

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



MALAWI

COUNTRY PORTFOLIO REVIEW REPORT

**COUNTRY OPERATIONS DEPARTMENT
NORTH, EAST & SOUTH (ONCF)**

APRIL 2006

MALAWI 2005 COUNTRY PORTFOLIO REVIEW REPORT

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CURRENCY EQUIVALENTS
(End-December 2005)

UA1	=	US\$1.429
UA1	=	MK179.142
US\$1	=	MK125.362

FISCAL YEAR
1 July to 30 June

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ACRONYMS AND ABBREVIATIONS

AAR	:	Annual Audit Reports
ADB	:	African Development Bank
ADD	:	Agricultural Development Division
ADF	:	African Development Fund
APPR	:	Annual Portfolio Performance Review
APR	:	Annual Progress Reports
ASIP	:	Agricultural Sector Improvement Plan
CABS	:	Common Approach to Budget Support
CDSS	:	Community Day Secondary School
CIMM	:	Corporate Information and Methods Management
CPR	:	Country Programme Review
CPRR	:	Country Portfolio Review Report
CSP	:	Country Strategy Paper
DDF	:	District Development Fund
DfID	:	Department for International Development
DO	:	Development Objective
EIA	:	Environmental Impact Assessment
ESP	:	Education Sector Plan
EU	:	European Union
FLO	:	Fair-trade Labelling Organisation
GFEM	:	Group on Financial and Economic Management
GOM	:	Government of Malawi
HDI	:	Human Development Index
HDR	:	Human Development Report
HIV/AIDS Syndrome	:	Human Immunodeficiency Virus/Acquired Immuno-Deficiency
HPI	:	Human Poverty Index
IHS	:	Integrated Household Survey
ILO	:	International Labour Organisation
IP	:	Implementation Performance
IPM	:	Integrated Pest Management
MCGP	:	Malawi Country Gender Profile
MDG	:	Millennium Development Goals
M&E	:	Monitoring and Evaluation
MFAAP	:	Malawi Financial Accountability Action Plan
MFI	:	Micro-finance Institution
MGCWCS	:	Ministry of Gender, Child Welfare and Community Services
MGDS	:	Malawi Growth and Development Strategy
MPRSP	:	Malawi Poverty Reduction Strategy Paper
MTEF	:	Medium-term Expenditure Framework
MTR	:	Mid Term Review
NAC	:	National AIDS Commission
NAO	:	National Audit Office
NGO	:	Non-Governmental Organisation
NIS	:	Nuts-in-shell
NRA	:	National Road Authority's

OED	:	Operations Evaluation Department
PAR	:	Project at Risk
PBA	:	Performance-Based Allocation
PCR	:	Project Completion Report
PFM	:	Public Financial Management
PIU	:	Project Implementation Unit
PMO	:	Project Management Office
POPR	:	Policy & Operations Review
PP	:	Problematic Project
PPF	:	Project Preparation Facility
PPP	:	Potentially Problematic Project
PRA	:	Participatory Rural Appraisal
PR	:	Project at Risk
QPR	:	Quarterly Progress Reports
RMC	:	Regional member Countries
RMB	:	Reserve Bank of Malawi
RWSSI	:	Rural Water Supply and Sanitation Initiative
SADC	:	Southern African Development Community
SAR	:	Staff Appraisal Report
SDR	:	Special Drawing Right
SWAp	:	Sector-Wide Approach
TA	:	Technical Assistance
UA	:	Unit of Account
UNDP	:	United Nations Development Programme
VNRMC	:	Village Natural Resources Management Committees

EXECUTIVE SUMMARY

I. INTRODUCTION

The objective of this Country Portfolio Review Report (CPRR) is to assess the performance of the Bank Group's on-going portfolio of projects in Malawi, suggest ways to improve project performance, and draw lessons to be learned for the design of future interventions in Malawi. The CPRR reviews on-going projects as at 01 December 2005, and uses information gathered during the CPRR mission that took place in October 2005.

Since lending began to 01 December 2005, a total of 88 project approvals have been made by the Boards of Directors, totalling UA559.0 million. The total amount in net-signed loans/grants equals UA510.4 million for 82 lending operations—some UA48.6 million of approved project credit, relating to six Board approvals, has been subsequently cancelled. Out of these 88 approvals, 75 projects have been established along with seven complimentary grant operations, giving a total of 82 lending operations. As of 01 December 2005, the 82 lending operations have disbursed UA409.6 million (73.3% of total net signed loans). Some 82.7% (UA462.4 million) of total net-signed loan/grant resources have come from ADF resources. The total grant allocation equals 3.3% (UA18.4 million) of total net-signed loan/grant resources. This leaves some 14.0% (UA78.2 million) of total net-signed loan/grant resources originating from ADB resources.

II. REVIEW OF ON-GOING PROJECTS

The average overall assessment of on-going projects is rated satisfactory with an average rating of 2.0 (however, various problems continue to affect the performance of some Bank Group-financed projects in Malawi). The satisfactory rating is mainly driven by the overall satisfactory performance of Impact on Development (rated 2.4). Project Progress performance (rated 1.8), is satisfactory but weak. Project progress fluctuates depending on sector, with progress best in the water and sanitation sector (rated 2.3; all other sectors score 2.0). In general, the water and sanitation sector appears to show relatively good capacity, project management, project design, and procurement/disbursement progress.

The 2005 IP is unsatisfactory with an overall rating of 1.8, driven by unsatisfactory agriculture and transport ratings (a similar situation to the 2003 CPRR IP ratings). The 2005 DO rating is satisfactory in all sectors, which was the case in 2003. The average age of all on-going projects in Malawi is 3.17 years, and on average, ageing is not an issue. But the potential exists for several projects to become aged in the agriculture, social, and transport sectors. There are two PPs in the portfolio (in the agriculture and transport sectors), which is a small improvement to the three PPs noted in the 2003 CPRR. And there are three PPPs in the portfolio (in the social and agricultural sectors), a worsening compared to the two PPPs noted in the 2003 CPRR. The proportion of Projects-at-Risk in the portfolio is 47% (UA58.9 million), compared to 47% (UA76.3 million) in 2003, which is outside the 10-30% range indicative of satisfactory performance.

Supervision of on-going projects was satisfactory in 2005, but evaluating the quality of supervision missions is one way that the Bank Group can help improve overall project progress. The skills mix of supervision missions could also be enhanced, with assistance provided to respective Task Managers by procurement, disbursement, gender and other Bank

Group specialists. The World Bank’s most recent Country Programme Review shows that many similar issues and problems affect its projects that affect Bank Group projects.

As of 01 December 2005, on-going projects’ total disbursements were UA42.4 million—30.9% disbursement rate (UA94.7 million of approved funds remains un-disbursed, which is more than double Malawi’s UA47 million ADF-X allocation). As the average age of on-going projects is over three years, this low rate highlights implementation problems. A sector breakdown of on-going projects’ disbursement rates shows:

Sector	Projects on-going	UA Undisbursed (million)	Disbursement rate %
Agriculture	7	30.2	31.2
Social	4	28.6	34.3
Transport	2	27.0	0.7
Water	1	8.3	13.2
Multi-sector	1	0.0	10.00
Total	15	94.1	n/a

III. ASSESSMENT OF MANAGEMENT IMPLEMENTATION CAPACITY

The general problems PIUs and Government have with project implementation are: (i) delays in fulfilling conditions for loan effectiveness; (ii) inadequate accounting procedures; (iii) delays to resolving audit issues; (iv) slow procurement processes; (v) slow disbursement/non-availability of Government’s counterpart funding; and (vi) poor communication within Government, PIUs, and between them and the Bank Group.

The Bank Group’s management capacity is satisfactory in general, but several issues remain a concern to PIUs/line ministries: (i) a lack of clarity with procurement procedures, which is related to slow Bank Group disbursements to project accounts; and (ii) slow responses from the Bank Group to PIU/Government correspondence.

IV. COORDINATION WITH OTHER DONORS

Government’s capacity to coordinate donor assistance is improving, from a low base, as a result of donors’ efforts to strengthen capacity. But due to capacity constraints, Government continues to struggle to manage and lead donor coordination groups. The Bank Group has engaged and coordinated with most donors regarding current on-going interventions. But a greater level of coordination is required to improve expected outcomes. The Bank Group, aware of its commitments under the Paris Declaration on Aid Effectiveness, is keen that under the 2005-09 CSP, further efforts are made to increase donor coordination. None of the Bank Group’s on-going projects in any sector are co-financed with other donors.

V. LOAN REPAYMENTS AND ARREARS

Malawi is current on its loan repayment obligations to the Bank Group. Therefore, the Bank Group has not imposed sanctions on Malawi because of arrears on loan repayments.

VI. PROACTIVE MANAGEMENT OF THE PORTFOLIO

Government faces several possible **challenges** and **risks** that may influence on-going and future projects. Several **solutions** exist (such improving governance, implementing reforms, and strengthening institutions). Implementation of this CPRR's Action Plan will also help to improve the quality of the portfolio. Future country programming and portfolio management will benefit from: (i) increased harmonisation and coordination with other donors; (ii) increasing quality at entry of Bank Group interventions; (iii) avoiding complex projects and conditions; (iv) designing fewer but larger projects; and (v) using the Country Office once open to manage day-to-day issues. A number of relative improvements have been made relating to the actions advised in the 2003 CPRR by Government and the Bank Group, but further efforts are required.

VII. CONCLUSION AND RECOMMENDATIONS

The performance of the Bank Group Portfolio in Malawi is generally satisfactory, however, some recurrent problems remain, and much can be done to improve the Bank Group's portfolio if the following recommendations (and Action Plan) are implemented:

Government should:

- continue to improve the performance of agricultural sector projects.
- Ensure regular disbursement of counterpart funds (noting the related point raised below for future Bank Group interventions).
- Ensure that the Ministry of Finance maintains records of loan/grant conditions.
- Improve the timeliness of the fulfilment of loan/grant conditions.
- Increase efforts to strengthen capacity at PIU, central and local government levels.
- Advise how to retain PIU's project knowledge once PIUs close.
- Ensure line ministry and PIU staff undertake future Bank Group-financed training.
- Encourage PIUs to share their experiences among themselves.
- Improve the speed, accuracy and efficiency of communications.
- Speed-up the process of grant authorisation bills through Parliament.
- Improve weak accounting and auditing systems/reporting,

The **Bank Group** should:

- Improve grant condition design (to reflect Government's implementation ability).
- Continue/increase capacity-building training activities.
- Where necessary, prepare Sector Improvement Plans.
- Improve project design to take into account sector conditions.
- Include in new Bank Group projects a component for an implementation manual.
- Drop the requirement that Government provides counterpart funds.
- Improve the speed, accuracy and efficiency of communications.
- Increase the level of harmonisation and coordination with other donors.
- Speed-up the opening of the Country Office.
- Provide a robust critique of what each supervision mission has achieved/strengthen supervision missions/teams in line with project components.

Board members are requested to consider and note these recommendations, which seek to help improve the Bank Group's on-going portfolio in Malawi.

MALAWI
COUNTRY PORTFOLIO REVIEW REPORT

I INTRODUCTION

1.1 Objectives, Coverage and Structure of the Report

1.1.1 The objective of this Country Portfolio Review Report (CPRR) is to assess the performance of the on-going portfolio of Bank Group-financed projects in Malawi and provide suggestions on how to improve project performance. The report also aims to draw lessons to be learned for the design of future Bank Group interventions in Malawi. This CPRR is prepared in fulfilment of the requirements of the Bank Group policy on portfolio reviews. The previous CPRR (ADF/BD/WP/2003/08) for Malawi was presented to the Boards of Directors in February 2003.

1.1.2 This report comprises: (i) an introduction; (ii) a review of on-going projects; (iii) an assessment of management implementation capacity; (iv) coordination with the donors; (v) loan repayments and arrears; (vi) proactive management of the portfolio; and (vii) conclusions and recommendations.

1.1.3 The CPRR reviews on-going projects as at 01 December 2005, and uses information gathered during the CPRR mission to Malawi that took place from 29 September – 17 October 2005. In line with the Bank Group's Annual Portfolio Performance Review (APPR), these are approved projects with a positive balance and whose deadline for disbursement expires after that date. The projects reviewed are all in the public sector. Since lending to Malawi began in 1969, the Bank Group has not yet approved a private sector operation.

1.2 Overview of the Cumulative Portfolio

1.2.1 Since operations began in 1969, to 01 December 2005, a total of 88 loan/grant approvals have been made by the Boards of Directors, totalling UA559.0 million (see Table 1). The total amount in net-signed loans/grants equals UA510.4 million for 82 operations—some UA48.6 million of approved project credit, relating to six Board approvals, has been subsequently cancelled. Out of these 88 loan/grant approvals, 75 loans and seven complimentary grants have been established, giving a total of 82 lending operations. As of 01 December 2005, the 82 loans/grants approvals have disbursed UA409.6 million (73.3% of total net signed loans). There have been no Multinational projects approved by the Boards. See Annex I for a Summary of Bank Group Operations (as of 01 December 2005).

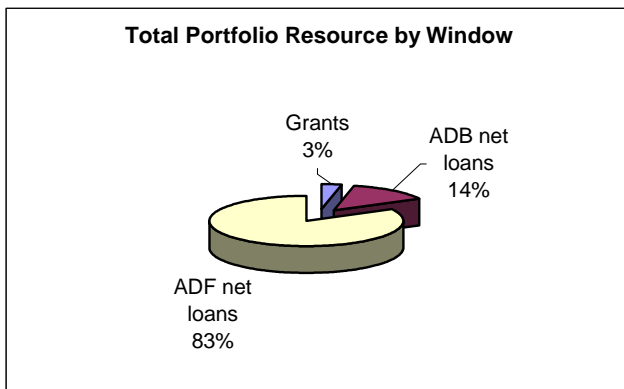
Table 1: Summary of Bank Group Approvals, by Window, in Malawi (UA million)

African Development Bank Group Operations, December 2005 (Start of Operations: December 1969)			
Total Approvals: 88 Operations		On-going: 21 Operations	
53 Project Loans 21 Grants 15 Studies 4 Institutional Support Projects 3 Structural Adjustment Operations 2 Lines of Credit		14 Project Loans 6 Grants (complimenting 6 loans) 1 Study	
Note: 12 Studies and all 4 ISPs are grant-funded; 6 approved operations were cancelled.			
Source of Financing	Net Commitments UA m	Amount Disbursed UA m	% Disbursed
ADB	78.2	73.2	93.6
ADF (Loans)	462.4	321.0	69.4
ADF (Grants)	18.4	15.4	83.5
Total	559.0	409.6	82.2^a
<i>Cancelled</i>	<i>48.6</i>		

^a 82.2% is average of ADB, ADF (Loans) and ADF (Grants); percentage of total amount disbursed is 70.0%.

1.2.2 Some 82.7% (UA462.4 million) of total net-signed loan/grant resources have come from ADF resources (see Chart 1). The total grant allocation equals 3.3% (UA18.4 million) of total net-signed loan/grant resources. This leaves some 14.0% (UA78.2 million) of total net-signed loan/grant resources originating from ADB resources. Following confirmation of the ADF-X country allocations by the Boards of Directors in mid-2005, Malawi's ADF-X resources, of UA47.0 million, are all in grant form and are provided through the ADF window.

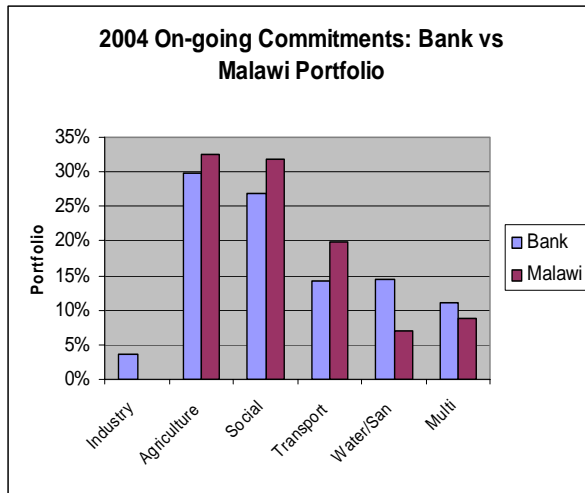
Chart 1: Total Portfolio Resource by Window



1.2.3 In descending order, **total net signed loan/grants (completed and on-going projects)** have funded the following sectors: first Agriculture (28.0%), followed by Transport (20.0%), Social (17.3%), Water (13.3%), Multi and Power (equal on 5.3%), Communications and Industry (equal on 4.0%) and Finance (2.7%). Some 54 approved projects (72.0% of the total approved) have been completed.

This leaves **21 operations on-going**, which in descending order are: Agriculture (32.6%), Social (31.8%), Transport (19.9%), Multi (8.8%), and Water (7.0%). The percentage share of the spread of the Malawi portfolio of on-going projects across all sectors compared to that of all Bank Group on-going projects, based on data contained in the 2004 Annual Portfolio Performance Review (ADF/BD/WP/2006/23), is relatively similar—see Chart 2.

Chart 2: 2004 On-going Commitments: Bank Group versus Malawi Portfolios



Total financial commitments relating to on-going projects amount to UA137.0 million, of which UA42.4 million has been disbursed (30.9% of the total), leaving UA94.7 million undisbursed (69.1%). Table 2 provides a summary of Bank Group approvals, while Charts 3 and 4 provide summaries of percentage breakdowns.

Table 2: Summary of Bank Group Approvals, Completed and On-going, 01 December 2005 (UA)

ADB & ADF Completed and On-going Project Commitments (UA)		
Completed project commitment	Net Signed Loans	% Share of Completed Loans
Transport	102,642,460.16	27.5%
Agriculture	67,020,363.86	18.0%
Social	56,974,778.75	15.3%
Water	56,662,642.01	15.2%
Comms	33,986,075.54	9.1%
Multi sector	20,210,520.00	5.4%
Power	17,828,095.97	4.8%
Industry	15,182,021.52	4.1%
Finance	2,832,288.22	0.8%
<i>Sub Total</i>	<i>373,339,246.03</i>	<i>100.0%</i>
Ongoing project commitment	Net Signed Loans	% Share of On-going Loans
Agriculture	44,633,874	32.6%
Social	43,590,000	31.8%
Transport	27,210,000	19.9%
Multi sector	12,000,000	8.8%
Water	9,590,000	7.0%
<i>Sub Total</i>	<i>137,023,874</i>	<i>100.0%</i>
Total Net Approved Loans	510,363,120.03	
Cancelled Loan Approvals	48,610,000.00	
Total Approved Loans	558,973,120.03	

Chart 3: Completed Project Commitments

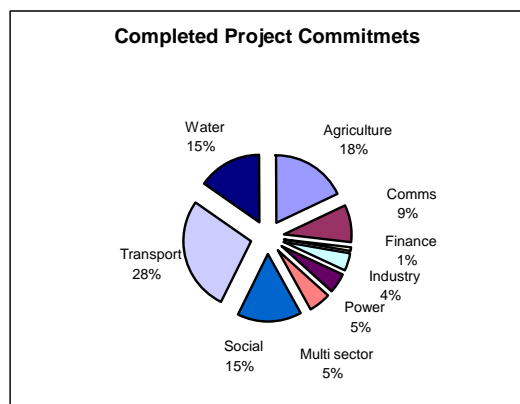
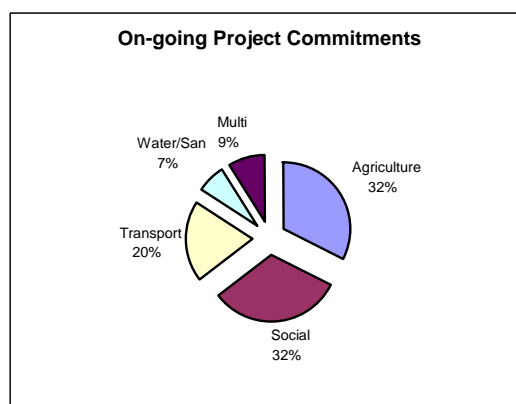


Chart 4: On-going Commitments



II. REVIEW OF ON-GOING PROJECTS

2.1 General Assessment of Portfolio Performance

2.1.1 This portfolio review reveals that the average overall assessment of on-going projects is rated satisfactory with an average rating of 2.0, with no sector rated below 2.0 (see Table 3). The overall satisfactory performance rating also marks a stable performance in comparison to the last CPRR (of 2003) when the performance was also judged satisfactory, with a rating

of 2.0. However, the position presented in this CPRR compared to the 2003 CPRR (where performance was overall unsatisfactory in agriculture (1.9), finance (1.8) and transport (1.7), while satisfactory in the multi (2.0), social (2.3) and water and sanitation sectors (2.1)), shows that progress has been made on a sector by sector basis.

Despite the current overall satisfactory performance rating, several problems continue to affect the performance of some Bank Group-financed projects in Malawi. These relate to long delays in project start-ups, continuing cases of non-compliance with Bank Group procurement and disbursement rules of procedure, and weak capacity of Project Implementation Units (PIUs). Please see Annex II Summary of Performance Ratings by Sector at Present, and Annex III Summary of Performance Ratings by Project for further details.

2.1.2 Additional analysis of the portfolio is provided in Annex IV, which presents several charts: (i) the disbursement ratio for on-going projects, which plots where each project stands taking into consideration its age and disbursement rate (noting that factors such as disbursement delays can be caused by factors outside the control of Task Managers or PIUs); (ii) the disbursement to age ratio disbursement trend, which shows the low level of trend; (iii) the correlation of efficiency ratio to overall rating assessment, which highlights the level of consistency in ratings given age and disbursement rates; and (iv) on-going projects' age in descending order.

2.1.3 The overall satisfactory performance rating of the portfolio is mainly driven by the overall satisfactory performance of Impact on Development (rated 2.4), supported by procurement performance (rated 2.1), financial performance (rated 2.2), and activities/output (rated 2.1)—see Table 3. Performance in respect of project progress (rated 1.8), is satisfactory but weak. This mainly reflects difficulties experienced by PIUs in dealing with delays in fulfilling loan conditions, and protracted delays in project implementation. There is also a small disconnect between procurement performance and financial performance—procurement performance should lead financial performance, with both showing similar results. The most notable example of this disconnect is in the transport sector, with procurement performance rated 2.3, and financial performance rated 3.0. This difference implies that while procurement performance appears satisfactory, financial performance appears highly satisfactory. But given that in order for procurement to progress, goods and service need to be purchased, it would be assumed that financial performance would follow suit. But financial performance of the two on-going transport projects is rated as n/a in each project's five sub-categories, except point five (performance of co-financier), of the Roads Rehabilitation/Upgrading in Karonga/Chitipa project, which is rated three. This anomaly can be partly explained by the peculiarities of the project (see section 2.7.15 for project details), but also by the ratings framework, which may not take into consideration fully project activities that allow a disconnected rating to be given while not contradicting itself. Overall, it more efforts need to be made to strengthen procurement and disbursement capacity, and timely fulfilment of loan conditions. Details of the common problems that projects face can be found in Annex VI.

Table 3: Overall Portfolio Rating Performance

	Project Progress	Procurement Performance	Financial Performance	Activities & Outputs	Impact on Development	Overall Assessment
2005 CPRR Average	1.8	2.1	2.2	2.1	2.4	2.0
<i>Agriculture</i>	1.9	2.0	2.2	2.1	2.3	2.0
<i>Multi</i>	n/a	n/a	n/a	n/a	n/a	n/a
<i>Social</i>	2.0	2.1	2.2	1.9	2.4	2.0
<i>Transport</i>	1.0	2.3	3.0	2.5	2.3	2.0
<i>Water/Sanitation</i>	2.3	2.0	2.3	2.0	2.7	2.3
2003 CPRR Average	1.8	1.9	2.4	1.7	2.1	2.0

2.1.4 Fluctuating Project Progress: This portfolio review also shows that project progress fluctuates depending on which sector is considered. Based on the sector averages of Task Managers' project ratings (presented in Table 3), progress is considered best in the water and sanitation sector (2.3; all other sectors score 2.0). The multi-sector data has yet to be created as the one on-going project (Support for Good Governance Loan), has yet to be supervised—the loan was disbursed in one, up-front tranche in May 2005. It should be noted that the performance of the transport sector, is influenced strongly by the two on-going projects, which nearly six years after approval remain 99% un-disbursed (reflected in the 1.0 project progress rating). This is due to difficulties experienced by Government to fulfil a condition relating to the identification of a co-financier. The original co-financier withdrew from the project and Government failed to identify a replacement, which helps explain the poor disbursement performance. The Bank Group has agreed to finance the whole project, so disbursement performance is expected to improve (project details and the steps that have been taken to remedy the problems can be found in sections 2.7.14-15).

2.1.5 In order to help improve the portfolio of on-going projects, understanding why project performance is considered best in the water and sanitation sector and worst in the transport sector is necessary. Specific reasons can be supplied by the respective Task Managers, but in general, the water and sanitation sector appears to display, amongst other factors: (i) a greater level of capacity than other sectors; (ii) relatively good project management skills; (iii) relatively good procurement/disbursement management skills; and (iv) good project design that does not involve complex services and components. One example of where some projects have experienced implementation difficulties has been when micro-finance has formed part of the project design and implementation. The micro-finance environment in Malawi is not particularly well developed¹, and because of this, unforeseen problems have arisen that have delayed project implementation. Micro-finance is a useful tool to help reduce poverty in

¹ The micro-finance sector is coordinated by the Malawi Micro-finance Network. Serious legal and regulatory framework problems affect organisational capacity and loan repayments. The law in Malawi does not clearly define what micro-finance is, neither does it clearly stipulate who can deliver it and how. Micro-finance activities can be registered under any of the five relevant acts of parliament. And no particular authority is vested with the authority to regulate and supervise micro-finance activities. As micro-finance institutions are not licensed, they are legally prohibited from accepting deposits. Credit unions fail to bridge the gap as they suffer from weak capacity and a poor regulatory environment. Government efforts to address these problems revolve around establishing a rural credit scheme, the Malawi Rural Development Fund (MARDEF, launched in January 2005), using the Malawi Savings Bank and existing micro credit institutions.

Malawi, but the issues micro-finance faces in Malawi need to be understood and taken into consideration when designing new projects that incorporate such activities. The poor performance of on-going transport sector projects is not due to a micro-finance issue (as it is not part of the project design), but project-specific peculiarities that have been experienced.

2.1.6 The 2005 Implementation Performance (IP) and Development Objective (DO) indicators by sector, given in Table 4, show that IP is unsatisfactory with an overall rating of 1.8. This is driven by the unsatisfactory agriculture and transport ratings. Compared to the 2003 CPRR IP ratings, a similar situation appears: agriculture and transport also had unsatisfactory ratings (as did the multi-sector), which gave an overall rating of 1.9. The 2005 DO rating is satisfactory in all the sectors, which was the case in 2003. While on-going Bank Group-financed projects in Malawi are generally expected to achieve their development objectives, implementation remains a problem. Projects continue to be implemented over protracted periods of time, extending substantially beyond the timeframes envisaged at appraisal.

Table 4: IP and DO Indicators by Sector (2003 and 2005)

Sectors:	Agriculture	Multi-sector	Social	Transport	Water and Sanitation	Overall Assessment
IP 2005	1.9	n/a	2.0	1.0	2.3	1.8
DO 2005	2.3	n/a	2.4	2.3	2.7	2.4
<i>IP 2003</i>	<i>1.9</i>	<i>1.8</i>	<i>2.2</i>	<i>1.9</i>	<i>2.0</i>	<i>1.9</i>
<i>DO 2003</i>	<i>2.0</i>	<i>2.0</i>	<i>2.4</i>	<i>2.3</i>	<i>2.2</i>	<i>2.1</i>

2.1.7 The overall picture emerging from the above analysis is that Bank Group-financed projects in the social sector, and the water and sanitation sector tend to perform better than projects in the agricultural, and transport sectors. There are various reasons for this, most of which relate to generic problems experienced across the portfolio, which prevent satisfactory project implementation. They centre around delays in the fulfilment of loan conditions and in project execution, weak capacity of the PIUs, and frequent changes in PIU management. Annex VI indicates the generic problems affecting each on-going project. In addition, it is useful to know what type of Bank Group interventions are the most successful. It is too early to comment on the performance of the Bank Group's activity in the Health SWAp, which the Boards of Directors approved in November 2005, but SWAps provide the potential for reducing Bank Group and Government administrative burdens, while at the same time increasing efficiencies and the developmental impact of Bank Group funds. Common sense suggests that any type of project (institutional support, balance-of-payments support, project-based support, or SWAp), will succeed if it meets the following basic criteria: (i) well designed; (ii) participatory process in agreeing on what type of challenge exists and what solution is created to address it; (iii) sound implementation; (iv) supportive institutions and adequate level of capacity; and (v) good monitoring and evaluation of project progress and performance.

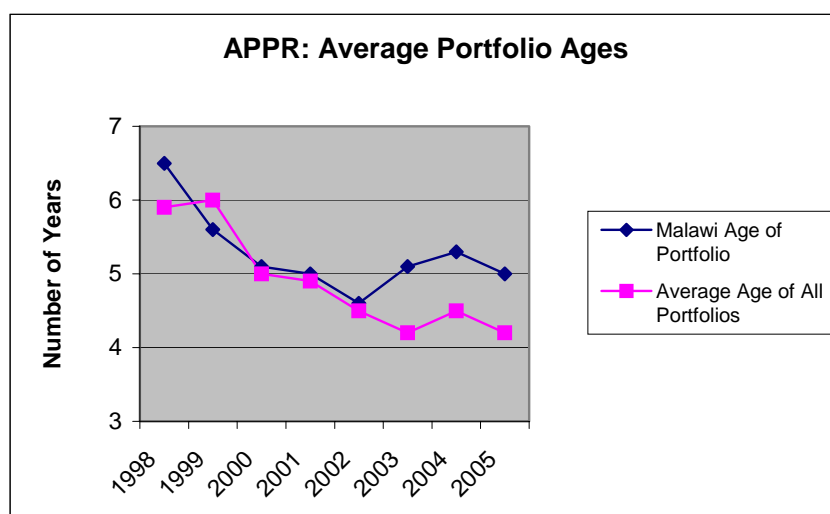
2.2 Ageing, Potentially Problematic and Problematic Projects

2.2.1 Ageing projects: Ageing projects are those that have not been completed eight years after their date of approval. Using the cut-off date of 01 December 2005, the average age of

all on-going projects in Malawi is over three years (3.17 years specifically). Using this definition, there are no aged projects in Malawi, and on average, ageing is not a portfolio issue. However, as shown in Chart 5, the range of average sector ages stretch from agriculture with 4.48 years to the multi-sector with 0.64 years.

The 2004 Annual Portfolio Performance Review (APPR; ADF/BD/WP/2006/23) shows that the average age of the Malawi Project Portfolio in January 2005 was 5.0 years, compared to 5.3 years in January 2004 (see Chart 5). This is above the average for all countries of 4.2 years (compared to 4.5 years in January 2004). The reasons for this above average age is due to the issues presented earlier (in sections 2.1.5 and 2.1.9), of delays in the fulfilment of loan conditions and in project execution, weak capacity of the PIUs, and frequent changes in PIU management, amongst others. To put Malawi's APPR calculated average portfolio age into context, the highest average age in January 2005 was that of Botswana with 13.1 years and the lowest was Burundi with 0.2 years².

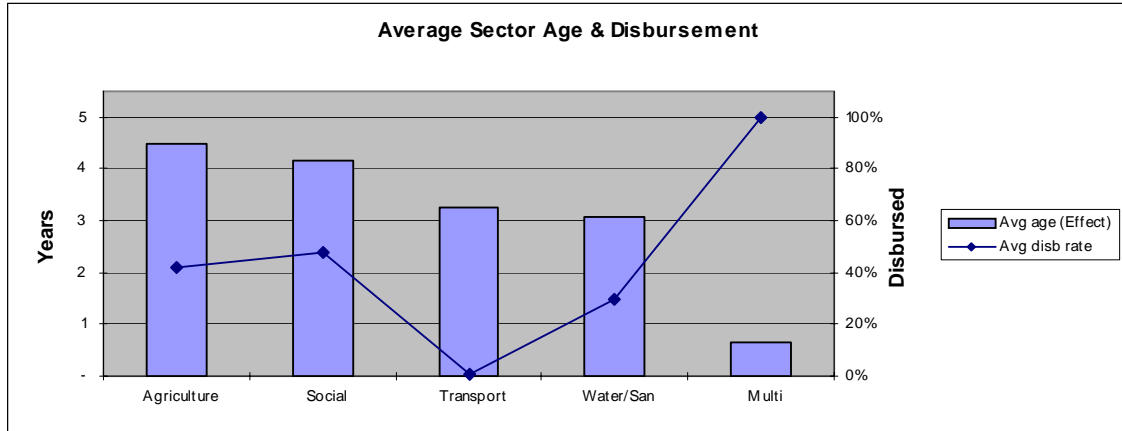
Chart 5: APPR Average Portfolio Age



2.2.2 The potential exists for several projects to become aged in three sectors: (i) in the **agricultural sector** four out of the seven on-going projects are five years or over (Rural Income Enhancement Project, Macadamia Smallholder Development Project, Smallholder Irrigation Project, and Horticulture and Food Crops Development Project). (ii) In the **social sector** there is one project that is over five years old (Poverty Reduction and Institutional Support). (iii) And in the **transport sector** there is one project approaching five years (Karonga-Chitipa Road Project). In order to improve the performance of the portfolio, it is proposed that these projects (excluding the Karonga-Chitipa Road Project, which has a complicated history – see below) should be considered for closure when their disbursement deadlines expire. However, to close any project by not agreeing to an extension, a clear understanding of why implementation is faltering, which is preventing expected objectives being met, needs to be understood. If previous efforts to improve implementation have failed and all reasonable efforts to assist project progression have been exhausted, then closure may be the considered option.

² Republic of Congo had an average portfolio age of 0.0 years in January 2005, but it is not indicative of typical portfolio ages as out of the nine years between 1997 and 2005, only five had age data.

Chart 6: Average Sector Age and Disbursement



2.2.3 Looking across the sectors, as shown in Chart 6, in descending order, the most aged is first: (i) the agricultural sector portfolio, with an average age of 4.48 years; (ii) followed by the social sector with an average project age of 4.15 years; (iii) followed by the transport sector with an average project age of 3.26 years; (iv) followed by the water and sanitation sector, with an average project age of 3.08 years; (v) followed by the multisector, with an average age of 0.64 years. Considering that the average disbursement rate for all on-going projects as of 1 December 2005 is 30.9% (UA42.4 million, total disbursements to total net signed loans), this is of concern given the average age of all on-going projects of 3.17 years. Looking at each sector, average disbursement rates show differing levels, which in ascending order are: (i) the transport sector with the lowest rate of 0.7%; (ii) the water and sanitation sector with a rate of 29.6%; (iii) the agricultural sector with a rate of 42.1%; (iv) the social sector with a rate of 47.4%; and (v) the multisector with a rate of 100%. Some of the reasons for these low disbursement rates relate to implementation bottlenecks, which need to be resolved by government in collaboration with the Bank Group.

2.2.4 Two types of operations are used as the principal gauge of portfolio health: Problematic Projects (PP), and Potentially Problematic Projects (PPP)—see Table 5. The ratings of these two types of projects are used to measure the number of Projects-at-Risk (PAR), from which the Commitment-at-Risk (CAR) measure is defined (the total loan and grant value of PAR).

Table 5: CPRR and APPR Comparison of Ageing Projects, PPs and PPPs

CPRR	2003	2005
Average age (years)	5.0	3.2
PP	3	2
PPP	2	3
APPR	Jan 2004 (2003 data)	Jan 2005 (2004 data)
Malawi: Average age (years)	5.3	5.0
All Countries: Average age (years)	4.5	4.2
PP	1	3
PPP	9	5

2.2.5 Problematic Projects: PPs are those that have an average IP or DO rating that is less than 1.5. Based on these criteria, there are two problematic projects in the portfolio: (i) Smallholder Outgrower Sugarcane Production Project; and (ii) Karonga – Chitipa Road (Lifilya to Chitipa Section) Project. This compares relatively favourably with the 2003 CPRR, which noted that there were three PPs (two of these projects have since closed, but the third, Karong-Chitipa Road Project, is still active). The agricultural project has a low IP rating of 1.0 (but the DO indicator of 2.0 is satisfactory and not of concern). The transport project has low IP rating of 0.0 (while similarly the DO rating of 2.3 is not of concern). The 2004 APPR shows that out of 17 on-going projects in 2004, there are three PPs.

2.2.6 Potentially Problematic Projects: PPPs are those that have a high probability of not achieving a satisfactory or higher rating in the near future. The determination of a PPP is based on a project that has an average IP or DO rating that is equal to or greater than 1.5 plus there exist two or more criteria of concern, out of a total of 10³, that suggest that in future a project may experience implementation or development objective problems. Based on these criteria, there are three PPPs in the portfolio:

- **Agricultural sector**
 - Rural Income Enhancement Project IP of 1.7
 - Smallholder Irrigation Project IP of 1.7
- **Social sector**
 - Rural Health Care Project III IP of 1.7

In the 2003 CPRR there were two PPPs, one project which has since closed, but the other, Smallholder Irrigation Project, remains active. The 2004 APPR shows that there are five PPPs out of 17 on-going projects.

³ (i) period between approval and effectiveness of project loans, PBLs, or TAFs exceeds 12 months; (ii) conditions precedent to effectiveness and to first disbursement are rated less than 1.5; (iii) procurement performance is rated less than 1.5; (iv) availability of counterpart funds is rated less than 1.5; (v) project management performance is rated less than 1.5; (vi) country has a high failure rate as measured by the Post Performance Evaluation Reports (PPERs) prepared by the Operations Evaluation Department (OPEV), (PPERs rated as unsatisfactory or worse, 50% or more of the time over the past 7 years) and the country is judged to be a weak performer; (vii) IP or DO ratings are less than satisfactory for two years in a row; (viii) less than 10% of the loan has been disbursed two years after loan effectiveness or less than 50% of the loan has been disbursed five years after loan effectiveness; (ix) project has not been completed after 8 years (five years for TAF grants) from the date of approval; and (x) TAF-financed capacity building operations have less than 50% of resources disbursed 3 years after approval.

2.2.7 Projects-at-Risk (PAR): Based on the data contained in the 2004 APPR, which show three PPs and five PPPs, out of a total of 17 on-going projects, the proportion of PAR in the portfolio is 47%, equivalent to UA58.9 million at risk, compared to 47% and UA76.3 million respectively presented in the 2003 APPR. The 2004 data highlights again an unsatisfactory portfolio performance as it is outside the 10-30% range indicative of satisfactory performance. In both 2003 and 2004, performance is well outside the range deemed satisfactory, which highlights again the number of problems that affect projects mentioned in sections 2.1.5 and 2.1.9.

2.3 Assessment of Supervision Frequency and Quality

2.3.1 The Bank Group's policy requires that projects should be supervised on average 1.5 times per year (once every nine months). However, each project's supervision depends on several factors, such as the nature of the project, the Bank Group's sector and country experience, and project complexity. Also, projects tend to need more supervision in the early- and mid-implementation stage than towards project end. The on-going project portfolio in Malawi reflects these factors. In 2005 to date, nearly all projects were supervised at least once during 2005. All the agricultural sector projects were supervised in April 2005 during a Sector Improvement Plan. The one multi sector project was not supervised, as it made one, up front disbursement (in mid-May 2005), therefore, no supervision is required—the Bank Group will move directly to a Project Completion Report (PCR) in due course. Out of the four social sector projects, all were supervised during 2005 except Rural Health Care Project III. It was last supervised in December 2004, but a further supervision mission was made in mid-December 2005, which was outside the cut-off date of this review. The one water and sanitation project was supervised in March 2005. The two transport projects were supervised in 2005, but via desk supervision, as they were currently under the tendering stage. The last full supervision missions were undertaken in May 2004.

2.3.2 While the number of supervision missions is a useful tool in monitoring and evaluating project progress, the quality of such missions needs to be evaluated. However, evaluating the quality of such missions is difficult because of several factors:

- the advice provided by Task Managers may not be implemented for a variety of reasons (such as a lack of counterpart funds preventing procurement for example);
- the advice of Task Managers may not be the best possible (for example if they are a new member of staff and lack project-specific knowledge and experience – this point ties-in section 2.3.3, which suggests that the skills mix of missions is one way to help improve project supervision and implementation);

Evaluating the actual success of supervision missions is one way that the Bank Group can help improve overall project progress. One of the suggested recommendations of this review (see section 7.2) is that the Bank Group can provide a robust critique of what each supervision mission has achieved (particularly relating to problematic projects), which should help improve project progress. In addition, in helping to arrive at better quality supervision and ratings, POPR has prepared a revised supervision report format, which addresses the issue of supervision quality. The format will be distributed soon (likely March 2006). However, this is only the first part of POPR's overall revision of the supervision report format and will only involve the write-up part. The second part will be the revision of the rating systems by CIMM, which will not be ready until Q2 2006 at the earliest. In due course, once POPR's format is issued, Task Managers are recommended to review and act upon it.

2.3.3 The skills mix of supervision missions could be enhanced where and when necessary, with assistance provided to respective Task Managers by procurement, disbursement, gender and other Bank Group specialists (for example if procurement is slow, a Bank Group procurement specialist should participate in a mission). However, while in theory a beneficial move, in practice, organising joint missions is complicated by current work loads, and existing mission timetables amongst other factors. Nonetheless, increased efforts made by Bank Group staff and Task Managers to undertake effective and efficient project missions to Malawi that have enhanced levels of specialists is one way in which the portfolio of on-going projects can be improved. Bringing such skills to PIUs and line ministries is a positive step that is relatively cost-neutral and quick to enact.

2.4 Comparison with World Bank's Country Programme Review

2.4.1 The World Bank's most recent Country Programme Review (their equivalent of the CPRR), was completed in January 2005. Overall, the World Bank's Malawi country programme characteristics are:

- Achievement of results in Malawi is strongly linked to good quality analysis, simplicity and realism of programme/project design, community level involvement, and investment in institutional capacity-building.
- Indicators for measuring progress are often weak. As a result, it is sometimes difficult to know whether progress is being made against project outcomes. The extent to which managers use information generated by M&E systems to enhance development impacts varies considerably across the portfolio.
- The Malawi portfolio has been shrinking. Some 20 projects closed between FY00 and FY04 with a commitment value of US\$765 million. Some 12 new projects were approved during that period with commitments totalling US\$362 million.
- According to Operations Evaluation Department (OED) ratings, about half of IDA commitments to Malawi for projects that closed between FY00-04 met their development objectives (47%) and were evaluated as likely to be sustainable (52%). Only 30% were considered to have created substantial institutional capacity.
- As of November 2004, the risk level of the portfolio has remained fairly stable over the past 5 years, with about 15% of projects and commitments considered at risk of not achieving development objectives (currently 20-25%).
- Over the past five years, disbursements have fluctuated within a fairly narrow range of US\$55-60 million per year.
- Malawi has shown mixed performance in fiduciary compliance since FY00. While audits are consistently submitted in the FY due (100%), submission by the agreed due date has hovered in the 45-55% range between FY00-03.
- Of 12 active projects, 50% have team leaders in Washington, 42% in regional offices, and 8% in the Malawi country office.

2.4.2 World Bank Portfolio Summary: The following summary of the World Bank's on-going portfolio of projects as of end-November 2004, highlights that many similar issues and problems affect Bank Group projects (also see Table 6):

Portfolio Overview: The portfolio consisted of 12 active projects. Total commitment value is SDR276 million (US\$378.55 million equivalent), of which one third has been committed on grant terms. The portfolio is young, with about 60% under

implementation for two years or less (83% for three years or less). Projects are equally distributed (25%) across the four main sector clusters: (i) rural development/environment; (ii) infrastructure, finance, and private sector development; (iii) human capital development; and (iv) economic management.

Portfolio Performance: The World Bank-supported portfolio was evaluated by World Bank teams to be progressing satisfactorily, although about 20% of projects (affecting about 25% of World Bank commitments) were considered to be at risk of not achieving their objectives. According to OED, almost half of the World Bank-supported projects in Malawi (47%) that were completed between FY00-04 met their development objectives, compared to two-thirds (66%) for the Africa Region as a whole. Of this same cohort, slightly more than half of project interventions (52%) were expected to be sustainable, while less than one third of completed projects were considered to have had substantial institutional development impacts (29%). This compares to 57% (sustainability) and 40% (institutional impact) for the Africa Region over the same time frame.

Implementation: Implementation performance and sustainability are enhanced when attention to the long-term institutional framework is a central feature of project design. Implementation challenges relate to: (i) inadequate counterpart funding; (ii) slow World Bank disbursements; (iii) weak procurement management/capacity; and (iv) weak project monitoring and evaluation.

Table 6: Common General Project Problems Experienced by ADB and World Bank

Problem/Issue	ADB	World Bank
Number of active projects	15	12
Project age under two years old	14%	60%
Projects expected to achieve their development objectives	100%	80%
Implementation challenges	Yes	Yes
Inadequate Government contributions to projects/inadequate counterpart funding	Yes	Yes
Weak procurement management/capacity	Yes	Yes
Weak project monitoring and evaluation systems/indicators	Yes	Yes
Weak fiduciary compliance (particularly relating to audits)	Yes	Yes
Slow disbursements	Yes	Some
Un-disbursed loan balance in ageing projects	Yes	Some

2.5 Cross-Cutting Issues

2.5.1 Cross-cutting issues addressed by Bank Group projects are discussed in Appraisal Reports and monitored during supervision missions and mid-term reviews. The main cross-cutting issues are: (i) poverty reduction; (ii) gender; (iii) governance; (iv) environment; (v) HIV/AIDS; (vi) regional integration; (vii) core labour standards; and (viii) population. However, it is unusual for one project to try and address all of these issues (Annex VI provides a summary of the cross-cutting issues that each project is designed to address). Specific details of the cross-cutting issues that each on-going project seeks to address can be obtained in the respective Appraisal Reports, which show the actual project component activities, cost estimates and expected outcomes, supported by statistical analysis of the respective cross-cutting issue.

2.5.2 **Poverty Reduction:** All 15 on-going projects have poverty reduction as a core element of project design and outcome. Poverty in Malawi is widespread and caused by several

reasons (see Box 1), with Malawi's social indicators are among the lowest in the world. According to poverty analysis undertaken in 2000, based on 1997/98 Integrated Household Survey (IHS) data, around 64% of Malawians live below the poverty line. Around 66% of the rural population live below the poverty line, compared to around 55% in urban areas. Regional- and gender-based variations in the incidence of poverty do not appear to be significant: the incidence of poverty in the Southern Region is 68% compared to 63% in Central Region and 63% in the Northern Region. Also, the incidence of poverty among female-headed households is 29% while it is 26% amongst male-headed households. The poverty gap index (the level of income required to lift the poor to the poverty line), is estimated at 20%. Income distribution is highly unequal. Recent Gini coefficient data for income per capita is 0.89 for urban areas and 0.72 for rural areas. The Gini coefficient for expenditure is 0.57 for urban areas and 0.44 for rural areas. The wealthiest 20% of households account for around 50% of goods and services while the poorest 20% consume around 6% of goods and services. In urban areas, the richest 20% consume around 60% while the poorest 20% consume less than 5%. Nationally, women earn less than men per annum, make up 67% of the population below the poverty line, and constitute almost 92% of the population with no formal literacy skills. Little progress has been made in reducing poverty over the last decade. While data remain weak, and projections subject to a high degree of uncertainty, current extrapolations of MPRSP targets for 2005 suggest that Malawi will not meet most MDGs.

Box 1: Causes of Poverty and Vulnerability in Malawi

Poverty in Malawi is caused by various factors, mainly constraints on the economic productivity of land, labour, capital, and technology. Constraints on the productivity of land include rapid environmental degradation and limited access to land. Constraints on labour include generally low levels of education, poor health status, HIV/AIDS, lack of off-farm employment, population growth, gender inequalities and environmental degradation. The key constraint on capital is lack of access to credit, which in turn reduces the scope to upgrade technology. All of these factors are exacerbated by weak institutional capacity, distorted policy environment, a weak incentive structure and low economic infrastructure and social capital. Another problem is to reduce household's vulnerability to external shocks. Many households live in absolute poverty and are prone to food shortages (and include the landless rural population, AIDS orphans, female-headed households, the infirm and elderly). To address these issues, government has experimented with a variety of safety nets. These have included agricultural starter packs, public sector work, nutrition programmes, and cash transfers. A recent initiative is an agricultural input subsidy scheme for smallholders.

2.5.3 Gender: Gender is the second largest cross-cutting issue addressed by Bank Group operations. Some nine out of the 15 on-going projects have gender issues as a core element of project design and outcome (Rural Income Enhancement, Macadamia Smallholder Development, Smallholder Irrigation, Lake Malawi Artisanal Fisheries Development, Customary Land Reform & Sustainable Livelihoods, Rural Health Care III, Support to Community Day Secondary Schools, Skills Development and Income Generation, and Integrated Water Supply and Sanitation projects). Nonetheless, disparities between men and women remain widespread in terms of opportunities, access to services and means of production, and decision-making structures. The UNDP's Malawi Gender-related Development Index (GDI) position is 134 out of 144 (there is no data to create the Gender Empowerment Measure). It is not certain that Malawi will meet the MDG of gender equality by 2015. Malawi is characterised by low political empowerment of women, despite women's large contribution to the economy. In 2004 they made up only 13.6 % of women parliamentarians, not even half of the 30% representation by 2005 SADC heads of state committed themselves to in the SADC Declaration on Gender in 1997. Representation at local government level is even lower. The Ministry of Gender, Child Welfare and Community Services formulated a Gender Policy and Plan of Action in 2000, but gender mainstreaming has remained weak largely due to capacity constraints, inadequate budgetary resources and staffing, which has meant that policy has been implemented only patchily and enforcement of regulations and laws meant to close gender gaps is lacking. Malawi has one of the highest maternal mortality ratios, even though 56% of births are attended by skilled personnel. And

even though 31% of married couples use contraceptives, the fertility rate remains high at 6.3 (live births per woman). Teenage pregnancy is common and curtail women's educational and employment opportunities, further aggravating their social and economic vulnerability and exposing them to HIV/AIDS. While school drop-out rates are high for both boys and girls (9.5% and 14.1%, respectively) early motherhood and marriage as well as reproductive responsibilities at home affect secondary and university enrolment (72% of boys compared to 28% for girls in secondary schools). The situation has been aggravated by the HIV/AIDS crisis, which forces more girls to drop out of school in order to look after the sick or younger children. In 2003 some 50.3% of adult women were not literate, compared to only 24.5% for men. Women's progress is also impeded by many discriminatory laws that need urgently reformed. Particularly problematic are marriage regulations, particularly the split between statutory and customary law marriages, inheritance laws that discriminate against widows and lead to their dispossession by relatives of the husband.

2.5.4 Governance: Improving the governance climate is promoted in four on-going projects (Customary Land Reform & Sustainable Livelihoods, Support for Good Governance, Poverty Reduction and Institutional Support, and Water Supply and Sanitation projects), which have governance as a core element of project design and outcome. Governance is a wide-ranging topic and each project seeks to help enhance the governance sphere in different ways. There are project components that not only seek to improve project specific governance issues (such as improving a project's accounting procedures), but also governance issues that have a national effect (such as promoting change within the National Audit Office for example). However, there is considerable scope for improving accountability, transparency, democracy, participation, and the judicial system (for further details, see the 2004 Country Governance Profile—ADB/BD/IF/2004/84). The quality of PFM systems remain weak: the coverage of fiscal reporting is incomplete, compliance with regulations is limited, internal fiscal reporting is inadequate, budget planning is ineffective, audit backlogs are numerous, and procurement continues to suffer from several problems, particularly corruption. In response to these inadequacies, in May 2004 government adopted the Malawi Financial Accountability Action Plan (MFAAP), which is intended to address some of these PFM weaknesses and help improve the enabling environment for private sector activities. With regard to the fight against corruption, the new government declared a policy of zero tolerance and strengthened the Anti-Corruption Bureau in early 2004 through an amendment to the Corrupt Practices Act. In addition to setting up the Office of the Ombudsman, the Human Rights Commission, and the Law Commission, government also introduced a law governing the participation of civil society and NGOs in the public policy making process. In addition, ambitious plans to decentralise major policy responsibilities to local government were made.

2.5.5 Environment and Regional Integration: Some eight out of the 15 on-going projects have environmental concerns as a core element of project design and outcome (Macadamia Smallholder Development, Smallholder Irrigation, Horticulture and Food Crops Development, Smallholder Outgrower Sugar Cane, Lake Malawi Artisanal Fisheries Development, Customary Land Reform & Sustainable Livelihoods, Support to Community Day Secondary Schools, and Water Supply and Sanitation projects). Three out of the 15 on-going projects (Smallholder Outgrower Sugar Cane, Karonga-Chitipa Road, and Roads Rehabilitation/Upgrading in Karongs-Chitipa projects) have regional integration as a core element of project design and outcome. Several agricultural projects take note of, and build into each project, respect for the environment. The aim is to help improve, directly or indirectly, Malawi's fragile and pressurised environment, given that agriculture is the population's main economic activity. The water and sanitation project is designed to

encourage the participation of local communities in the provision of sustainable water and sanitation services. The Smallholder Outgrower Sugar Cane project and the two road construction projects in the transport sector will enhance the prospects for increased regional integration, the latter between Malawi and Zambia. This should help Malawi's physical and trade integration to the region, which remains weak.

2.5.6 HIV/AIDS, Communicable and Other Diseases: Some seven out of the 15 on-going projects support efforts to tackle the HIV/AIDS pandemic (Macadamia Smallholder Development, Smallholder Irrigation, Lake Malawi Artisanal Fisheries Development, Customary Land Reform & Sustainable Livelihoods, Rural Health Care III, Support to Community Day Secondary Schools, and Water Supply and Sanitation projects). Whilst yet to be signed and made effective, the Health SWAp project, recently approved by the Boards (in November 2005), will continue efforts to help tackle this disease. UNAIDS estimate that at end-2003 (the most recent data), the infection rate in adults (aged between 15 and 49) averaged 14.2%, while the urban HIV infection rate in adults is estimated to average 23%, compared to 12.4% in rural areas. However, there is evidence indicating that HIV prevalence has stabilised over recent years at around 15%. In response to the epidemic, the government launched a National HIV/AIDS Strategic Framework (2000–04) and established the National AIDS Commission (NAC) in 2001 to coordinate the national response, provide support to implementing agencies, mobilise resources, and monitor progress. The social and economic effect of the pandemic is huge: family structures are dissolving, and children being orphaned. At the economic level, AIDS-related illnesses are removing large numbers of otherwise active workers from the labour pool. In addition to HIV/AIDS, Malaria and Tuberculosis are the other main killer diseases in Malawi. But malnutrition, Sleeping Sickness, Bilharzias, Hepatitis and Typhoid are also long-standing major health problems. In combination, these diseases have debilitated the population's efforts to engage in economic activity.

2.5.7 Core Labour Standards and Private Sector Development: None of the on-going projects support either core labour standards or private sector development as specific project elements or outcomes. Nonetheless, it is estimated that less than 15% of the labour force is employed in the formal sector of the economy. More than three quarters of the labour force are small-scale subsistence farmers, who face a variety of constraints, including a single rainy season/lack of irrigation, the small size of landholdings and increasing pressures on the available land due to population growth. Agricultural labour input is concentrated in just four months, resulting in high seasonal unemployment. Working conditions for low-level farm workers remain harsh and difficult. This is closely related to the pressure from large numbers of unemployed, which prevents wage increases and better working conditions. Informal non-agricultural employment, especially in urban areas, has traditionally been underdeveloped in Malawi. Linked to the high levels of poverty are substantial levels of child labour, both paid and unpaid. Despite having ratified all of the eight International Labour Organisation (ILO) conventions on core labour standards (five of them were ratified between 1998-2000), and the ILO Convention 182 on the Worst Forms of Child Labour, the situation for child labourers remains dire.

2.5.8 Population: The Rural Health Care III project is the only project that directly addresses population issues. At end-2004 the population is estimated to have risen to 12.5 million, growing at 2% per year (over 7% in urban areas). Population density is high (and rising), as is the dependency ratio of 0.906 (every 10 working persons are supporting over 9 dependents). High population density in rural areas generates pressure on the best lands and, in the long run, results in poor agricultural practices. Ongoing rural out migration adds to already

congested urban areas bringing additional strain on urban facilities and services. The population is youthful: around 47% of the population are aged between 0-14 years, 52% are aged between 15-64, with only around 4% over 65 years. Recent data suggests that the sex ratio is: (i) at birth 1.03 male/female; (ii) under 15 years 1.00 male/female; (iii) 15-64 years 0.97 male/female; and (iv) 65 years and over 0.69 male/female. The National Statistical Office (NSO) forecasts that the fertility rate will fall to 5.1 by 2025 from 6.0 in 2003. Large family sizes reduce savings and stretch existing services but also affect the health of women and their effective participation in social and economic development. There is, therefore, a need for sustaining and reinforcing government's actions to assist in family planning and reproduction health.

2.6 Disbursements

As of 01 December 2005, total disbursements for on-going Bank Group projects totalled UA42.4 million—a 30.9% disbursement rate (UA94.7 million of approved funds remains un-disbursed). This rate can be considered low and indicative of implementation problems considering that the average age of the on-going portfolio is over three years. In descending order, on-going projects' disbursement rates by sector stand at: (i) 100.0% for the multi sector; (ii) 34.3% for the social sector; (iii) 31.2% for the agricultural sector; (iv) 13.2% for the water and sanitation sector; and (v) 0.7% for the transport sector (see Table 7).

In terms of actual funds that are undisbursed, the following sectors in descending order are: (i) agriculture with UA30.2 million; social with UA28.6 million; (iii) transport with UA27.0 million; and (iv) water and sanitation with UA8.3 million. The UA94.7 million of undisbursed funds is large relatively speaking—to put it in context, it is more than double Malawi's ADF-X allocation of UA47 million. Several recommendations are made in Section 6 that should help improve the disbursement levels.

Table 7: On-going Projects' Disbursements per Sector (01 December 2005)

Sector	Net Signed Loan	% of Net Signed Loan	Disbursement	Un-disbursed Balance	Disbursement Rate
Multi	12,000,000.00	8.8%	12,000,000.00	0.00	100.0%
Social	43,590,000.00	31.8%	14,960,583.00	28,629,417.00	34.3%
Agriculture	44,633,874.00	32.6%	13,926,121.17	30,151,721.45	31.2%
Water/San	9,590,000.00	7.0%	1,268,452.00	8,321,548.00	13.2%
Transport	27,210,000.00	19.9%	198,338.34	27,011,661.66	0.7%
Total	137,023,874.00	100.0%	42,353,494.51	94,670,379.49¹	30.9%

¹ An additional UA556,031.38 was cancelled relating to "Small Scale Irrigation Study".

2.7 Brief Review of Each On-Going Operation

2.7.1 AGRICULTURE SECTOR

The Bank Group has approved 21 operations in the agriculture sector since lending began (including eight studies and one institutional support project). Total net-signed loans equal UA120.6 million. Of the 21 approved operations, 14 have been completed. This leaves seven on-going operations with un-disbursed balance of UA30.2 million, a 32.4% disbursement rate. A brief review of each agricultural sector project is presented below.

2.7.2 RURAL INCOME ENHANCEMENT PROJECT

<u>Initial loan amount:</u> UA7.06 million <u>Amount proposed to be cancelled:</u> Nil <u>Net Loan Amount:</u> UA 7.06 million	<u>Source:</u> ADF: UA7.06 million Govt: UA2.83 million	<u>Amount disbursed:</u> UA4.68 million (66.3%) <u>Balance:</u> UA2.38 million (33.7%)
<u>Approval date:</u> 10.12.97	<u>Date of signature:</u> 27.05.98	<u>Date of effectiveness:</u> 01.02.00
<u>Disbursement deadline:</u> 31.12.06	<u>Executing agency:</u> Ministry of Agriculture	
<u>Last supervision date:</u> 01.04.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received January 2005 (2005 audit expected in January 2006) <u>Submission of reports:</u> Last report received for 2003/2004	
<u>Project objective and description:</u> The objective of the project is to increase the income of smallholder and women farmers, who are presently classified as ultra poor, to alleviate their poverty. This will be achieved through participatory approach, access of participants to improved farming technology, credit and markets.		

Compliance with the Conditions Precedent/Commitments: The loan conditions were met by written undertakings by the Government, the last of which, regarding the availability of Government employed support staff for the PIU, was by letter dated 7 July 2000. The project loan was declared effective on 1 February 2000.

Procurement Performance: Procurement performance of the project is rated satisfactory. The Project Management Team has been trained on procurement and disbursement and team members are meeting the requirement of the project.

Financial Performance: The current disbursement rate is 66.3% and is satisfactory.

Activities and Outputs: A Mid Term Review (MTR) was carried out in August 2003 to steer the project in the right direction to achieve its objectives. Some changes were proposed within the categories due to changes in the economy and prevailing condition in the country. The changes proposed in the MTR were found to be appropriate from the viewpoint of both government technical staff as implementers and the participating communities as beneficiaries as discussed during the initial project consultative meetings and the Participatory Rural Appraisal (PRA) exercises. However, all the changes proposed were within the categories, and detailed in the MTR report, and have no extra cost implications to the project. The total loan amount remains the same. The changes were meant to enhance efficiency in the realisation of the project goal and objectives.

Impact on Development: There will be positive impact on development by the implementation of the project.

Overall Evaluation: The Rural Income Enhancement Project is one of the best performing project currently under the agriculture portfolio. With over 66% disbursed and the physical

implementation status at 65% the project is set to achieve its objectives. The deadline for final disbursement has been extended to 31 December 2006 to ensure the irrigation schemes are completed. These are the only outstanding activities in the project in addition to training.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	1.7	3.0	2.5	2.3	3.0	2.4

Problems and Recommended Actions:

Problems	Recommended Actions	Deadline
Design and construction of Irrigation Schemes	Delay in designing and constructing the irrigation schemes is because at the time of appraisal the designs of the schemes were not in place and all the sites were not surveyed.	The project has been extended to 31 December 2006 to ensure that the designs and construction of the irrigation sites are completed.

2.7.3 MACADAMIA SMALLHOLDER DEVELOPMENT PROJECT

<u>Initial loan amount:</u> UA6.85 million	<u>Source:</u> ADF: UA6.85 million Govt: UA0.95 million	<u>Amount disbursed:</u> UA1.97 million (28.7%)
<u>Amount proposed to be cancelled:</u> Nil	<u>Beneficiaries:</u> UA0.4 million	<u>Balance:</u> UA4.88 million (71.3%)
<u>Net loan amount:</u> UA 6.85 million		
<u>Approval date:</u> 15.07.98	<u>Date of signature:</u> 13.01.99	<u>Date of effectiveness:</u> 07.11.00
<u>Disbursement deadline:</u> 31.12.06	<u>Executing agency:</u> Ministry of Agriculture	
<u>Last supervision date:</u> 01.04.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received April-2005 (2005 audit expected in April 2006)	
	<u>Submission of reports:</u> Quarterly Progress Reports are submitted on a timely basis	
<u>Project objective and description:</u> The purpose of the project is specifically to promote and develop the production of 500 ha of macadamia nuts intercropped with 2,000 ha of food crops under smallholder production. In addition, the project aims to enhance the productive capacity of smallholders through improved macadamia nut research and extension services.		

Compliance with the conditions precedent/Commitments: The obligations of the Bank Group to make the first disbursement was conditional to the submission of evidence, satisfactory to the Bank Group, that: (i) the roads identified for rehabilitation, as part of this project, are included in the National Road Authority's (NRA) yearly maintenance programme; (ii) six mother nursery managers, and two qualified drivers have been recruited in accordance with the standard government terms to facilitate the project implementation; and (iii) the two long-term technical assistance staff, the short-term consultant on group dynamics, and the short term training consultant (collectively referred to as the Primary Consultants) have been selected. The roads to be rehabilitated have been included in the NRA programme; the

nursery managers and two drivers have been recruited; and the Primary Consultants were recruited. All conditions have been met fully.

Procurement Performance: All procurement is being undertaken by the Ministry's Procurement Officer who is involved in procuring for all other projects in the Ministry. Most of the goods have now been procured. Technical Assistance for project management was recruited at an earlier stage and now has been phased out. The design for road rehabilitation has been completed and a tender for civil works has been launched. There is a delay in the procurement of the micro-finance institution (MFI) to provide services for delivery of credit to farmers. The consultant for micro credit has now been appointed, to prepare the process for the selection of the MFI and Group sensitisation.

Financial Performance: All required foreign exchange and local currency are available. The Government counterpart fund is being paid but on a non-regular basis. To date the total disbursement stands at UA1.97 million representing 28.7% of loan amount. The disbursement rate is low due to the fact that the civil works category represents a large portion of the total (UA1.3 million out of a total loan of UA6.85 million). These works involve: (i) road construction (138.7 kms); and (ii) construction of houses and buildings. The credit funds amounting to UA0.99 million have not yet been disbursed. There is some provision for consultancy works that have also not yet been disbursed, helping to explain the low disbursement rate. However progress is being made to speed up the disbursement rate. The project has a financial controller and the accounts are well kept and have been audited. The financial performance is rated 2.3.

Activities and Outputs: The project experienced some delays in take-off of about 24 months that affected implementation of project activities. Despite the two year implementation delay, the project has made significant achievement and is progressing well, demonstrated by: (i) all planned six mother nurseries have been developed and are operational; and (ii) 103 community nurseries have also been developed compared to the targeted 100. Farmer production groups have been mobilised and the number of macadamia trees planted is over 60,600 representing an area of 606 hectares as compared to the overall Staff Appraisal Report (SAR) target of 500 hectares. The project has conducted several trainings for supervisory staff and field assistants. The trainings conducted were on Macadamia propagation techniques; macadamia production; group dynamics and gender mainstreaming; post harvest handling; integrated pest management; and training of trainer's techniques. The design for road rehabilitation has been completed and tender for civil works is being finalised.

Impact on Development: The SAR recommended that project marketing activities should start by targeting existing markets for farmers with mature trees. Since the start of the project, a third factory has opened and a fourth is in the planning stage. Factories in South Africa have processed nuts-in-shell (NIS) from Malawi and remain a potential market. The project has enabled farmers to sell some 220kg NIS at US\$2.95/kg kernel through Kawalazi Factory and 1,100kg NIS through Naming'omba Factory at US\$2.50/kg kernel in 2003. There have been significant improvements in the percentage crack out and percentage saleable kernel over the past three seasons. The appraisal report estimated saleable kernel at 15% but by the second season MSDP farmers had exceeded 30%, better than some estates. With the new marketing opportunity opened up with the ratification of Fair-trade standards by Fair-trade Labelling Organisation (FLO) for smallholder macadamia producers, the project is now considering targeting to have products that can reach international markets. The project has a likelihood of achieving its objectives and realising benefits to the macadamia producers.

Overall Evaluation: Most of the target objectives have been attained or surpassed as compared to the SAR target, especially in the area of nursery development, mobilisation of production groups, tree planting and training of farmers and staff. The project has established various farmer-managed demonstration trials and introduced Integrated Pest Management (IPM) techniques and post-harvest handling activities. An international programme with the Institute for Subtropical and Tropical Crops in South Africa for training of staff members and the establishment of cooperation from collaborating partners such as the Tree Nut Growers' Association, Naming'omba Estate, Eastern Produce, Kawalazi Estate and World Vision International (Malawi), Bunda College of Agriculture is encouraging. The project is facilitating the establishment of the Apex farmer organisation, so that the farmers have an opportunity of managing their own affairs. The formation of the apex is expected to empower farmers to negotiate in areas of input supply, prices and transportation. The overall performance of the project is rated satisfactory.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	2.0	2.0	2.3	2.0	2.7	2.3

Problems and Recommended Actions: To date, the main problem faced by the project is:

1. Recruitment of the contractor for road rehabilitation. The consultant for the design work for the road rehabilitation has completed the assignment. The tender for civil works needs to be launched. Action: Ministry of Agriculture to launch bid.

Problems	Recommended Actions	Deadline
Civil works for road rehabilitation.	Recruitment of the contractor should be undertaken.	Contract for civil works to be awarded before end December 2005.

2.7.4 SMALLHOLDER IRRIGATION PROJECT

<u>Initial loan amount:</u> UA5.02 million (Loan) UA1.12 million (Grant) <u>Amount proposed to be cancelled:</u> Nil (Loan) UA0.56 million (Grant) <u>Net loan amount:</u> UA5.02 million (Loan) UA0.56 million (Grant)	<u>Source:</u> ADF: UA5.02 million Grant: UA1.12 million Govt: UA0.77 million	<u>Amount disbursed:</u> UA0.70 million (13.9%) Loan UA0.56 million (100.0%) Grant <u>Balance:</u> UA4.32 million (86.1%) Loan UA0.00 million (0.0%) Grant
<u>Approval date:</u> 26.11.98 (Loan & Grant)	<u>Date of signature:</u> 24.05.99 (Loan) 13.01.99 (Grant)	<u>Date of effectiveness:</u> 13.04.00 (Loan) 19.11.99 (Grant)
<u>Disbursement deadline:</u> 31.07.08 (Loan) 30.06.04 (Grant)	<u>Executing agency:</u> Ministry of Agriculture	

<u>Last supervision date:</u> 29.10.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received February 2005 (2005 audit expected in February 2006) <u>Submission of reports:</u> Reports regularly submitted to the Bank
<u>Project objective and description:</u> The overall objective of the project is to improve the well being of Malawians through poverty alleviation, especially among rural people, by promoting broad-based and accelerated agricultural development. The specific objective is to contribute to food security by increasing irrigated land by 4,600 ha and increasing agricultural productivity through intensive cropping and yield maximization. This will be achieved through capacity building in both irrigation technology and rural credit management, better utilisation of farming communities' natural resources, supply of simple irrigation systems, provision of credit, and marketing facilities for 10,000 smallholders.	

Compliance with the conditions precedent/Commitments: Delays were encountered in achieving project effectiveness due to late fulfilment of conditions. The delay in disbursement of the first tranche stemmed from delays by Government in setting up the Project Management Office (PMO) at the Blantyre Agricultural Development Division (ADD), as required by the loan agreement. Even after the PMO was established, Government's decision to no longer second its staff to development projects prompted the Government to request for the Bank Group to consider an amendment to the loan agreement. Presently the conditions precedent to first disbursement and other conditions have been mostly met. The other conditions pertaining to disbursement of credit components have not yet been met as implementation of the credit component has not yet started. Also, the other condition that every two years, the Government shall submit a report of the capacity building component of the project is not yet fulfilled, pending resumption of training programme, which will only start after progress is made in the physical implementation of the project.

Procurement Performance: Since the Mid-term Review (MTR) and the project supervision mission of April 2005, implementation progress has improved, as noted in the October 2005 supervision mission. The Borrower is showing increased commitment to the project as evidenced by the speedy action it is taking in starting the various procurement actions, and adhering to the action plan for accelerating the project agreed to during the April 2005 supervision mission. The Executing Agency has recruited PIU staff (project manager and irrigation expert). The combined technical and financial evaluation report for the recruitment of consultants for the small scale irrigation schemes as well as the micro-finance institutions (MFIs) for credit administration, small civil works, training and purchase of equipment and vehicles was completed by mid-October 2005 and was forwarded to the Bank Group for comments.

Financial Performance: Three and half years after the commencement of project implementation, the current disbursement rate stands at only 14.04% of the ADF loan amount of UA5.02 million. The level of implementation of each component is as follows: capacity building (19%), micro-credit (2%), and irrigation (10%). The October 2005 supervision mission reiterated the importance of adhering to the procedures outlined in the Bank Group's disbursement handbook when sending requests for payments in order to avoid delays in implementation progress.

Activities and Outputs: Due to the low disbursement rate, little project activity has been achieved. This is largely due to the project not being properly designed by the Bank Group.

The credit component experienced lots of difficulties because there was no proper study of the capacity of MFIs to administer credit. Furthermore, the cost estimate for small irrigation schemes was not based on detail designs, and consultancy services for supervision of works was greatly underestimated. On the Government side, a variety of institutional and policy constraints are blamed for the lack of implementation progress, and these include: (i) the failure of the Government to set up the PMO as agreed at appraisal, which led to the amendment of the loan agreement that took a long time for the Bank Group to process, thus delaying the establishment of the PMO; (ii) lack of a clear Government policy for distributing treadle pumps already procured under the project; and (iii) delays by both Government and the Bank Group in finalising the recruitment process for the MFI.

Impact on Development: Notwithstanding the problems of the project, the MTR determined that the project's objective is still valid, and proposed a number of changes in terms of approach and strategy which will put the project in the right direction and for the project objective to be achieved, in addition to an extension of implementation time frame by three years.

Overall Evaluation: The MTR report concluded that the project implementation has been slow. However, if the Government adheres strictly to the recommendations and implementation plan of the MTR, both highlighted during the Bank Group's supervision mission of April 2005, implementation should improve. The project had been rated as unsatisfactory during the MTR of December 2004, but project performance had since April 2005 improved.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	1.7	2.0	2.2	2.0	2.0	1.6

Problems and Recommended Actions: All the activities relating to the small-scale irrigation schemes and the credit components are behind schedule. But as mentioned above, the various procurement actions necessary to push the project forward are underway and progress is expected soon as most of the recommendations of the MTR are in the process of being implemented. The last disbursement was fixed at 31 July 2005, but it has been extended by three years to 31 July 2008.

Problems	Recommended Actions	Deadline
Lack of progress in the credit component	Two MFI's to be recruited for each of the two ADDs	Ongoing-March 2006

2.7.5 HORTICULTURE AND FOOD CROPS DEVELOPMENT PROJECT

<u>Initial loan amount:</u> UA6.65 million (Loan) UA0.84 million (Grant)	<u>Source:</u> ADF :UA6.65 million Grant UA0.84 million Govt: UA1.0 million Beneficiaries: UA1.18 million	<u>Amount disbursed:</u> UA2.01 million (30.2%) Loan UA0.42 million (50.0%) Grant
<u>Amount proposed to be cancelled:</u> Nil		<u>Balance:</u> UA4.64 million (69.8%) Loan UA0.42 million (50.0%) Grant
<u>Net loan amount:</u> UA6.65 million (Loan) UA0.84 million (Grant)		

<u>Approval date:</u> 15.12.98 (Loan & Grant)	<u>Date of signature:</u> 24.05.99 (Loan & Grant)	<u>Date of effectiveness:</u> 01.02.00 (Loan & Grant)
<u>Disbursement deadline:</u> 31.12.06 (Loan) 21.12.06 (Grant)	<u>Executing agency:</u> Ministry of Agriculture	
<u>Last supervision date:</u> 01.04.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2003) received January 2004 (2004 audit has been submitted)	
	<u>Submission of reports:</u> Quarterly Progress Reports are submitted on a timely basis	
<u>Project objective and description:</u> The purpose of the project is to improve the well being of Malawians through poverty alleviation, especially among rural people, by promoting broad based and accelerated agricultural development. Specifically, the objective is to contribute to food security by increasing agriculture productivity and farm income of smallholders.		

Compliance with the conditions precedent/Commitments: All conditions have been met except for the release of Japanese (JICA) contribution as a co-financier. In the financing plan of the project cost, it was expected that JICA would contribute UA0.58 million for training for the Ministry of Agriculture staff and provide a Technical Assistant. The Government, as required, submitted a list of staff to be trained under JICA. During the MTR mission the issue was discussed with JICA. At present, the Japanese Technical Assistant attached to the Chitedze Agricultural Research station is already working closely with the project in the development and management of nurseries. This partially contributes to the condition. But these arrangements need to be formalised.

Procurement Performance: All procurements are undertaken by the Ministry's Procurement Officer who is involved in procurement for all other Ministry projects. To date, the total disbursement stands at UA2.0 million representing 30.2% of the loan amount. Procurement has been slow overall, while procurement of goods has gone smoothly, procurement of works and services has experienced delays. The procurement for consultants has needed to be re-tendered twice due to cost underestimates at appraisal. The same holds for the civil works (dam construction) that is dependant on the design work. The procurement performance of the project is not satisfactory.

Financial Performance: The foreign exchange and local currency have been made available through the ADF funds. The disbursement flows was done according to activities performed. The disbursement rate is low due to non execution of the hard core component such as civil works for dam rehabilitation. The project management did not experience any shortfall in the availability of funds. The Financial Management System (FMS) for the Project is in accordance with the Bank's rules. The main financial ledgers are maintained with a computerised system and the necessary supporting documents and records are kept in respect of all project activities. The project has submitted on a timely basis all required audit reports.

Activities and Outputs: The physical implementation of the project activities is at various stages. The capacity building component is well advanced with the comprehensive training programme in place.

- **Training:** The project staff and farmers received training in Malawi and outside of Malawi (Swaziland and South Africa). Training manuals have been developed for short courses in the following subjects: (i) group mobilisation and management; (ii)

agricultural cooperatives and associations; (iii) marketing of fruits and vegetables; (iv) organic farming; and (v) integrated pest management. The project has helped with the formation of 124 farmers' groups representing a total of 3,700 beneficiaries. The rehabilitation of fruit tree nurseries is in progress in Kasungu and Salima Agricultural Development Division (ADD).

- **Establishment of Small-scale Irrigation Schemes:** The activities under the establishment of the Small-scale Irrigation Schemes component consists of Irrigation Equipment and Irrigation Scheme Development. The project procured 1,738 treadle pumps but these pumps were not issued to farmers due to absence of Micro Finance Institutions and high prices. Now that a MFI has been recruited the distribution may be facilitated. The project was also to rehabilitate 25 earth dams for irrigation purposes. Recruitment of the consultant for the design and supervision of dam rehabilitation has been made. Preparation of design for small-scale irrigation schemes is underway. The component consisting of the establishment of micro finance credit system has suffered delays. The MFI has been selected, contract signed and earlier screening of beneficiaries is underway.
- **Project Management Component:** A Project Management Office (PMO) with staff was established in April 2001 in Lilongwe at the headquarters of Lilongwe ADD, 14 months after the Project became effective. The Project recruited a Project Manager and Government has provided two Civil Engineers and an Economist. To date the establishment of the PMO with key positions is filled except that of the horticulturist and international marketing specialist.

Impact on Development: The Horticulture and Food Crops Development Project is in conformity with the stated objectives of improving smallholder crop production by promoting the adoption of improved irrigation and horticultural technologies by farmers. The project has adequate potential to contribute towards food security in the project areas through increased production of food and horticultural crops, resulting in higher household incomes. The development of rural infrastructure is designed to further help rural women to have better access to markets for small-scale trading activities usually carried out by women. The participation of rural women smallholder farmers and the youth in training, farmer clubs and credit unions has the potential to empower them to reach higher levels of farming technology. There is a likelihood that the project will achieve its objectives and that benefits for the farmers will be realised.

Overall Evaluation: The project start up was difficult but progress is being observed. The project has submitted on a regular and timely basis all Quarterly Progress Reports (QPR) and Annual Audit Reports (AAR). The MFI has been selected and micro credit delivery process has started. The financial management of the project has improved. The prepared Procurement Plan along with the revised List of Goods and Services will contribute to the improvement of the physical implementation of the project. Considering the difficulties faced by the project at earlier stages and the improvements observed, the project performance can be rated overall as satisfactory.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	2.0	1.0	2.4	1.7	2.0	1.8

Problems and Recommended Actions: There are no major problems with the project.

Problems	Recommended Actions	Deadline
None	n/a	n/a

2.7.6 SMALLHOLDER OUTGROWER SUGARCANE PRODUCTION PROJECT

<u>Initial loan amount:</u> UA8.93 million <u>Amount proposed to be cancelled:</u> Nil <u>Net loan amount:</u> UA8.93 million	<u>Source:</u> ADF: UA8.93 million Govt: UA1.31million Beneficiary: UA0.24 million	<u>Amount disbursed:</u> UA1.95 million (21.8%) <u>Balance:</u> UA6.98 million (78.2%)
<u>Approval date:</u> 15.12.99	<u>Date of signature:</u> 10.02.00	<u>Date of effectiveness:</u> 08.11.00
<u>Disbursement deadline:</u> 31.10.08	<u>Executing Agency:</u> Dwangwa Cane Growers' Trust (Ministry of Agriculture)	
<u>Last supervision date:</u> 29.10.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received December 2004 (2005 audit expected end-December 2005) <u>Reports:</u> April – June 2005 Quarterly Report received	
<u>Project objective and description:</u> The purpose of the Smallholder Outgrower Sugarcane Production Project is to increase sugarcane production by smallholder outgrower farmers around Dwangwa through improved access to irrigation, advisory services and other physical inputs. The project will increase the area under irrigation through the introduction of modern irrigation technology (specifically centre-pivot systems) and lead to increased income for smallholder farmers.		

Compliance with the conditions precedent/Commitments: The project experienced compliance problems with the conditions precedent to entry and other commitments leading to delayed project implementation start-up. Specifically the project experienced early problems in hiring and maintaining the project management consultant, and filling the necessary positions. All conditions precedent have now been satisfied and the project has recruited all necessary staff directly.

Procurement Performance: The project has demonstrated very poor procurement performance to date. Misuse of Special Account funds for land preparation activities, without the prior approval of the Bank, led to disbursement suspension. This has now been lifted as the Government is in the process to reimbursing the amount in question in six equal instalments. The attempted award by the project of the contract for the provision of irrigation equipment for one of the project sites was cancelled due to a legal challenge raised from a failed bidder on the basis that the procurement process was flawed. The second attempt to award this contract was also challenged by the same failed bidder. The earlier court case challenging the award of irrigation equipment contract was dismissed recently on the basis of a technicality and no appeal was made during the allowed period. The Trust has already paid for the cane haulage equipment, but the service agreement entered into has not yet been cleared by the Bank Group. The irrigation equipment at Liwaladzi site has a design deficiency, whereby

isolation valves were not included. The Trust will send a formal request to the Bank for ‘no objection’ and include how the purchase of these valves can be covered in the project budget.

Financial Performance: The financial performance of the project has been low. The project has been operating through overdrafts to the special account, which is contrary to Bank policy. The disbursement rate to date of UA1.95 million (21.8%) is low primarily due to the difficulty in awarding significant infrastructure development contracts. The audit report for the year ending 31 March 2004 was submitted and comments and recommendations received from the Bank Group’s Audit Department and communicated to the Trust. The draft audit report for the year ending 31 March 2005 was submitted during the October 2005 supervision mission.

Activities and Outputs: Significant progress on land preparation and supply and installation of irrigation equipment is underway at Liwaladzi site. Recent dismissal court case challenging the irrigation equipment award is also a positive sign and the Trust believes that no further court actions are forthcoming. The replenishment of the misprocured amount is nearing completion with five payments made and one remaining. Audit issues and recommendations made by the Bank’s Audit Department for the year ending 31 March 2004 have been discussed with the Trust. The importance of submitting the audit report for the year ending 31 March 2005 to comply with loan conditions and to avoid suspension of disbursements was emphasised.

Impact on Development: If the project is completed as designed, then it will have a significant positive impact on improving the incomes and livelihoods of the smallholder outgrower farmers. The project will also serve as a model for extending similar activities in other regions of Malawi.

Overall Evaluation: Despite difficulties encountered in implementing the project as planned, this is still a very worthwhile project that can contribute significantly to new irrigation technology introduction (e.g. centre pivots) to smallholder outgrower farmers to assist them in increasing their incomes and improving their livelihoods. The project performance is rated as satisfactory.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	1.0	2.0	1.6	2.3	2.0	1.7

Problems and Recommended Actions: The various problems highlighted above are in the process of being resolved.

Problems	Recommended Actions	Deadline
Resolve overdraft of Special Account	Project needs to reconcile balance with National Bank and cease to draw more fund than available in Special Account	Immediate
Accelerate design and completion of other two sites	Project should complete preparation activities as soon as possible and carefully follow Bank procurement guidelines to avoid difficulties in awarding contracts	30 June 2006 (assuming additional 22 months project extension will be granted to complete construction of schemes)

2.7.7 LAKE MALAWI ARTISANAL FISHERIES DEVELOPMENT PROJECT

<u>Initial loan amount:</u> UA6.93 million (Loan) UA0.84 million (Grant) <u>Amount to be proposed for cancellation:</u> Nil <u>Net loan amount:</u> UA6.93 million (Loan) UA0.84 million (Grant)	<u>Source:</u> ADF: UA6.93 million Grant: UA0.84 million Govt: UA1 million <u>Beneficiaries:</u> UA0.4 million	<u>Amount disbursed:</u> UA1.13 million (16.3%) Loan UA0.25 million (29.8%) Grant <u>Balance:</u> UA5.80 million (83.7%) Loan UA0.59 million (70.2%) Grant
<u>Approval date:</u> 29.01.03 (Loan & Grant)	<u>Date of signature:</u> 05.05.03 (Loan & Grant)	<u>Date of effectiveness:</u> 08.09.03 (Loan & Grant)
<u>Last disbursement deadline:</u> 31.12.09 (Loan & Grant)	<u>Executing agency:</u> Ministry of Mines, Natural Resources and Environment	
<u>Last supervision date:</u> 29.10.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received December 2004 (2005 audit expected end-December 2005) <u>Submission of reports:</u> Reports regularly submitted late to the Bank	
<u>Project objective and description:</u> The project's sector goal is to contribute to Government's poverty reduction efforts by developing sustainable utilisation of renewable natural resources. The project objective is to improve household income by enhancing the management and utilisation of fisheries resources in five Lake Malawi littoral districts.		

Compliance with the conditions precedent/Commitments: Most of the project's conditions have been met. However, the local account to receive repayments for loans by the micro-credit beneficiaries is not yet opened, which is one of the conditions of the loan agreement. The project is still experiencing difficulty with regards to the proper operation of the special accounts. With the recent start of the credit component, these problems are expected to soon resolved.

Procurement Performance: Progress has been registered in the area of procurement of goods and services including the technical assistance (TA) for MFI and baseline survey. The project has however experienced some problems due to lack of adherence to the Bank's procurement rules and procedures for selection of consultants. The procurement of TA for financial controller, procurement specialist and monitoring and evaluation expert and civil engineer was cancelled and restarted due to non-compliance to Bank procurement rules. The delay in the recruitment of the TA has slowed the implementation of the project especially with regards to financial management and civil works which has not yet commenced. To improve procurement planning, the Project has now prepared a procurement plan for all project activities including the TA consultancy services, civil works (roads and fish landing sites), boats and farm inputs/animal feed and this is expected to improve the procurement process. Overall, procurement performance is rated satisfactory.

Financial Performance: The project currently does not maintain sufficient financial management and reporting practices. The project has had difficulty in justifying funds under the project due to a lack of proper documentation. The project had experienced many problems related to the lack of capacity and the lack of understanding of the bank's rules of procedure for operating the special account. To solve this problem, Bank supervision missions have held several training sessions on the Bank's rules and procedures relating to the operation of the special account. The first audit report for the year ended 2004 was submitted to the Bank. The overall financial performance is rated as satisfactory.

Activities and Outputs: A variety of different project activities and outputs have been achieved to date:

- **Watershed Management Support:** This activity aims to reduce the problem of floods and also to provide adequate supply of fuel wood for the fishing communities. So far, fourteen Village Natural Resources Management Committees (VNRMC) have been formed in the five sites of Makinjira, Fort Maguire, Makawa, Msaka and Malembo, all in the Mangochi District. Progress was noted in terms of sensitisation meetings and the training of frontline staff on Gender and HIV/AIDS is on-going. About 21,777 tree seedlings were planted at four of the five selected sites.
- **Credit Component:** The enterprise SEDOM was selected to administer credit and the first credit payment to beneficiary groups was made in November 2005.
- **Community Outreach:** The outreach unit is playing a key role in supporting the delivery of extension services to communities through use of cinema and video shows, production of leaflets, posters etc., and in strengthening message delivery through radio broadcasts. The outreach unit, however, lacks certain production equipment like video cameras, editing suite, and computer software, which is limiting its capacity in information production and dissemination. Production equipment is not in the project LOGS, and the Government has promised to revise the LOGS and include this item.
- **Training:** The training plan had been reviewed by the Borrower and approved by the Bank in August 2005. The revised training plan for the project, as well as the 2005/2006 training plan, included details of the frontline staff to be trained, the training institution(s), the duration, and the cost of the training.
- **Civil Works:** All civil works related activities like the construction of fish-landing sites have not yet started pending recruitment of the TA civil engineer who will assist help with design and supervision of works.

Impact on Development: A total of 7,640 households will be involved in fish catch, processing and marketing of fish catch from Lake Malawi. Furthermore, a total of 10,280 households are targeted to participate in the environmental management support activities through the establishment and maintenance of household woodlots and the management of community woodlands in a sustainable manner. Expected benefits from the Fisheries production sub-component are: (i) increased fish production, resulting in greater food security; (ii) decreased pressure on inshore fish stocks; (iii) more employment opportunities in fishing, processing and marketing, especially for women; and (iv) an increase in the skills base of the workforce.

Overall Evaluation: Overall, there is expected improvement in the level of disbursement as the contract for credit administration has been awarded, and activities under the credit have begun. The project has however been late in submitting the quarterly progress reports. The audit report for the period ended 30 June 2005 was submitted to the Bank Group. The overall project performance is rated as satisfactory.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	3.0	2.0	2.0	2.0	2.0	2.3

Problems and Recommended Actions:

Problems	Recommended Actions	Deadline
Problem of lack of capacity of Project Coordination Unit (PCU) especially in Financial Accounting and Procurement	Government to speed up recruitment of PCU Technical Assistance for Financial controller, Procurement expert, Monitoring and Evaluation specialist and Civil engineer	Ongoing-to be completed by February 2006
Lack of timely submission of Project Progress Reports	PCU to submit the reports on time	Ongoing activity, to be monitored closely

2.7.8 CUSTOMARY LAND REFORM & SUSTAINABLE LIVELIHOODS STUDY

<u>Initial loan amount:</u> UA0.39 million	<u>Source:</u> ADF: UA0.39 million	<u>Amount disbursed:</u> UA0.25 million (63.3%)
<u>Amount to be proposed for cancellation:</u> Nil		<u>Balance:</u> UA0.14 million (36.7%)
<u>Net loan amount:</u> UA0.39 million		
<u>Approval date:</u> 16.09.03	<u>Date of signature:</u> 13.05.04	<u>Date of effectiveness:</u> 13.05.04
<u>Disbursement deadline:</u> 31.12.05	<u>Executing agency:</u> Ministry of Lands, Physical Planning and Survey	
<u>Last supervision date:</u> 29.10.05	<u>Audit of accounts:</u> No audit is yet due	
	<u>Submission of reports:</u> Irregular transmission to the Bank	
<u>Project objective and description:</u> The purpose of the study is produce a preparation report for the Customary Land Reform and Sustainable Livelihood Project which aims to increase farm incomes by increasing agricultural productivity, thereby contributing to poverty reduction of beneficiary smallholder farmers (including women) in Chiradzulu, Kasungu and Rumphi districts.		

Compliance with the conditions precedent/Commitments: The Government has fulfilled all the conditions which were: (i) the Government furnishes ADB with proof of opening a special account in a Bank in Malawi that is acceptable to the Fund to receive the loan resources; and (ii) the Government furnishes ADB with sample authorised signatories in respect of the Project Preparation Facility (PPF) account.

Procurement Performance: The study has successfully procured the required Consultancy services, a vehicle and office equipment. Procurement performance is satisfactory.

Financial Performance: UA0.25 million (63.3%) of the funds have been disbursed. The financial performance is rated satisfactory.

Activities and Outputs: The objective of the PPF was to produce a preparation report of the Customary Land Reform and Sustainable Rural Livelihood Project. The final report is still awaited, but the draft report prepared includes:

- a report on the socio-economic and poverty assessment issues;
- a report on the environmental impact of the project (some concerns relate to it – see below);
- research and development of procedures for mapping existing customary land rights
- report on land and soil capability maps;
- report on crop production, processing, marketing, profitability and sectoral partnership issues; and
- a study on the credit requirements of the proposed project and design of a viable credit scheme

The project was due to be completed on 31 December 2005, but the Government sought Bank Group approval for the extension of the project deadline by three months so that important activities that were unforeseen or overlooked during the preparation of the PPF (such as follow-up workshops especially in Chiradzulu), could be undertaken. The Bank Group gave its approval and the new deadline for the project completion is 31 March 2006.

Impact on Development: The study could lead to a preparation report of the Customary Land Reform and Sustainable Rural Livelihood Project which will increase farm incomes by increasing agricultural productivity thereby contributing to poverty reduction of beneficiary smallholder farmers in Chiradzulu, Kasungu and Rumphi districts.

Overall Evaluation: In the draft project preparation report that was submitted to the Bank Group, it was determined that the consultants did not follow strictly the Bank Group’s format. The Environmental Impact Assessment report was judged by the Bank Group to be of poor quality, which was conveyed to the Government and the consultants. Overall, the study is rated satisfactory.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	n/a	n/a	n/a	n/a	n/a	n/a

Note: Studies are not rated.

Problems and Recommended Actions: There are problems with the quality of the draft final report, especially the Environmental Impact Assessment (EIA) report. The Bank Group had earlier made extensive comments on the report and the Government has committed to request the consultants to revise and resubmit the report noting the EIA report issues and resubmit to the Bank Group.

Problems	Recommended Actions	Deadline
Poor quality of EIA report.	Consultant to revise the report and resubmit to the Bank Group.	20 March 2006

MULTI-SECTOR

The Bank Group has approved five operations in the multi-sector (including two structural adjustment loans, one institutional support project, one balance-of-payments support loan, and one supplementary financing mechanism, which was cancelled). Total net-signed loans equal nearly UA33.0 million. Of the five approved operations, three have been completed, one has been cancelled, which leaves one on-going operation. The loan disbursed all funds up-front, in one tranche, therefore, a 100% disbursement rate. A brief review of the multi-sector project is presented below.

2.7.9 SUPPORT FOR GOOD GOVERNANCE LOAN

<u>Initial loan amount:</u> UA12.00 million <u>Amount proposed to be cancelled:</u> Nil <u>Net Loan Amount:</u> UA12.00 million	<u>Source:</u> ADF: UA12.00 million	<u>Amount disbursed:</u> UA12.00 million (100.0%) <u>Balance:</u> UA0.00 million (0.0%)
<u>Approval date:</u> 08.12.04	<u>Date of signature:</u> 04.03.05	<u>Date of effectiveness:</u> 06.04.05
<u>Disbursement deadline:</u> 31.12.05	<u>Executing agency:</u> Ministry of Finance	
<u>Last supervision date:</u> n/a	<u>Audit of accounts:</u> No audit is yet due <u>Submission of reports:</u> No reports are yet due	
<u>Project objective and description:</u> The project aims to improve the governance framework, in particular, with reforms in two main areas: (1) improving accountability and transparency in public financial management, and (2) improving access to justice.		

Project Progress: The project has progressed smoothly and following the single, up-front disbursement, funds have been all allocated to specific balance-of-payment receivables.

Procurement Performance: Not yet rated.

Financial Performance: Not yet rated.

Activities and Outputs: Not yet rated.

Impact on Development: Not yet rated.

Overall Assessment: Not yet rated, but indications are that the project has been successful in meeting its aims, insofar as all conditions prior to loan effectiveness were met.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	n/a	n/a	n/a	n/a	n/a	n/a

Problems and Recommended Actions: There are no problems with the project.

Problems	Recommended Actions	Deadline
None	n/a	n/a

SOCIAL SECTOR

In the social sector the Bank Group has approved 13 operations (including one study and one institutional support project). Total net-signed loans equal UA100.9 million. Of the 13 approved operations, eight have been completed and one has been cancelled. This leaves four on-going operations with an un-disbursed balance of UA28.6 million, a 34.3% disbursement rate. A brief review of each on-going social sector project is presented below.

2.7.10 POVERTY REDUCTION AND INSTITUTIONAL SUPPORT PROJECT

<u>Initial loan amount:</u> UA7.00 million (Loan) UA2.00 million (Grant) <u>Amount proposed to be cancelled:</u> Nil <u>Net Loan Amount:</u> ADF: UA7.00 million (Loan) TAF: UA2.00 million (Grant)	<u>Source:</u> ADF: UA7.00 million TAF: UA2.00 million Govt: UA1.65 million	<u>Amount disbursed:</u> UA4.29 million (61.3%) Loan UA1.83 million (91.7%) Grant <u>Balance:</u> UA2.71 million (38.7%) Loan UA0.17 million (8.3%) Grant
<u>Approval date:</u> 10.12.98 (Loan & Grant)	<u>Date of signature:</u> 24.05.99 (Loan & Grant)	<u>Date of effectiveness:</u> 12.05.00 (Loan & Grant)
<u>Disbursement deadline:</u> ADF: 31.12.06 TAF: 31.03.05	<u>Executing agency:</u> Ministry of Local Government	
<u>Last supervision date:</u> 24.06.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received August 2005 (2005 audit expected August 2006) <u>Submission of reports:</u> No outstanding reports	
<u>Project objective and description:</u> The main objective of the project is to strengthen the poverty monitoring systems; promote the formulation and implementation of community initiated sub-project that are in line with the District Development Plan; Build districts and community-level capacity to implement and monitor sub-projects; and Support micro-finance operations in five districts over five years. The project consists of the following four main components: Capacity Building for Poverty Reduction Activities; District Development Fund (DDF); Micro-finance Operations; and Project Management.		

Project Progress: The project shows a steady and satisfactory progress in the implementation of activities. The overall disbursement rate has increased to UA4.29 million (61.3%). The project has intensified the implementation of the activities relating to the DDF and the micro-finance components. Preparatory work has been carried out by the project for the reorganisation of the VDCs and the carrying out of the Village Action Planning process. All

outstanding procurement activities of the project have been resolved and procurement processes are underway for the required goods and services in accordance with the approved work plan of the project. The uncertainty that surrounded the future of the Decentralisation Secretariat has now been resolved following GOM's decision to fully mainstream the functions of the DS within the Ministry of Local Government by December 2005 and the setting up of a stand-alone Project Management Unit to oversee the implementation of this project up to the period ending December 2006.

Procurement Performance: There have been delays in the procurement of the additional motor vehicles, motor cycles, office equipment and furniture requested by the project due to the Bidding Documents' non-compliance with the Bank Rules of Procedure for the Procurement of Goods. A Supervision mission in 2005 resolved these procurement setbacks and Bank approval has been granted for the bidding process to begin in earnest. The mission emphasised the need for the DS to familiarise themselves with the Bank's Procurement Rules in order to avoid unnecessary delays. The mission also requested that the next steps be carried out immediately in order to avoid any further delays in view of the urgency in securing the additional vehicles for Phalombe, Neno and Chitipa and also the need to roll-out the IFMIS especially now that Government is transferring budgetary control functions to the District Assemblies.

Financial Performance: District Development Fund (DDF) activities of the project continue to be implemented by the DAs. The Local Government Finance Committee now has the function of allocating DDF funds to the DAs. The 2005 Supervision mission noted the following observations in relation to the implementation of the DDF activities of the project:

- Insufficient supervision and monitoring of DDF activities by the DS
- The demand for DDF resources is far more than the resources available
- Reporting on the utilisation of DDF funds is weak in the DAs
- Communities are not involved in the procurement of goods and services for DDF projects

The 2005 Supervision mission also observed that most of the DDF projects are social infrastructure in nature. In this regard, the mission emphasized the need to encourage funding economic infrastructure and also issues of local economic development. The micro finance component is progressing steadily and satisfactorily, with disbursements made to 1,091 groups reaching out to 12,677 clients (5,172 male and 7,505 female). The project records also report over 95% repayment rate from MFIs with an interest income of MK9.6 million. The project has started funding the automation of the Microfinance Monitoring System in four District Assemblies namely Mwanza, Neno, Mulanje and Phalombe. Micro finance data has already been collected and data inputting has been done and the system is now being tested for performance. This automation will enable District Assemblies to better record and analyse micro finance data maintained at the DA level.

Activities and Outputs: **Technical** - The UNDP-assisted Local Governance and District Management Programme will be the executing agency for all sub-projects funded from the ADF contribution to the District Development Fund, using procurement and reporting procedures acceptable to the Bank. **Financial** - ADF will contribute 83% of local cost. This is justified by the high debt burden, compounded by the high incidence of poverty, rapid population growth, an inefficient industrial sector, and high transport costs facing GOM. **Institutional** - The project will strengthen institutional capacity for poverty monitoring at both the central (PSPD) and the district levels with funding support for transposing the national poverty monitoring system to all target districts. **Environmental** - All district

development plans are to be submitted to the Department of the Environment prior to approval for funding from the District Development Fund.

Impact on Development: Despite the delay in the implementation of this project, it is very likely to achieve its development objectives, because it is part of a larger decentralisation programme. The districts being supported by this project are seen to be doing very well both in terms of the DDF operations and also the training activities being extended to both the district assembly staff and at the community level such as the village development committees. The micro-credit component is largely successful with a 100% repayment rate, even at project completions. There is a notable increase in access to basic social services as a result of the DDF and also enhanced household income as a result of the micro finance operations of the project.

Overall Assessment: The project shows a steady and satisfactory progress in the implementation of activities. The overall disbursement rate has increased. The project has intensified the implementation of the activities relating to the DDF and the micro finance components. Preparatory work has been carried out by the project for the re-organisation of the VDCs and the carrying out of the Village Action Planning process. All outstanding procurement activities of the project have been resolved and procurement processes are underway for the required goods and services in accordance with the approved work plan of the project. The uncertainty that surrounded the future of the Decentralisation Secretariat has now been resolved following GOM's decision to fully mainstream the functions of the DS within the Ministry of Local Government by December 2005 and the setting up of a stand-alone Project Management Unit to oversee the implementation of this project up to the period ending December 2006.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	2.0	2.0	2.3	1.8	2.3	1.7

Problems and Recommended Actions:

Problems	Recommended Actions	Deadline
Decentralisation Secretariat to be mainstreamed within the Ministry of Local Government	Set up a standalone PMU to oversee the completion of the project during 2006	1 January 2006
Incomplete Revised List of Goods and Services	Finalise the revised list of goods and services	31 December 2006

2.7.11 RURAL HEALTH CARE PROJECT III

<u>Initial loan amount:</u> UA10.00 million	<u>Source:</u> ADF: UA10.00 million Govt: UA1.20 million	<u>Amount disbursed:</u> UA4.97 million (49.7%)
<u>Amount proposed to be cancelled:</u> Nil		<u>Balance:</u> UA5.03 million (50.3%)
<u>Net Loan Amount:</u> UA10.00 million		

<u>Approval date:</u> 8.11.00	<u>Date of signature:</u> 26.03.01	<u>Date of effectiveness:</u> 02.10.01
<u>Disbursement deadline:</u> 31.12.06	<u>Executing agency:</u> Ministry of Health	
<u>Last supervision date:</u> 09.12.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received February 2005 (2005 audit expected in February 2006)	
	<u>Submission of reports:</u> Regular submission of reports	
<u>Project objective and description:</u> The purpose of the project is to improve access to health care and improve quality of care for rural communities through improved primary health care infrastructure, support to the human resources development programme, control of infectious diseases (e.g. HIV/AIDS) and management capacity building both at the central and district levels.		

Compliance with the conditions precedent/Commitments: All conditions precedent to first disbursement were fulfilled, however, in 2004 the project was without a Project Coordinator for close to a year. One of the other conditions concerning recruitment of Technical Assistance to the Planning Department has not been fulfilled; GOM requested to reallocate resources to other activities.

Procurement Performance: Overall procurement has been done without major problems and in accordance with Bank rules. However, procurement of medical equipment and furniture lagged behind awaiting completion of civil works.

Financial Performance: Financial performance has generally been satisfactory. However, disbursement ratio has been low compared to time lapsed for project implementation. The major problem has been the erratic provision of counterpart funds, which at times has impacted negatively on the implementation of civil works.

Activities and Outputs: Outputs: (i) improved primary health care: (ii) human resources development; and (iii) control of the spread of HIV/AIDS.

Impact on Development: The project is likely to have a positive impact on development.

Overall Evaluation: Apart from delays experienced during the time that the project was without a Project Manager, overall performance of the project is satisfactory, and it will likely achieve the intended objectives, with an extension to the original timeframe stipulated in the appraisal report.

Indicator	Project progress	Procurement performance	Financial performance	Activities /outputs	Impact on development	Overall assessment
Rating	1.7	2.5	2.0	1.8	2.3	2.1

Problems and Recommended Actions: Erratic provision of counterpart funds: GOM to be asked to make firm commitment on provision of counterpart funds to avoid delaying project implementation. Delayed implementation of some project activities: There is need to have close and effective supervision.

Problems	Recommended Actions	Deadline
Erratic provision of counter part funds	GOM to be advised to make regular provision of counterpart funds.	On-going

2.7.12 SUPPORT TO CDSS (EDUCATION IV) PROJECT

<u>Initial loan amount:</u> UA15.00 million	<u>Source:</u> ADF: UA15.00 million Govt: UA1.67 million	<u>Amount disbursed:</u> UA1.82 million (12.1%)
<u>Amount proposed to be cancelled:</u> Nil		<u>Balance:</u> UA13.42 million (89.5%)
<u>Approval date:</u> 21.11.01	<u>Date of signature:</u> 05.08.02	<u>Date of effectiveness:</u> 26.11.02
<u>Disbursement deadline:</u> 31.12.07	<u>Executing agency:</u> Ministry of Education	
<u>Last supervision date:</u> 28.11.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received February 2005 (2005 audit expected in February 2006)	
	<u>Submission of reports:</u> Up to 30 June 2004	
<u>Project objective and description:</u> The objective of the project is to contribute to improved quality and equity of secondary education provided at the Community Day Secondary Schools (CDSSs).		

Compliance with the conditions precedent/Commitments: The project experienced delays in the loan becoming effective. Over a year and half passed before the entry of the loan into force. But implementation of project activities is picking up after slow start and is expected to be completed by the closing date of the project.

Procurement Performance: The procurement of goods and services has been satisfactory and is being carried out in line with the Bank Group's rules of procedure.

Financial Performance: To date UA1.82 million (12.1%) of the loan has been disbursed. But the disbursement level is expected to increase significantly within the coming 12 months as contracts for 60% of the construction works has been awarded recently and payments on these contracts have to be made within that period. The inadequate provision of government counterpart funds is however a potential problem that can adversely affect timely completion of the construction works.

Activities and Outputs: The implementation of project activities is picking up after a slow start brought about by the delays in the loan becoming effective. Construction at 24 (phase I) of the 40 Community Day Secondary Schools (CDSSs) to be supported by the project is underway and bids for the remaining 16 schools (phase II) will be issued in January 2006. One of the consultants for the supervision of the works has been selected and service contract with another consultant is being negotiated. The in-service teacher-training programme for CDSSs teachers is underway with 400 teachers receiving 12-week training and another 400 teachers planned to receive similar training in early 2006. The management training programme for CDSSs head teachers is also underway and 180 head teachers completed a training of three weeks. Training for another group of 60 head teachers is planned to take place in 2006. The planned training for both teachers and head teachers is expected to be

completed by the end of the project period. Concerning training for capacity building at the Ministry, three Ministry staff members are undergoing long-term training and a fourth one will start training in 2006. Also three staff members completed short-term training outside Malawi. Regarding the provision of educational materials, the contracts for the procurement of textbooks and library books have been approved in December 2005 and bids for the procurement of science teaching materials have been issued on 31 December 2005. The provision of all educational materials should be complete in 2006.

Impact on Development: The anticipated development impact of project is likely to be achieved. The training provided to under-qualified teachers and head teachers is contributing to the building of capacity for the delivery of educational services and the improvements in the physical facilities and the provision of educational materials, which are in the process of being implemented, are expected to assist in the improvement of the quality of secondary education provided at the schools supported by the project.

Overall Evaluation: The overall assessment of the project is satisfactory and the project is expected to be completed by the closing date of 31 December 2007.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	2.0	2.0	2.3	2.0	2.3	2.0

Problems and Recommended Actions:

Problems	Recommended Actions	Deadline
Delays in the tendering of construction works at 16 of the 40 schools to be supported by the project.	Government to advertise the work.	End of January 2006
Inadequate government contributions to project costs.	Bank discussed the problem with the government and informed the concerned authorities that the inadequate availability of counterpart funds will lead to delays in the completion of construction works at the schools supported by the project	Government is to provide the required counterpart contributions regularly, but quite often it does not have the needed resources. In December 2005, the Ministry of Education increased the allocation for the project in the budget it submitted to the Ministry Finance, but whether the Ministry Finance will provide the requested amounts is to be seen.

2.7.13 SKILLS DEVELOPMENT AND INCOME GENERATION PROJECT

<u>Initial loan amount:</u> UA9.59 million	<u>Source:</u> ADF: UA9.59 million Govt: UA1.34 million	<u>Amount disbursed:</u> UA2.28 million (23.8%)
<u>Amount to be proposed for cancellation:</u> Nil		<u>Balance:</u> UA7.31 million (76.2%)

<u>Net Loan Amount:</u> UA9.59 million		
<u>Approval Date:</u> 16.01.02	<u>Date of signature:</u> 05.08.02	<u>Date of effectiveness:</u> 05.03.03
<u>Disbursement deadline:</u> 31.12.08	<u>Executing agency:</u> Ministry of Children and Women's Affairs	
<u>Last supervision date:</u> 26.06.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received January 2005 (2005 audit expected in January 2006) <u>Submission of reports:</u> The PMU continues to produce and submit quarterly reports as required.	
<u>Project objective and description:</u> The project objective is to improve the ability of the rural poor of Malawi to engage in sustainable livelihoods. This is to be supported by the provision of basic functional literacy, business management, appropriate skills and improved services for micro-credit delivery.		

Project Progress: The project continues to make some progress in project implementation, but there is concern with the pace of the progress especially with regards to the Business Management, Vocational & Skills Development and Micro Finance components. There is still a large backlog of business training activities to be undertaken. The generation of new business ideas and diversification of activities remains to be the big challenge of the project, and the expected improvements envisaged through the production of a catalogue of business ideas have not yet been realized. The project has satisfactorily continued to support groups in their savings mobilization and capital building, however, some of the groups would need additional resources to enable them expand their businesses and/or embark on other viable business ventures. The PMU continues to work diligently in satisfying Bank procedures.

Procurement Performance: The PMU has diligently followed Bank procurement guidelines, and has also complied with national procurement guidelines, although there is concern on the delays being caused by the Internal Procurement Committee of the Ministry which does not meet regularly. The recruitment of the MFIs to administer the Credit Fund of the project is still stalled with this committee.

Financial Performance: The disbursement rate is now about 24%. This rate is expected to increase with the clearing of the back log of business management training activities and when the micro credit and civil works activities of the project begin. The procurement activities for these activities are now near completion. The government contribution to the project is UA0.246 million. This contribution had been irregular and insufficient. A manual accounting system is maintained, but action for the computerization of the financial management and accounting system has been initiated. The project is up-to-date with its audit reports, and audit work for the financial year ended 30th June 2005 is now under way. A revision of the List of Goods and Services is expected when the mid-term review of the project is undertaken in February 2006.

Activities and Outputs:

Functional Literacy – Project records indicate that 15,780 learners have been made literate out of a total registration of 35,488 over the past three cycles (2003 – 2005). This represents a satisfactory 59% physical implementation rate for registration of learners but an unsatisfactory rate of 45% for the number of registered learners successfully completing the

programme. During the third learning cycle (2005), 13,550 registered as learners. This represents a 13% increase over the target of 12,000 set at appraisal for each learning cycle. This improvement is attributed to factors such as rescheduling of classes to run during dry season, increased publicity, provision of incentives such as notebooks and pencils and training of re-organized literacy committees.

Business Management Training – Project records indicate that 1,022 groups have been formed, which is within the set target of 1,200 groups by the end of March 2006. However, of the 1,022 groups formed, 364 received village level training at the beginners level, 210 are at intermediate level and 123 have reached the final level of the basic training and have now been screened and declared ready for the two-weeks intensive formal business management training, for which 325 have already been trained. The project organized 72 courses for these 325 groups with a total membership of 3,045 were trained. Of these, project records indicate that 2,686 are female and 359 are male. In view of the set target of 480 courses for the entire life of the project, this means that the physical implementation rate for this activity is a very low 15%. There is a concern with this, especially in view of the fact that this component is the heart of the project and is very crucial for the project's attainment of the desired development objectives. To this effect, the PMU is advised to develop an Action Plan to reduce the backlog of activities. This should involve the option of using NGOs to implement some of the training activities.

Skills Development – Project records indicate that of the 325 trained groups, 230 have received skill training from the project so far. Another 78 groups have indicated their choice of business and are now ready for skill training. The general performance of these business groups is very good, resulting to a remarkable improvement in the lives of these beneficiaries both economically and socially.

Credit Fund – The project has successfully assisted the groups formed in savings mobilisation and capital building through informal indigenous schemes. As a result, the groups formed have built a capital of about US\$330,000 according to project records. However, despite this, some of the groups would need the credit fund to expand or diversify into more profitable businesses, and as a result, the delay in the selection of MFIs to administer the Credit Fund is delaying the progress of such groups.

Institutional Strengthening – The civil works activities of the project has not been started yet due to procurement delays and budgetary constraints. These issues would be addressed during the upcoming mid-term review of the project. In addition, the training needs assessment of the Ministry is yet to be completed hence the delay in implementing the training activities of the project.

Impact on Development: The project is making a steady but slow progress. The quality of the work done so far is very good and would definitely lead to positive impact in the lives of the beneficiaries. With an improvement in the pace of the implementation the project would achieve its development objectives.

Overall Assessment: The project continues to make some progress in project implementation, but there is concern with the pace of the progress especially with regards to the Business Management, Vocational & Skills Development and Micro Finance components. There is still a large backlog of business training activities to be undertaken. The generation of new business ideas and diversification of activities remain the main challenges of the project, and the expected improvements envisaged through the production of a catalogue of business ideas have not yet been realised. The project has continued satisfactorily to support groups in their savings mobilisation and capital building, however, some of the groups will need additional resources to enable them expand their businesses and/or embark on other viable business

ventures. The groups have not been sensitised enough to know about the opportunities available to them through the project's micro finance component. The PMU continues to work diligently in satisfying Bank procedures and there is an improvement in the relationship between the PMU and the Ministry.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	2.3	2.0	2.0	1.8	2.7	2.3

Problems and Recommended Actions:

Problems	Recommended Actions	Deadline
Backlog of business management training activities	Engage other agencies (e.g. NGOs) with comparative advantages in this area to implement this activity	31 March 2006
Delay in recruitment of intermediary MFIs for the Credit Fund and the consultant for the training needs assessment	Finalise all outstanding procurement activities within the IPC	28 February 2006

TRANSPORT SECTOR

In the transport sector, the Bank Group has approved 16 operations (including one study and one institutional support project), with no cancellations. The total net signed loans equals UA129.9 million, of which UA102.8 million has already been disbursed, implying a disbursement rate of over 79%. Some 14 operations have been completed, with two projects on-going. A brief review of each on-going transport project is presented below.

2.7.14 KARONGA - CHITIPA (LIFULYA - CHITIPA SECTION) ROAD PROJECT

<u>Initial loan amount:</u> UA13.54 million	<u>Source:</u> ADF: UA13.54 million Govt: UA2.50 million	<u>Amount disbursed:</u> UA0.20 million (1.5%)
<u>Amount proposed to be cancelled:</u> Nil		<u>Balance:</u> UA13.34 million (98.5%)
<u>Net Loan Amount:</u> UA13.54 million		
<u>Approval date:</u> 15.12.99	<u>Date of signature:</u> 10.02.00	<u>Date of effectiveness:</u> 16.11.03
<u>Disbursement deadline:</u> 31.12.07	<u>Executing agency:</u> National Roads Authority (NRA)	
<u>Last supervision date:</u> 06.08.05	<u>Audit of accounts:</u> The borrower in process of undertaking the first audit	
	<u>Submission of reports:</u> none	

Project objective and description: The objective of the project is to improve road transport services in the project area and to contribute to the promotion of regional integration between Malawi and Zambia.

Compliance with the conditions precedent/Commitments: The loan became effective in November 2003. The loan effectiveness was delayed by four years due to the Borrower's failure to fulfil the condition that required that the financing the second section of the road from Karonga to Lufilya be secured by commitment of another donor. It is after its waiver by the Bank Group that all conditions were fulfilled.

Procurement Performance: After fulfilment of the conditions of the loan agreement, the Borrower went to tender for the first section of the project (Chitipa-Lufilya) in the fourth quarter of 2004. The lowest evaluated tender exceeded the available funding and therefore was cancelled. With the Borrower's agreement, in mid-2004 the section was re-tendered together with the Karonga-Lufilya section to benefit from cost reductions resulting from economies of scale. They are being tendered as, Lot 1:Chitipa-Lufilya (47 kms) and Lot 2: Karonga-Lufilya (46 kms).

Financial Performance: To date only one disbursement amounting to UA198,338.34 to the consultant has been effected so far.

Activities and Outputs: The re-tendering has been completed. The Bank has given a no-objection to the Government to award the contract to the lowest evaluated bidder.

Impact on Development: The project after completion will improve transport services in the Karonga and Chitipa Districts leading to better access to agricultural inputs and markets for the farmers' produce. The project will also promote regional integration by improving access to neighbouring Zambia.

Overall Evaluation: The project has been delayed due to the late fulfilment of the conditions of the loan and the re-tendering for the entire Chitipa-Karonga road that was required as a result of the received tenders for the Chitipa-Lufilya section exceeding the available funding.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	0.0	2.5	n/a	2.0	2.3	1.7

Problems and Recommended Actions: Given the time span between loan signature and implementation, the Government should expedite the award of the contract and closely monitor project implementation to avoid further delays.

Problems	Recommended Actions	Deadline
Currently there is a delay of 72 months from approval	Speed up the procurement of contractor services	31 January 2006 contractor on site

2.7.15 ROADS REHABILITATION/UPGRADING IN KARONGA AND CHITIPA

<u>Initial loan amount:</u> UA13.67 million	<u>Source:</u> ADF: UA13.67 million Govt: UA2.12 million	<u>Amount disbursed:</u> UA0.0 million (0.0%)
<u>Amount to be proposed for cancellation:</u>		<u>Balance:</u> UA13.67 million (100.0%)

Nil		
<u>Net loan amount:</u> UA13.67 million		
<u>Approval date:</u> 29.10.03	<u>Date of signature:</u> 23.01.04	<u>Date of effectiveness:</u> 05.05.04
<u>Disbursement deadline:</u> 31.12.08	<u>Executing agency:</u> National Roads Authority (NRA)	
<u>Last supervision date:</u> 06.08.05	<u>Audit of accounts:</u> n/a	
	<u>Submission of reports:</u> n/a	
<u>Project objective and description:</u> The purpose of the Project is to: (i) improve mobility and accessibility of the rural population in the Karonga and Chitipa districts to markets and social and economic facilities; (ii) promote integration between rural and urban areas; and (iii) promote regional integration, especially with Zambia.		

Compliance with the conditions precedent/Commitments: The loan became effective within four months after signing.

Procurement Performance: The procurement of consulting services is on track. The tendering for the section as Lot 2 has been combined with the Karonga-Lufulya section as Lot 1 to benefit from competition resulting from open tendering and economies of scale due to a larger contract.

Financial Performance: Not Applicable.

Activities and Outputs: The re-tendering has been completed. The Bank has given a no-objection to the Government to award the contract to the lowest evaluated bidder.

Impact on Development: The project after completion will improve transport services in the Karonga and Chitipa Districts leading to better access to agricultural inputs and markets for the population's produce. The project will also promote regional integration by improving access to neighbouring Zambia.

Overall Evaluation: The project has not complied with the Appraisal Report implementation schedule. However overall it is satisfactory.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	2.0	2.0	3.0	3.0	2.3	2.2

Problems and Recommended Actions: There are no problems.

Problems	Recommended Actions	Deadline
None	n/a	n/a

WATER AND SANITATION SECTOR

The Bank Group has approved nine operations in the water and sanitation sector since lending began (including four studies and four grants). Total net signed loans equal UA66.3 million. Of the nine approved operations, eight have been completed, with one on-going operation that has an un-disbursed balance of UA8.3 million, a 13.2% disbursement rate. A brief review of the one on-going water and sanitation project is presented below.

2.7.16 INTEGRATED RURAL WATER SUPPLY AND SANITATION PROJECT FOR NTCHISI AND MZIMBA DISTRICTS

<u>Initial loan amount:</u> UA8.59 million (Loan) UA1.10 million (Grant) <u>Amount proposed to be cancelled:</u> Nil <u>Net Loan Amount:</u> UA8.59 million UA1.10 million (Grant)	<u>Source:</u> ADF: UA8.49 million Grant: UA1.10 million Govt: UA1.49 million	<u>Amount disbursed:</u> UA0.71 million (8.3 %) Loan UA0.56 million (50.9%) Grant <u>Balance:</u> UA7.78 million (91.7%) Loan UA0.54 million (49.1%) Grant
<u>Approval date:</u> 05.12.01 (Loan & Grant)	<u>Date of signature:</u> 05.08.02 (Loan & Grant)	<u>Date of effectiveness:</u> 15.10.02 (Loan & Grant)
<u>Disbursement deadline:</u> 31.12.07 (Loan) 31.03.07 (Grant)	<u>Executing agency:</u> Ministry of Irrigation and Water Development	
<u>Last supervision date:</u> 23.03.05	<u>Audit of accounts:</u> The project is up to date on audit reports; last audit (2004) received January 2005 (2006 audit expected by ADB in January 2006) <u>Submission of reports:</u> regular report submission	
<u>Project objective and description:</u> The purpose of the project is to assist in providing safe and reliable water supply and sanitation facilities to the population in the project area, to carry out hygiene and environmental sanitation campaigns, and a water quality-monitoring programme.		

Compliance with the conditions precedent/Commitments: The conditions for loan effectiveness were fulfilled within reasonable time period despite the long wait for Parliament's approval of Government's obligation, as is the practice.

Procurement Performance: The procurement of consultants' services was done timely using ICB. The contract between EA and consultants was signed in April 2004. The procurement of PIU staff was done based on a shortlist of individuals. The contracts for the supply of office equipment, motorbikes and vehicles, using NCB, were signed in April 2004. The contracts for the construction of office blocks and staff houses, using NCB, were signed in May 2005. Four drilling contracts, for a total of 355 boreholes in Ntchisi District, have been signed. The tender for drilling contracts, for a total of over 1,000 boreholes in Mzimba District, is ongoing

Financial Performance: The amount disbursed to date from the grant is US\$498,772 (45.3%) and from the Loan is US\$536,304 (6.3%) making a total disbursement from both grant and

loan US\$1,035,076 (9.3%). This rate is still low at this stage of project implementation compared to plan at appraisal. The first disbursement was on 01.07.04, a two-year delay compared with the plan in the Appraisal Report. The audit report for the financial year ended in 30 June 2005 is awaited.

Activities and Outputs: The two district project offices were established and staffed. The EA organised two Project Launching Workshops. A socio-economic survey, a hydrological assessment, a hydro-geological assessment and a water supply/sanitation inventory have been completed for both project districts. Sensitisation campaigns have been organised throughout the project area. The quarterly progress reports have been regularly but not always timely.

Impact on Development: The project has had a positive impact on development as communities have been mobilised and will be provided with adequate quantity of water of improved quality. The welfare and health situation of affected communities will be enhanced with clean water and undertaking of the sanitation and health education training.

Overall Evaluation: The performance rating of the project is summarised in the table below.

Indicator	Project progress	Procurement performance	Financial performance	Activities/ outputs	Impact on development	Overall assessment
Rating	2.3	2.0	2.3	2.0	2.7	2.3

Problems and Recommended Actions:

Problems	Recommended Actions	Deadline
There is need for closer cooperation with other actors in and outside the Districts. It is important for the project implementation team to ensure full cooperation and sharing of information with all the relevant actors in the project areas.	Extra effort by Ministry of Water Development and District Assemblies, PLU/PIUs and Consultants	Continuously

III. ASSESSMENT OF MANAGEMENT IMPLEMENTATION CAPACITY

3.1 Government's Performance

3.1.1 The general problems Project Implementation Units (PIUs) and Government have with project implementation are: (i) delays in fulfilling conditions for loan effectiveness; (ii) inadequate accounting procedures; (iii) delays to resolving audit issues; (iv) slow procurement processes; (v) slow disbursement/non-availability of Government's counterpart funding; and (vi) poor communication within Government and PIUs, and between them and the Bank Group. Of these six areas, procurement and disbursement remains one of the greatest challenge to most PIUs and line ministries. To help overcome these concerns, training has been provided by the Bank Group to familiarise PIUs and line ministries with the Bank Group's rules of procedure concerning procurement and disbursement. This training has been provided for both project-specific courses run on an *ad hoc* basis in the recent past, as well as by the multi-sector institutional support project, Aid and Debt Management and Governance, which contained a specific training component that addressed procurement and disbursement issues. Despite this project completing all the training programme, PIU and line ministry

procurement and disbursement concerns remain. Due to these on-going concerns, the Bank Group is advised to organise a project implementation workshop in Malawi in 2006 (the last workshop was held in March 2002). The slow disbursement/non-availability of Government's counterpart funding is another major issue that needs to be addressed (see below). Weak performance is noted in general across the portfolio, which hampers implementation and achieving objectives. Specific details of this issue and their impact on individual project can be found in section 2.7.

3.1.2 PIU Performance per Sector: The setting up of PIUs for each Bank Group-financed project has helped in some respects to improve Government implementation capacity. In addition, the fact that Bank Group projects have tended to include components designed to strengthen Government's capacity in sector planning and project management has also contributed towards strengthening capacity. However, in the **agriculture sector**, Government implementation capacity continues to be weak as a result of inadequate staffing of the PIUs, low salaries, and of the wide geographical spread of the many on-going projects throughout the country, which makes coordination more difficult. In the **social sector**, the socio-economic projects have various issues that remain outstanding⁴, which are hampering project implementation. Health and education projects in general appear to run relatively better, but again, there are noted instances of delays to Government counterpart funding for example. In the **transport sector**, Government has made significant progress in the management and implementation of road sector projects since the establishment of a NRA and of the Road Fund in 1997. The time delay affecting the Karonga – Chitipa Road project, due to a co-financing donor pulling out, have now been addressed, with re-tendering completed. With only one **multisector** project under review, implementation has been relatively smooth, given that one up-front disbursement was made at the project's start in May 2005. However, there was some delay experienced by Government in meeting some of the 12 conditions precedent to disbursement. The **water and sanitation** sector also has only one project under review, which in general has proceeded satisfactorily.

3.1.3 More generally, the success of on-going (and new) interventions will depend on the level of Government's ownership, and stakeholders' participation in projects. Given the renewed political commitment of Government to poverty reduction and the on-going reforms in the areas of governance (including public financial management, tackling corruption and increasing capacity), it is hoped that portfolio management will improve. Also, the improved donor harmonisation environment is expected to contribute to project and development effectiveness.

3.1.4 PIU Issues: One problem that is inherent in PIUs is that once the project closes, the knowledge and experience of the PIU staff is not retained within the benefiting ministry. For this reason, the *Paris Declaration on Aid Effectiveness*, signed in early March 2005, advised that phasing out of PIUs was necessary, to be replaced with ministerial project management bodies, so as to retain the skills and experience within ministries once projects close. This concept is to be welcomed in countries that are more developed than Malawi, but given the general lack of capacity and skilled personnel within Malawi's ministries and agencies, the use of independent PIUs in some projects is expected to continue for the near future (as suggested in the 2004 APPR – see sections 3.1.5 and 3.1.7 below). This means that the loss of project knowledge, skills and experience, once projects close, will continue, a problem that

⁴ Some of these outstanding issues relate to slow project start-up, problems in recruiting and retaining qualified PIU staff, slow disbursement of government counterpart funding, relatively low disbursement levels compared to project age caused by procurement issues, amongst others.

current and future projects need to address. This review proposes as a recommendation that Government advise on what steps it can take to secure the retention of PIU knowledge within respective ministries. Also, Government is requested to advise what plans it has with respect to continuing with, or phasing out of PIUs, and the replacement structures that will manage projects.

In addition, for future projects, establishing new PIUs needs to be thought about carefully. For example, it may be better to use the existing skills in other donors' PIUs that are already operating in the relevant sector rather than creating a new, stand-alone PIU, but logistics of this will require further discussion within the Bank Group and with Government and other donors. Financial management within PIUs also needs to improve, with the Bank Group advised to consider strongly the option of bringing in financial specialists to help manage projects. While an up-front cost increase, the savings made over a project's life span should make this a viable and cost-reducing option and Task Managers are requested to note this point.

3.1.5 2004 APPR Views on PIUs: The 2004 APPR provides some information on the role of PIUs, which future Bank Group interventions in Malawi should note. (However, with regard to the current portfolio, changing PIU structures will likely have a detrimental impact on project implementation.) The 2004 APPR concludes that: (i) there is little difference in performance between operations implemented through different types of PIUs and those implemented by governments without PIUs, as measured by the PAR rate; and (ii) the use of PIUs, contracted or run by government staff, has not improved the management of the Bank Group's portfolio. The main factors that have had an impact on the performance of PIUs have been delays in declaring operations effective for first disbursements, the establishment of the PIUs themselves, and contracting or appointing government staff to PIUs. Once an operation is delayed at start-up, the disbursement flows and implementation schedule are disrupted and remain so for the duration of the operation. Other factors that affect the performance of PIUs include: (i) the difference in the remuneration of PIU staff, which is normally higher than that for their counterparts on government payroll (who provide technical support as PIUs cannot operate in isolation) - this breeds discontent among the government staff and leads to their reluctance to support projects; (ii) the need for contracted PIUs to first recruit the staff needed before implementation can start - this sometimes delays project start up; and (iii) the desire to maintain the job, along with the corresponding higher remuneration may tempt PIU staff to drag out implementation of project activities. This situation is being addressed by entering into performance-based contracts with staff hired for PIUs.

3.1.6 The 2004 APPR analysis of the performance of PIUs and of PIU-implemented operations is not conclusive. Further analysis is needed to ascertain the performance of PIUs in relation to delays in effectiveness and project start-up, procurement problems, disbursement levels, timely submission of audit and progress reports. It is also expected that, with the establishment of country offices in regional member countries (RMCs), the performance of PIUs will improve as Bank Group staff in country offices help Borrowers to resolve issues related to delays in effectiveness and to the establishment of PIUs.

3.1.7 As part of the ongoing discussions among donors to align their procedures with those of borrowers, proposals have been made to minimise the use of autonomous PIUs and instead use existing government institutions (as per the *Paris Declaration*), which have established control mechanisms. However, the institutional capacities of many countries would first have to be strengthened to enable them to efficiently execute investment programmes (which is the

case in Malawi). While the Bank Group has targeted to reduce the use of PIUs by 65% by 2010, it may have to continue using externally financed PIUs in exceptional cases, until adequate capacity has been built in the relevant government institutions. Thus, where necessary, contracted PIU staff may be used with clear performance indicators and continuous evaluation so that their contracts can be terminated if their performance is unsatisfactory.

3.1.8 Counterpart Funding: As noted above, the Government's provision of counterpart funds has been a long-standing problem that has hampered the effective implementation of Bank Group projects (as well as those of other donors). The non-availability of counterpart funds does not arise from Governments unwillingness to provide such funds, but from its cash budgeting system and the need to pay for many competing demands that may be of different levels of priority. In certain cases, project financing may fall to the bottom of priorities when it comes to financing pressing demands, such as addressing the drought of 2005, which deprived projects of funds because Government had to import maize. In essence, the problem of non-availability of counterpart funds stems largely from a lack of capacity within the Ministry of Finance to be able to manage proficiently public finances along with a weak domestic revenue base.

Under ADF-X, Malawi has benefited from the Bank Group's move to providing 100% grant support. Given this position, it seems unreasonable to expect that Government continues to provide counterpart funding, however, Government may wish to retain this position as it may feel enfranchised in the project. But there are several ways that Government can demonstrate its commitment to and ownership of projects without having to provide counterpart funding, such as providing staff to work on the project and providing various forms of institutional support. Most grant donors in Malawi (including the two largest in terms of average annual disbursements, the UK's Department for International Development—DfID—and the World Bank), have moved, in general, to a position where they do not have a counterpart funding requirement because managing counterpart funds, and their lack of provision to projects, was a major problem in implementing projects. Based on the experience of DfID and the World Bank, one recommendation of this report (made in section 7.2.2), is that for future interventions (but not for on-going projects), the Bank Group drops the requirement that Government provides counterpart funds, which removes one major problem facing project implementation.

3.2 Bank Group's Performance

The Bank Group's implementation management capacity is satisfactory in general. However, several suggestions follow that could help improve implementation performance. First, a Bank Group-produced implementation manual (that explains procurement, disbursement, accounting and auditing procedures) could be provided to PIUs. This, in addition to implementation training, would help clarify potential problem areas and reduce delays caused by mis-procurement, incorrect disbursement requests and so forth. Second, Project Effectiveness missions, to follow Appraisal missions, could be started, to follow-up on specific issues that could have, or do have, a strong delaying effect on projects becoming effective. Both these initiatives are suggestions and require further management thinking on their suitability, as Appraisal missions may already be able to carry out the suggested tasks, and in relation to the first point, the revised delegation of authority, which gives field offices more responsibility for procurement and disbursement, together with increased staffing in these offices, is expected to improve portfolio implementation.

There also remain several issues that remain a concern to PIUs and line ministries that hamper the smooth implementation of projects. As highlighted in the CPRR mission undertaken in October 2005, the following are PIU and Government concerns with Bank Group performance: (i) a lack of clarity with procurement procedures, which is related to slow Bank Group disbursements to project accounts; and (ii) slow responses from the Bank Group to PIU/Government correspondence. In addition to these issues, several Task Managers feel that better quality training on SAP software, how to conduct a project rating exercise, and procurement/disbursement procedures, would be beneficial. Efforts by the Bank Group to help resolve the former issues have been undertaken over the past two years through Mid-term Review and Supervision missions, though the skill mix of some missions needs further improvement (depending on project-specific issues). The latter issues are noted in the Action Plan to Improve Portfolio Performance (Annex VII). Overall, as noted in the 2004 APPR, **the Bank Group needs to move from a culture of lending to a culture of portfolio implementation.**

A number of steps have also been taken to address agricultural sector portfolio problems, which is necessary given the large relative size of the agriculture portfolio (seven out of 15 projects—nearly 47%) compared to other sectors. As part of efforts to consolidate the portfolio and address problems, no agricultural investment activity took place during ADF-IX, so that efforts could be directed at remedying existing problems. Specific measures undertaken to improve the agricultural portfolio have been: (i) a Sector Portfolio Improvement Plan (SPIP, completed in April 2005); (ii) various Mid-term Review and Supervision missions; and (iii) an agreement between the Bank Group and UNDP, whereby UNDP has agreed to help strengthen the agriculture and irrigation ministries' capacities. All these efforts have led to modifications in the design of some of the ageing agriculture projects, including addressing difficulties arising from the implementation of the micro-finance credit components. In addition, time-sensitive implementation action plans have been agreed upon, which aim to enhance project performance.

3.3 Loan and Grant Cancellations

During the period under review, there have been no loan or grant cancellations.

IV. COORDINATION WITH OTHER DONORS

4.1 Assessment of Government's Capacity to Co-ordinate Donors' Assistance

4.1.1 Overview: Government capacity to coordinate donor assistance is improving, from a low base, as a result of donors' efforts to strengthen Government capacity in this area. These efforts have led to the preparation of Sector Investment Programmes (SIP) in the education, agriculture, and transport sectors in recent years. More specifically, in the health sector, a SWAp has been created following several years of discussions, which the Bank Group has joined, following the analysis presented in the 2005-09 CSP (ADF/BD/WP/2005/115/Rev.1). In addition, the donor group, the Common Approach to Budget Support (CABS), has created a nucleus of donors (the EU, DfID, Norway and Sweden—the Bank Group is an observer), that coordinate their budget support operations. The Bank Group is considering joining this group in the 2006/07 fiscal year. In the health, education sector, agriculture, water/sanitation, transport sectors, there are monthly donor coordination meetings chaired by each respective ministry. The CABS group meet on a regular basis, as does a subsidiary group of CABS, the

Group on Financial and Economic Management (GFEM), which discusses with government current public finance management issues and concerns. However, Government's coordination efforts continue to require strengthening across all sectors if expected results are to be achieved.

4.1.2 MGDS Aid Coordination: Government's new poverty reduction strategy, the Malawi Growth and Development Strategy (MGDS), was expected to be launched in December 2005, but has been delayed by several months. Aid coordination features strongly in the draft MGDS, and it is proposed to be undertaken at the sector, national and international levels. The draft MGDS provides a framework for all donors' interventions in the country over the medium-term. The draft MGDS provides a similar framework to that of the Malawi Poverty Reduction Strategy Paper (MPRSP—the forerunner of the MGDS), and harmonisation of donors' interventions under the MPRSP and the draft MGDS has been assisted by the participatory approach that both strategies have been created under. The draft MGDS is strengthened by the fact that key donors, including the Bank Group, have aligned (or are in the process of aligning) their strategies to the draft MGDS, and that key donors are in the process of harmonising (or plan to) their intended interventions with each other—the Bank Group has discussed with all donors active in Malawi the CSP, and how efforts can be made to better harmonise and coordinate activities amongst each other. This effort has produced a tighter focus on key poverty reducing areas in the CSP, increased synergies, and reduced the prospect of duplication.

4.1.3 Other Aid Coordination Groups: In addition to the frameworks of the MPRSP and the MGDS, other major donor coordination bodies include *ad hoc* meetings of the Consultative Group and the Paris Club (the last Consultative Group meeting was held in Malawi in May 2000). Round Tables and National Workshops are also frequently organised to discuss sectoral and thematic policy issues, in addition to regular meetings held by donors resident in Malawi, such as those organised by CABS, and the GFEM. There is also a framework for donor coordination with regular meetings chaired by selected missions taking the lead role in each of the key sectors, but due to capacity constraints Government struggles to manage and lead these groups.

4.1.4 However, following the High Level Forum on Aid Effectiveness that took place in Paris on 28 February-2 March 2005 (the "Paris Declaration on Aid Effectiveness"), there remains concern that Government is not taking further steps to harmonise and coordinate donors' activities. Unlike other neighbouring countries, such as Mozambique for example, Government has not requested donors sign a Memorandum of Understanding on improving harmonisation and coordination. The Ministry of Finance's Debt and Aid Management Division leads Government thinking and efforts on donor relations. But a lack of capacity within the ministry in general, and the division in particular, means that little movement towards meeting the goals of the PDAE can be expected in the near term. The presentation of donor inflows into the fiscal budget each year is an example of what Government should be leading with regard to coordinating donor interventions, but in fact is driven by the CABS Group of donors. Currently, there remains an incomplete picture of aid coverage, which creates uncertainties of just how much success is being made in reducing poverty.

4.2 Assessment of the Bank Group's Coordination with Other Donors

4.2.1 Most donor efforts have been focussed on providing resources to the social (largely for education and health, especially in tackling HIV/AIDS), the agricultural, and transport sectors

(see Box 2). The Bank Group has engaged and coordinated with most donors in these sectors regarding current on-going interventions, insofar as Task Managers have attended donor coordination meetings when on mission in Malawi, and have maintained contact with counterparts relating to project performance. While these efforts have proved useful in creating efficiencies and reducing duplication, a greater level of coordination is required to improve expected outcomes. For example, going beyond attending donor coordination meetings and keeping in contact with counterparts is required – active engagement with other donors in the design and formulation of projects is one way forward. But the realities of coordinating and harmonising with other donors is complicated by donors' respective procedures, regulations and timings (e.g. the Bank Group can not enter into SWAp fully as ADB procurement requirements require that goods procured must be made from a member of the Bank Group). The current level of coordination and harmonisation of Bank Group on-going projects reflects these difficulties (and until the Bank Group's procurement regulations are changed, this will remain a problem that prevents closer harmonisation). Therefore, because of this, in general, on-going Bank Group projects do not show evidence of a strong level of coordination or harmonisation in project design, co-financing of project elements, division of labour/geographical work areas, joint monitoring/evaluation, project reporting or project reviews. On an individual basis, some Bank Group projects display a level of coordination and harmonisation relating to these areas, but they are not well developed nor are they consistent, which suggests that more can be done to meet these goals.

While there is a need for the Bank Group to improve its liaison with other donors, equally, other donors need to improve their communications and coordination with the Bank Group—it is a two-way process. Increased efforts by the Bank Group and other donors will produce a tighter focus on key poverty reducing areas, increase synergies, and reduced the prospect of duplication.

4.2.2 Increased Coordination Expected: The Bank Group is fully aware of its commitments under the Paris Declaration on Aid Effectiveness, to harmonise its efforts with other donors. The Bank Group is keen that under the 2005-09 CSP, further efforts are made to increase the level of donor coordination. Given Malawi's broad MGDS agenda, it is highly necessary that the Bank Group's interventions are made within a framework involving other donors. To support this aim, the Bank Group has informed other donors in Malawi what the CSP contains, to help improve alignment of strategies and increase harmonisation, which in time should lead to Sector Wide Approach (SWAp), investments or non-lending, co-financing and/or parallel interventions. Bank Group staff will remain engaged in consulting with donors on improving coordination and harmonisation. The Bank Group's coordination efforts will become more effective once the Country Office opens, which is expected in 2006. At present, the Bank Group's coordination efforts are weakened by the fact that Bank Group missions do not always coincide with Government-donor coordination meetings.

4.2.3 Areas of Likely Coordination: The CSP aims to make better use of Bank Group resources by the coordination of proposed: (i) irrigation interventions through the existing donor agriculture coordination group led by the EU and DfID (a donor and government irrigation coordinating group chaired by the Ministry of Irrigation and Water Resources may be created in time to enhance coordination efforts in this area); (ii) electricity interventions through Ministry of Finance-led discussions with NEPAD and Mozambique government and donors; (iii) education interventions in the secondary sub-sector through the government's education PIF; (iv) health interventions through the health SWAp; and (v) governance interventions through the CABS group, and also through information shared by USAID with

regard to the US government's Millennium Challenge Corporation, which Malawi's membership of at a threshold level was announced on 23 September 2005.

Box 2: Donors' Intervention by Sector

Agriculture & Rural Development: The EU is the lead donor in this sector and the Malawi Agriculture Sector Investment Programme (MASIP) provides a nominal framework for donors' agricultural sector interventions. However, most donors have not engaged fully in supporting the MASIP, partly due to its weak performance. The Bank Group currently has a portfolio amounting to UA44.6 million, which complements partly the work of the other main donors active in this sector, grouped in the Donor Coordination Group on Agriculture and Food Security (which comprises the World Bank, EU, FAO, IFAD, CIDA, DfID, JICA, Norway, and USAID). Given the prominence of agriculture to most of the population, interventions in this sector will remain a priority under the MGDS.

Health & Education: The health and education sub-sectors are led by DfID. The Bank Group currently has a portfolio amounting to UA43.6 million. Other donors active in this sector include the World Bank, UNICEF, WFP, WHO, CIDA, DfID, Germany, JICA, Norway, Sweden, and USAID. Donors play an important role in the financing of the health and education sub-sectors. Currently, the ADF is a major donor to secondary education, which is experiencing pressure to increase supply after years of primary school expansion. The health system is severely constrained by shortages of drugs and other essential supplies, a critical shortage of skilled staff and the impact of HIV/AIDS. A health SWAp has been created to address these numerous problems.

Transport, Water & Sanitation Sector: The EU takes the lead in infrastructure activities (with most efforts focussed on road construction). The Bank Group currently has a portfolio amounting to UA36.8 million. Of this, approximately UA27.2 million is allocated to the two Karonga-Chitipa road projects. While the EU is the lead donor in the transport sector, the World Bank, Germany, JICA, and the OPEC Fund have also supported road and transport projects. The water and sanitation sector, funded by donors including the World Bank, CIDA, the Development Bank of South Africa, the European Investment Bank, JICA, Norway, Sweden, USAID, several NGOs (such as Water Aid), as well as the ADB Group, has introduced over the last few years broad reforms and built capacity by establishing Regional Water Boards and Water Resources Management Boards. Bank Group activity is focussed on an integrated water and sanitation project in Central and Northern regions.

Economic Policy Reform: The IMF and World Bank are the lead donors for this activity (with the IMF's recently agreed PRGF the main policy advice vehicle), but there is scope for the CABS group of donors to provide leadership in the PFM arena. Economic policy is weak in Malawi, despite years of donor support, in part because of the very limited capacity of the government, the effects of corruption, and macroeconomic instability. The CABS Group (which includes the EU, DfID, Norway, and Sweden) is also engaged in providing policy reform advice through a sub-group of CABS, the Group on Financial and Economic Management, which aims to identify the priority areas in most need of assistance and designing interventions to achieve reform aims. Typical areas of GFEM interest are in supporting the Auditor General, Accountant General, and Ministry of Finance (budget formation).

Cross-Cutting Issues: Cross-cutting issues, by their nature, permeate life and livelihoods and are major challenges to overcome if poverty is to be reduced. Several donors are providing support in respect of decentralisation, environmental protection, gender, governance, and HIV/AIDS. These include the World Bank, UNDP, FAO, WHO, DfID, Germany, JICA, Norway, Sweden, and USAID. Recent Bank Group activity centred on the disbursement in May 2005 of the UA12 million Support for Good Governance loan.

4.3 Assessment of Co-financiers in Co-financed Projects

Currently, none of the Bank Group's on-going projects in any sector are co-financed with other donors. However, the health sector SWAp that was recently approved by the Boards (on 24 November 2005, ADF/BD/WP/2005/20/Rev.1), proposes co-financing with the World Bank, DfID, NORAD, OPEC Fund, and UNFPA. There have also been several recently closed projects (in the agriculture sector and the multi-sector) that were co-financed with other donors. Looking ahead, under the 2005-09 CSP, it is envisaged that assuming Boards of Directors' approval, new Bank Group interventions, which are expected to be co-financed with other donors, will be made in policy-based lending (through the CABS group),

and possibly, electricity infrastructure (a multinational project). All these efforts will enhance Bank Group and Government returns of invested funds, ultimately increasing efforts to reduce poverty.

V. LOAN REPAYMENTS AND ARREARS

Malawi is current on its loan repayment obligations to the Bank Group. Therefore, the Bank Group has not imposed sanctions on Malawi because of arrears on loan repayments.

VI. PROACTIVE MANAGEMENT OF THE PORTFOLIO

6.1 Potential Future Challenges, Risks and Solutions

6.1.1 Government faces several possible **challenges** over the forthcoming years that will have an effect on the Bank Group's on-going and future projects: (i) consolidating the democratic process and improving strongly governance; (ii) implementing satisfactorily the MGDS, (iii) removing the structural barriers to successful implementation of the MGDS; (iv) designing reforms efficiently and implementing them effectively; (v) attaining and sustaining macroeconomic stability; (vi) overcoming weak government capacity, at all levels (line ministries, districts, and local assemblies), which has a negative effect on implementing and coordinating MGDS policies; and (vii) adhering to and implementing the commitments made in March 2005 relating to the Paris Declaration on Aid Effectiveness (which relate to improving donor harmonisation and coordination in Malawi).

6.1.2 There are also a number of **risks** that may arise, split into two groups, which will influence the implementation of Bank Group on-going and future projects. The first group of risks within Government's control are: (i) if institutional weakness persists at a strong level, (ii) if there is a lack of political will for reforms; (iii) if conflicting group interests in implementing the MGDS arise; and (iv) if lower-than-expected resources for poverty reduction programmes are attained. Also, fiscal revenue may fall, due to exogenous factors, such as bad weather reducing tobacco output (and thus lowering export revenue). The second group of risks are those that fall outside of government's control (exogenous risks): (i) if bad weather recurs; (ii) if the effect of HIV/AIDS continues unabated; and (iii) if terms-of-trade shocks, such as recent high oil prices, are forced upon the economy, scarce resources will be diverted from poverty reduction.

Assessing the probability of these risks materialising is not easy and varies according to risk (the 2005-09 CSP provides some information on this issue along with the challenges Government faces). But those risks in the first group (those within Government's control) are more able to be managed so as to reduce their impact on the Bank Group's on-going projects. What steps Government (with donors) takes to address these risks remains to be seen. It should be noted that over past recent years, Malawi has faced a combination of all of the above risks, which have had a direct and indirect impact on projects' performance. But assessing what level of negative impact has been placed on projects is made difficult due to the lack of extensive, detailed statistics relating to projects, institutional efficiencies, political developments, and interest groups.

6.1.3 A number of **solutions** to these potential challenges and risks exist. First, Government, political parties and politicians need to focus on the development issues and challenges that the country and population face, rather than party political campaigns. This requires a focus

on launching and implementing the MGDS and related reforms, and striving to achieve their goals. Second, other mitigating measures that can help reduce the impact of risks under Government's control are efforts to improve the form of political and economic governance, and implementing macroeconomic and sector reforms. Third, Government is also expected to communicate on a regular basis the benefits of reform and change to groups that perceive change as weakening their position. Fourth, strengthening institutions and improving the level of governance will both help to manage and reduce risk to project implementation. Fifth, as will implementing the findings of each CPRR. Sixth, PIUs are encouraged strongly to share information between themselves on common issues (procurement, disbursement etc). Seventh, the Bank Group will act to enhance the quality of new operations at point of entry by enhancing project design and assessment. Efforts to mitigate exogenous risks, such as natural disasters, or deterioration in the terms-of-trade that worsen the balance-of-payments position, are less easy to forecast or manage. But some measures can be taken by the Bank Group, such as providing emergency/disaster relief, helping implement policies to promote domestic market enlargement through regional integration, support for pragmatic fiscal and monetary management to reduce a terms of trade shock to the economy, and helping implement a general policy flexibility to deal with situations as and when they arise. Overall, it is government's role to demonstrate that it is committed to implement desired reforms, which in turn will reduce the effect of exogenous and unforeseen risks.

6.2 Summary of Action Plan to Improve the Performance of the Portfolio

Apart from the issues discussed above in section 6.1, which have the potential to affect the implementation of the Bank Group's portfolio in the future, several other problems also affect the performance of most on-going projects. These problems are summarised in Annex VIII (Action Plan to Improve Portfolio Performance). The Action Plan seeks to help improve the quality of the portfolio in accordance with reference indicators, namely compliance with conditions precedent/commitments, procurement of goods and services, financial performance, activities and outputs and projects' development impact. The Action Plan is time sensitive. In general, to improve the performance of the portfolio, the following key efforts need to be made:

- reduce delays in fulfilment of grant conditions to make grants effective (Malawi's ADF-X allocation is all grant form);
- reduce delays in project implementation/execution;
- improve procurement and disbursement performance;
- strengthen the capacity of PIUs;
- Government to regularise its disbursement of counterpart funds;
- improve accounting and auditing procedures so that audits are carried out as expected;
- reduce the turnover of Bank Group Task Managers;
- improve communications; and
- streamline problem interventions in sectors that display weak performance.

The specific actions required to improve the performance of each on-going project are presented in Annex VIII. Implementation of these actions will help strengthen the service delivery of Bank Group-financed projects, improve portfolio performance, and in turn improve the likelihood that developmental objectives are achieved.

6.3 Lessons Learned for Future CSPs and Portfolio Management

Lessons for Future CSPs

6.3.1 The portfolio review holds a number of lessons for future country programming and portfolio management efforts. In a general overview of operations, the **first** lesson is for the Bank Group to re-examine its procedures to take into account more fully the requirement to harmonise and coordinate its on-going and future interventions with other donors (the Health SWAp approved by the Boards in late-November 2005 is a good example of just how closer harmonisation and coordination can be achieved). But it is noted that while moving towards a SWAp is beneficial, it is also a complicated and resource-demanding process that needs a great deal of commitment for it to succeed. **Second**, the quality at entry of Bank Group interventions needs to improve. For example, it should not be possible for future interventions to be implemented without a project design or plan already agreed and in place, as was the case with the Smallholder Irrigation Project. Quality at entry should also consider rationalising the conditions for entry into force as well as for effectiveness, so as to reduce the possibilities for project start-up delays. **Third**, complex projects and related conditions precedent to entry into force should be avoided—the Government’s implementation capacity is low and efforts should be made to design projects and components taking into account this low level of capacity. In addition, it is necessary to have a specific timetable of implementation for each component with a set of actions already identified that can be implemented to address timetable slippage. **Fourth**, fewer but larger projects should be considered, as advised in the CSP that was approved by the Boards of Directors in November 2005 (ADF/BD/WP/2005//115/Rev.1). This will reduce the administrative burden on the Government and Bank Group as well and promote efficiencies and improve efforts to coordinate with other donors (as per the Health SWAp). **Fifth**, once the Country Office opens, the use of Bank Group staff based in Malawi should be made to manage day-to-day issues that affect projects’ implementation, rather than the Country Office acts as a conduit by simply passing queries to head quarters.

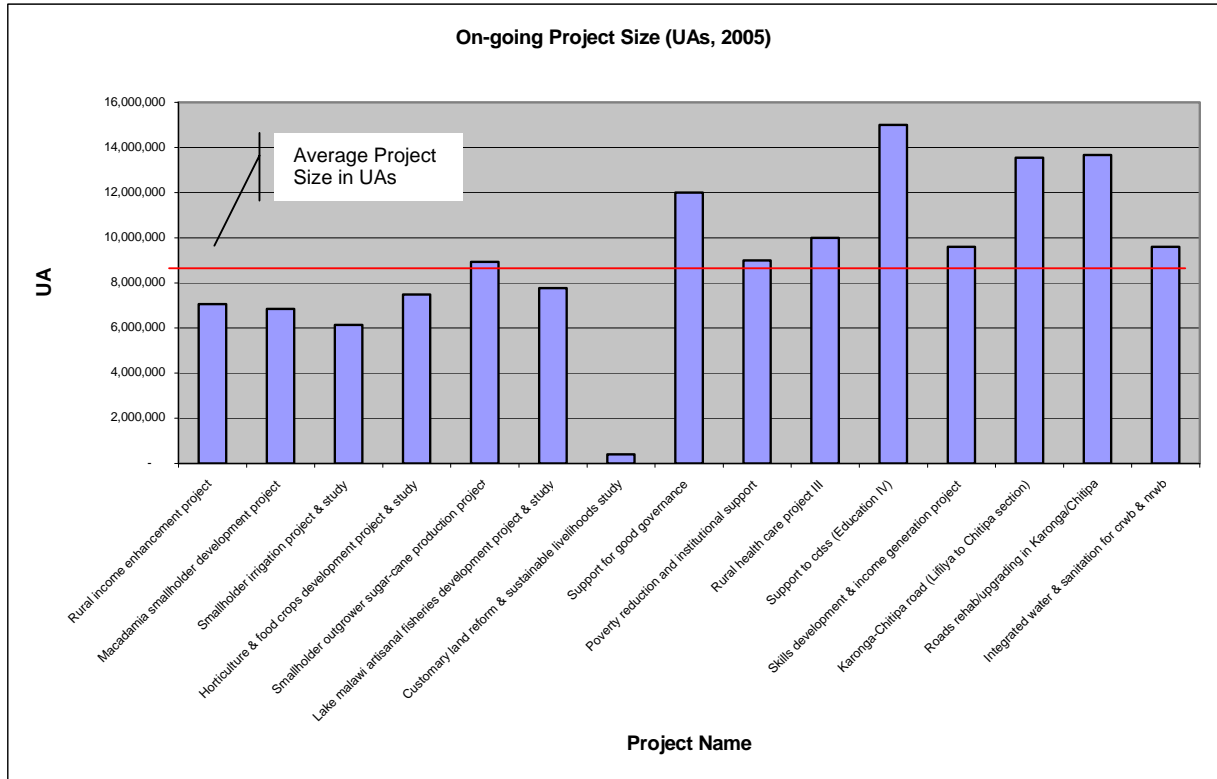
6.3.2 **Sector Priorities:** Looking across all sectors, it appears that the performance of Bank Group-financed projects in the social, multi, and water and sanitation sectors is better than in the agricultural, and transport sectors. However, this performance is only relatively better and various implementation improvements in the social, multi, and water and sanitation sectors can also be made. The satisfactory performance of the portfolio as a whole in respect of the Development Objective indicators, suggests that the Bank Group should continue to align its interventions in the priority areas identified in the new CSP (2005-09). The CSP, in consultation with all stakeholders, has selected two pillars in which to intervene: (i) expanding rural infrastructure; and (ii) developing human capital and institutional capacity. Future Bank Group interventions under these two pillars are expected to continue to support Government’s poverty reduction efforts (as articulated in the draft MGDS). While agriculture and rural development will continue to remain an important sector for the Bank Group to support, future Bank Group interventions in this sector should put strong emphasis on strengthening implementation capacity at all levels—line ministries, district assemblies, ADDs, and project level, given the unsatisfactory IP indicators for this sector (see paragraph 2.1). Multi sector interventions have yet to be made in the provision of budget support, but the 2005-09 CSP proposes that such activity is considered. The lessons learned from recent experience of multi sector interventions (Support for Good Governance loan) have yet to be assessed as no supervision of this project has been carried out to date. Nonetheless, the 2005-09 CSP proposes that the forthcoming policy-based intervention, provided through the Bank

Group joining the Common Approach to Budget Support (CABS) group of donors, will be extremely well coordinated, as the harmonisation of support to government by CABS is automatic and serves two key purposes: (i) Bank Group funding will be agreed within the CABS group's framework; and (ii) the intervention will also help directly improve the policy and institutional framework for good governance.

6.3.3 Size of Operations: In order to reduce transaction costs and increase development effectiveness, the Bank Group should also consider increasing the size of its interventions. The 2005-09 CSP is formed around the idea of increased selectivity (which limits the spread of the Bank Group's activity), and larger-sized projects. Tightening the focus of what the Bank Group can assist with should help increase donor harmonisation and coordination. But simply increasing the size of interventions does not lead automatically to improved project outcomes. For example, there is concern about the ability of Government to absorb an increased level of funding in a particular sector, given the overall slow level of project implementation in most sectors. Therefore, increasing project scope and funding levels requires a related increase in Bank Group project management and oversight, if expected outcomes are to be achieved. This means that Bank Group task managers will have an increased level of project responsibility. Given the general satisfactory level of projects' performance achieved to date, it is not clear that an improved level of performance can be achieved. This issue needs further guidance from management.

6.3.4 At present, the average size of on-going project loans is UA9.1 million (UA137.02 million split between 15 projects—see Chart 7). There is only one project that is below UA5 million, the Study for Customary Land Reform and Sustainable Livelihoods. This represents just 0.3% of the total on-going portfolio of approved loans/grants. Overall, this is an improvement on the position recorded in the previous CPRR, which showed that the average size of a loan was UA8.1 million, and seven projects (26% of the portfolio) were less than UA5 million in size. This improvement has helped reduce Bank Group and Government's transaction costs. For further benefits to be delivered, the re-design of on-going projects, to amalgamate related but poorly performing projects (or the closure of under-performing projects) could help in consolidating the portfolio, which should be considered by management.

Chart 7: On-going Project Size (UA) 2005



6.3.5 Capacity Building: The Bank Group should continue to pay close attention to helping to strengthen capacity for future projects at all levels (central government, local government, districts and PIUs). This is a difficult area in which to achieve results because training activities to date (a major way in helping to increase capacity) have yet to show that the situation is improving across Government and PIUs. Part of the problem is that the effect of HIV/AIDS removes key officials and PIU staff. Another problem is that once individuals have been trained, after serving a period back with their ministry or PIU, they are then free to leave, and many do to the private sector, which offers better pay and career options. A radical way of dealing with this pressing problem needs to be proposed. One solution is to increase the training component of projects, and/or provide a continuous level of training to selected staff, which encourages them to remain. Another is to increase the period that trained officials are required to remain with their ministry or PIU, along with a requirement that some form of passing on the benefits of the training are passed on to other staff.

Lessons for Portfolio Management

6.3.6 Streamline Loan Conditions: While recognising the need for loan conditions, both conditions for effectiveness and conditions precedent to first disbursement, to retain their primary role as technical tools to achieve project quality, it is also important to note that their design should increasingly take into account Government's capacity to implement them in a timely fashion. As demonstrated in this report, delays in the fulfilment of loan conditions has been a factor in project implementation delays, which have negatively affected projects' performance. The total average delay from loan approval by the Boards of Directors to entry

into force for all on-going projects is 0.8 years. The following list provides, in descending order, the average length of time per sector:

- Seven agricultural sector projects experienced a long delay of an average of 1.2 years.
- Four social sector projects experienced a delay of an average of 1.2 years.
- One water and sanitation sector project experienced a delay of 0.9 years.
- Two transport sector projects experienced a delay of an average of 0.7 years.
- One multi-sector project experienced a delay of 0.3 years.

There are several reasons for why delays are experienced for loans to become effective, with much of the evidence pointing to Government's inability to move matters forward, sometimes for reasons outside its control. For example, a loan condition that requires parliament to ratify new legislation has been experienced in the past. Parliament is outside the control of Government and it is therefore not surprising that a delay in passing legislative bills relating to new lending activity can sometimes be experienced.

Each project will have a mixture of specific and general loan condition issues affecting it. Specific issues, by their nature are varied, and should be streamlined by Task Managers by looking at similar past projects and identifying conditions that caused delays and removing them or reducing their influence. General issues should also be treated by sector departments holistically, with all relevant Task Managers noting the need to reduce and/or remove conditions that are likely to result in project implementation difficulties.

6.3.7 Ensure Adequate Staffing of PIUs: Several projects, especially in the agricultural sector, are experiencing staffing problems at the level of the PIUs. This is mainly because these PIUs do not have the full complement of essential staff. The projects being implemented by the Ministry of Agriculture nearly all suffer from staffing problems. The implementation capacity constraint of the Ministry of Agriculture has been looked at by the April 2005 Agricultural Sector Improvement Plan (ASIP). Some suggested changes have been implemented to help address these weaknesses. But further work is required.

6.3.8 Improve Quality-at-Entry: Improving the design of projects (quality at entry) should also help to improve future implementation (as noted above). With regard to on-going projects, this is not an option that can be used to improve performance, however project re-design can be used as a tool to improve poorly performing projects. Again, although this is a cross-sectoral issue, the agricultural sector better illustrates its relevance. Several agricultural sector projects require micro-finance credit administration. The intended beneficiaries are not utilising the credit components, which has led to low disbursement rates on the respective agricultural sector projects. This is due to the inability of projects to identify MFIs that can manage credit delivery and recovery efficiently—the micro-finance sector in Malawi is in poor shape. It is therefore important to re-design agricultural sector interventions that have a micro-finance component, something the ASIP has proposed. Project design for all future projects in all sectors should note the problems that have been encountered with micro-finance and either not include a micro-finance component or make only limited use of micro-finance until there is clear evidence that MFIs have become developed enough and the legal and regulatory environment is strong enough to support such institutions and intended beneficiaries.

6.3.9 Continue Improving Bank Group Capacity Building Activities: The Bank Group should continue to improve its supervision activities of on-going projects and provide training

related to Bank Group's operations, notably procurement and disbursement (which cause the most problems to borrowers). On-going training will help strengthen the capacity of PIUs, central and local government towards improved implementation of Bank Group-financed projects. Furthermore, in order to improve donor coordination and harmonisation, the establishment of the Country Office will help improve the quality of Bank Group's portfolio through trouble-shooting and day-to-day management of issues, as and when they arise.

6.3.10 Achievements Since Last Portfolio Review: The February 2003 CPRR contained the following key advice to help improve the performance of the then portfolio (the steps that have been taken, by Government and the Bank Group, and changes made are noted in italics):

Government action:

- Engage major efforts to improve the performance of the Bank Group portfolio in the agricultural sector. *Some efforts have been made following the advice proposed in the Agricultural Sector Improvement Plan of April 2005, Mid-term Reviews, and Supervision Missions. But further efforts would pay dividends.*
- The Ministry of Finance and Economic Planning should keep records of loan conditions in order to follow up on their timely implementation. *The Ministry of Finance (Economic Planning has been established as a separate ministry) has recently embarked on efforts to update and improve its knowledge of its external loan/grant portfolio and the external debt associated with these commitments. But similar previous efforts have not been maintained, so sustainability of this new initiative is key for success. Due to the Ministry of Finance's new initiative, it is too early to assess its progress and sustainability.*
- Improve timeliness of fulfilment of loans conditions. *Work remains to be done.*
- Strengthen the capacity of the National Audit Office (NAO) in order to enable it carry out audits of all Bank-financed projects timely. *Some strengthening was achieved under the training provided by the Bank Group's "Aid and Debt Management and Governance" Institutional Support grant, which closed at end-February 2005. However, the NAO has since advised that it does not have the capacity to audit all Bank Group projects, which has been accepted by the Bank Group as valid. Therefore, private sector audit firms have started to be and should continue to be used for project's external audits, when the NAO is not able to assist. This move has been made by several projects, and appears to be working smoothly.*
- Speed-up the process of loan authorisation bills through Parliament. *Further work could be done on managing Government's parliamentary legislative business to improve timeliness, but it should be noted that Government does not have a de facto ability to push through legislation in Parliament given that opposition parties have the ability to scrutinise and debate bills that come before parliament.*
- Increase efforts to strengthen capacity at district and local assembly levels. *Some progress has been achieved through Government's decentralisation efforts that have been supported by the Bank Group's "Poverty Reduction and Institutional Support" project. But further work would pay dividends.*

Bank Group action:

- Improve the design of loan conditions, to bring them in line with Government's capacity to implement them. *Some progress has been achieved (for example,*

agricultural projects will no longer be submitted to the Boards for approval without first having a project design completed – which was not the case with the “Smallholder Irrigation Project”), but on-going efforts to adhere to this are required.

- Continue capacity-building training activities targeted at PIUs and line ministries relating to procurement, disbursement and auditing. *Some training has been achieved, but further training is required.*
- Prepare an agriculture portfolio improvement plan. This has been carried out, following the *Agricultural Sector Portfolio Improvement Plan (SPIP)*, which was completed in April 2005, with the recommendations made being implemented, or have been implemented (depending on the project concerned).
- Improve the design of Bank Group projects, which should take into account as much as possible conditions prevailing in the sectors. *Some progress has been achieved, but further work is required.*
- Consider establishing a representation in the country in order to assist PIUs in project implementation and enhance coordination with other donors. *Progress has been made in establishing the Malawi Country Office, which is expected to open in 2006.*

VII. CONCLUSION AND RECOMMENDATIONS

Conclusion

7.1 This portfolio review exercise has shown that the performance of the Bank Group Portfolio in Malawi is generally satisfactory, with an overall rating of 2.0. However, there remain some recurrent problems (summarised in Annexes VI and VII). As the portfolio review shows, slow project progress, with an overall rating of 1.8 (unsatisfactory), continues to weigh negatively on the performance of the portfolio. Nonetheless, the overall development objective rating continues to be satisfactory, with a rating of 2.3 (the highest overall rating of the five sub-categories). This review also suggests that a great deal can be done to improve the implementation of the Bank Group’s projects in Malawi, if PIUs, Government and the Bank Group observe and implement the changes advised in this report

7.2 The following general recommendations, which are complimentary to and are made in addition to the project-specific recommendations provided in Annexes VII and VIII, should be implemented to help improve the performance of the Bank Group’s portfolio in Malawi:

Recommendations

7.2.1 **Government** should:

- continue to make strong efforts to improve the performance of agricultural sector projects (given the large weighting the sector’s on-going projects have in the portfolio). These efforts should aim to strengthen: (i) ministerial capacity (Ministry of Agriculture and the Ministry of Irrigation and Water Development); (ii) project implementation by ensuring adequate staffing of the PIUs; (iii) reform the current system for seconding civil servants to PIUs; (iv) closing ageing projects (after close consideration); and (v) ensure counterpart funds are disbursed regularly in expected amounts and expected dates.

- Ensure that counterpart funds are disbursed regularly in expected amounts and at expected dates (noting the related point raised in section 7.2.2 for future Bank Group interventions).
- Ensure that the Ministry of Finance maintains records of loan/grant conditions in order to follow up on their timely implementation (a database of loan/grant amounts, project type, disbursement levels, and anticipated length of project life should also be kept up to date).
- Improve the timeliness of the fulfilment of grant conditions.
- Increase efforts to strengthen capacity at the PIU, central and local (district and local assembly) government levels.
- Advise what steps are to be taken to secure the retention of PIU knowledge within respective ministries once PIUs close, and advise what plans exist to continue with, or phase out PIUs, and replacement structures that will manage projects.
- Take all necessary measures to ensure that relevant staff of line ministries and PIUs take advantage fully of future Bank Group-financed training opportunities (be they provided through dedicated projects or *ad hoc* training, for example, for procurement and disbursement).
- Encourage PIUs to share their experiences among themselves, in order to promote best practice.
- Improve the speed, accuracy and efficiency of communications between PIUs and Government, and between them and the Bank Group.
- Speed-up the process of grant authorisation bills through Parliament, to reduce delays in project start-up and implementation (the Bank Group recognises that Government's authority in Parliament is limited, but management of Government's legislative business can be improved and made more efficient).
- Improve weak accounting and auditing systems/reporting, and strengthen the capacity of the NAO in order to enable it carry out audits of all relevant Bank Group-financed projects timely (some projects are audited by private sector firms). The Bank Group should give a deadline to Government to carry out all outstanding audits. After the deadline, disbursements to projects with outstanding audits will be suspended.

7.2.2 The **Bank Group** should:

- Improve the design of forthcoming grant conditions so that they reflect the real capacity and ability of Government to implement them, without diluting their primary role as technical tools to achieve project quality (this should help contribute towards reducing delays in project start-up and implementation).

- Improve forthcoming project designs, which should take into account conditions prevailing in the sectors, and what other donors are doing in the respective sector, so as to facilitate future project implementation. And consider strongly the option of bringing in financial specialists to help run projects.
- Continue, and increase, capacity-building training activities targeted at PIUs and relevant line ministry staff to familiarise them with Bank Group rules relating to procurement, disbursement, accounting and auditing.
- Strengthen supervision missions/teams, in line with project components, to provide necessary technical assistance.
- Following the Bank Group's agriculture sector's example, some (but not all) sector departments should, where necessary, prepare Sector Improvement Plans, which should provide solutions to the problems of ageing projects, low disbursement levels and low levels of development objectives.
- For new Bank Group projects include a component for an implementation manual that explains procurement, disbursement, accounting, and auditing procedures.
- When designing new projects/interventions, the Bank Group should drop the requirement that Government provides counterpart funds, in order to remove one major problem facing project implementation.
- Improve the speed, accuracy and efficiency of communications between the Bank Group, and PIUs and Government.
- Increase the level of harmonisation and coordination with other donors, so that duplication of efforts is reduced and Government's capacity is not stretched unnecessarily.
- Speed-up the opening of the Country Office, which should assist in improving PIU and line ministries' project implementation. The Country Office should also be able to increase coordination with other donors.

7.2.3 Board members are requested to consider and note these recommendations, which seek to help improve the Bank Group's on-going portfolio in Malawi.

SUMMARY OF BANK GROUP OPERATIONS (01 December 2005)

Sector	Company	Loan number	Project title	Approval date	Signature date	Entry into force	Net Signed Loans	Disbursements	Undisbursed Balance	Disbursement rate	Status
Agriculture	ADF	2100150000657	NAMWERA RURAL DEVELOPMENT BLANTYRE-SHIRE HIGHLAND RURAL DEVELOPMENT	26-Oct-76	10-Dec-76	10-Oct-77	4,600,642.19	4,600,642.19	-	100.0%	completed
Agriculture	ADF	2100150000658	ZOMBA RURAL DEVELOPMENT	16-Dec-83	9-May-84	23-Mar-85	9,616,837.12	9,616,837.12	-	100.0%	completed
Agriculture	ADF	2100150000671	NATIONAL LIVESTOCK DEVELOPMENT	25-Nov-87	22-Feb-88	25-Sep-89	5,697,206.36	5,697,206.36	-	100.0%	completed
Agriculture	ADF	2100150000670	INSTITUTIONAL SUPPORT TO SDA	18-Jan-88	22-Feb-88	10-May-90	6,709,743.46	6,709,743.46	-	100.0%	completed
Agriculture	ADF	2100155000213	MACADAMIA NUTS STUDY	28-Aug-90	31-Jan-91	10-Feb-93	538,567.08	538,567.08	-	100.0%	completed
Agriculture	ADF	2100155000215	SMALLHOLDER SUGAR CANE STUDY	18-Dec-90	31-Jan-91	18-Jun-91	458,006.81	458,006.81	-	100.0%	completed
Agriculture	ADF	2100155000216	AGRICULTURAL SECTOR STUDY	18-Dec-90	31-Jan-91	18-Jun-91	200,943.76	200,943.76	-	100.0%	completed
Agriculture	ADF	2100155000217	MWANZA RURAL DEVELOPMENT PROGRAMME	18-Mar-91	31-Jan-92	1-Nov-92	1,410,468.59	1,410,468.59	-	100.0%	completed
Agriculture	ADF	2100150000687	LILONGWE RURAL FORESTRY PROJECT	27-Aug-91	13-May-92	11-Mar-93	8,013,152.00	5,447,804.00	2,565,348.00	68.0%	completed
Agriculture	ADF	2100150000678	LOWER SHIRE IRRIGATION STUDY	29-Oct-92	5-Mar-93	24-Feb-95	3,868,418.00	3,644,131.25	224,286.75	94.2%	completed
Agriculture	ADF	2100155000222	AGRICULTURAL SERVICES PROJECT AGRICULTURAL SECTOR ADJUSTMENT PROGRAMME	12-Dec-92	15-Jan-93	10-Mar-93	675,214.99	675,214.99	-	100.0%	completed
Agriculture	ADF	2100150000672	RURAL INCOME ENHANCEMENT PROJECT MACADAMIA SMALLHOLDER DEVELOPMENT PROJECT	3-Sep-93	1-Oct-93	5-Oct-94	9,210,520.00	8,179,753.47	1,030,766.53	88.8%	completed
Agriculture	ADF	2100150000674	SMALLHOLDER IRRIGATION PROJECT	3-Sep-93	1-Oct-93	19-May-94	15,290,643.50	15,290,643.50	-	100.0%	completed
Agriculture	ADF	2100150000688	SMALL SCALE IRRIGATION STUDY	10-Dec-97	27-May-98	1-Feb-00	7,060,000.00	4,682,348.30	2,377,651.70	66.3%	ongoing
Agriculture	ADF	2100150000673	HORTICULTURE & FOOD CROPS DEV PROJECT HORTICULTURE & FOOD CROPS DEV PRO STUDY	15-Jul-98	13-Jan-99	7-Nov-00	6,850,000.00	1,969,073.00	4,880,927.00	28.7%	ongoing
Agriculture	ADF	2100150000690	SMALLHOLDER OUTGROWER SUGAR-CANE PRODN.	26-Nov-98	24-May-99	13-Apr-00	5,020,000.00	704,918.25	4,315,081.75	14.0%	ongoing
Agriculture	ADF	2100155000221	SPECIAL PROG FOR FOOD SECURITY - PHASE 1	26-Nov-98	13-Jan-99	19-Nov-99	1,119,234.00	563,202.62	556,031.38	50.3%	ongoing
Agriculture	ADF	2100150000679	LAKE MALAWI ARTISANAL FISHERIES DEV PRO	15-Dec-98	24-May-99	1-Feb-00	6,650,000.00	2,008,045.00	4,641,955.00	30.2%	ongoing
Agriculture	ADF	2100155000229		15-Dec-98	24-May-99	1-Feb-00	840,000.00	419,615.00	420,385.00	50.0%	ongoing
Agriculture	ADF	2100150006702		15-Dec-99	10-Feb-00	8-Nov-00	8,930,000.00	1,845,216.00	7,084,784.00	20.7%	ongoing
Agriculture	ADF	2100155000226		19-Jun-00	21-Dec-00	8-Mar-01	730,000.00	730,000.00	-	100.0%	completed
Agriculture	ADF	2100150007035		29-Jan-03	5-May-03	8-Sep-03	6,930,000.00	1,127,153.00	5,802,847.00	16.3%	ongoing

Agriculture	ADF	2100155001894	LAKE MALAWI ARTISANAL FISHERIES DEV PRO STUDY	29-Jan-03	5-May-03	8-Sep-03	840,000.00	251,766.00	588,234.00	30.0% ongoing
Agriculture	ADF	2100150007223	CUSTOM. LAND REFORM & SUSTAIN. LIVELIHOOD STUDY	16-Sep-03	13-May-04	13-May-04	394,640.00	184,247.06	210,392.94	46.7% ongoing
	ADF Total						111,654,237.86	76,955,546.81	34,698,691.05	68.9%
Agri Total							111,654,237.86	76,955,546.81	34,698,691.05	68.9%
Comms	ADB	2000192000341	TELECOMMUNICATIONS	8-Nov-83	9-May-84	8-Nov-84	7,933,197.81	7,933,197.81	-	100.0% completed
Comms	ADB	2000191000034	TELECOMMUNICATIONS PROJECT II	21-May-91	2-Aug-91	10-Feb-94	14,999,922.91	14,999,922.91	-	100.0% completed
	ADB Total						22,933,120.72	22,933,120.72	-	100.0%
Comms	ADF	2100150000692	TELECOMMUNICATIONS PROJECT II	21-May-91	13-May-92	10-Feb-94	11,052,954.82	11,052,954.82	-	100.0% completed
	ADF Total						11,052,954.82	11,052,954.82	-	100.0%
Comms Total							33,986,075.54	33,986,075.54	-	100.0%
Finance	ADB	2000192000337	LINE OF CREDIT TO MALAWI DEV CORP	22-Nov-72	11-Dec-72	6-Apr-73	1,485,997.20	1,485,997.20	-	100.0% completed
	ADB Total						1,485,997.20	1,485,997.20	-	100.0%
Finance	ADF	2100150000680	LINE OF CREDIT TO INDEBANK	12-Dec-96	8-Jan-98	31-Mar-99	1,346,291.02	1,346,291.02	-	100.0% completed
	ADF Total						1,346,291.02	1,346,291.02	-	100.0%
Finance Total							2,832,288.22	2,832,288.22	-	100.0%
Ind/Min	ADF	2100150000689	INDUSTRY - TRADE POLICY ADJUSTMENT	23-Feb-89	22-Sep-89	16-Nov-89	13,854,303.38	13,854,303.38	-	100.0% completed
Ind/Min	ADF	2100155000219	INDUSTRIAL SECTOR OPPORTUNITIES	19-Nov-90	31-Jan-91	4-Jul-91	690,789.00	525,861.17	164,927.83	76.1% completed
Ind/Min	ADF	2100155000220	ETUDE PRODUCTION DE BAUXITE A MULANJE	25-Nov-92	15-Jan-93	21-Oct-93	636,929.14	636,929.14	-	100.0% completed
	ADF Total						15,182,021.52	15,017,093.69	164,927.83	98.9%
Ind/Min Total							15,182,021.52	15,017,093.69	164,927.83	98.9%
Multi-Sector	ADF	2100150000676	ENTREPRENEURSHIP - CAPITAL MARKET ADJUST	30-Oct-91	31-Jan-92	29-Dec-92	9,210,520.00	9,210,520.00	-	100.0% completed
Multi-Sector	ADF	2100150000681	STRUCTURAL ADJUSTMENT LOAN	15-Dec-98	13-Jan-99	16-Feb-99	10,000,000.00	10,000,000.00	-	100.0% completed
Multi-Sector	ADF	2100155000230	ISP: AID-DEBT MANAGEMENT & GOVERNANCE	18-Oct-00	26-Mar-01	18-May-01	1,000,000.00	547,751.71	452,248.29	54.8% completed
Multi-Sector	ADF	2100150008895	SUPPORT FOR GOOD GOVERNANCE	8-Dec-04	4-Mar-05	6-May-05	12,000,000.00	12,000,000.00	-	100.0% ongoing
	ADF Total						32,210,520.00	31,758,271.71	452,248.29	98.6%

Multi-Sector Total						32,210,520.00	31,758,271.71	452,248.29	98.6%	
Power	ADB	2000192000338	TEDZANE FALL HYDRO-ELECTRIC	15-Dec-69	9-Mar-70	20-Apr-70	3,113,141.41	3,113,141.41	-	100.0% completed
Power	ADB	2000192000339	NKULA-LILONGWE ELECTRIC LINES	24-Jun-75	8-Aug-75	30-Jul-76	5,000,000.00	5,000,000.00	-	100.0% completed
Power	ADB	2000192000340	NKULA FALLS "B" HYDRO ELEC POWER	7-Jun-77	16-Jul-77	2-Aug-77	4,229,137.41	4,229,137.41	-	100.0% completed
	ADB Total						12,342,278.82	12,342,278.82	-	100.0%
Power	ADF	2100150000666	RURAL ELECTRIFICATION	17-Jun-80	24-Jun-80	17-Feb-81	5,485,817.15	5,485,817.15	-	100.0% completed
	ADF Total						5,485,817.15	5,485,817.15	-	100.0%
Power Total						17,828,095.97	17,828,095.97	-	100.0%	
Social	ADF	2100150000659	PRIMARY - TERTIARY EDUCATION PROJECT	24-Apr-80	24-Jun-80	16-Jan-81	7,315,309.21	7,315,309.21	-	100.0% completed
Social	ADF	2100150000661	RURAL HEALTH	4-Dec-81	12-Feb-82	24-Sep-82	7,350,124.54	7,350,124.54	-	100.0% completed
Social	ADF	2100150000662	SECOND RURAL HEALTH PROJECT	17-Dec-84	1-Jul-85	24-Apr-86	7,997,105.43	7,997,105.43	-	100.0% completed
Social	ADF	2100150000660	PRIMARY AND SECONDARY EDUCATION PROJECT	23-Sep-86	17-Mar-87	10-Aug-87	15,588,056.49	15,588,056.49	-	100.0% completed
Social	ADF	2100150000695	WOMEN IN DEVELOPMENT PROJECT	29-Oct-92	5-Mar-93	8-Jul-94	4,996,859.38	4,996,859.38	-	100.0% completed
Social	ADF	2100150000677	EDUCATION III	6-May-97	29-May-97	5-Aug-98	12,000,000.00	11,709,916.00	290,084.00	97.6% completed
Social	ADF	2100155000225	HEALTH STUDY	20-Nov-97	27-May-98	13-Nov-98	727,323.70	727,323.70	-	100.0% completed
Social	ADF	2100150000682	SUPPORT POVERTY REDUCTION AND INSTITUTIONAL	10-Dec-98	24-May-99	12-May-00	7,000,000.00	4,292,659.00	2,707,341.00	61.3% ongoing
Social	ADF	2100155000228	SUPPORT POVERTY REDUCTION AND INSTITUTIONAL	10-Dec-98	24-May-99	12-May-00	2,000,000.00	1,833,373.00	166,627.00	91.7% ongoing
Social	ADF	2100155000227	SUPPORT TO NATIONAL AIDS CONTROL PROGRAMME	15-Dec-99	10-Feb-00	20-Dec-00	1,000,000.00	859,498.35	140,501.65	85.9% completed
Social	ADF	2100150000696	RURAL HEALTH CARE PROJECT III	8-Nov-00	26-Mar-01	2-Oct-01	10,000,000.00	4,972,985.00	5,027,015.00	49.7% ongoing
Social	ADF	2100150000687	SUPPORT TO CDSS (EDUCATION IV)	21-Nov-01	5-Aug-02	26-Nov-02	15,000,000.00	1,579,096.00	13,420,904.00	10.5% ongoing
Social	ADF	2100150000692	SKILLS DEVPT & INCOME GENERATION PROJECT	16-Jan-02	5-Aug-02	5-Mar-03	9,590,000.00	2,282,470.00	7,307,530.00	23.8% ongoing
Social	ADF	2100155005966	SUPPORT TO HEALTH SECTOR PROGRAMME	24-Nov-05						ongoing
	ADF Total						100,564,778.75	71,504,776.10	29,060,002.65	71.1%
Social Total						100,564,778.75	71,504,776.10	29,060,002.65	71.1%	
Transport	ADB	2000192000342	ENGINEERING SERVICES LILONGWE AIRPORT	8-May-74	1-Jul-74	2-Jan-75	500,000.00	500,000.00	-	100.0% completed
Transport	ADB	2000192000343	LILONGWE INT. AIRPORT PHASE I	23-Feb-77	22-Mar-77	23-Nov-77	4,982,802.15	4,982,802.15	-	100.0% completed

Transport	ADB	2000192000344	LILONGWE INT. AIRPORT PHASE II	28-Dec-77	25-Jan-78	30-Jun-78	4,956,286.93	4,956,286.93	-	100.0% completed
Transport	ADB	2000192000345	KAMUZU INTERNATIONAL AIRPORT PHASE III	9-Nov-82	31-Jan-83	2-Aug-83	14,783,392.80	14,783,392.80	-	100.0% completed
Transport	ADB	2000192000346	ROAD CONSTRUCTION - MAINTENANCE	25-Jan-84	9-May-84	14-Aug-84	11,238,755.61	11,238,755.61	-	100.0% completed
	ADB	Total					36,461,237.49	36,461,237.49	-	100.0%
Transport	ADF	2100150000667	MUZUZU-MUHUJU ROAD STUDIES JOHN-MZUMARA-EKWENDENI ROAD	30-Apr-75	19-Aug-75	5-Jul-76	275,998.12	275,998.12	-	100.0% completed
Transport	ADF	2100150000668	CONSTRUCTION CHAMPHOYO-MBOWE ROAD - THE MZIMBA	28-Feb-79	17-May-79	22-Aug-79	7,368,415.95	7,368,415.95	-	100.0% completed
Transport	ADF	2100150000669	SPUR MCHINJI KASUNGU NKHOTAKOTA ROAD	24-Oct-85	24-Mar-86	12-Jul-86	11,793,131.37	11,793,131.37	-	100.0% completed
Transport	ADF	2100150000698	STUDIES	23-Sep-86	17-Mar-87	10-Jan-88	1,311,338.76	1,311,338.76	-	100.0% completed
Transport	ADF	2100150000684	ROAD MAIN AND CONST II PROJECT (ADF/TAF)	15-Feb-90	30-Nov-90	1-Dec-90	11,997,546.11	11,997,546.11	-	100.0% completed
Transport	ADF	2100155000214	ROMAC II: INSTITUTIONAL STRENGTHENING	15-Feb-90	29-May-90	23-May-91	1,966,998.06	1,966,998.06	-	100.0% completed
Transport	ADF	2100150000685	MCHINJI-MSULIRA-NKHOTAKOTA ROAD	18-Dec-90	31-Jan-91	28-Feb-91	14,751,376.32	14,751,376.32	-	100.0% completed
Transport	ADF	2100150000686	MCHINJI-MSULIRA-NKHOTAKOTA ROAD MCHINJI-KASUNGU-MSULIRA ROAD PRJCT (SUP	25-Nov-91	13-May-92	22-Sep-93	12,058,498.24	12,058,498.24	-	100.0% completed
Transport	ADF	2100150000691	LOAN) KARONGA-CHITIPA ROAD (LIFILYA TO CHITIPA	2-Oct-97	25-Mar-98	5-May-98	4,657,919.74	4,657,919.74	-	100.0% completed
Transport	ADF	2100150000683	SECTION) ROADS REHAB/UPGRADING IN	15-Dec-99	10-Feb-00	16-Nov-00	13,540,000.00	198,338.34	13,341,661.66	1.5% ongoing
Transport	ADF	2100150007157	KARONGA/CHITIPA	29-Oct-03	23-Jan-04	5-May-04	13,670,000.00	-	13,670,000.00	0.0% ongoing
	ADF	Total					93,391,222.67	66,379,561.01	27,011,661.66	71.1%
Trans Total							129,852,460.16	102,840,798.50	27,011,661.66	79.2%
Water/Sanit	ADF	2100150000664	WATER SUPPLY SYSTEM IN MALAWI DISTRICT	14-Dec-76	7-Feb-77	7-Jul-77	4,605,259.75	4,605,259.75	-	100.0% completed
Water/Sanit	ADF	2100150000665	BLANTYRE WATER SUPPLY	19-Sep-77	7-Oct-77	2-Feb-78	4,602,004.72	4,602,004.72	-	100.0% completed
Water/Sanit	ADF	2100150000697	STUDY OF DISTRICT WATER SUPPLY(PHASE II)	25-Aug-83	9-May-84	8-Nov-84	477,332.08	477,332.08	-	100.0% completed
Water/Sanit	ADF	2100150000663	MAIRA BALAKA WATER SUPPLY	19-Nov-84	1-Jul-85	10-Sep-86	11,587,112.87	11,587,112.87	-	100.0% completed
Water/Sanit	ADF	2100150000693	DISTRICT WATER SUPPLY	12-Jun-90	31-Jan-91	26-May-92	13,307,038.63	13,307,038.63	-	100.0% completed
Water/Sanit	ADF	2100155000224	DISTRICT WATER SUPPLY BLANTYRE WATER SUPPLY PROJECT PHASE	12-Jun-90	31-Jan-91	26-May-92	842,520.25	842,520.25	-	100.0% completed
Water/Sanit	ADF	2100150000694	VII	21-Apr-92	5-Mar-93	30-Dec-93	7,199,677.21	7,199,677.21	-	100.0% completed
Water/Sanit	ADF	2100155000218	BLANTYRE SANITATION MASTER PLAN	21-Apr-92	5-Mar-93	13-Feb-95	677,453.69	677,453.69	-	100.0% completed
Water/Sanit	ADF	2100150000675	DISTRICT WATER SUPPLY III PROJECT	3-Dec-97	27-May-98	23-Dec-99	12,420,000.00	11,216,353.55	0.00	100.0% completed

Water/Sanit	ADF	2100155000223 DISTRICT CENTRES SANITATION	18-Nov-98	13-Jan-99	1-Aug-00	944,242.81	944,242.81	-	100.0% completed
Water/Sanit	ADF	2100150006726 INTEGRATED WS & SAN. FOR CRWB & NRWB	5-Dec-01	5-Aug-02	15-Oct-02	8,490,000.00	708,452.00	7,781,548.00	8.3% ongoing
Water/Sanit	ADF	2100155001729 INTEGRATED WS & SAN. FOR CRWB & NRWB	5-Dec-01	5-Aug-02	15-Oct-02	1,100,000.00	542,240.00	557,760.00	49.3% ongoing
	ADF Total					66,252,642.01	56,709,687.56	9,542,954.45	85.6%
Water Total						66,252,642.01	56,709,687.56	9,542,954.45	85.6%
Grand Total						510,363,120.03	409,432,634.10	100,930,485.93	80.2%
							cancelled =	6,100,000.00	

SUMMARY OF PERFORMANCE RATINGS BY SECTOR AT PRESENT

<u>Project</u>	<u>Performance Rating</u>
<u>Overall Portfolio</u>	<u>2.1</u>
<u>Agricultural Sector</u>	<u>2.1</u>
1. Rural Income Enhancement Project	2.5
2. Macadamia Smallholder Development Project	2.2
3. Smallholder Irrigation Project	2.1
4. Horticulture and Food Crops Development Project	1.8
5. Smallholder Outgrower Sugarcane Production Project	1.8
6. Lake Malawi Artisanal Fisheries Development Project	2.2
7. Customary Land Reform and Sustainable Livelihoods Study	<i>Studies not rated</i>
B. <u>Multi Sector</u>	<u>n/a</u>
8. Support for Good Governance Loan	n/a
C. <u>Social Sector</u>	<u>2.1</u>
9. Poverty Reduction and Institutional Support Project	2.1
10. Rural Health Care Project III	2.0
11. Support to Community Day Secondary Schools (Education IV)	2.0
12. Skills Development and Income Generation Project	2.1
D. <u>Transport Sector</u>	<u>2.1</u>
13. Karonga – Chitipa (Lifilya – Chitipa Section) Road Project	1.7
14. Roads Rehabilitation/Upgrading in Karonga/Chitipa	2.4
E. <u>Water and Sanitation Sector</u>	<u>2.3</u>
15. Integrated Water Supply and Sanitation for Central Region Water Board and Northern Region Water Board Project	2.3

SUMMARY OF PERFORMANCE RATINGS BY PROJECT

Rural Income Enhancement Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	1	1
2	Compliance with General Conditions	2	2
3	Compliance with other Conditions	2	2
B	Procurement Performance		
1	Procurement of Consultancy Services	3	3
2	Procurement of Goods and Outputs	3	3
C	Financial Performance		
1	Availability of Foreign Exchange	3	3
2	Availability of Local Currency	3	2
3	Disbursement Flows	3	3
4	Cost Management / Recovery	2	2
5	Performance of Co-financier (s)	n/a	n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	2	2
2	Performance of Consultants and Technical Assistants	2	2
3	Performances of Contractors	3	2
4	Performance of Project Management	2	3
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	3	3
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	3	3
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	3	3
4	Expected Rate of Return	3	3
F	Overall Assessment		
1	At Present	2.5	2.5
2	Trend over time	2.5	2.4
Legend:			
3 = Highly satisfactory.			
2 = Satisfactory. Occasional problems, Bank Group should monitor.			
1 = Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.			
0 = Highly unsatisfactory. Serious problems. Action required.			

Macadamia Smallholder Development Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	2	2
2	Compliance with General Conditions	2	2
3	Compliance with other Conditions	2	2
B	Procurement Performance		
1	Procurement of Consultancy Services	2	2
2	Procurement of Goods and Outputs	n/a	2
C	Financial Performance		
1	Availability of Foreign Exchange	3	3
2	Availability of Local Currency	2	2
3	Disbursement Flows	2	1
4	Cost Management / Recovery	2	3
5	Performance of Co-financier (s)	n/a	
D	Activities and Outputs		
1	Adherence to Implementation Schedule	1	1
2	Performance of Consultants and Technical Assistants	2	3
3	Performances of Contractors	n/a	n/a
4	Performance of Project Management	2	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	2	3
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	2	3
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	2	2
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	1.9	2.2
2	Trend over time	1.9	2.3
Legend:			
3 = Highly satisfactory.			
2 = Satisfactory. Occasional problems, Bank Group should monitor.			
1 = Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.			
0 = Highly unsatisfactory. Serious problems. Action required.			

Smallholder Irrigation Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	2 n/a	2 2
2	Compliance with General Conditions	1	1
3	Compliance with other Conditions		
B	Procurement Performance		
1	Procurement of Consultancy Services	1	2
2	Procurement of Goods and Outputs	2	2
C	Financial Performance		
1	Availability of Foreign Exchange	3	3
2	Availability of Local Currency	1	2
3	Disbursement Flows	2	2
4	Cost Management / Recovery	2	2
5	Performance of Co-financier (s)	n/a	2
D	Activities and Outputs		
1	Adherence to Implementation Schedule	1	2
2	Performance of Consultants and Technical Assistants	n/a	2
3	Performances of Contractors	2	2
4	Performance of Project Management	1	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	2	2
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	2	2
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	2	2
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	1.7	2.1
2	Trend over time	1.7	1.6
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Horticulture and Food Crops Development Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	1	1
2	Compliance with General Conditions	2	3
3	Compliance with other Conditions	2	2
B	Procurement Performance		
1	Procurement of Consultancy Services	2	1
2	Procurement of Goods and Outputs	2	1
C	Financial Performance		
1	Availability of Foreign Exchange	3	3
2	Availability of Local Currency	3	3
3	Disbursement Flows	3	2
4	Cost Management / Recovery	2	3
5	Performance of Co-financier (s)	n/a	1
D	Activities and Outputs		
1	Adherence to Implementation Schedule	1	1
2	Performance of Consultants and Technical Assistants	2	1
3	Performances of Contractors	n/a	n/a
4	Performance of Project Management	3	3
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	2	2
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	2	2
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	n/a	2
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	2.1	1.8
2	Trend over time	2.2	1.8
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Smallholder Outgrower Sugarcane Production Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	1	1
2	Compliance with General Conditions	1	1
3	Compliance with other Conditions		1
B	Procurement Performance		
1	Procurement of Consultancy Services	2	2
2	Procurement of Goods and Outputs	2	2
C	Financial Performance		
1	Availability of Foreign Exchange	3	1
2	Availability of Local Currency	2	2
3	Disbursement Flows	3	1
4	Cost Management / Recovery	2	2
5	Performance of Co-financier (s)	2	2
D	Activities and Outputs		
1	Adherence to Implementation Schedule	2	2
2	Performance of Consultants and Technical Assistants	2	2
3	Performances of Contractors	2	3
4	Performance of Project Management	2	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	2	2
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	2	2
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	2	2
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	1.9	1.8
2	Trend over time	1.9	1.7
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Lake Malawi Artisanal Fisheries Development Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	n/a	3
2	Compliance with General Conditions	n/a	3
3	Compliance with other Conditions	n/a	3
B	Procurement Performance		
1	Procurement of Consultancy Services	n/a	2
2	Procurement of Goods and Outputs	n/a	2
C	Financial Performance		
1	Availability of Foreign Exchange	n/a	3
2	Availability of Local Currency	n/a	1
3	Disbursement Flows	n/a	2
4	Cost Management / Recovery	n/a	2
5	Performance of Co-financier (s)	n/a	n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	n/a	2
2	Performance of Consultants and Technical Assistants	n/a	2
3	Performances of Contractors	n/a	2
4	Performance of Project Management	n/a	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	n/a	2
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	n/a	2
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	n/a	2
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	n/a	2.2
2	Trend over time	n/a	2.3
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Customary Land Reform and Sustainable Livelihoods Study

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	n/a	n/a
2	Compliance with General Conditions	n/a	n/a
3	Compliance with other Conditions	n/a	n/a
B	Procurement Performance		
1	Procurement of Consultancy Services	n/a	n/a
2	Procurement of Goods and Outputs	n/a	n/a
C	Financial Performance		
1	Availability of Foreign Exchange	n/a	n/a
2	Availability of Local Currency	n/a	n/a
3	Disbursement Flows	n/a	n/a
4	Cost Management / Recovery	n/a	n/a
5	Performance of Co-financier (s)	n/a	n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	n/a	n/a
2	Performance of Consultants and Technical Assistants	n/a	n/a
3	Performances of Contractors	n/a	n/a
4	Performance of Project Management	n/a	n/a
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	n/a	n/a
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	n/a	n/a
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	n/a	n/a
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	n/a	n/a
2	Trend over time	n/a	n/a
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Support for Good Governance Loan

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	n/a	n/a
2	Compliance with General Conditions	n/a	n/a
3	Compliance with other Conditions	n/a	n/a
B	Procurement Performance		
1	Procurement of Consultancy Services	n/a	n/a
2	Procurement of Goods and Outputs	n/a	n/a
C	Financial Performance		
1	Availability of Foreign Exchange	n/a	n/a
2	Availability of Local Currency	n/a	n/a
3	Disbursement Flows	n/a	n/a
4	Cost Management / Recovery	n/a	n/a
5	Performance of Co-financier (s)	n/a	n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	n/a	n/a
2	Performance of Consultants and Technical Assistants	n/a	n/a
3	Performances of Contractors	n/a	n/a
4	Performance of Project Management	n/a	n/a
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	n/a	n/a
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	n/a	n/a
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	n/a	n/a
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	n/a	n/a
2	Trend over time	n/a	n/a
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Poverty Reduction and Institutional Support Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	2	2
2	Compliance with General Conditions	2	2
3	Compliance with other Conditions	2	2
B	Procurement Performance		
1	Procurement of Consultancy Services	2	2
2	Procurement of Goods and Outputs	2	2
C	Financial Performance		
1	Availability of Foreign Exchange	3	2
2	Availability of Local Currency	3	2
3	Disbursement Flows	2	3
4	Cost Management / Recovery	2	2
5	Performance of Co-financier (s)	n/a	n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	1	1
2	Performance of Consultants and Technical Assistants	2	2
3	Performances of Contractors	n/a	2
4	Performance of Project Management	2	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	2	2
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	3	3
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	2	2
4	Expected Rate of Return	2	n/a
F	Overall Assessment		
1	At Present	2.1	2.1
2	Trend over time	2.0	1.7
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Rural Healthcare Project III

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	2	2
2	Compliance with General Conditions	2	2
3	Compliance with other Conditions	n/a	1
B	Procurement Performance		
1	Procurement of Consultancy Services	2	2
2	Procurement of Goods and Outputs	3	3
C	Financial Performance		
1	Availability of Foreign Exchange	2	3
2	Availability of Local Currency	2	1
3	Disbursement Flows	2	2
4	Cost Management / Recovery	2	2
5	Performance of Co-financier (s)	2	n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	2	2
2	Performance of Consultants and Technical Assistants	2	1
3	Performances of Contractors	n/a	2
4	Performance of Project Management	2	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	2	3
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	2	2
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	2	2
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	2.0	2.0
2	Trend over time	2.0	2.1
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Support to Community Day Secondary Schools (Education IV Project)

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	n/a	2
2	Compliance with General Conditions	n/a	2
3	Compliance with other Conditions	n/a	2
B	Procurement Performance		
1	Procurement of Consultancy Services	n/a	2
2	Procurement of Goods and Outputs	n/a	2
C	Financial Performance		
1	Availability of Foreign Exchange	n/a	3
2	Availability of Local Currency	n/a	2
3	Disbursement Flows	n/a	2
4	Cost Management / Recovery	n/a	2
5	Performance of Co-financier (s)		n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	n/a	2
2	Performance of Consultants and Technical Assistants	n/a	2
3	Performances of Contractors	n/a	2
4	Performance of Project Management	n/a	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	n/a	3
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	n/a	2
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	n/a	2
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	n/a	2.0
2	Trend over time	n/a	2.0
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Skills Development and Income Generation Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	n/a	3
2	Compliance with General Conditions	n/a	2
3	Compliance with other Conditions	n/a	2
B	Procurement Performance		
1	Procurement of Consultancy Services	n/a	2
2	Procurement of Goods and Outputs	n/a	2
C	Financial Performance		
1	Availability of Foreign Exchange	n/a	2
2	Availability of Local Currency	n/a	2
3	Disbursement Flows	n/a	2
4	Cost Management / Recovery	n/a	2
5	Performance of Co-financier (s)	n/a	n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	n/a	1
2	Performance of Consultants and Technical Assistants	n/a	2
3	Performances of Contractors	n/a	2
4	Performance of Project Management	n/a	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	n/a	2
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	n/a	3
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	n/a	3
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	n/a	2.1
2	Trend over time	n/a	2.3
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Karonga-Chitipa (Lifilya-Chitipa Section) Road Project

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	0	0
2	Compliance with General Conditions	n/a	n/a
3	Compliance with other Conditions	0	0
B	Procurement Performance		
1	Procurement of Consultancy Services	3	3
2	Procurement of Goods and Outputs	1.5	2
C.	Financial Performance		
1	Availability of Foreign Exchange	n/a	n/a
2	Availability of Local Currency	n/a	n/a
3	Disbursement Flows	n/a	n/a
4	Cost Management / Recovery	n/a	n/a
5	Performance of Co-financier (s)	n/a	n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	1	1
2	Performance of Consultants and Technical Assistants	3	3
3	Performances of Contractors	n/a	n/a
4	Performance of Project Management	n/a	n/a
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	3	3
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	3	3
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	1	1
4	Expected Rate of Return	2	2
F	Overall Assessment		
1	At Present	1.6	1.7
2	Trend over time	1.6	1.7
Legend:			
3 = Highly satisfactory.			
2 = Satisfactory. Occasional problems, Bank Group should monitor.			
1 = Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.			
0 = Highly unsatisfactory. Serious problems. Action required.			

Roads Rehabilitation/Upgrading in Karonga/Chitipa

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1	Compliance with Conditions Precedent to Loan Effectiveness	3	3
2	Compliance with General Conditions	n/a	n/a
3.	Compliance with other Conditions	1	1
B	Procurement Performance		
1	Procurement of Consultancy Services	n/a	2
2.	Procurement of Goods and Outputs	1.5	2
C	Financial Performance		
1	Availability of Foreign Exchange	n/a	n/a
2	Availability of Local Currency	n/a	n/a
3	Disbursement Flows	n/a	n/a
4	Cost Management / Recovery	n/a	n/a
5	Performance of Co-financier (s)	n/a	3
D	Activities and Outputs		
1	Adherence to Implementation Schedule	3	3
2	Performance of Consultants and Technical Assistants	n/a	n/a
3	Performances of Contractors	n/a	n/a
4	Performance of Project Management	n/a	n/a
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	3	3
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	3	3
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	1	1
4	Expected Rate of Return	2	2
F	Overall Assessment		
1	At Present	2.1	2.4
2	Trend over time	2.1	2.2
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Integrated Water Supply and Sanitation for Central Region and Northern Region
Water Boards

PERFORMANCE INDICATORS			
<u>Indicators</u>		<u>Previous CPRR</u>	<u>This CPRR</u>
A	Project Progress		
1.	Compliance with Conditions Precedent to Loan Effectiveness	n/a	3
2	Compliance with General Conditions	n/a	2
3	Compliance with other Conditions	n/a	2
B	Procurement Performance		
1	Procurement of Consultancy Services	n/a	2
2	Procurement of Goods and Outputs	n/a	2
C	Financial Performance		
1	Availability of Foreign Exchange	n/a	3
2	Availability of Local Currency	n/a	2
3	Disbursement Flows	n/a	2
4	Cost Management / Recovery	n/a	2
5	Performance of Co-financier (s)		n/a
D	Activities and Outputs		
1	Adherence to Implementation Schedule	n/a	2
2	Performance of Consultants and Technical Assistants	n/a	2
3	Performances of Contractors	n/a	2
4	Performance of Project Management	n/a	2
E	Impact on Development		
1	Likelihood of Achieving Project Objectives	n/a	3
2	Likelihood that Benefits will be Realised and Sustained Beyond the Investment Stage of the Project	n/a	2
3	Likely Contribution of the Project towards an Increase in Institutional Capacity	n/a	3
4	Expected Rate of Return	n/a	n/a
F	Overall Assessment		
1	At Present	n/a	2.3
2	Trend over time	n/a	2.3
Legend:			
3 =	Highly satisfactory.		
2 =	Satisfactory. Occasional problems, Bank Group should monitor.		
1 =	Unsatisfactory. Problems. Bank Group should monitor closely, but no immediate action is required.		
0 =	Highly unsatisfactory. Serious problems. Action required.		

Chart I: Age to Disbursement Ratio for On-going Projects

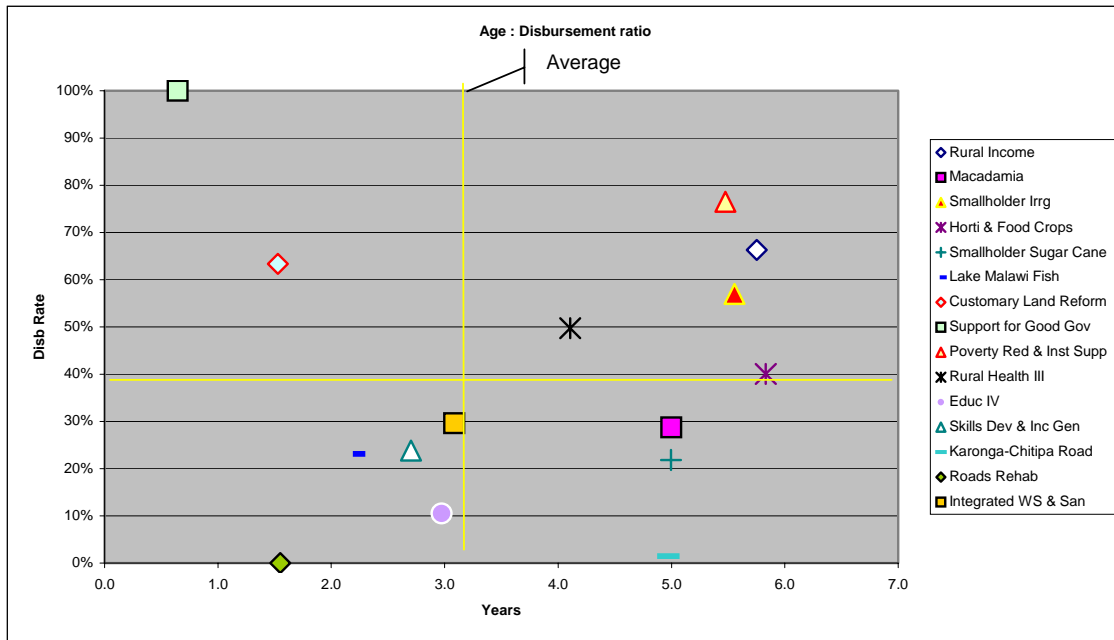


Chart I: Chart I shows the relationship between projects' age and disbursement rates, based on the position of the portfolio on 01 December 2005. For various reasons specific to each project (highlighted in section 2.7), projects' age and disbursement rates are influenced by various factors.

Chart II: Disbursement to Age Ratio Trend

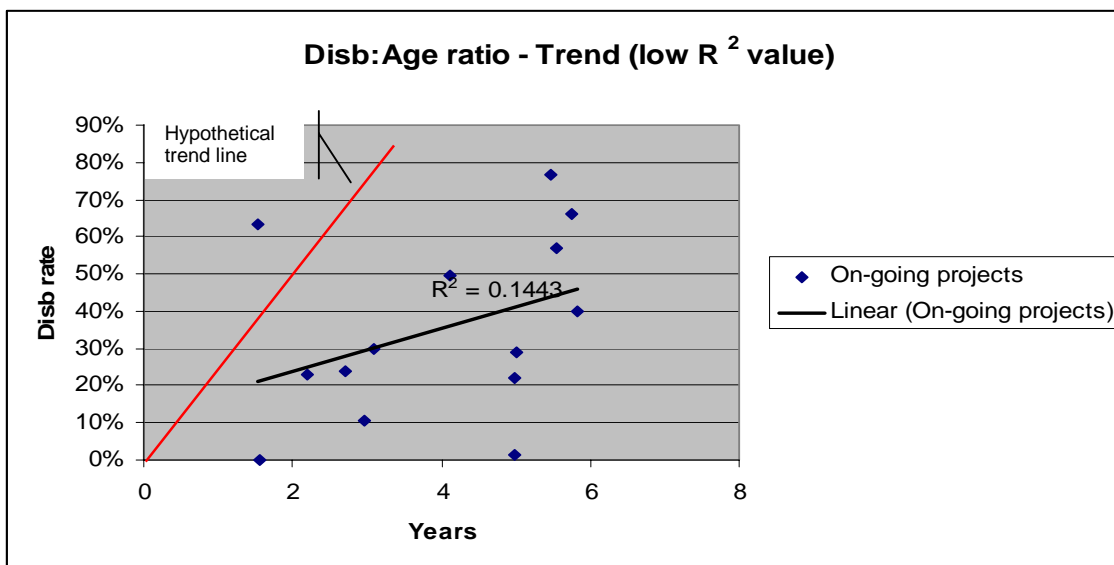


Chart II: The low R^2 value (0.1443, and not close to 1.0, a perfect fit), is due to the wide variation in the age and disbursement rates of on-going projects (excluding the Support for Good Governance loan, which has a 100% disbursement rate). The trendline is relatively flat, which highlights aged projects with slow disbursement levels. The trendline does show that, as expected, as a project's age increases, so too does the disbursement rate. A hypothetical trendline is provided in red, which shows what a faster level of disbursement over a shorter period of time would look like, based on disbursements commencing close to project start-up and an average three year project life-span.

Chart III: Correlation of Efficiency Ratio to Overall Rating Assessment

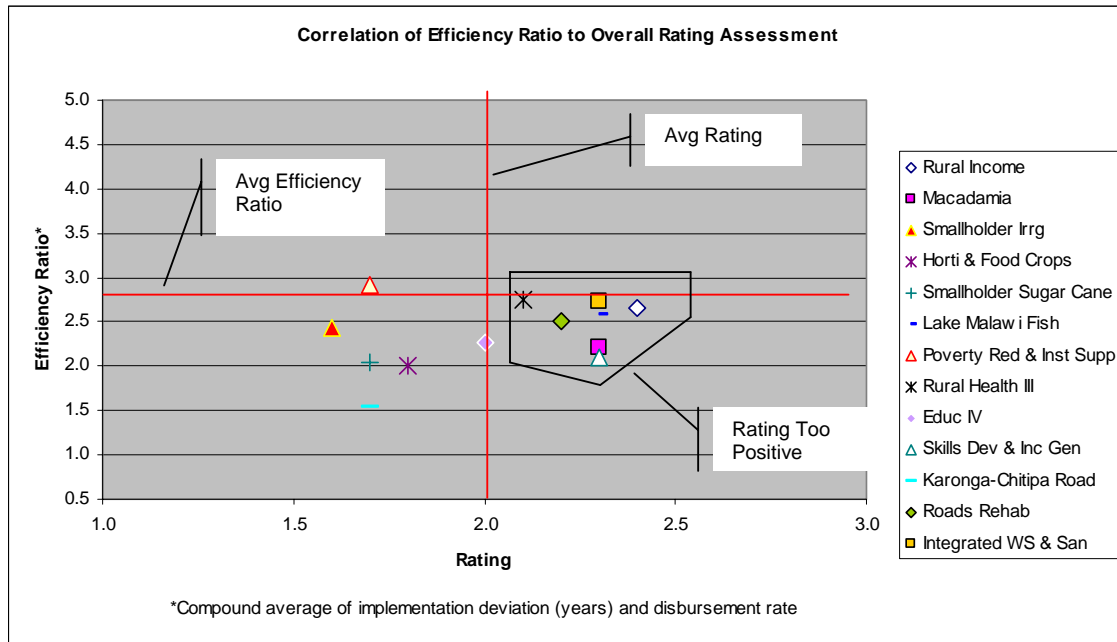


Chart III: The efficiency ratio highlights the amount of deviation from the average project rating (of 2.0) and the average efficiency ratio (of 2.7). In theory, all project ratings should be grouped around the point where the average rating score and average efficiency ratio bisect. However, the above chart shows that projects' differing rating scores in combination with each efficiency ratio score are not closely grouped. Despite variations such as length of time over or under the expected implementation period of the project in conjunction with projects' disbursement rates, which are taken into consideration in the efficiency ratio, all things being equal, a score that is close to the efficiency ratio and rating averages does not appear. This is because project ratings are not consistent with actual project progress/implementation. While it is noted that in projects' Appraisal Reports, disbursement schedules are provided that are expected to be adhered to (which will influence positively the efficiency ratio), in practice, because of disbursement delays due to factors that are within and outside of Task Managers and PIUs' control, disbursement schedules often slip. But this does not explain the whole reason for the deviation from the centre.

Chart IV: Project Age in Descending Order

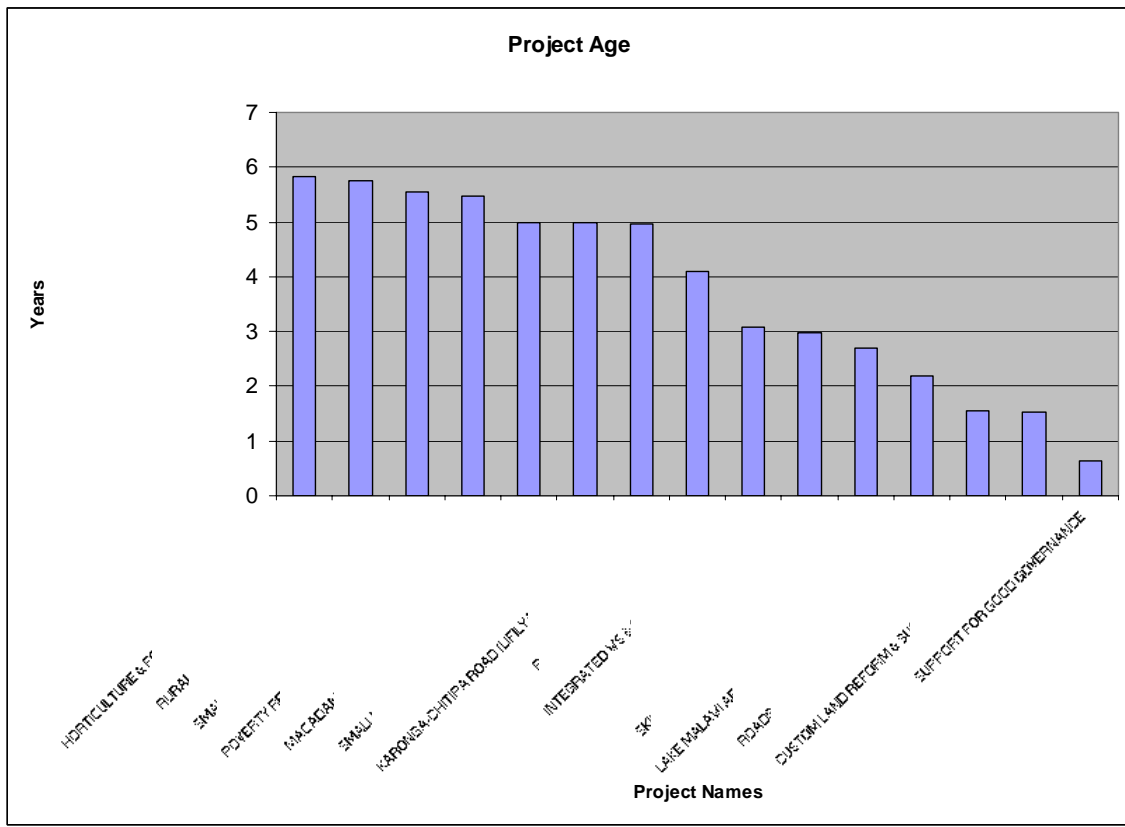


Chart IV: The Age of all on-going projects in descending order.

Annex V**World Bank Malawi On-going Portfolio Performance (30 November 2004 - SDR
Million)**

<u>PROJECT</u>	<u>APPROVAL DATE</u> (month/day/year)	<u>CLOSING DATE</u>	<u>AGE (YEAR)</u>	<u>NET COMMITMENT</u>	<u>UNDISBURSED BALANCE</u>	<u>TOTAL DISBURSED</u>	<u>DO RATING *</u>	<u>IP RATING *</u>
Environmentally and Socially Sustainable Development Network				61.30	22.52	38.78		
Emergency Drought Recovery Project	11/5/2002	11/30/2004	2.0	37.90	0.96	36.94	S	S
Mt Mulanje Biodiversity Conservation	4/17/2001	6/30/2008	3.6	5.30	4.24	1.06	S	S
Community-based Rural Lands Development	4/13/2004	6/30/2009	0.6	18.10	17.32	0.78	S	S
Finance, Infrastructure, and Private Sector Development				55.60	29.39	26.21		
Road Maintenance & Rehabilitation	6/10/1999	3/31/2005	5.5	22.20	7.82	14.38	S	S
Privatization and Utility Reform	6/27/2000	12/31/2005	4.4	21.80	13.08	8.72	S	S
Regional Trade Facilitation	4/3/2001	6/30/2011	3.7	11.60	8.49	3.11	S	S
Human Development Network				105.01	70.46	34.55		
Secondary Education Project	3/24/1998	12/31/2004	6.7	35.51	8.23	27.28	S	S
Malawi Social Action Fund 3	6/10/2003	12/31/2006	1.5	44.10	38.73	5.37	S	S
Multi-Sectoral AIDS Project	8/25/2003	12/31/2008	1.3	25.40	23.50	1.90	S	S
Economic Mgt. and Public Sector				54.10	33.49	20.61		
Financial Mgt. & Transparency Project	3/6/2003	3/1/2008	1.7	17.60	13.89	3.71	S	S
Global Development Learning Centre	3/11/2004	6/30/2009	0.7	2.70	2.70	0.00	S	S
Fiscal Management and Accelerating Growth	4/13/2004	12/31/2005	0.6	33.80	16.90	16.90	S	S
TOTAL			2.7	276.01	155.86	120.15		

DO = Development Objective; IP = Implementation Progress
S = Satisfactory; U = Unsatisfactory; HS = Highly Satisfactory

MATRIX OF COMMON PROBLEMS

Problems	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total (position)
Weak technical and management capacities of the PIU		X	X	X	X	X	X	n/a								6 (=3rd)
Frequent changes in PIU management		X	X			X		n/a		X						4 (6th)
Lengthy communication channels between the Bank Group and the PIU		X		X	X			n/a					X	X		5 (5th)
Long delays in fulfilment of loan conditions	X		X					n/a	X	X	X				X	6 (=3rd)
Long delays in Project Execution	X		X	X	X	X	X	n/a	X				X	X		9 (2nd)
Non-compliance with Bank Group procurement and disbursement procedures					X			n/a								1 (=10th)
Frequent complaints by suppliers and bidders as regards the results of examination of tenders					X			n/a								1 (=10th)
Poor performance when the contracts are awarded to local firms and public entities								n/a	X	X	X					3 (=7th)
Inadequate Government contributions to projects		X	X	X	X	X		n/a	X	X	X	X			X	10 (1st)
Inefficient use of Technical Assistance								n/a								
Lack of observance Bank Group requirements as regards progress and audit reports					X			n/a	X							2 (9th)
Lack of adequate supervision								n/a								0
Lack of adequate preparation		X	X					n/a							X	3 (=7th)
Un-disbursed loan balance					X			n/a								1 (=10th)
Frequent sanctions as a result of loan arrears								n/a								0
Political instability and unusual economic situation								n/a								0
Inadequate Bank Group Role								n/a								0
Cross-Cutting Issues																
Poverty Reduction	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	15
Gender	X	X	X			X	X			X	X	X			X	9
Environment		X	X	X	X	X	X				X				X	8
HIV/AIDS		X	X			X	X			X	X				X	7

Governance							X	X	X					X	4
Regional Integration					X								X	X	3
Population										X					1
Private Sector Development															0
Core Labour Standards															0

Projects

- 1 Rural Income Enhancement Project;
- 2 Macadamia Smallholder Development Project;
- 3 Smallholder Irrigation Project;
- 4 Horticulture and Food Crops Development Project;
- 5 Smallholder Outgrower Sugarcane Production Project;
- 6 Lake Malawi Artisanal Fisheries Development Project;
- 7 Customary Land Reform and Sustainable Livelihoods Study;
- 8 Support for Good Governance Loan;
- 9 Poverty Reduction and Institutional Support Project;
- 10 Rural Health Care Project III;
- 11 Support to Community Day Secondary Schools (Education IV);
- 12 Skills Development and Income Generation Project;
- 13 Karonga – Chitipa (Lifilya – Chitipa Section) Road Project;
- 14 Roads Rehabilitation/Upgrading in Karonga/Chitipa;
- 15 Integrated Water Supply and Sanitation for Central Region Water Board and Northern Region Water Board Project.

SPECIFIC ACTIONS REQUIRED PER ON-GOING PROJECT

Name of Project	Approval Date	Major Issues	Actions Taken or to be Taken	Dated actions to be Taken
<u>AGRICULTURE SECTOR</u>				
Rural Income Enhancement Project	10.12.97	Project would be completed on 31 December 2006. There are few procurement activities yet to be done.	The next supervision mission will work with the PIU to draw a procurement schedule to ensure that all procurement activities are completed before the closure of the project.	Next supervision mission will be in February 2006.
Macadamia Smallholder Development Project	15.7.98	Delays in road construction.	Design completed and tender to be floated.	Ongoing.
Smallholder Irrigation Project	26.11.98	Delays in irrigation development.	Speed up the various procurement actions.	Ongoing.
Horticulture and Food Crops Development Project	15.12.98	Design will be completed this year and there will be no time for construction.	Project duration may need to be extended to allow dam construction.	n/a
Smallholder Outgrower Sugarcane Production Project	15.12.99	Implementation delays in installing infrastructure.	Accelerate procurement, tendering and approval processes.	Various and ongoing.
Lake Malawi Artisanal Fisheries Development Project	29.1.03	Delay in recruitment of TA for the Project.	Speed up the procurement process.	March 2006.
Customary Land Reform and Sustainable Livelihoods Study	16.9.03	Delays in final preparation report submission.	Report now submitted.	Action taken already.
<u>MULTI SECTOR</u>				
Support for Good Governance Loan	8.12.04	None.	None.	None.
<u>SOCIAL SECTOR</u>				
Poverty Reduction and Institutional Support Project	10.12.98	Delays in procurement.	Accelerate and enforce due diligence in procurement.	January 2006.
Rural Health Care Project III	8.11.00	1. Erratic provision of counterpart funds. 2. High turnover of PIU staff.	1. All outstanding counterpart funds to be paid. 2. Bank Group has requested Government to fill all outstanding posts.	1. Actions being taken. 2. Ongoing.
Support to Community Day Secondary Schools (Education IV)	21.11.01	Inadequate government contributions to project costs.	Bank discussed the problem with the government and informed the concerned authorities government that the inadequate availability of	Government is to provide the required counterpart contributions regularly, but quite often it does not have the needed resources. In

Name of Project	Approval Date	Major Issues	Actions Taken or to be Taken	Dated actions to be Taken
			counterpart funds will lead to delays in the completion of construction works at the schools supported by the project.	December 2005, the Ministry of Education increased the allocation for the project in the budget it submitted to the Ministry Finance, but whether the Ministry Finance will provide the requested amounts is to be seen.
Skills Development and Income Generation Project	16.1.02	Backlog on business management training.	Use NGOs/specialists to assist in implementation of formal business management training activities. Finalise all procurement activities.	31 March 2006.
<u>TRANSPORT SECTOR</u>				
Karonga – Chitipa (Lifilya – Chitipa Section) Road Project	15.12.99	Delay in procurement of contractor services.	Finalise bid evaluation and award.	31 December 2005..
Roads Rehabilitation/Upgrading in Karonga/Chitipa	29.10.03	None.	None.	None.
<u>WATER/SANITATION SECTOR</u>				
Integrated Water Supply and Sanitation for Central Region Water Board and Northern Region Water Board Project	5.12.01	Slow implementation progress.	There is need for more Government support.	To be discussed during upcoming mission.

ACTION PLAN TO IMPROVE PORTFOLIO PERFORMANCE

1. Compliance with Conditions Precedent/Commitments

Actions	Period/Deadline	Responsible Body
1. Project design (staffing, costs, timeline, outputs) should be more realistic and incorporate lessons learned from previous projects in order to minimise future design changes that cause delays and increased costs.	At appraisal	Government/Bank
2. Reduce complexity and scope of project activities and focus on sectors where institutional capacity has already been built, or is strongest.	At appraisal	Government/Bank
3. To improve timeliness of grant conditions, at appraisal be aware of actions that need to take place before compliance with conditions that are often not considered and therefore not budgeted for.	At appraisal	Government/Bank
4. Improve design of grant conditions during preparation phase by discussing with all relevant stakeholders; technical staff of Ministry of Finance (MoF), Reserve Bank of Malawi (RBM) and other ministries project design; also, conditions should reflect real capacity and ability of Government to implement them, without diluting the role of conditions as a tool to achieve project quality.	At the time of loan negotiation	Government/Bank
5. Where possible, appoint project officers before the negotiation of loan agreements.	At the time of loan negotiation	Government/Bank
6. Put in place a performance chart for compliance with loan and/or grant conditions.	Immediate/On-going	Government
7. Speed up the approval process of projects' authorisation bills through Parliament.	Immediate/On-going	Government
8. Speed up opening of Country Office.	Immediate	Bank

2. Procurement of Goods and Services

Action	Period/Deadline	Responsible Body
1. PIU to draw up a performance chart indicating the type of procurement chosen and the deadlines for launching the procedures for selection of external auditors.	Permanent	PIU/Government
2. Strengthen mechanism for reviewing procurement documents (use procedures checklists) submitted to the MoF/line ministries to ensure conformity with Bank Group procedures before they are forward to the Bank Group for clearance.	Permanent	PIU/Government

3. PIUs should speed up preparation and transmission of financial bid evaluation reports.	1 month	PIU/Government
4. PIUs should comply with Bank Group procedures relating to procurement.	1 month	PIU/Government
5. Bank Group should analyse national procurement code in order to access the possibility of the Bank Group adopting some of its procedures, to increase flexibility.	1 year	Bank
6. Harmonise where possible with other donors procurement procedures that are found to be simpler and clearer than Bank Group's procedures.	Permanent	Bank
7. Bank Group should organise procurement training session for PIUs and line ministries; and Task Managers to be provided better quality training on procurement/disbursement procedures.	Every year	Bank
8. Speed-up the issuing of non-objection opinions on financial bids.	1 month	Bank
9. For new Bank Group projects include a component for an implementation manual that explains procurement, disbursement, accounting, and auditing procedures.	Immediate	Bank
10. Speed up opening of Country Office.	Immediate/	Bank

3. Financial Performance

Actions	Period/Deadline	Responsible Body
1. Strengthen mechanism for reviewing disbursement documents (use checklists and updated control sheets) submitted to the MoF/RBM to ensure conformity with Bank Group procedures before they are forward to Bank Group for payment.	Permanent	Government
2. MoF to constantly update its loan/disbursement records to serve as a control for the processing and approval of disbursement applications.	Permanent	MoF
3. Improve preparation/consolidation of accounting and financial reports, and improve timeliness of external audits, given that non compliance with account/audit reporting requirements is a common complaint given Government's capacity limitations.	Permanent	PIUs/MoF
4. PIUs/MoF should transmit regularly to the Bank Group list of requests pending for more than two months.	Permanent	PIUs/MoF
5. Bank Group should respect fully deadlines for PIU disbursement requests.	1 month	Bank
6. Bank Group should transmit disbursement statements to PIUs, MoF and RBM.	Monthly	Bank

7. To assist cleaning up of portfolio, Bank Group should be more vigorous in enforcing its cancellation policy given that some projects show repeated delays, low disbursement rates and multiple extensions that jeopardise the Bank Group's lending ability.	Quarterly	Bank
8. Bank Group should communicate in advance likely project pipeline and likely on-going project disbursements to assist Government's financial/budget planning.	Every quarter	Bank
9. Government to disburse counterpart funds at expected times and at expected levels, and Bank Group to intensify dialogue with Government regarding timely release of projects' counterpart payments.	Permanent	Government/Bank
10. Noting the recommendation in point 9, for future Bank Group projects/interventions, the Bank Group should drop the requirement that Government provides counterpart funds.	Permanent	Bank
11. For new Bank Group projects include a component for an implementation manual that explains procurement, disbursement, accounting, and auditing procedures.	Immediate	Bank
12. Bank Group to consider strongly the option of bringing in financial specialists to help run projects.	For consideration	Bank

4. Implementation and Monitoring of Activities

Actions	Period/Deadline	Responsible Body
1. Increase efforts to strengthen capacity at PIU, central and local Government levels, particularly relating to implementation.	Permanent	Government/Bank
2. Organise internal portfolio reviews (based on Quarterly Progress Reports) and transmit the review reports to the Bank Group for information.	Quarterly	Government
3. Set up a regular dialogue mechanism between PIUs and Task Managers; and support intra-PIU dialogue (to share common experiences).	Monthly	PIU/Bank
4. For projects with implementation problems, improve quality of Task Managers' desk supervision, given Government/PIU capacity constraints; part of efforts should focus on providing better quality training on how to rate projects.	Permanent	Bank
5. Information exchanges between Government/MoF and Bank Group should include the relevant PIU; and speed, accuracy and efficiency of internal/external communications between PIUs, line ministries, and Bank group be improved.	Permanent	Government/PIU/Bank
6. Bank Group's comments on audit and progress	Permanent	Bank

reports should be communicated timely to Government/PIUs.		
7. Reduce Task Manager and PIU staff turnover rate to ensure project familiarity.	Permanent	Bank/PIUs
8. MoF should develop a system to monitor, help implement and follow-up all project-related observations and recommendations contained in Bank Group supervision mission aide-memoires.	Quarterly	MoF
9. For project auditing and quarterly reporting, MoF should act as coordinator to register, number and classify current and future project reports and create a performance chart indicating each project's ability to adhere to agreed reporting timetable.	Permanent	MoF/PIUs
10. Government should ensure that Bank Group project audit reports are shared with stakeholders in Malawi, such as Auditor General, National Audit Office, civil society and other audit organs.	Permanent	Government
11. Review the status of compliance with other conditions in the quarterly progress reports.	Quarterly	MoF/line ministries/PIUs/Bank
12. During implementation, ensure transfer of skills and project knowledge from PIU staff and/or TAs to the line ministry/Government staff before the end of project or TA contract.	Permanent	PIUs/Bank
13. Improve the quality of data in Bank Group's SAP system, and provide better quality SAP training for Task Managers.	Permanent	Bank
14. Improve the performance of agricultural sector projects (see section 7.2.1 for details).	Permanent	Government
15. Where relevant, Bank Group Task Managers to follow the lead of the Agricultural sector and prepare Sector Improvement Plans.	Immediate/On-going	Bank
16. Increase level of harmonisation and coordination with other donors (to reduce duplication, increase efficiencies, and lessen capacity overstretch).	Immediate/On-going	Bank/Government
17. Provide a robust critique of what each Bank Group supervision mission has achieved, with time-sensitive actions to implement; and strengthen supervision missions/teams, in line with project components, to provide necessary technical assistance.	Immediate	Bank
18. Speed up opening of Country Office.	Immediate	Bank

5. Impact on Development

Actions	Period/Deadline	Responsible Body
1. Put in place robust project monitoring and evaluation mechanisms and reporting structures to allow better assessment of projects' impact on development.	Permanent	Government/PIUs
2. To ensure development effectiveness, Ministry of Finance should ensure it maintains records of loan/grant conditions, in order to follow-up on their timely implementation.	Permanent	Government