pre-requisites for both economy-wide adjustment efforts and sector adjustment programmes. In addition, export expansion and export market penetration takes time to yield the expected results and efforts in this regard need to be sustained.

## **2. BACKGROUND**

### **2.1 The Economic Context**

2.1.1 During the second half of the 70s, the Malawi economy, which had made impressive progress after independence, began to weaken as a result of the combined effects of adverse terms of trade and the pursuit, by the Government, of inappropriate economic policies. In response to the ensuing economic difficulties, the Government implemented, with the technical and financial assistance of donors, a series of stabilisation and adjustment measures during 1981/82-1985/86 which were designed to effect a change, for the better, in the fortunes of the economy. These measures were successfully implemented and the economy registered considerable improvements up till 1985. Between 1985 and 1987 however, the economy again deteriorated as a result of the resurgence of the factors mentioned above. The Government responded again by articulating a new development strategy as outlined in the Statement of Development Policies; and thereafter formulated a three-year programme (1988-91), the aim of which was to deepen the adjustment process by addressing the shortcomings which existed in the economy and which continued to hamper the resumption of growth.

2.1.2 The identified shortcomings were in the industrial, trade, and financial sectors. The industrial sector, which is underdeveloped by all measures of the term, is further constrained by foreign exchange scarcity and by its limited access to international markets. Because of the narrowness of the production base, industrial activities were concentrated on a few products like food processing and textiles. The sector was characterised by simple technologies, limited inter-industrial linkages, and heavy reliance on imported inputs and excessive reliance on agriculture both as a source of demand for its products and as a generator of foreign exchange for the importation of raw materials. The financial sector was a highly concentrated oligopoly with two commercial banks controlling over 80 per cent of national savings. The situation is further worsened by the fact that these two banks had close ties to each other and both of them had close ties to the two main holdings that dominate the industrial sector. Credit ceilings—the major tool of monetary policy—further perpetuated the oligopolistic nature of the market by basing credit allocation on banks' existing shares of the market. Until recently, there was little or no competition in the sector. In addition, there was lack of a legal framework for effective supervision and regulation of the financial system.

2.1.3 In the area of trade, exports were concentrated on a few agricultural products, the performance of which depended on the availability of rains and the external prices of those commodities. Export performance was also adversely affected by an overvalued exchange rate. The import regime was characterised by extensive licensing arrangements, with consequent distortionary effects on the economy in general and on the export sector in particular.

2.1.4 It is against this background of general poor aggregate economic performance and the observed shortcomings in the industrial, trade and financial sectors of the economy that the Government formulated the Statement of Development Policies (1987-96) from which grew the three-year programme titled the Industry, Trade Policy Adjustment Programme (ITPAP). In design and in formulation, ITPAP was a policy-based, sector-oriented programme whose objective was to stimulate growth in the industry, trade and finance sectors through trade, price and exchange rate liberalisation, fiscal reduction, tax reform, export promotion, the promotion of small-scale enterprises and the reform of the financial system.

2.1.5 While the implementation of ITPAP led to some improvements in the economy—for example, some modest growth in real GDP and in gross domestic investment—in general, there were several areas of the economy which were still calling for urgent action if sustained growth

was to be restored. For example, industrial production remained low while the effort to promote exports has not been successful. The rate of inflation remained unsustainably high and little progress was made in eliminating the balance of payments deficit. The financial sector remained highly oligopolistic and appeared incapable of playing a critical role in the development process in general and in mobilising resources in particular. While ITPAP appeared to have created a slightly improved environment for private sector initiative, that sector remained underdeveloped largely because of human capital constraints. In response to these observed problems, the Entrepreneurship and Capital Market Adjustment Programme (ECMAP) was put in place as a successor programme to ITPAP. The main objectives of ECMAP were to remove direct and indirect controls in selected high priority areas to support private sector initiative; to reduce investment delays, reorient land use and zoning policies towards small and micro-enterprise development, and to extend trade reforms to ensure an outward orientation of the private sector; to introduce market-oriented monetary instruments and increased competition through open entry of new institutions into the banking system; and to re-orient public expenditures in favour of human capital development.

## **2.2 History of Policy-based Operations—Bank Group and Other Donors**

Right from independence and up until the 1980s, Malawi enjoyed relatively good economic performance. But the oil shock of the 80s drove it, along with most developing countries, into economic crisis. The Government responded, with the technical and financial support of donors, by formulating and implementing a series of adjustment programmes, which covered the period 1981/82-1985/86. The World Bank, the IMF, the Governments of the United States and the Federal Republic of Germany, and Japan supported these programmes. Between 1981 and the beginning of ITPAP, the World Bank has extended three structural adjustment loans, while the IMF has had three successive stand-by arrangements with the Government of Malawi. These programmes were successfully implemented and the economy achieved some modest, albeit, uneven growth up till 1985. Between 1985-87 the economy deteriorated again, with growth rate falling to 1.1% in 1986 and to 2% in 1987. The rate of inflation escalated from 11% in 1985 to 25% in 1987, thereby eroding a 29% devaluation between 1985-87. This led the Government to formulate the Statement of Development Policies (1987-96), out of which developed the Industry and Trade Policy Adjustment Programme (1988-91). For the first time, the Bank Group decided to join efforts with other donors in financing this programme, thus signalling the beginning of Bank Group involvement in policy-based lending in Malawi. The outcome of ITPAP left many outstanding issues to be resolved and these were to be addressed by the successor programme to ITPAP—the Entrepreneurship and Capital Market Adjustment Programme, which was again co-financed by the Bank and other donors.

## **2.3 Programme Formulation**

The Industry and Trade Policy Adjustment Programme followed the series of adjustment efforts during the 1981-86 period. They were meant to reform the policy stance of the Government and thereby eliminate distortions, which had retarded growth in the past. But by the time of completion, it was realised that there remained some key issues particularly in the industry, trade and finance sectors which continued to hamper the resumption of growth. ITPAP was then conceived as a sectoral adjustment programme to address the outstanding issues in these sectors. But in reality, ITPAP was just another name for an economy-wide structural adjustment programme. It had economy-wide reform measures and the difference between it and earlier programmes was that it singled out these three sectors for special treatment. The Entrepreneurship and Capital Market Adjustment Programme, which was put in place to address the outstanding issues left behind by ITPAP, was similarly an adjustment programme, but with specific policy measures for the development of the capital market and human resource development.

## **2.4 Programme Rationale**

Up till 1985, the economy responded modestly to the adjustment policies that were pursued during 1981/82-1985/86. But between 1985-87, the economy deteriorated again, with most economic variables sharing in this deterioration. It was however realised that the limitations on the growth potential of the economy was to be found in the observed shortcomings in the industry, trade and finance sectors of the economy. And if these sectoral shortcomings could be removed, it was thought, economic growth could resume again. Thus ITPAP was formulated principally to address the shortcomings in these three sectors as a step towards the resumption of growth. But the completion of ITPAP was to leave behind its own unresolved problems in the areas of capital market and human resource underdevelopment. These problems continued to slow down economic growth and undermined the development of a viable private sector and micro-enterprises. The rationale for a successor programme—in the form of Entrepreneurship and Capital Market Development—is to be found in the attempt to address these outstanding problems which continued to limit economic performance in Malawi.

## **2.5 Objectives and Scope at Appraisal**

2.5.1 As a structural/sectoral adjustment programme, the thrust of ITPAP was trade liberalisation, which was to be complemented by flexible exchange rate management, reduction in fiscal deficit, reform of the tax system as well as the system governing the allocation of foreign exchange. The reform of the foreign exchange system would be accompanied by the elimination of quantitative restrictions on competing imports and the rationalisation of the tariff structure. There were provisions for price liberalisation, reform of the financial sector, measures to promote small-scale enterprises and exports. Details of these measures are contained in the PCR (pp5-10), and in the Appraisal Report (pp18-34). But it needs to be added that the Appraisal report contained no indicators by which to measure the response of the economy to the policy reforms.

2.5.2 The Entrepreneurship and Capital Market Adjustment Programme was aimed at correcting some of the shortcomings left behind by ITPAP. To this end, a number of policy measures were required to be implemented. These measures, which are described on pages 3-17 of the PCR and on pages 15-22 of the Appraisal report, include the removal of direct and indirect controls in selected high priority areas to support private sector initiative; the introduction of market-oriented monetary instruments, and the re-orientation of public expenditures in favour of human resource development. But as it was in the case of ITPAP, the Appraisal report was silent on the quantitative benchmarks against which to judge the programme. The absence of benchmarks to measure performance notwithstanding, an attempt is made in section 4 to establish the extent to which these objectives were achieved.

## **2.6 Financing Arrangements—Bank Group and Other Donors**

2.6.1 At appraisal, ITPAP was conceived as a multi-donor development assistance programme that would cost US\$ 220.5 millions. This expectation was met with the World Bank taking the lead by providing US\$ 70.0 millions. Other donors were the African Development Fund (UA 13.6 millions), Overseas Economic Co-operation Fund of Japan (US\$ 30.0 millions), European Union (ECU 12.5 millions), Federal Republic of Germany (DM 20.0 millions), The Netherlands Finance Company for Developing Countries (FL 12.8 millions), Overseas Development Assistance (£10.0 millions), and United Agency for International Development (US \$25.0) millions.

2.6.2 The total amount mobilised for ECMAP on the other hand was US \$310.8 millions, with the World Bank again taking the lead by providing US \$175.3 millions (including a drought

component). Other donors were the African Development Fund (UA 9.2 millions) or US \$14.0 millions equivalent, Government of Japan (US \$70.0 millions), European Union (US \$39.3 millions), the Government of Germany (US \$10.5 millions), and the Government of Switzerland (US \$ 1.7millions).

## **2.7 Evaluation Methodology and Approach**

2.7.1 Among the various methods of evaluating the impact of a policy change, perhaps the easiest one is the approach which compares the outcome of a programme to the objectives set for it at the outset. But this approach assumes that the indicators by which to measure performance are indicated right from the outset. The appraisal reports for these two programmes suffer from the same shortcoming of not listing the benchmarks against which to judge the programmes. There were no indications in the two reports about the expectations of the programmes. It was only in the World Bank's reports on the two programmes that one was able to deduce what might be called the expected outcomes of the programmes. While one could have used these indicators to judge the programmes, there is the problem that in one of the programmes (ECMAP), the scope is not the same for the two institutions. World Bank's ECMAP had a drought component which was absent from the ADF one. Thus one cannot use the indicators contained in the World Bank reports. What is however done in the rest of this report is to evaluate the general response of the economy to the policy measures contained in the programmes by comparing in a "before and after sense", the performance of the economy over the period.

2.7.2 Discussions and interviews were held with relevant government officials, representatives of the donor community, relevant Bank staff, and the business community/general public. In addition, documents produced by some other donors on their parallel versions of these loans were consulted. Relevant Bank Group documents related to both operations, were also consulted. Several donors co-financed both programmes and other adjustment operations in the country so that it is difficult to isolate the impact of ITPAP or ECMAP per se. Developments in the economy should be seen as responses to various stimuli, including the full package of reform measures introduced in the economy. The ambiguity and lack of clarity in defining or quantifying some to the targets under the programme, and the lack of Programme Completion Reports by the executing agencies limited the scope of this report.

### **3. PROGRAMME IMPLEMENTATION AND ACHIEVEMENTS**

#### **3.1 Loan Effectiveness**

3.1.1 The Industry and Trade Policy Adjustment Loan (ITPAL) was approved on December 23, 1988, and was signed nine months later on September 22, 1989. It became effective two months later in November 1989. There was no problem in declaring the loan effective as most of the measures required for effectiveness had already been undertaken by the Government. There were three of such conditions for the release of the first tranche and five for the release of the second tranche. The first tranche release were mere undertakings of commitment to the course of adjustment, of assurances that no local taxes, duties or levies would be financed from the loan proceeds. The conditions for the release of the second tranche were also simple—the borrower was required to conduct a study on the social, economic and financial impact of the price-decontrolling programme, and notify the Fund of progress with respect to particular actions consistent with the envisaged reforms. Given the simplistic nature of the conditions, tranche release conditions were easily met and on timely basis.

3.1.2 The Entrepreneurship and Capital Markets Adjustment Loan (ECMAL) was approved in October 1991 and signed three months later, in January 1992. But it did not become effective until November 1992, almost one year behind schedule and eight months after signing. The delay was due to weak co-ordination among the government ministries involved, lack of communications and untimely flow of information between them. Between the time of approval of the loan and October 1992, the Government had made satisfactory progress towards the fulfilment of the conditions attached to the loan. These conditions relate to the investment environment, access to financial capital and access to human capital and are described on pages 12-17 of the PCR.

#### **3.2 Implementation Schedule**

3.2.1 The two loans were meant to provide balance of payments support for the Government while it undertook the necessary policy reforms. The first tranche of ITPAP was released in November 1989, about six months behind schedule, while the second tranche was not disbursed until March 1992 -- about two years behind schedule. The loan closing date was extended to December 1992 because of slow submission of import documentation by the private sector. In terms of implementation, the Ministry of Finance (MOF) was charged with the responsibility for providing semi-annual reports to ADF on project implementation, while the Reserve Bank of Malawi (RBM) was in charge of monitoring the foreign exchange account, preparing and submitting semi-annual statements regarding utilisation of loan proceeds, and the audit of the Special Account. The loan proceeds were satisfactorily managed by the RBM, although progress reporting on loan utilisation was rarely adequately prepared. Observed areas of weakness include supervision of procurement, preparation of withdrawals for import support operations, and the compilation of relevant documents to support disbursement applications. In the case of the Ministry of Finance, there was no evidence of reporting to the ADF, and neither was there a record of reminders to this effect by the ADF.

3.2.2 The institutional arrangements for the implementation of ECMAP were more or less the same as for ITPAP. The experience with performance was almost identical—poor reporting by the MOF, and relatively good performance by the RBM, with its officials acquiring increasing experience with the implementation of this type of programme as time went by. There was a delay of one year between planned and actual release of the first tranche of the ECMAP. This was caused by delays in meeting the deadlines for effectiveness and the conditions for the release of the first tranche, and this was later to cause the extension of the closing date of the loan to May 1994. The

delay in fulfilling tranche conditions resulted mainly from lack of co-ordination among implementing ministries and government departments. There was limited, irregular and untimely communications among them on programme implementation and monitoring.

### **3.3 Costs of Programmes, Disbursements and Use of Counterpart Funds**

The total cost of the Industry and Trade Policy Adjustment Loan (ITPAL) was US\$ 220.5 million, while that of ECMAP was US\$ 310 million. The breakdown of the contributions by donors is given in section 2.6. All the pledges were honoured and the funds duly disbursed. The counterpart funds generated from the sale of foreign exchange from these loans were made available to the Government for purposes of supplementing its budget, and were not earmarked for specific expenditure categories.

### **3.4 Logical Framework Approach – Clarity and Completeness of MPDE**

3.4.1 At the time of appraisal of both loans, the Bank had not introduced the Logical Framework Approach to Project/Programme Planning. It is therefore difficult to comment on the soundness or otherwise of the logical framework. The appraisal reports however included policy matrices detailing programme actions and schedules for their completion, as well as sections describing the basic thrust of policies to be implemented during the successive programme periods. But they were both silent except for cursory references to a few of the targets in the Government's Letter of Development Policy, on the quantitative indicators by which to judge the response of the economy to the reform measures. In order to correct for these deficiencies, a retrospective logical framework matrix has been constructed for the purpose of this evaluation. However, from the World Bank's audit report of ITPAP, it was noted that the combination of reforms under it was expected to raise the rate of GDP growth rate from 1.5% in 1987 to 4% in 1991. The fiscal deficit was expected to decline from 10% to 6% of GDP while the annual rate of inflation was to decline from 26% to 5%. The current account balance was expected to rise from 4% to 11% of GDP, in order to permit a higher level of imports that would improve capacity utilisation and support a higher level of investment. Gross investment was expected to increase from 12% of GDP in 1987 to 18% in 1991, and private sector investment was to increase from 6% to 10% of GDP. While the bulk of the increased investment was to come from foreign sources, domestic savings would continue to finance about a third of gross investment. From World Bank sources also, one was able to identify some quantitative targets under ECMAP. For example, it was expected that the rate of inflation would decline from 13.5% in 1992 to 5% in 1995. The growth rate of GDP would increase from minus 4% in 1992 to 5% thereafter. The investment ratio would stay more or less the same at 19.5%, but private investment ratio would increase from 12.9% to 13.9% in 1995. The deficit ratio, including grants, would also decline from 3.5% to 2%, while gross official reserves would increase from US\$ 159.4 millions to US\$ 237 millions in 1995.

3.4.2 These shortcomings of the Appraisal reports notwithstanding, the following indicators, have been selected as means of verification of the performance of the programme: GDP and per capita income growth rates, saving/investment as per cent of GDP, inflation rates, revenue/GDP ratio, Expenditures/GDP ratio, fiscal deficit, expenditure shares of education, health, investment ratio, domestic and national savings ratios, interest rates, current account deficit of BOP, foreign exchange reserves in months of imports, external debt/GDP, debt service ratio, school enrolment ratios, level and growth of non-traditional exports, share of non-traditional in total exports, per capita consumption, ratio of tariff revenue/surtax revenues, unit wage rate, labour productivity, and share of industrial sector in GDP. In cases where there were no measurable indicators, the programmes were evaluated with reference to the required policy reforms to be undertaken.

### **3.5 Consistency with Bank and Country Strategies and Policies**

The Bank Group strategy in Malawi is to support the country's effort to achieve economic growth and sustainable development, including poverty reduction and enhanced human resource development. The main objectives of the ITPAP are to restore internal and external financial equilibria promote growth in trade and industry and pave the way for a longer-term sustained growth and development, while that of ECMAP was to deepen the achievements of ITPAP, enhance human resource development and promote capital market development. The two programmes under review are consistent with this strategy.

### **3.6 Consistency with Regional Economic Integration**

Malawi is a member of SADC, COMESA and the CBI. At time of appraisal, no attempt was made to put the two programmes in the context of the integration arrangements in the region or in Africa. The consensus among some government officials and private sector operators, notably at the Chambers of Commerce, the Ministry of Commerce and Industry, and the MEPC, was that within the region, Malawi (and Zambia) opened up too fast and too far with respect to their liberalisation programmes. This placed them at a disadvantage vis-à-vis their neighbours.

### **3.7 Policy Reform Measures**

The main objective of ITPAP and the ECMAP was to deepen the economy-wide adjustment programmes which were started in 1981-86 with a series of SAPs, and also to address specific sectoral concerns that had emerged from the implementation of the SAPs. ITPAP, in addition to being an economy-wide SAP, addressed adjustment issues in the industrial, trade and financial sectors with the aim of stimulating growth in those sectors through policies to liberalise trade and exchange rate management; foster export promotion and small scale enterprise, and liberalise the financial sector. ECMAP, a similar economy-wide reform programme, was meant to address issues of capital market development and human resource development. Both programmes covered institutional and poverty alleviation concerns. The reform measures to be implemented under both programmes are fully described in the PCRs, pp. 5-10 for ITPAP, and pp. 3-17 for ECMAP; and in the Appraisal Reports, pp. 18-34 and 15-22 respectively.

### **3.8 Institutional Performance and Monitoring**

#### **Borrower and Executing Agency Performance**

3.8.1 The Borrower (in both programmes) was the Government of Malawi. The Executing Agency was the Reserve Bank of Malawi (RBM), and it was charged with monitoring the foreign exchange account, preparing and submitting withdrawal applications and submitting semi-annual statements regarding the utilisation of the loan proceeds as well as with preparing the annual audit of the Special Account. As the Ministry in charge of the development policies, the Ministry of Finance (MOF) was the Co-ordinating Agency, charged with reporting on the implementation of the policy measures contained in the programme.

3.8.2 The loan proceeds were satisfactorily managed by RBM, but progress report on loan utilisation was rarely prepared. While the performance of RBM improved with time and its staff acquired the experience that should serve them in developing and managing future policy-based programmes, the implementation of both programmes revealed other weaknesses such as poor co-ordination among relevant ministries and poor reporting system. For example, the Ministry of Finance did not forward any semi-annual reports to the ADF as required under the loan agreement, and neither did the Government or the executing agency prepare a programme completion report (PCR) in respect of both programmes.

## **Bank Group Performance**

3.8.3 The ADF was not involved in the identification of both programmes. Indeed, the Government of Malawi had earlier prepared the Statement of Development Policies with the assistance of both the World Bank and the IMF. The ADF responded to the request from the Government of Malawi for participation in the programme that emerged therefrom. But once it got involved, the ADF prepared and appraised both programmes and worked actively with other donors as well as with the Government of Malawi to ensure the successful implementation of both programmes. In addition to appraisal and follow-up missions, there were two supervision missions for each of the two programmes. Each of the programmes had a PCR mission, as well as a final Project Completion Report. The Bank also reviewed the audited statements of the loan carried out by Deloitte & Touche for the year ended December 31, 1994. The executing agency did not submit semi-annual reports or a PCR as required by the loan agreement. There was no evidence that the ADF reminded the executing agency about its obligations in that regard.

### **Monitoring**

3.8.4 Following the appraisal mission, the ADF undertook two follow-up missions and two supervision missions for the ITPAP. Similarly, it undertook two supervision missions, one of which doubled as a mid-term review, and a PCR mission for ECMAP. The ECMAP supervision missions were regarded as successful in monitoring the programme because it addressed issues arising in the programme and were able to resolve procurement and disbursement problems.

## **3.9 Compliance with Loan Conditions and Covenants**

The GOM adhered to the Bank Group's procurement rules and procedures. It was easy for the GOM to comply with the loan conditions because the design of the loans had ensured that most of the required policies had been implemented prior to programme commencement or tranche release. In the case of ECMAP the Government endeavoured to implement all the policy measures in a timely manner, although the fulfilment of tranche release conditions were relatively more involved than under ITPAP. As a consequence, some delays were experienced. The bilateral donor community suspended disbursement to Malawi in 1992 because of poor governance, rather than failure on the part of the Government to implement any specific covenants in the loan agreements. This decision was to later adversely affect economic performance.

## **4. PROGRAMME EVALUATION AND IMPACT**

### **4.1 Impact of Policy Reforms**

4.1.1 Given the complexity of both programmes and the absence of appropriate indicators by which to measure performance, it is rather difficult to isolate the impact of both programmes on the economy. The situation is further made worse by the design of the programmes – essentially SAPs with sectoral focus. These problems notwithstanding, the response of the economy to the measures is described quantitatively. Thereafter, the response of the concerned sectors to the reform measures is also described.

### **Macroeconomic Performance**

4.1.2 It was anticipated at appraisal that GDP will grow at 1.5 per cent in 1988, 4% in 1989, 4.3% in 1990 and 4.9% by 1992. As a result of the implementation of ITPAP, and the availability of good rainfall, these growth rates were exceeded (Table I). In 1988, GDP grew at 3.3

%, 4.1% in 1989, 4.8% in 1990 and 7.8% in 1991 for an average growth rate of 5% from 1988-1991, as compared to 2.5% between 1985 and 1987. Thus real GDP per capita growth turned positive during ITPAP in contrast to the negative growth recorded in the two years preceding the programme. Inflation rate, which averaged 19.6 percent in the two years before the programme, was also brought down to 12.1 per cent during the last three years of ITPAP, 1989-91. Pressures on the balance of payments continued, however, as the current account balance which was brought down to - 5.1 per cent of GDP in 1987, worsened to - 9.1% in 1988 and -13.4% in 1989 before easing slightly to - 8.4% in 1990.

4.1.3 During the ECMAP period, 1992-94/95, it was anticipated that GDP would decline initially by 4.0 per cent in 1992 and then rise by 4.5 per cent in each of the subsequent years. Inflation was expected to rise to 13.4 per cent in 1992 and then decline to 5.0 per cent for the next three years (1993-95). The year 1992 was a very difficult year for Malawi as a number of external shocks -- drought, adverse terms of trade and suspension of bilateral flows to Malawi -- destabilised the economy. The result was a sharp decline in GDP by -7.9 per cent in 1992. Inflation rose sharply from 11.9 per cent in 1991 to 22.7 per cent in 1992 as the Government was forced to borrow extensively from the domestic economy to make up for shortfalls in external flows to Malawi. In the circumstance, fiscal deficit, excluding grants, rose from 5.4 per cent of GDP to 11.1 per cent compared to the anticipated level of 7.3 per cent. Government expenditure as a percentage of GDP rose to 30.2 per cent from 23.8 per cent the previous year.

4.1.4 The situation eased slightly in 1993 and GDP grew at 10.8 per cent, which was insufficient to make up for the loss of the previous year. The growth rate in 1993 was higher than the 8 per cent anticipated at appraisal. Gross investment dropped from 19.3 per cent of GDP to 12.2 per cent in 1993, as a delayed reaction to the events of 1992. Another set of external shocks in the form of drought and high government expenditure for the first multi-party election in thirty years was again experienced in 1994. The average growth rate of GDP between 1992 and 1994 was -2.9 per cent, much less than the 3.3 per cent expected at appraisal for 1992-95. Government expenditure was 44.2 per cent of GDP in 1994 up from 25.4 the previous year. In the event, fiscal deficit was 27.1 per cent of GDP. Inflation continued to accelerate, reaching 34.6 per cent in 1994. These are much higher than the 5.0 per cent rate anticipated at appraisal.

4.1.5 As a result of the decline in GDP and the accumulation of arrears during the ECMAP period, the external debt/GDP ratio rose to 150 per cent in 1994 before dropping to 139.1 per cent in 1995 and 94.3 per cent in 1997. In spite of these developments, the debt service ratio fluctuated between 22.7 and 23.9 per cent during the ECMAP period.

### **Fiscal and Budgetary Developments**

4.1.6 Government deficit was relatively high prior to the initiation of both programmes under review, averaging about 9.3 per cent between 1985 and 1987. Revenues ranged between 20.8 percentage of GDP and 22.2 per cent during those three years, although expenditures rose gradually as a per cent of GDP from 25 per cent in 1985 to 30 per cent in 1987, (average of 27.5 per cent of GDP). The implementation of ITPAP resulted in the reduction of fiscal deficit to 5.4 per cent in 1991, averaging 6.7 per cent between 1988 and 1991. As earlier indicated, this improvement in fiscal management led to a drop in the inflation rate and some degree of internal stabilisation.

4.1.7 During the ECMAP period, the budget deficit increased sharply to 15.1 per cent of GDP. Government revenues fell by about 2 percentage points, to 18.2 per cent, but expenditures increased by about 7 percentage points to 33.3 per cent of GDP compared to the expected increase over the period to an average of 26 per cent of GDP.

4.1.8 The tax reforms which accompanied both programmes has not significantly altered the extent of the reliance of the Government on international trade taxes. During 1985/86 – 1997/98, the proportion of international trade taxes in total tax revenue was an average of 20.5% (Table III). This proportion remained fairly stable during 1989/90 – 1997/98 – the programme period. This means that a lot still remains to be done in this area.

## **4.2 Sectoral Performance**

4.2.1 Until the implementation of ITPAP, Malawi's trade regime was characterised by a system of import control, prior foreign exchange approval by the RBM, quantitative restrictions, including quotas and bans, and high import tariffs. Apart from its protective impact, import tariffs were also used to generate revenue. Although periodic devaluations had taken place prior to this time, they were infrequent and usually not substantial. All of these conferred substantial protection on domestic industry and biased the production structure against exports. The reforms introduced with ITPAP and continued under ECMAP were designed to liberalise imports, rationalise the tariff and tax structures, encourage export production, improve efficiency of domestic investment and production, and liberalise the foreign exchange allocation and pricing system.

4.2.2 As indicated above, both ITPAP and ECMAP are structural adjustment programmes with sectoral focus. The sector issues arose from a diagnosis of the problems constraining the economy at the point in time and how best to address and sequence them. ITPAP dealt with Industrial, Trade and Financial issues while ECMAP sought to deepen the sectoral reforms initiated under ITPAP and focus more clearly on new sectoral issues like entrepreneurial development, capital market development and labour market reform. Since each programme touched on each of the areas above in varying degrees, the evaluation of the sectoral responses is provided below.

### **Industrial and Private Sector Development**

4.2.3 The objectives of the industrial and private sector development reform were to promote industrial development by removing impediments to the investment process in Malawi, deregulating domestic prices and providing a conducive environment for the development of an entrepreneurial class. All of these were designed to ensure that there is a level playing field for all investors. It was also to ensure that there is competitive access to credit, labour and human capital, markets and other inputs along with a reduced role for the government. Prior to ITPAP, there were several administrative and procedural impediments to industrial development and the emergence of a vigorous private sector. Previously the registration of a new business could take anywhere from 6 months to 7 years. The same was true of obtaining a license in an industry where licensing was required. In addition, there was shortage of serviced industrial sites while development of new ones was bogged down in bureaucratic delays. Even unserviced sites were in short supply. Zoning laws were unduly strict and not conducive to expansion of industry. Leasing of industrial and commercial land also involved considerable delays while sub-leasing was prohibited. ITPAP sought to remove these bottlenecks and ECMAP continued the reform effort. Through a series of legislation and procedural changes, these delays were considerably reduced or eliminated (Industrial Promotion Act of 1991), while industrial licensing was eliminated for most products by the Industrial Licensing Act of 1991. The Industrial Promotion Act (1991) required the Department of Land Valuations to issue leases, consent to lease transfers and sub-leases within 90 days. In terms of impact, these measures have not significantly affected private investment, which as a proportion of GDP, continues to average below 10% (Table I).

4.2.4 In order to provide assistance to investors, the Government set up the Malawi Investment Promotion Agency (under the Industrial Promotion Act), as a one-step “shop” to assist investors, and conferred on it broad powers to investigate and solve problems encountered by investors. The Investment Promotion Act also provided direct incentives for investors in the form of phased reduction in corporate income tax from 50 per cent in 1990/91 to 35 per cent in 1992/93; 40 per cent investment allowance for qualifying capital expenditures. There was also a 15 per cent allowance for investing in specially designated areas of the country and 50 per cent allowance for qualified cost of training, deferred duties on heavy commercial vehicles. Since studies have cast doubt on the efficacy of special investment incentives such as these and their direct impact on industrial development is hard to measure, it would be necessary to re-examine them from time to time.

4.2.5 Export Processing Zones (EPZs) have been set up to encourage industrialisation and in particular export promotion. Special incentives, including significant tax breaks such as duty free importation of inputs and capital goods and transport tax allowance of 25 per cent have been offered to those operating in EPZs. Incentives, almost as generous as those offered to the EPZs, have also been offered to all other exporters. Although EPZs were introduced under the MIPA Act, it was only in early 1996 that an Export Processing Zone (EPZ) Act was passed providing additional incentive packages for export oriented production. The impact of these measures, which so far has been minimal, will take time to materialise fully. But as can be seen from Table I, the index of industrial production (1984 = 100) has been increasing, even though unevenly. This index has been fluctuating between 100.8 in 1987 and 138.6 in 1991, which recorded the best performance so far. All sectors of industrial production benefited from this performance, with food, beverages and tobacco, and clothing, textiles and footwear subsectors as the best performers. The index of industrial exports also experienced uneven growth during this period—fluctuating between 89.7 in 1986 and 137 in 1995. The performance of manufacturing exports was along similar lines. There were no figures recorded for non-traditional exports before 1992. Non-traditional exports increased in value terms from US\$ 27.2 millions in 1992 to US\$ 58.6 millions in 1996.

4.2.6 The ECMAP introduced several measures to develop the industrial sector, particularly small and medium enterprises. Zoning and environmental health laws constraining their development were revised. The financial sector was reformed to ensure that credit was made available to this segment of the industrial sector, which traditionally encounters difficulty in obtaining credit from traditional banking institutions. Mechanisms were also introduced in the financial sector aimed at ensuring that institutions and instruments for intermediating short-term deposit into term loans are provided for the benefit of both small and large enterprises.

4.2.7 Credit has been provided to industries, including small and medium enterprises by specialised institutions such as INDEBANK, INDEFUND, SEDOM, LFC, NMC, and MDC. Among the 220 applicants received in 1991, 26 were approved for a value of MK3.05 million, bringing cumulative loans granted to that date of MK22.8 million. Between 22.4 per cent and 36.3 per cent of the loans granted during 1988-91 went to the manufacturing sector, while between 33.4 per cent and 38 per cent went to agriculture. The ratios changed very much after 1991 when loans to the manufacturing sector declined gradually from 23.3 per cent in 1992 to 19.3 per cent in 1994; 17.2 per cent in 1995 and 3.8 per cent in 1996. The sharp drop in 1996 was due mainly to substantial loan for fertilisers in the agriculture sector. Hotel and tourism sector and services sectors have also received sizeable shares of INDEFUND loans. Between 1988 and 1991, small-scale sector investment rose from 1.5 per cent of GDP to 1.7 per cent, but declined again to 1.1 per cent between 1992 and 1994. Between 1995 and 1997 it has recovered to 2.4 per cent of GDP. Private investment has remained low at about 9.1 per cent of GDP during ITPAP (1988-91), declining to about 7.0 per cent of GDP during ECMAP (1992-94) and has declined to 6.1 per cent in 1995-97.

4.2.8 Waiting times for registration of new business and for obtaining leases have been drastically reduced and domestic prices have been liberalised. With several of the impediments to industrial investment removed, and protection structure rationalised, the output response has not been spectacular. Investment has risen only marginally and still remains very low. High nominal interest rates and negative real rates have discouraged investment, and the existence of higher returns on alternatives to physical investment in the form of treasury bills, makes real investment less attractive. In addition, the privatisation exercise did not advance very much during both programmes. Even now, the pace of privatisation is slow, as low personal incomes in Malawi have not encouraged local residents to buy into privatised firms. Prior to the programme, there were an estimated 57,000 small-scale informal units in both urban and rural Malawi in 1987. An estimated 15.8 per cent were involved in carpentry, 30.7 per cent in tailoring, 7.0 in tin-smithing and 4.6 per cent in black-smithing. About 200,000 new jobs were created in the decade preceding ITPAP at a growth rate of 10.5 per cent in the rural areas and 16 per cent in urban areas. There is evidence which suggests that the informal sector has grown rapidly during both programmes.

4.2.9 It is too soon to expect measurable results from the increased allocation to education sector on the labour force and the industrial sector. The quantum jump in primary school enrolment that took place after the election of the new Government in 1994 will not enter the market until 2 or 4 years' time. Even so, the economy needs to grow faster to absorb all of them considering the limited secondary school places.

### **Trade Policy Reforms**

4.2.10 The objectives of the trade policy reforms at appraisal were to liberalise the import regime by converting quantitative restrictions and quotas to tariffs and rationalising the tariff structure in order to improve competition and efficiency in domestic production and resource allocation. Other objectives were the removal of administrative allocation of foreign exchange in favour of market allocation, and the reduction or elimination of export-bias, while promoting increased and diversified export production.

4.2.11 The Government took steps to liberalise imports and the foreign exchange market while devaluing the exchange rate and making it more flexible. It rationalised the tariffs and tax structure by reducing the maximum tariff rate and reducing their dispersion. It also introduced duty-drawback for exporters. All of these were in an effort to make domestic production more competitive, reduce previous export-bias and encourage outward orientation of the trade system.

4.2.12 By January 1990, 98 per cent of non-petroleum products were imported without the need for import licenses or prior foreign exchange approval. It helped some firms to increase their capacity utilisation initially to 67 per cent in 1989. The problems experienced in 1992 reduced capacity utilisation to 49 per cent in that year. As Table I shows, imports grew faster than exports, creating pressure on the balance of payments. It is expected that efficient firms will survive the increased competition from imports while inefficient ones will be eliminated. However, local producers feel that the programmes have given them no time to prepare for the competition. In the event, the textile sector suffered from a flood of second-hand and used clothing, the supply of which was not stemmed even when protection for the sector was re-established as a special case. The relaxation in the case of the textile industry was expected to buy firms sufficient time to compete. There have been charges of unfair trading practices against Malawi's trading partners. The increase in imports has also led to an increase in the number of informal street traders dependent on such "cheap" imports.

4.2.13 The exchange rate was devalued six times between 1984 and 1988 for a 42 per cent nominal, and 12 per cent real depreciation. It was devalued by 7 per cent in March 1990, and twice in 1992 (13 per cent in March and 22 per cent in June). It was floated in 1994. In spite of the

number of devaluations, both nominal effective and real effective exchange rates appreciated during 1988-91 by an average of 2.9 per cent and 3.8 per cent respectively. They depreciated by 19.1 per cent and 11.7 per cent respectively during the period 1992-94 mainly due to the massive devaluation in 1994. The real effective exchange rate is beginning to appreciate again because of the rising inflation rate (see Table I). The flow of foreign exchange in Malawi is seasonal, corresponding to the tobacco growing and auction seasons and the inflow of donor funds. This means that the Central Bank has to ensure that reserves are spread over the year to correspond to the pattern of demand. Unfortunately, for three weeks in mid-1992, RBM was unable to provide foreign exchange to the market and had to temporarily resort to some form of “allocation” mechanism. The pent-up demand for foreign exchange over the years of foreign exchange control meant that the relaxation of control would entail a surge in demand and hence an increase in importation. As mentioned earlier, imports have indeed been increasing faster than exports.

4.2.14 The liberalisation of the pricing of the exchange rate should normally lead to increased exports as a supply response. It was also expected to presage the diversification of export products into new products. Table I shows that merchandise exports grew by 16.4 per cent between 1988 and 1991 in nominal terms but declined by 6.5 per cent in 1992-94 as a result of the external shocks. It has recovered to 8.1 per cent between 1995 and 1996. Non-traditional exports were insignificant prior to 1992. They grew from US\$27.2 million in 1992 to US\$58.6 million in 1996. While this is a doubling (in nominal terms), it averaged US\$30 million in 1992-94.

4.2.15 Historically, GOM has always used tariffs to generate domestic revenue. With tariff liberalisation, a policy conflict is bound to arise for the Government. In order to counteract the revenue reducing impact of tariff liberalisation, it took steps to reform the tax system. The ratio of import taxes to total taxes, which has been historically high, dropped to 15% during 1988-97 as a result of some of these measures. (Tables I and III).

### **Financial Sector Reforms**

4.2.16 At appraisal, the objectives of financial sector reforms were to liberalise the banking and financial services sector by increasing the freedom of entry and exit thereby stimulating competition; change monetary policy instruments from direct monetary control to market-based instruments and deregulate the interest rate to achieve market-determined positive real rates. Additional objectives were to legally separate the postal from banking activities and restructure the POSB; introduce capital market instruments in order to facilitate long term investment while increasing the investment choices facing the consumer, and providing an instrument for the privatisation programme. In addition to the Reserve Bank of Malawi (RBM) (the Central Bank) two commercial Banks (the Commercial Bank of Malawi (CBM) and the National Bank of Malawi (NBM)) dominate the financial landscape of Malawi. In view of this fact, the RBM was limited in the conduct of monetary policy, resorting mainly to the use of direct control as its main tool. In addition, the highly oligopolistic nature of the industrial sector and inter-locking ownership pattern in the economy rendered the Central Bank’s conduct of monetary policy ineffective. This was because three conglomerates with strong ties with the Government – Press Holding Ltd. (PHL), Malawi Development Corporation (MDC) and ADMARC, the agricultural marketing company, owned most of the industries in the real sector as well as having substantial shares in the two major banks. They were also the banks’ main customers. A major objective of ECMAP was to liberalise this sector and permit entry.

4.2.17 Seven applications for new banking licenses were received between 1992 and 1996. Three of these were approved. One of them, INDEFINANCE, began retail banking operations in 1993 while the other two, First Merchant Bank and the Finance Bank, did not start operations until 1996. In the new environment of competition, innovative banking products have begun to appear, including interest payment on current accounts; introduction of 7-day call deposits; reduction in the

cost of several financial transactions such as Bank Drafts, Travellers' Cheques, and foreign exchange transactions; and extension of banking business hours. Banks now feel free to charge differentiated (as opposed to uniform) interest rate structure in order to attract deposits or make a loan. The Post Office Savings Bank (now Malawi Savings Bank) has been reorganised and legally separated from the postal function of the post office. It has now undertaken staffing, computerisation, and the reconciliation of customer accounts and auditing of passbook withdrawals.

4.2.18 The use of direct credit ceilings discriminated against the private sector in the allocation of credit and favoured the public sector. It also led to increased liquidity in the banking system, thereby discouraging deposit taking and financial intermediation. Fixing credit ceilings for banks in accordance with previous credit histories led to rigidities and gave existing banks an unfair advantage, and thereby stifled competition. The RBM Act of 1989 limited the amount of outstanding credit to the Government and increased the number of market-based monetary instruments the bank can employ. A capital markets department was set up in the RBM by the Capital Markets Act of 1990 (April 1990). The capital market was expected to facilitate the intermediation of resources into investment outlets and permit surplus households to find outlets for their funds and for investors to have access to investible resources. At the same time, it would lead to the development of secondary markets in traded instruments and papers. The difference between the capital market and the money market is that the former deals in instruments with longer maturity profiles while the later are usually of shorter maturity and hence lower risk. The capital market in Malawi is still thin, comprising a stock exchange (which was established in 1996) on which only three companies are quoted, and with a capitalisation of MK2.3 billion by December 1997. (The three companies are Blantyre Hotels Ltd., Sugar Corporation of Malawi (SUCOMA) and National Insurance Company (NICO).

4.2.19 Table IV shows that the money supply as well as its major components has been expanding rapidly. The determinants of reserve money growth also showed similar patterns. Net credit to Government dropped from an average of MK444.93 million in 1985-87 to MK276.0 million in 1988-91. It rose sharply to MK1001.04 million in 1992-94 and has remained relatively stable. In terms of the absolute growth, which is more important, credit to the private sector has expanded throughout the period, with the relative share going to the private sector becoming more favourable. Further, examination of Table IV shows that there has been high rate of financial intermediation as measured by broad money to GDP, although disintermediation is growing with the inflation rate. The trend in monetary policy has been reflected in the evolution of the inflation.

4.2.20 Interest rates were deregulated in 1990 but were unofficially controlled until 1988. The decontrol of interest rate has meant a movement toward positive real rate from their negative rates. However, the inability to control inflation until recently (end of 1997 inflation rate was down to 9.2 percent on an annualised basis) has left the rates negative except for lending rates. The spread between deposit and lending rates is still very wide and nominal rates have risen very high, negatively impacting savings and investment.

### **Labour Market**

4.2.21 The objectives at appraisal of the labour market reforms were to improve the supply of, and access to human capital, by allocating a higher share of the annual government budget to education and health; undertake a study of the labour market with a view to improving its efficiency and implement an action plan to establish a minimum wage policy. To ensure fairness and a democratic negotiation of remuneration, the Government was determined to improve the framework for collective bargaining and direct labour-management negotiations, and support policies to increase the supply price of labour especially in the informal and rural sectors. The

labour market in Malawi is beset by imperfections. One of these imperfections relates to the minimum wage which is adjusted infrequently and which employers often see as a ceiling rather than a floor. Another is the dichotomy between the rural sector where mechanisms for equitable wage adjustment have not been developed, and the urban sector where collective bargaining, albeit from a weak position by labour, is possible. In reality, in the urban sector employers unilaterally fix salaries and wages.

4.2.22 Following a series of industrial unrest in 1992 (88 strikes in two weeks compared to only 22 in all of 1997), the statutory minimum wage rate was raised by 20% from the level set in 1989. Actual increases were higher than this as wages and salaries rose by 68% in the civil service and 50% elsewhere in the economy. The result of the development in 1992 was the collective bargaining in the public sector. The Wages Advisory Board was set up to fix minimum wages. More frequent adjustment of the minimum wage rate and the introduction of a trigger mechanism to ensure frequent adjustment, in the form of an inflation rate of 20 percent, have been instituted. The existing 3-tier minimum wage structure was reduced to two (rural and urban). The minimum wages at the moment are MK 7.5 for the rural sector and MK 10.65 for the urban areas.

4.2.23 As part of ECMAP, a study of the Labour Market and Wage Policy in Malawi was commissioned by the GOM. Among its terms of reference were the investigation of the nature of rural labour markets in Malawi, and evaluation of the option to expand the informal sector employment and non-farm activities. The report, submitted in 1993, suggested that the best way to increase rural wages and employment would be to liberalise access of small-holder households to cash crops and liberalise agricultural prices and markets by removing ADMARC's monopsony position. As a response, a burley quota of 15,000 MT was allocated to 66,000 smallholder households in 1994/95. The quota and number of households were increased to 50,000 MT and 100,000 MT respectively in 1995/96. The income from burley will provide some multiplier effect within the rural economy and spur increased non-agricultural informal sector activities. The number of private traders competing with ADMARC has increased, and this has had a strong impact on smallholder incomes since it has enabled them to have resources to invest in diversification of their production. The agricultural sector is now a desirable form of employment as a result of the reforms.

4.2.24 One of the objectives of the 1993 report was to improve the lots of tenants in estates, particularly tobacco estates and to prevent the "slave labour" aspect of tenancy. The available options were either to abolish the tenancy system or provide tenants protection. The Government opted to protect the tenants. This resulted in the Tenants' Protection Act of 1995. In reality, tenants are still unprotected since the onus is on them to report any breach to the Ministry of Labour, but compliance is difficult to enforce. Tenants are expected to produce and sell the produce to the Landlord and payback agreed prices. Joint Consultative Councils were set up to deal with disputes in the work place. Trade Unions were free to organise and engage in collective bargaining. Prior to 1992, there were 5 Trade Unions. After the issuance of the Labour Policy Statement, 13 Trade Unions were registered. In 1995, there was election of officials for the national centres (formerly Trade Union Congress of Malawi – TUC).

4.2.25 There was another round of workers' unrest in 1994, this time involving the civil service. Although it resulted in wage increases, it did not restore the real wages lost over the years. One of the results of this round of wage increases was the need for civil service reform. This became one of the policy reform items in the follow-up adjustment programmes by the World Bank (Fiscal Restructuring and Deregulation Programme, FRDP) and ADF's projected SAL, which has been appraised and ready for negotiation). Data on earnings are sketchy and rudimentary but one gets the impression (from per capita income figures) that wages have not gone up by much over the years. As there are no data on productivity, it is difficult to say anything concrete on the state of

productivity in Malawi. But casual observation would tend to suggest a need for enhanced productivity, particularly as the various reform measures manifest themselves in the economy.

### **4.3 Socio-Economic Impact**

As one of the poorest countries in Africa, the declared objective of the Government of Malawi was to ensure growth with equity. This was to be achieved through an increased involvement of the poor in the development process. Hence both programmes were aimed at human resource development, poverty alleviation and the development of small and medium-scale enterprises. On the recognition that the transitional effects of the two programmes could adversely affect the poor, the Government proposed to increase the relative share of social services in its budget. Following this commitment, the share of social services in total government expenditures increased from 18.7 per cent in 1987 to 25 per cent in 1992. Recurrent expenditures rose from 10 percent to 13 percent of total expenditure in education, 6.6 percent to 9.7 percent in health and 2 percent to 2.5 percent in community development. The new Government which was elected in 1994, has introduced free primary education and committed itself to improving access to education and health services. It has therefore made provisions for significant increases in allocations to the social sector in annual budgeting. This has reduced the rural labour force as school age children have gone to school and reduced the exploitation of tenants on estates.

### **4.4 Institutional Impact**

The implementation of ITPAP and ECMAP has strengthened the institutional capacity of the Malawians to implement macroeconomic policies. Specifically, the staff of the RBM has now acquired the necessary expertise to manage similar programmes in future. This observation is also true of the staff of MOF. The philosophy of the Government concerning the management of the economy has been altered—there is now an increasing reliance on market forces for the management of the economy as compared with the past when controls and regulations on economic behaviour were the norm.

### **4.5 Impact on Women**

There was no explicit concern for the interests of women in the Appraisal reports of both programmes. This is probably due to the fact that gender issues had not become prominent in Bank's thinking. However, the improvement in access to education, health and other social services which resulted from both programmes, has benefited women and children. In addition, the liberalisation of access to lucrative burley tobacco production has positively affected women who make up the bulk of the labour force in peasant agriculture. Women have also benefited from the increased democratisation in the country that gives equal voice to all genders and equal access to credit as well as job both at high levels and in general.

### **4.6 Environmental Impact**

4.6.1 At appraisal, there were no environmental components instituted in the two programmes. Nevertheless, because of the focus on industrial development and privatisation and export promotion, there are concerns that increased industrial activity would have environmental repercussions. The liberalisation of agricultural production and marketing also means that marginal land are being brought into production, thereby exacerbating the pressure on the land from the growing population, and the high population density in the country. This could also lead to fast depletion of the nation's natural resources. With the emphasis on improved agricultural production and yield, the persistent drought and liberalised fertiliser market could lead to higher fertiliser use.

If not used correctly, this could easily cause problems for the environment through run-offs into the rivers and waters that could create environmental hazards.

4.6.2 Other measures implemented in the course of the programme may also have repercussions for the environment. One such measure is the import liberalisation programme, which has led to an increase in informal sector activities. Informal sector activities, including street trading, may result in litter problem, particularly in the urban centres. It may also increase the squatter population in the urban centres and lead to the mushrooming of shantytowns. As of now the Government is yet to articulate an environmental policy to address these and other issues.

## **5. PROGRAMME SUSTAINABILITY**

5.1 In general, it appears that the reform process in Malawi is fairly sustainable. There is evidence of continued Government commitment to the reform of economic policies. But this alone will not be enough. Sustainability would require the Government to go beyond its own commitment and seek nation-wide consensus for the reform process. Throughout the mission that gave rise to this report, the impression was gathered that the key players in the economy (i.e. the private sector operators) thought that the two programmes belonged to the Government and not to the country. They were never consulted or briefed by the government on the programmes. Furthermore, in any reform programme of the type under review, there are bound to be gainers as well as losers. Among the losers would be owners of enterprises that have been forced to close down when the import regime was liberalised. Some farmers could also gain as domestic prices for their products increase under a price liberalisation programme. The task of the Government is to seek political consensus for the programme so those losers would not constitute themselves into a pressure group against the reform programmes. A programme cannot be fully successful if it does not have broad support from the various sections of the population, a fact now fully recognised by the Government. Closely related to this is the social cost of adjustment. Partly as a result of the implementation of the programmes, living conditions are poorer today than they were at the beginning of the programmes. If current reform efforts are not to be derailed by social discontent, then the Government would need to take positive steps to ameliorate the conditions of the poor.

5.2 Sustainability would also require continued donor support particularly in the areas of debt relief and uninterrupted financial flows. The World Bank has had a series of short follow-up programmes, including the Fiscal Restructuring and Deregulation Programmes, in which the Bank Group did not participate. The Bank Group on the other hand has recently appraised a follow-up to ITPAP/ECMAP. This programme is yet to be negotiated. Furthermore, the current debt ratios, while not too high, could undermine growth if there is no substantial debt relief.

5.3 Sustainability also depends on adequate investment in infrastructure as a means reducing currently high transport costs. High transport cost is a deterrent to external competitiveness for Malawi, other policy reforms notwithstanding. It is estimated that transport costs make up about 40 percent of the c.i.f. cost of imports and price of exports, a very high percentage, which will adversely impact export competitiveness.

5.4 The sustainability of the reform measures, particularly ITPAP will depend on adequate response from the private sector to the industrial incentives. But this response may not be immediate for several reasons. Firstly, the development of non-traditional exports requires more time than is normally specified in time-bound adjustment programmes. Secondly, it takes time to develop an export culture, as entrenched exporters from other countries must have developed an edge over new entrants. Thirdly, the investment and the export efforts are further constrained by the limited supply of entrepreneurs. Finally, industrial activities remain constrained by the rigidity in the financial system. Sustainability would require that these bottlenecks be removed.

## **6. POLICY ISSUES IN THE TWO ADJUSTMENT PROGRAMMES**

### **Design.**

6.1 The two programmes were conceived as economy-wide structural adjustment programmes, but with specific sectoral focus. By design, they had built into them, several policy measures that were to be implemented simultaneously. The sheer number of the policy measures puts a lot of strain on a bureaucracy that was rather fragile in the first place. This explains why, at the completion of each of the programmes, there were several policy reforms, mostly of institutional character that were yet to be addressed. For example, the Tax Authority is yet to be established while little or no progress was made until recently, in establishing the Privatisation Agency.

6.2 Closely related to the issue of capacity in Malawi, is the wisdom (or otherwise) of designing a structural adjustment programme with sectoral policy reforms which are to be implemented alongside the main programme. Structural adjustment programmes, as economy-wide programmes, are difficult enough to implement, even by the strongest of bureaucracies. Problems arise when they are linked with the implementation of reforms at the sector level. In retrospect, it would have been more useful to implement the underlying SAP and allow the effects to take hold before a programme in trade policy adjustment or in capital market development was put in place. The outcome of both programmes is that neither the SAP component nor the sectoral component was implemented satisfactorily, and neither fully achieved the expected results. Sectoral reform measures are best undertaken in a stable macroeconomic environment where their chances of achieving their desired effects are higher. For example, it is not possible to expect exports to expand when the required policy reforms are still being implemented and their effects are yet to filter through the economy. This is also true of expectations concerning capital market development.

6.3 Where it becomes necessary however, to pursue macroeconomic stabilisation simultaneously with sectoral adjustment policies, appropriate sequencing would require that policies to achieve macroeconomic stability are introduced and pursued first before attempting the sectoral reforms. Under ECMAP, the attempt to deepen the various reforms already begun under ITPAP merely created more problems such as worsening the fiscal deficit than it would otherwise have been. The sequencing of policy reforms in the trade liberalisation programme is also questionable. For example, the removal of import controls on non-essential consumer goods at a time when the export growth was still fragile, had serious adverse consequences for the balance of payments, government revenue, industrial performance and foreign exchange earnings. Similarly, the financial sector should have been liberalised in terms of introducing real competition for financial services prior to interest rate deregulation.

### **Complimentarity Between Adjustment and External Financing**

6.4 The withdrawal of bilateral donor support on governance grounds in 1992 undermined the outcome of the adjustment programme and did more harm than good to the economy--it derailed the adjustment programme and reversed the momentum for manufacturing growth. It also destroyed confidence in the sustainability of the reforms introduced, thereby leading to a collapse of investment and savings. Because the reforms introduced under ITPAP had only resulted in an improvement in capacity utilisation and not in a surge in new investment, which could have been a possibility under ECMAP, the nascent recovery was cut short and destroyed. What this underscores is the significance of the complimentarity between adjustment and external financing. Where there is external financing, adjustment would proceed in an orderly and painless

fashion. But where it is absent or suspended in the middle of a programme implementation like the case of Malawi, adjustment could be derailed and indeed, become painful, in terms of output forgone and delayed adjustment. Disruptions caused by withdrawal of support could take years to correct for a country determined to stay on the adjustment recovery path. The lesson is that for a country that is strongly committed to the adjustment process as Malawi was and still is, withdrawal of donor support should not be used to drive home a point, in view of the high degree of complementarity between adjustment and external flows.

### **Ownership of the Programme**

6.5 Some Government officials and most of the private sector were not aware of the programmes. The private sector in particular felt that it was not being sufficiently consulted in the course of formulating the programmes. Although the private sector acknowledges that the Government has recently improved in its consultations with the private sector and other segments of the economy in recent times, this was not the case with these two programmes. In the circumstance, they did not have a sense of ownership of the programme. The lesson from this is that the Government should consult with the various segments of society, particularly those directly impacted by the implementation of a programme at the design stage and throughout the programme cycle.

### **Initial Conditions**

6.6 It is important to take the initial conditions of a country into account when designing an adjustment programme. The success or otherwise of adjustment operations depends, in part, on the state of the country's infrastructure and complementary improvements in them. In Malawi, the transport network is inadequate, while access to some of the producing areas is limited. With the reform of agricultural marketing, for example, some areas now have greater difficulty selling their produce because small purchasers lack the financial muscle to provide the vehicles to evacuate the produce as ADMARC was doing, and it was no longer in ADMARC's interest to reach such marginal markets. Improvement in the transportation network will resolve some of this and lead to increased income for the rural population. Similarly the supply of electricity is erratic, thereby causing untold hardship for industry. Any improvement in this area would likely enhance economic performance.

6.7 In addition to the poor state of the nation's infrastructure, the human capital is also very limited in terms of skill. The quantity and quality of the entrepreneurial class to take advantage of the policy changes embodied in the two programmes under review is therefore limited. Besides, the level of per capita income is one of the lowest in the world, affecting savings and investment adversely. All these have combined to produce the limited response from the economy.

6.8 The periodic droughts that have been besetting south-eastern Africa were not even mentioned as a possible risk to the success of the programmes in the discussion of programme risks and justification. Unless drought resistant strains of crops are introduced, the perennial drought problem will keep destabilising the economy and wiping out gains from reform. Effort is therefore being made to introduce drought resistant crops that can withstand long periods of drought. Increase in irrigated agriculture will also help adjust to the droughts.

## **Lack of Precision in Specifying Policies and Performance Criteria and Quantifiable Monitoring Criteria**

6.9 Partly because of the nature of the two programmes (as SAPs with sectoral focus), there were no benchmarks set for monitoring and evaluating them. Presumably it was thought that a description of the institutional reforms or the institutions that are established would be sufficient to evaluate the programmes. As it turns out, this was not the case. One still needs to measure quantitatively, the response of the economy to the reform measures. In the absence of benchmarks, evaluation becomes more difficult.

## **7. PERFORMANCE RATINGS**

Based on the information contained in the preceding three chapters, the programmes were rated. The outcome of the rating is contained in Annex I and summarised below under each performance category.

### **7.1 Implementation Performance**

The implementation performance for both programmes was rated satisfactory, in spite of the delays experienced in their implementation. The delays did not adversely affect programme implementation.

### **7.2 Bank Group Performance**

The Bank did not participate in the initial phases of the ITPAP programme, but performed satisfactorily once it got involved. Performance in each of the categories for the ECMAP programme for the Bank were adjudged to be adequate and hence satisfactory

### **7.3 Project Outcome**

The outcomes of both programmes were rated as satisfactory. While supply response is still low, and exports have not grown or diversified markedly, the programmes achieved their targets in many respects and set up institutions that will be vital for future supply response.

## **8. CONCLUSIONS AND RECOMMENDATIONS**

### **8.1 Overall Assessment**

8.1.1 The ITPAP was a successful operation, which turned the bleak macroeconomic situation that existed prior to its introduction around through the restoration of growth. In addition, it introduced several important structural reforms, including those in the trade and industry sector, financial sector, taxation and public finance and the external sector. The measure implemented under the programme went further than any before it to liberalise and open up the economy to external competition while reversing the previous de facto bias against exports. The GOM demonstrated its willingness to undertake necessary adjustment action, no matter how difficult.

8.1.2 The follow-up operation, ECMAP was also successful, despite the external shocks suffered by the economy while the programme was under implementation. The fact that the GOM persisted with its implementation despite the suspension of bilateral aid flows, three severe droughts, adverse terms of trade shocks and nation-wide industrial action by workers in two years – 1992 and 1994, showed its determination to turn the economy around and relax the constraints that had limited economic performance. The programmes sought to deepen the policy reforms which

had begun under previous adjustment programmes. The worsening of the macroeconomic situation under ECMAP was the result of the impact of the exogenous shocks referred to earlier rather than any policy reversals or implementation problems. Nevertheless, the multilateral donor institutions involved in these programmes should have extended their dialogue to the bilaterals to show how the latter's suspension of flows during some of Malawi's most difficult times was actually negating the adjustment programme to which the Government was still very firmly committed. Other ways of addressing the governance issue should have been found.

8.1.3 The programmes contained several policy measures that were to be implemented simultaneously. And this was usually beyond the scope of the civil service. This explains why many issues remain unaddressed or why little progress was made in addressing them. For example, the large conglomerates in the financial sector remain virtually intact, while little progress was made in the major areas of privatisation.

8.1.4 The strong implementation record notwithstanding, supply response has been slow in coming, particularly in the export sector. In the meantime, the informal sector is booming while the formal sector seems to be stagnating. There is a perception that a vibrant informal economy provides the nucleus of the entrepreneurial class that will take advantage of the policy reforms and economic liberalisation introduced under the programme. It certainly confirms that the entrepreneurial spirit exists in abundance even in a poor, land-locked economy like Malawi. In reality, however, no mechanism exists for transforming an informal economy into a vibrant formal sector.

8.1.5 Although the tax reform involved the right mix of taxes and was guided by the right principle of converting from a system based on taxation of international trade and production to one based on domestic economy and consumption, effort is needed to finally convert the surtax into a VAT proper, and establish a Revenue Authority.

8.1.6 Partly as a result of the implementation of these programmes, the poverty situation appears to have worsened. The Government has tried to address this problem through increased allocation of resources to the social sectors. While this effort might help, merely increasing allocations to education or health does not necessarily translate into better, even more, health or education delivery. The composition of the expenditure and the absorptive capacity of the sector to utilise some of its allocation are important. Increased sectoral spending that merely increases staff emoluments or wage bill hardly qualifies as increased attention to the social sector.

## **8.2 Feedback and Recommendation**

8.2.1 The following are some of the lessons and recommendations, which were identified in both programmes:

### **8.2.2 Overall Implementation of the Programme**

- Strong political resolve at the highest level of Government to support the policy reform programme and stay the adjustment course was very important to the implementation and success of the programmes.
- The achievement and maintenance of macroeconomic stability is a pre-condition, though not a guarantee, for the success of the adjustment effort, whether at the macro or at the sectoral level. Sector issues should not be grafted on to structural adjustment programmes, and when the grafting is inevitable, reform measures should be permitted to take root before sector issues are introduced.

- In poor economies, external financial flows are vital for the success of an adjustment programme. Thus, the sudden suspension of bilateral flows could be disruptive both to the implementation of the programmes and their outcomes. In the case of Malawi, the suspension of bilateral flows disrupted the economy's growth momentum. This situation underscores the complementarity between adjustment and financing and the necessity of keeping financial flows steady in the course of adjustment.
- Strong supply response is important for achieving the expected outcome. Hence it is essential to conduct prior sector and economic studies in order to have an idea of these responses.
- To the extent that the supply response is also influenced by co-operant factors like infrastructure, it is essential that efforts be made at appraisal, to consider the state of these co-operant factors.

### 8.2.3 Trade Policy and Foreign Exchange Reforms:

- A sufficiently reasonable level of foreign exchange is required when the exchange rate is being liberalised, otherwise shortages would emerge in the market that would require administrative intervention. This is exactly what happened in 1992 and 1994 when the Kwacha was being floated while the foreign exchange import cover was reduced to about one week's worth.
- Trade liberalisation programme has a better chance of success in a stable macroeconomic environment as trade liberalisation without stabilisation may lead to expansion of imports and consequent fall in external reserves and the need for administrative allocation of foreign exchange. This was the situation in 1992 when the RBM resorted to some form of allocation mechanism. The resulting pent-up demand for foreign exchange further reduced external reserves.
- The appropriate timing and sequencing of reform measures are important to the success of the programmes. For example, the reform and restructuring of tariffs should allow room for the domestic industry to adjust prior to unleashing the full force of external competition on it in order to ensure that a level playing field is first established for both domestic and foreign competitors. Imports that do not compete with domestic products should not be hastily liberalised to avoid policy reversals and unnecessary depletion of foreign exchange.
- The promotion of exports in general, and non-traditional exports in particular, is a time-consuming and often, difficult task. There is need for export promotion campaigns and for the dissemination of information to local exporters about potential external market opportunities.

### 8.2.4 Fiscal and Tax Reform:

- The requirements of revenue and that of tariff liberalisation could conflict in a country like Malawi, which is highly dependent on tax on international trade. There is thus a need to harmonise tax policy with the import liberalisation programme in order to avoid this conflict.

- The revenue base remains narrow. Hence there is need to broaden that base through improved tax administration and possibly through the establishment of a revenue authority.

### 8.2.5 Financial Sector Reform and Capital Market Development:

- The reform of the financial sector should proceed in stages. It is necessary to first introduce competition into the sector by increasing the number of actors, then ensure that an adequate institutional arrangement for bank supervision and enforcement of prudential practices are in place. The deregulation of interest rates could then follow.

## 8.3 Follow-up Action

### Government

8.3.1 The Government of Malawi must continue its strong commitment to the reform effort and widen its dialogue with the general population on the reform programme so that the commitment will be a national one and the Malawians will truly own the programmes. This commitment to the course of adjustment should find expression in the display of fiscal and monetary discipline by the Government so as to provide a stable environment for the implementation of structural measures.

8.3.2 External shocks in the form of persistent drought lead to crop failure, inflation and destabilisation of the macroeconomic environment. It confers a high degree of rigidity on the economy. To restore some flexibility to the economy, the Government of Malawi should initiate programmes for irrigated agriculture and introduce drought resistant varieties of crops.

8.3.3 The privatisation programme of the Government is not progressing satisfactorily. The prevalent view seems to be that since most of the parastatals are not making losses at the present time, there is no urgency in privatising them. However, the continued existence of the conglomerates with so many enterprises in their portfolio stifles competition in the economy. Although the Privatisation Commission has been set up under the Presidency, there is need to set definite time-tables for the privatisation of individual enterprises, after studying them to determine what privatisation instrument or method would be best suited to each enterprise. Thereafter, Government should stick to the timetable. It is not enough merely to reorganise the enterprises or shuffle them around from one conglomerate to another.

### The Bank

8.3.4 The Bank should seek a solution to the present impasse that has resulted in the temporary delay in processing its new follow-on adjustment operation for Malawi, re-affirm its commitment to further assistance to the country. It should co-ordinate with other multilateral donors, particularly the World Bank, and endeavour to harmonise its assistance with these other donors.

8.3.5 The Bank should enter into a dialogue with the Bretton Woods institutions to ensure that it is kept in the loop from the conception of a programme. In particular, it should seek to be involved in the formulation of the country's PFP, which sets out the broad policy agenda for the period to be covered by a programme. In subsequent phases of the programme, the two institutions should harmonise their activities, including missions.

8.3.6 In order to facilitate implementation of Bank should reinforce its workshops and training for staff of regional member countries. This would help to avoid some of the observed delays, particularly in procurement.

### **Donor Community**

8.3.7 Malawi is one of the poorest countries in Africa. It therefore deserves the continued support of the donor community in the form of financial flows, including balance of payments support, and debt relief. The country requires the assurances of such support in order to be able to rally its citizens for additional sacrifices which further adjustment programmes would require in order to succeed.

8.3.8 Given the complementarity between adjustment and financing, the donor community should not suspend the flow of resource flows to a country, unless there is a compelling reason like the refusal to comply with conditionalities, to do so. As was the case of Malawi, the sudden suspension of financial flows undermined the outcome of the adjustment process.

PERFORMANCE RATINGS -- ITPAP  
FORM IP 1  
IMPLEMENTATION PERFORMANCE

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Adherence to Time Schedule	1	Delay is about 2 years.
2	Adherence to Cost Schedule	4	There were no cost overruns.
3	Compliance with Covenants	4	Performance is in accordance with requirements.
4	Adequacy of Supervision and Reporting	3	Adequate in terms of supervision, although reporting was not adequate.
5	Satisfactory Operations (if applicable)		
	TOTAL	12	
	Overall Assessment of Implementation Performance	3.0	Satisfactory.

Key:

- 1: Highly Unsatisfactory
- 2: Unsatisfactory
- 3: Satisfactory
- 4: Highly satisfactory

**FORM BP 1**  
**BANK PERFORMANCE -- ITPAP**

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	At Identification	N/A	ADF was not involved in identification.
2	At Preparation of Project	3	Bank's preparatory work was adequate.
3	At Appraisal	3	Bank performance was adequate
4	At Supervision	3	Bank performance was satisfactory
	TOTAL	9	
	Overall Assessment of Bank Performance	3	Satisfactory.

**FORM PO 1**  
**PROJECT OUTCOME -- ITPAP**

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Relevance and Achievement of Objectives (*)	2.6	The policies were relevant and appropriate, and to a great extent, achieved their objectives.
i)	Macro-economic Policy	4	Economic policies achieved their targets.
ii)	Sector Policy	3	Policies are relevant but impact is yet to be felt.
iii)	Physical (incl. Production)	N/A	
iv)	Financial	N/A	
v)	Poverty Alleviation & Social & Gender	2	This area deserves increased attention.
vi)	Environmental	2	Government is yet to articulate a policy in this area.
vii)	Private sector development	2	Progress has been slow on privatisation.
viii)	Other (Specify)	-	
2	<b>Institutional Development (**)</b>	3	Programme has enhanced the capacity of relevant ministries, in particular the Ministry of Finance and Reserve Bank.
i)	Institutional Framework including Restructuring	3	Programme has enhanced the capacity of relevant ministries.
ii)	Financial and MIS including Audit Systems	3	Reporting system requires to be improved.
iii)	Transfer of Technology	N/A	
iv)	Staffing by qualified persons (incl. turnover) Training & Counterpart staff	3	Programme implementation has enhanced the capacity of staff.
3	<b>Sustainability @</b>	3.6	Political commitment is high.
i)	Continued Borrower Commitment	4	Political commitment is very high
ii)	Policy Environment	4	Policy environment is conducive to reform.
iii)	Institutional Environment	4	Institutional environment is supportive of reform.
iv)	Technical Viability and Staffing	3	The machinery for policy making is in place.
v)	Financial Viability including Cost Recovery Systems	N/A	
vi)	Economic Viability	4	Programme is viable.
vii)	Environmental Viability	3	More effort is required in this area.
viii)	O & M facilitation (availability of recurrent funding, foreign exchange, spare parts, workshop facilities)	N/A	
4	<b>Economic Internal Rate of Return @</b>	N/A	
	TOTAL	9.2	
	Overall Assessment of Outcome	3.1	Satisfactory

**PERFORMANCE RATINGS -- ECMAP**  
**FORM IP 1**  
**IMPLEMENTATION PERFORMANCE**

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Adherence to Time Schedule	1	Delay is more than 9 months.
2	Adherence to Cost Schedule	4	There were no cost overruns.
3	Compliance with Covenants	4	Performance is in accordance with requirements.
4	Adequacy of Supervision and Reporting	3	Adequate in terms of supervision, but reporting was not adequate.
5	Satisfactory Operations (if applicable)		
	TOTAL	12	
	Overall Assessment of Implementation Performance	3.0	Satisfactory.

Key:

- 1: Highly Unsatisfactory
- 2: Unsatisfactory
- 3: Satisfactory
- 4: Highly satisfactory

FORM BP 1  
BANK PERFORMANCE -- ECMAP

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	At Identification	N/A	ADF did not participate in identification.
2	At Preparation of Project	3	Preparatory work was satisfactory.
3	At Appraisal	3	Performance was adequate
4	At Supervision	3	Performance was adequate
	TOTAL	9	
	Overall Assessment of Bank Performance	3	Satisfactory.

**FORM PO 1**  
**PROJECT OUTCOME – ECMAP**

No	COMPONENT INDICATORS	MARK (1 to 4)	REMARKS
1	Relevance and Achievement of Objectives (*)	2.4	The policies were relevant, appropriate and adequate and to a great extent, achieved their objectives.
i)	Macro-economic Policy	2	Economic policies achieved their targets.
ii)	Sector Policy	3	Policies are relevant but impact is yet to be felt.
iii)	Physical (incl. Production)	N/A	
iv)	Financial	N/A	
v)	Poverty Alleviation & Social & Gender	2	Government needs to do more in this area.
vi)	Environmental	2	Government needs to do more in this area.
vii)	Private sector development	3	Progress has been slow.
viii)	Other (Specify)	-	
2	<b>Institutional Development (**)</b>	3	Programme has enhanced the capacity of relevant ministries, and that of the Reserve Bank.
i)	Institutional Framework including Restructuring	3	Programme has enhanced the capacity of relevant ministries.
ii)	Financial and MIS including Audit Systems	3	Reporting system requires to be improved.
iii)	Transfer of Technology	N/A	
iv)	Staffing by qualified persons (incl. turnover) Training & Counterpart staff	3	Programme implementation has enhanced the analytical capacity of staff.
3	<b>Sustainability @</b>	3.6	The outlook for continued policy reform is sustainable given government's political commitment.
i)	Continued Borrower Commitment	4	Political commitment is very high
ii)	Policy Environment	4	Policy environment is conducive to reform.
iii)	Institutional Environment	4	Institutional environment is supportive of reform.
iv)	Technical Viability and Staffing	3	The machinery for policy making is in place.
v)	Financial Viability including Cost Recovery Systems	N/A	
vi)	Economic Viability	4	Programme is viable.
vii)	Environmental Viability	3	Government needs to articulate an environmental policy.
viii)	O & M facilitation (availability of recurrent funding, foreign exchange, spare parts, workshop facilities)	N/A	
4	<b>Economic Internal Rate of Return @</b>	N/A	
	TOTAL	9.2	
	Overall Assessment of Outcome	3.1	Satisfactory

**RETROSPECTIVE LOGICAL FRAMEWORK MATRIX: ITPAP**

NARRATIVE SUMMARY	VERIFIABLE INDICATORS		MEANS OF VERIFICATION	ASSUMPTIONS
	AT APPRAISAL	AT POST-EVALUATION		
<b><u>GOALS:</u></b>				
i) To restore the economy on the path of sustainable growth	i) Real GDP growth rate of not less than 4 % after 1989	i) Real GDP growth rate of 5.3%.	i) National Income Accounts	i) No serious exogenous shocks ii) Adequate external financing for the reform programme
<b><u>OBJECTIVES:</u></b>				
i) To restore macroeconomic stability	i) Reduce the rate of inflation to 5% by 1991 ii) Reduce current account balance. iii) Maintain external reserves at a level adequate to support months of imports	i) Inflation rate 11.9% by 1991; 86.3% in 1995; 9.2% in 1997 ii) Current account balance -10.8% in 1991, -4.2% in 1997.	Office of Statistics Office of Statistics Publications Reserve Bank of Malawi	Absence of policy reversals.
ii) Enhance external competitiveness	i) Maintain a real and nominal devaluation of the exchange rate to stimulate export growth and reduce anti-export bias	Nominal exchange rate devalued in 1988 but real effective exchange rate appreciated by 3.8% between 1988 and 1991 and by 12.4% between 1985 and 1996.	RBM	
iii) Deregulate the economy	i) Decontrol prices, interest rates ii) Decontrol entry into banking sector iii) Reduce lead time in industrial licensing iv) Increase number of banking and non-banking financial	All prices are decontrolled.  Reduced to no more than 90 days 1 new bank in 1993, 2 in 1996.	National Income Accounts BOP Statistics  National Economic Planning Ministry of Finance Ministry of Trade Ministry of Finance/Trade	

<p>iv) Improve efficiency of resource mobilization and resource allocation.</p>	<p>institutions</p> <p>i) Reduce fiscal deficit and revenue and expenditure ratios to acceptable levels. Expenditure ratios to 18.8% and 26.5% of GDP by 1990/91</p> <p>ii) Progressively reduce level and spread of import tariffs</p> <p>iii) Increase tax base and simplify tax structure and administration</p> <p>iv) Promote development of SME and increase their share in industrial output and access to credit</p> <p>v) Provide industrial sites.</p>	<p>Fiscal deficit now 7.7%; and revenue and expenditure ratios at 17% and 24% respectively.</p> <p>Reduced to 35% max. and 15% min. surtax extended to cover domestic and import of goods and services.</p> <p>Tax Authority is yet to be established.</p> <p>Government policies in this area are haphazard.</p> <p>Industrial sites provided in Blantyre and Lilongwe</p>	<p>RBM Publications MIPA, Ministry of Land, Building and Power</p> <p>Ministry of Finance Budget/Budget Statements</p> <p>Min. of Finance; Min. of Commerce &amp; Industry RBM; Customs Dept.</p> <p>National Income Accounts.</p> <p>Min. of Commerce and Industries.</p> <p>Min. of Lands</p>	<p>Adherence to policy reforms.</p>
<p><b><u>OUTPUT:</u></b></p> <p>i) Reform Policies implemented</p>	<p>i) Set of macroeconomic and sector reform policies</p>	<p>i) A set of policies implemented by the Government</p>	<p>Appraisal Report, PCR, supervision missions, Mid-term Review Report.</p>	<p>No serious policy reversals on part of Government</p>
<p><b><u>INPUT/ACTIVITIES:</u></b></p>	<p>ADF loan of UA 13.6 Minimum</p>	<p>ADF loan of UA13.6 million</p>	<p>ADF Records, Records of the GOM</p>	<p>Compliance with ADF loan conditions.</p>

**RETROSPECTIVE LOGICAL FRAMEWORK MATRIX: ECMAP**

NARRATIVE SUMMARY	VERIFIABLE INDICATORS		MEANS OF VERIFICATION	ASSUMPTIONS
	AT APPRAISAL	AT POST-EVALUATION		
<p><b>GOALS:</b></p> <p>i) To restore the economy on the path of sustainable growth</p>	<p>i) Real GDP growth rate of not less than 4 % after 1992</p>	<p>ii) Real GDP growth rate of 5.3%.</p>	<p>i) National Income Accounts</p>	<p>iii) No serious exogenous shocks</p> <p>iv) Adequate external financing for the reform programme</p>
<p><b>OBJECTIVES:</b></p> <p>i) To restore macroeconomic stability</p> <p>ii) Enhance external competitiveness</p> <p>iii) Deregulate the economy</p> <p>iv) Promote private sector development</p> <p>v) Develop and regulate the capital market</p> <p>vi) Enhance human resource development through deregulation of the labour market</p>	<p>i) Reduce the rate of inflation</p> <p>ii) Reduce current account deficit.</p> <p>Maintain realistic nominal and real exchange rates.</p> <p>Decontrol all prices</p> <p>Decontrol the economy to permit private sector initiative.</p> <p>Deregulate the economy to be able to allow private sector initiative.</p> <p>Free entry to permit more registration of banks. Stock exchange to be established.</p> <p>An increase in entrepreneurial class.</p> <p>Formation of trade unions and collective bargaining.</p>	<p>i) Inflation rate was 37% in 1991</p> <p>ii) Current account deficit was US\$92 million in 1996.</p> <p>Real exchange rate now realistic</p> <p>All prices are now market determined along with free entry into the financial system.</p> <p>Conducive macroeconomic environment private sector initiative established. Small-scale enterprises established.</p> <p>3 banks registered.</p> <p>Stock exchange established but only 3 companies listed on it.</p> <p>Bank of Malawi's regulatory framework improved.</p> <p>Entrepreneurial class has expanded in the private sector. Trade unions are now being formed and can engage in collective bargaining</p>	<p>Office of Statistics</p> <p>Publications</p> <p>Reserve Bank of Malawi</p> <p>Reserve Bank of Malawi Annual Reports</p> <p>National Income Accounts, BOP Statistics</p> <p>National Economic Planning</p> <p>Ministry of Finance</p> <p>Ministry of Trade</p> <p>Ministry of Finance/Trade</p> <p>RBM Publications</p> <p>MIPA, Ministry of Land, Building and Power</p> <p>Government Reports</p>	<p>No policy reversals on the part of the Government, no external shocks.</p> <p>String Government commitment, open and free society.</p>
<p><b>OUTPUT:</b></p> <p>i) Reform Policies implemented</p>	<p>i) Set of macroeconomic and sector reform policies</p>	<p>i) A set of policies implemented by the Government</p>	<p>Appraisal Report, PCR, supervision missions, Mid-term Review Report.</p>	<p>No serious policy reversals on part of Government</p>
<p><b>INPUT/ACTIVITIES:</b></p>	<p>ADF loan of UA 9.2 million</p>	<p>ADF loan of UA 9.2 million</p>	<p>ADF Records, GOM Records</p>	<p>Compliance with ADF loan conditions.</p>

RECOMMENDATION AND FOLLOW-UP ACTION MATRIX : ITPAP and ECMAP

MAIN FINDINGS & CONCLUSIONS	RECOMMENDATIONS	FOLLOW-UP ACTIONS	RESPONSIBILITY
<p><b>Formulation and Project Rationale</b></p> <p>i) The programme was well formulated, but goals were not defined properly.</p> <p>ii) Bank came into the programme midstream and did not participate in designing of ITPAP</p> <p>iii) The regional ramifications of the programmes were not fully factored-in</p> <p>iv) The simultaneous implementation of SAP and sectoral reforms created sequencing problems.</p>	<ul style="list-style-type: none"> <li>• Goals and targets should be defined in measurable terms</li> <li>• Bank should ensure that it has in place a mechanism for being kept in the loop regarding any programme it parallel or co-finances</li> <li>• Future designs of SAPs should consider harmonizing regional economic policies, or take them into account in designing national programmes.</li> <li>• Macroeconomic stability should be achieved before pursuing sectoral concerns, and careful analysis of policy conflicts done in advance.</li> </ul>	<ul style="list-style-type: none"> <li>• Define goals and targets in measurable terms</li> <li>• ADF, IDA (and IMF) should consider joint PFP missions and joint Appraisal missions</li> <li>• ADF and IDA should consider how best to integrate regional considerations into adjustment programmes.</li> <li>• ADF and IDA should review this approach to adjustment programmes.</li> </ul>	<p>Bank and Borrower</p> <p>Bank/Other Donors</p> <p>Bank/Other Donors</p> <p>Bank/Other donors.</p>
<p><b>Project Implementation</b></p> <p>The original life of ITPAP was exceeded by about 2 years, while that of ECMAP was exceeded by 9 months</p>	<p>Need to adhere closely to original implementation schedule</p>	<p>GOM to familiarize itself with Bank rules and regulations</p>	<p>Bank and GOM</p>
<p><b>Compliance with Loan Conditions and Covenants</b></p> <p>GOM did not submit regular reports to the Bank and submitted no PCR at the completion of programme.</p>	<p>Bank should insist on compliance with loan conditions and covenants on timely basis.</p>	<p>Conditions and covenants should be simple and specific. Supervision mission should be used to re-iterate the need for quarterly reports</p>	<p>Bank and GOM</p>

<p><b>Performance Evaluation and Outcome</b></p> <p>i) Programmes were relatively successful but supply response remains weak</p> <p>ii) The export sector has not performed as expected</p> <p>iii) The financial market is still rudimentary</p> <p>iv) Low human resource and institutional development</p> <p>v) Progress on privatization is slow</p> <p>vi) Government revenue is low</p>	<p>Follow-up with a new programme which focuses on economy's supply mechanisms.</p> <p>Mount export promotion information campaign</p> <p>Continue with the liberalization of the sector. Regulatory framework also needs to be tightened.</p> <p>Intensify programmes in human and institutional development</p> <p>Intensify the privatization programme</p> <p>Intensify revenue generating activities, for example, establish a Revenue Authority</p>	<p>A new programme should be based on prior economic and sector work which incorporates the supply responses of the economy to policy measures.</p> <p>Conduct studies on areas for the promotion of non-traditional exports</p> <p>Enhance the powers of RMB to supervise and regulate the financial system in order to make it competitive.</p> <p>Allocate an increasing proportion of government revenue to the social sector</p> <p>Establish the laws under which Privatization Agency is to function.</p> <p>Set up a Revenue Authority.</p>	<p>GOM/Bank and Other Donors.</p> <p>GOM</p> <p>GOM</p> <p>GOM and Other Donors.</p> <p>GOM</p> <p>GOM and Other Donors.</p>
<p><b>Sustainability</b></p> <p>i) Even though there is strong political commitment to reforms, key actors feel left out.</p> <p>ii) Persistent external shocks destabilize the economy</p> <p>iii) There is need for a follow-up operation to ensure sustainability</p>	<p>Government to keep programme on course, and sensitize key actors in the economy on economic policies.</p> <p>Introduce drought-resistant crops, and expand irrigation</p> <p>A SAP will be appropriate.</p>	<p>Dialogue to continue with donors and with population in general</p> <p>Make the introduction of drought-resistant crops part of follow-up operations</p> <p>World Bank has had one follow-up programme (FRDP) with GOM and both Bank and World Bank considering another operation soon.</p>	<p>GOM</p> <p>GOM and Donors</p> <p>GOM, Bank and Other Donors.</p>

**Table I****KEY ECONOMIC INDICATORS, 1985-1997-- ITPAP and ECMAP**

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<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>
Real GDP Growth (%)	4,4	1,1	2,0	3,3	4,1	4,8	7,8	-7,9	10,8	-11,6	9,0	9,5	6,4
Real Per Capita Income (GNP, Atlas method)(\$)			160,0	170,0	170,0	200,0	230,0	210,0	240,0	170,0	170,0	180,0	
Real Per Capita GDP f.c. at 1978 prices (Kwacha)	122,0	120,7	120,0	119,5	120,2	116,6	117,3	104,5	111,0	95,2	100,8	107,4	112,6
Real Per Capita GDP Growth (%)	1,5	-1,1	-1,2	-0,1	0,6	1,4	4,1	-11,0	6,2	-14,2	5,9	6,5	4,8
Real Manufacturing Output (K millions)	103,8	106,1	107,1	110,6	120,0	133,5	137,5	141,6	126,8	130,8	141,5	133,6	140,4
Real Manufacturing Output Growth (%)	3,2	2,3	0,9	3,3	8,5	11,3	3,0	3,5	-10,5	3,2	8,2	-5,6	5,1
Real Manufacturing Output/GDP	12,3	12,5	12,3	12,3	12,8	13,6	13,0	14,6	11,8	13,7	13,6	11,7	11,4
Index of industrial production (1984=100)	100,4	89,8	87,7	95,2	95,1	117,8	123,4	116,4	117,4	108,2	122,4	137,0	111,3
Gross Domestic Investment/GDP (current prices, %)	18,6	12,3	15,4	18,7	20,2	19,1	19,0	19,3	12,2	13,2	15,2	14,9	16,1
Gross Domestic Savings/GDP (current prices)( %)	12,9	10,1	13,0	9,2	4,5	9,4	7,9	-3,3	8,6	9,6	12,8		
Real Private Sector Investment Growth (%)	61,6	-63,3	171,7	48,7	26,3	-4,5	15,4	-38,4	-33,6	-8,6	40,5	43,3	
Real Private Fixed Investment/GDP (%)	5,6	2,0	5,4	7,8	9,5	8,6	9,2	6,9	4,6	1,8	3,2	4,1	
Government Fixed Investment/Total (%)	62,0	83,2	57,5	53,2	45,8	51,2	49,5	51,4	59,7	64,6	83,8	74,8	67,2
Private Fixed Investment/Total (%)	38,0	16,8	42,5	46,8	54,2	48,8	50,5	48,6	40,3	35,4	16,2	25,2	32,8
Real Fixed Capital Formation/GDP (%)	12,6	9,2	9,8	10,9	12,0	13,4	13,9	12,4	9,3	9,5	10,6	13,0	16,7
Merchandise Exports, f.o.b. (US\$M)	245,5	248,4	278,5	293,4	268,7	411,6	475,5	397,4	317,2	372,2	404,5	435,2	
Merchandise Export Growth (%)	-21,3	1,2	12,1	5,4	-8,4	53,2	15,5	-16,6	-20,2	17,3	8,7	7,6	
Exports of Manufactures, f.o.b. (US\$M)	9,0	2,7	20,1	22,5	21,8	36,3	29,3						
Manufactured Export Growth (%)	80,0	275,5	-18,6	11,9	-2,7	66,5	-19,3						
Merchandise Imports, c.i.f. (US\$M)	250,1	256,8	291,2	370,4	405,0	490,6	615,5	550,7	627,4	554,8	549,3	528,2	
Merchandise Import Growth (%)	54,4	2,7	13,4	27,2	9,3	21,1	25,5	-10,5	14,0	-11,5	-0,9	-3,8	
Trade Balance (US\$M)	-14,6	-8,4	-12,8	-77,0	-136,3	-79,0	-140,0	-154,1	-310,2	-182,6	-144,8	-93,0	
Non-Traditional Exports (US\$ M)								27,2	32,5	31,3	48,7	58,6	
Current Account Deficit (US\$M) incl official trans.	-96,7	-70,7	-60,3	-121,1	-212,6	-158,4	-236,1	-220,0	-225,2	-119,3	-80,4	-92,7	
Current Account Deficit/GDP (%) incl. off. trans.	-11,0	-7,6	-5,1	-9,1	-13,4	-8,4	-10,8	-12,2	-11,1	-9,2	-5,7	-4,2	
Terms of Trade (1980=100)	100,8	87,8	84,3	77,7	61,5	73,5	84,3	76,0	71,5	76,9	78,2	87,7	87,9
Government Revenue/GDP	22,2	21,8	20,8	96,7	98,8	107,7	114,9	99,2	83,7	90,7			
Government Expenditure/GDP	25,1	26,9	30,4	21,2	21,8	19,6	18,4	19,1	18,3	17,1	16,1	18,1	17,0
Government Deficit/GDP (excluding grants)	-8,1	-10,1	-9,7	-7,5	-7,7	-6,1	-5,4	-11,1	-7,2	-27,1	-15,9	-6,9	-7,3
Import duties, Excise duties and Surtax/Total Taxes	51,5	52,4	49,7	54,5	54,4	54,7	52,9	57,1	57,1	63,3	73,0	23,9	17,7
Import Taxes/Total Taxes	21,0	30,1	7,3	16,9	17,5	17,1	18,4	22,1	20,6	22,6	21,7	20,20	14,83
External Debt and Interest Outstanding (US\$M)	1017,9	1161,0	1372,8	1340,7	1394,2	1543,5	1748,7	1830,6	1857,0	1949,5	1977,4	2177,0	
Total External Debt/GDP (%)	77,1	87,0	106,1	92,9	81,4	71,7	79,7	91,0	91,9	150,6	139,1	98,7	94,3
Total Debt Service Ratio	29,9	39,6	23,8	21,0	30,9	29,4	18,7	23,9	23,7	22,7	19,3	22,1	17,4

Total Debt Service/GDP (%)	7,2	9,1	6,1	5,1	3,9	4,1	5,0	5,7	4,6	4,5	4,4		
Exchange Rate (US\$/K, period average)	1,7	1,9	2,2	2,6	2,8	2,7	2,8	3,6	4,4	8,7	15,3	15,3	
Nominal Effective Exchange Rate (1990=100)	141,0	120,6	95,8	87,5	94,0	100,0	106,3	90,9	85,3	54,2	26,2	27,2	
Changes in Nominal Effective Exchange Rate (%)	-3,4	-14,5	-20,6	-8,7	7,4	6,4	6,3	-14,5	-6,2	-36,5	-51,7	3,8	
Real Effective Exchange Rate (1990=100)	107,0	96,1	89,3	94,9	100,7	100,0	103,5	95,3	97,1	68,8	59,6	82,3	
Changes in Real Effective Exchange Rate (%)	0,1	-10,2	-7,1	6,3	6,1	-0,7	3,5	-7,9	1,9	-29,1	-13,4	38,1	
Money Supply (M2) Change (%)	-1,0	27,1	36,8	21,5	6,1	11,1	25,4	21,8	41,8	39,9	60,7	39,9	
Inflation Rate based on CPI (%)	10,5	14,0	25,2	33,9	12,5	11,9	11,9	22,7	22,8	34,6	83,3	37,6	9,2
Discount Rate (%) (end of period)	11,0	11,0	14,0	11,0	11,0	14,0	13,0	20,0	25,0	40,0	50,0	27,0	
Nominal Deposit Rate (%)	12,5	12,8	14,3	13,5	12,8	12,1	12,5	16,5	21,8	25,0	37,3	26,3	
Lending Rate (%)	18,4	19,0	19,5	22,3	23,0	21,0	20,0	22,0	29,5	31,0	47,3	45,2	
Treasury Bill Rate (%)	12,3	12,8	14,3	15,8	15,8	12,9	11,5	15,6	23,5	27,7	46,5	35,8	
Population	7,06	7,28	7,50	7,75	8,02	8,29	8,56	8,82	9,13	9,46	9,79	10,14	
Index of Industrial Production:													
Food, beverages and tobacco	111,8	111,3	115,2	127,6	152,1	162,5	150,0	158,8	162,0	164,5	156,5	159,1	161,1
Clothing, footwear and textiles	75,4	91,5	89,9	64,2	66,4	76,8	114,7	99,4	79,2	71,7	56,6	51,6	82,6
Other goods	115,3	117,0	114,0	120,5	128,3	146,0	157,5	151,0	134,7	130,0	135,4	136,5	137,3
Total consumer goods	106,4	110,3	109,5	111,3	122,8	137	146,8	142,9	131,5	127,9	125,6	126,0	133,7
Intermediate goods (products of building and cons	99,9	109,3	80,8	98,0	113,3	126	125,4	126,2	103,8	86,7	84,1	84,2	70,8
Total domestic production	104,5	110,0	101,3	107,5	120,1	133,8	140,7	138,1	123,6	116,0	113,8	114,1	115,7
Export goods	100,4	89,7	87,6	95,2	95,1	117,8	123,4	116,6	121,9	109,1	122,4	137,0	118,7
Total Manufacturing	103,4	104,6	97,6	104,2	113,4	129,5	136,0	132,4	123,1	114,2	116,1	120,2	116,5
Electricity and water	102,3	109,7	119,9	121,7	130,8	145,5	154,0	164,9	166,5	176,3	176,0	182,1	198,6
Total Industrial production	103,2	105,3	100,8	106,6	115,8	131,8	138,6	137,0	129,2	122,9	124,5	128,9	127,8

**Sources:** Malawi, National Income Accounts, Various Years  
Reserve Bank of Malawi, Annual Reports, Various Years.

**Table II**

**Gross Domestic Product (GDP), By Sector of Origin At 1978 Constant Factor Cost (1992-1997) (K million) –  
ITPAP and ECMAP**

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Agriculture	308,1	310,1	312,5	318,8	326,6	325,8	372,9	275,2	421	297,6	381,8	493,2	521,2
Small scale	242,4	246	242,4	243,6	244	235,6	272,8	168,3	311,1	206,9	277,1	387,4	409,1
Large scale	66	65,5	70,1	75,2	82,6	90,2	100,1	106,9	109,9	90,7	104,7	105,9	112,1
Manufacturing	95,2	102,4	107,1	110,6	120	133,5	137,5	141,6	126,8	130,8	139,1	131,3	138
Electricity and Water	16,4	17,3	18,7	19,1	20,7	23,1	24,5	26,3	27,2	29,3	30,2	29,8	31,8
Construction	39,5	34,1	32,9	38,1	40,5	41,5	43,9	43	41,2	39,8	41,5	46,1	49,1
Distribution	108,5	103,8	107,4	106	111,2	123,5	132,1	129,5	118,4	112,6	114,7	128,8	136,5
Transport and Communication	51,1	53,7	50,6	51,6	53,7	57,6	60	59,4	56,7	51,8	53,2	57,1	61,2
Financial and Professional Services	56,3	56	53,3	54,8	59,8	67	71,7	71,4	67,3	62,3	66,5	71,3	75,9
Ownership of Dwellings	35,5	36,1	36,6	39,5	40,5	42,2	43,6	44,4	44,9	45,9	47	48,2	49,3
Private, Social and Community Services	35,2	37,7	38,4	39,8	41,1	42,5	43,9	44,9	45,1	46,4	47,4	48,4	49,5
Producer of Government Services	136	148	134,5	142,6	143,3	145,3	149,8	154,8	154,2	147,3	142	146,5	155,5
Unallocable Finance Charges	-20,9	-20,8	-22,3	-22,6	-22,6	-22,6	-24,2	-18,4	-25,7	-11,5	-25,4	-64	-50
GDP at Factor Cost	860,9	878,4	869,7	898,3	934,8	979,4	1055,8	972,2	1076,9	952,1	1038	1136,8	1218
GDP per capita at 1978 prices	122	120,7	120	119,5	120,2	121,6							

Source: Ministry of Economic Planning and Development, Economic Reports, Various Years.

**Table III**

**Central Government Revenue, 1985/86-1997/98 –  
ITPAP and ECMAP**

	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
<b>REVENUE</b>													
Tax Revenue	373,51	391,07	451,4	654,11	844,55	887,96	1021,81	1150,09	1317,44	2131	3974,77	5709,79	6434,42
Taxes on Income and Profit	154,53	168,75	181,19	278,17	349,57	371,2	412,41	449,56	532,23	723	1404,89	2372	2873
Corporate Tax	102,32	103,81	96,78	168,64	206,05	222,8	241,1	222,61	233	338	690,62	1240	1520
Personal Income Tax	52,21	64,94	84,41	109,53	143,52	148,4	171,31	226,95	299,23	385,5	714,27	1132	1353
Taxes on Property	0,5	0,41	0,39	0,47	1,21	0,5	0,53	0,99	0,6	--	--	--	--
Taxes on Goods and Services	124,14	139,55	181,14	258,86	336,16	347,2	391,06	427,09	523,57	818,59	1439,79	1959,05	2399,42
Accommodation and Refreshment Tax	1,18	1,39	1,9	2,83	3,06	3,5	3,53	5,35	4,98				
Surtax	103,71	118,46	159,35	224,37	293,57	301,8	342,87	372,31	435,03	700	1239,49	1653	2041
Excise Duties	13,64	13,74	13,08	20,94	28,77	30,2	32,84	37,73	71,89	105	185,57	287	338
Licenses:	5,61	5,96	6,81	10,72	10,76	11,7	11,82	11,7	11,67	13,59	14,73	19,05	20,42
Business and Professional	0,94	0,96	0,95	1,97	1,96	2	2,01	1,31	1,34	1,38	1,78	2,05	2,42
Motor Vehicle	4,67	5	5,86	8,75	8,8	9,7	9,81	10,39	10,33	12,21	12,95	17	18
International Trade Taxes	92,6	80,24	86,65	113,83	152,19	162,8	211,47	252,38	253,79	479	1121,09	1362	1139
Customs Duties	92,6	80,24	86,65	113,83	152,19	162,8	211,47	252,38	253,79	479	1121,09	1362	1139
Import Duties	73,91	74,39	86,09	115,19	151,33	162,8	210	251,03	244,57	457	746,38	1023	954
Export Duties/Levy	18,33	4,44	0,2	-3,28	--	--	--	--	--	--	353,74	330	170
Other	0,36	1,41	0,36	1,92	0,86	0	1,47	1,35	9,22	22	20,97	9	15
International Trade Taxes as % of Tax Revenue	25	20	19,1	17,3	15,2	18,3	20,6	21,9	19,2	22	28,2	23,8	17,7
Stamp Duties	1,74	2,12	2,03	2,78	5,42	6,26	6,34	6,12	7,25	9,91	9	16,74	23
Non-Tax Revenue	68,53	101,8	131,98	118,76	149,73	155,2	160,06	239,96	251,83	200	582,83	179,63	281,08
Less: Total Tax Refunds											120,9	151	194

Source: Economic Report, Various Issues

**Table IV**

**Expenditure Items in Relation to GDP (Per Cent) –  
ITPAP and ECMAP**

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997*	1998	85-87	88-91	92-94	95-97
Gross Fixed Capital Formation	13,3	12	13,5	15,3	15,9	16,2	16,9	16,6	11,8	16,8	17,7	13,8	15,4		12,933	16,1	15,1	15,6
of which:															33			
Government	6,8	7,8	5,8	5,6	5,2	5,3	5,1	6,1	4	10,9	8,2	6,4	6,9		6,8	5,3	7,0	7,2
Other Private	5	1,9	6,2	8,1	8,8	9,1	10,3	9,1	6,6	5,2	7,2	5,1	5,9		4,3666	9,1	7,0	6,1
Smallscale	1,3	1,4	1,5	1,6	2	1,7	1,5	1,4	1,3	0,7	2,2	2,4	2,6		67	1,4	1,7	1,1
Stock Building	5,2	0,2	1,9	3,4	4,3	3	3,3	2,8	2,2	2,1	2,5	2,3	2,2		2,4333	3,5	2,4	2,3
															33			
<b>TOTAL INVESTMENT</b>	<b>18,5</b>	<b>12,3</b>	<b>15,4</b>	<b>18,7</b>	<b>20,2</b>	<b>19,1</b>	<b>20,2</b>	<b>19,4</b>	<b>14</b>	<b>18,9</b>	<b>20,2</b>	<b>16,1</b>	<b>17,6</b>		<b>15,4</b>	<b>19,6</b>	<b>17,4</b>	<b>18,0</b>
Consumption	86,8	89,9	87	90,8	95,5	90,8	90,7	101,5	99,8	97	88,4	95,7	92,4		87,9	92,0	99,4	92,2
of which:																		
Government	17,6	19,8	19,1	16,2	16,3	15,2	14	19,1	15,6	27,1	19,8	15,4	20,2		18,833	15,4	20,6	18,5
Private	69,2	70,1	67,9	74,5	79,2	75,6	76,8	82,4	84,2	69,9	68,6	80,3	72,2		69,066	76,5	78,8	73,7
															67			
Domestic Savings	13,2	10,1	13	9,2	4,5	9,2	9,3	-1,5	0,2	3	11,6	4,3	7,6		12,1	8,1	0,6	7,8
National Savings	9,4	6,3	10,3	10,5	6,9	10,4	9,6	-2,9	-0,4	1,3	7,9	2,5	6,2		8,6666	9,4	-0,7	5,5
															67			
Deficit on Goods and Non-Factor Services	5,7	2,1	2,4	9,5	15,7	9,9	10,9	20,9	13,9	16	8,7	11,9	10		3,4	11,5	16,9	10,2
Deficit on Goods and Factor Services	10,3	7,3	7,2	13,6	18,9	13	13,5	23,1	15,9	19,3	12	13,4	11,3		8,2666	14,8	19,4	12,2
															67			

\* Projections

Source: Ministry of Economic Planning - Table 2.3, p.6 Economic Report 1992, 1997.

Office of the President and Cabinet, Economic Planning and Development - Table 2.3, p.5 Mid-Year Review, 1989-1990

**Table V****MONETARY STATISTICS -- ITPAP and ECMAP**

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Reserve Money (K' millions)												
Currency Outside Banks (K millions)	165,97	286,42	445,33	495,67	447,5	374,5	462,12	541,75	880,71	1244,79	2360,57	3269,68
Foreign Assets (Net) (K millions)	65,99	79,3	107,62	134,62	156,6	159,38	222,69	289,79	414,17	624,74	987,52	1223,77
Domestic Credit (K millions)	-242,35	-378,45	-257,55	14,09	-13,38	88,84	147,37	-302,29	-110,27	-587,26	1184,9	3121,01
Claims on Central Government (Net)(K millions)	685,27	811,91	846,79	712,61	851,43	876,61	1057,92	1747,78	1997,96	2716,15	2643,59	3076,34
Claims on Nonfin. Pub. Ent. (Net)(K millions)	362,37	462,28	510,15	343,09	350,96	230,73	179,32	716,96	941	1345,15	1069,85	1104,12
Claims on Private Sector (K millions)	110,23	113,3	131,55	107,14	117,31	126,83	215,97	142,26	271,85	163,1	309,99	557,28
Money (K millions)	212,67	236,33	205,09	262,38	383,16	519,05	662,63	888,56	785,11	1207,9	1263,76	1414,95
Quasi-Money (K millions)	166,93	220,78	298,02	435,92	452,71	482,12	633,86	756,7	1019,9	1535,43	2211,21	2742,66
Money plus Quasi-Money (K millions)	217,5	268,03	370,44	376,57	408,98	475	566,73	633,51	924,45	1119,48	1936,43	3048,13
	384,43	488,81	668,47	812,49	861,69	957,12	1200,59	1390,22	1944,34	2654,9	4147,64	5790,79
Ratio of Reserve Money to GDP												
Ratio of Currency to GDP	0,085	0,130	0,170	0,145	0,107	0,074	0,076	0,081	0,098	0,111	0,105	
Ratio of Money (M1) to Nominal GDP	0,034	0,036	0,041	0,039	0,037	0,031	0,036	0,043	0,046	0,056	0,044	
Ratio of Quasi-money to Nominal GDP	0,086	0,1	0,114	0,128	0,108	0,095	0,104	0,113	0,114	0,137	0,098	
Ratio of Broad Money to Nominal GDP	0,112	0,122	0,142	0,11	0,097	0,094	0,093	0,095	0,103	0,1	0,086	
	0,198	0,222	0,256	0,238	0,205	0,189	0,197	0,208	0,217	0,237	0,185	
Real Discount Rate (%) (end of period)												
Real Deposit Rate (%)	0,5	-3	-11,2	-22,9	-1,5	2,1	1,1	-2,7	2,2	5,4	-33,3	-10,6
Real Lending Rate (%)	2	-1,2	-10,9	-20,4	0,3	0,2	0,6	-6,2	-1	-9,6	-46	-11,3
Real Treasury Bill Rate (%)	7,9	5	-5,7	-11,6	10,5	9,1	8,1	-0,7	6,7	-3,6	-36	7,6
	1,8	-1,3	-11	-18,2	3,3	1	-0,4	-7,1	0,7	-6,9	-36,8	-1,8

**Source:** Reserve Bank of Malawi, Annual Reports, Various Issues

**Table VI****Trade Indices (1980=100) -- ITPAP and ECMAP**

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997*
Imports													
Volume	81,29	78,99	66,41	77,66	100,71	104	118,2	110,8	104,8	73	88,5	118,1	125,9
Unit Price	173,67	223,2	302,77	376	432	474,8	503,3	654,3	754,2	1483,4	2542,5	2397,6	2469,5
Domestic Exports:													
Volume	94,79	98,93	104,21	104	82	103,9	110	109,1	105,3	111,3	128,6	127,3	142,4
Unit Price	175,13	195,92	256,57	308	361	433,5	486	526,4	523,9	1141,1	2044,7	2101,8	2171,2
Commodity Terms of Trade	100,84	87,78	84,74	81,98	83,69	91,3	97,4	84,1	70,9	76,9	80,4	87,7	87,9

\* Projections

Source: Ministry of Economic Planning - Table 3.4, p.11 Economic Report 1997;NSO, RBM and Treasury.