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COUNTRY: Republic of Malawi

PROJECT APPRAISAL REPORT

November 2011

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Currency Equivalents

As of September 2011

1 UA	=	MWK	241.129
1 USD	=	MWK	167.80
1 UA	=	USD	1.60936

Fiscal Year

1st July – 30th June

Weights and Measurements

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

Acronyms and Abbreviations

ADF	African Development Fund
B2B	Business to Business Linkages
BESTAP	Business Environment Strengthening Technical Assistance Project
DfID	Department for International Development (UK)
EU	European Union
FAPA	Fund for African Private Sector Assistance
FE	Foreign Exchange
FI	Financial Institutions
GDP	Gross Domestic Product
GNI	Gross National Income
GOM	Government of Malawi
Ha	Hectares
HEST	Higher Education Science and Technology
ICSP	Interim Country Strategy Paper
ICT	Information and Communication Technology
IMD	Inclusive Market Development
ITAP	Industry and Trade Adjustment Project
LC	Local Cost
LOC	Line of Credit
LED	Local Economic Development
MDG	Millennium Development Goals
MEPC	Malawi Export Promotion Council
MGDS	Malawi Growth and Development Strategy
MIPA	Malawi Investment Promotion Agency
MITC	Malawi Investment and Trade Centre
MK	Malawian Kwacha
MoIT	Ministry of Industry and Trade

MoU	Memorandum of Understanding
MSME	Micro, Small and Medium size Enterprises
MT	Metric Tonnes
MT	Metric Tonne
MTS	Medium Term Strategy
MWFO	Malawi Field Office
NBS	National Building Society
NSO	National Statistics Office
PCRs	Project Completion Reports
PFEM	Public Financial and Economic Management
PPD	Public – Private Dialogue
PSD	Private Sector Development
PSO	Private Sector Operations
RBCSP	Results-Based Country Strategy Paper
RBM	Reserve Bank of Malawi
SA	Special Account
SADC	Southern African Development Community
SETFI	Small Enterprise Training and Finance Institute
SMEs	Small and Medium size Enterprises
SSA	Sub-Sahara Africa
SWG	Sector Working Group
TA	Technical Assistance
TWG	Technical Working Group
UA	Unit of Account
UNDP	United Nations Development Project
UNIDO	United Nations Industrial Development Organisation
USAID	United States Agency for International Development
WB	World Bank

Loan Information

Client's information

BORROWER: Republic of Malawi

EXECUTING AGENCY: Ministry of Industry and Trade
Financing plan

Source	Amount (UA)	Instrument
ADF	10.00 Million	Loan
GoM	1.18 Million	Counterpart Funds
TOTAL COST	11.18 Million	

ADB's key financing information

Loan currency	UA
Commitment fee	0.50% (50 basis pts.)
Other fees	0.75% (service charge)
Tenor	50 years
Grace period	10 years
ENPV (base case)	USD 5.8m
EIRR (base case)	20%
FNPV	USD 216,000
FIRR	11%

**if applicable*

Timeframe - Main Milestones (expected)

Concept Note approval	September 2011
Project approval	December 2011
Effectiveness	March 2012
Completion	December 2016
Last Disbursement	December 2017

Project Summary

Project Overview: The Competitiveness and Job Creation Support Project involves the Public Sector and the Private Sector working together to improve the competitiveness of the private sector in order to promote broad-based economic growth and development, export diversification and job creation. The strategic outcomes of the project include: (a) Increased private credit by commercial banks from 8.9% in 2009 to 12% in 2016, to address the most important binding constraint to Micro, Small and Medium size Enterprises (MSMEs) development in Malawi; (b) Increased Export Diversification with an increased percentage of non-traditional exports in total exports from 10.7% in 2009 to 14% in 2016, and a reduced reliance on the key export crop, tobacco; and (c) MSMEs developed and formal employment in the private sector increased by 2,000 jobs (including 50% women and 25% youth) and 15% increase in the income of 20,000 existing pulse farmers in target areas (including 50% women and 25% youth); by 2016. These outcomes will contribute to the reduction of poverty and vulnerability to socioeconomic shocks in Malawi. The total project cost is UA 11.18 million over a five year period.

Beneficiary Participation: The identification, preparation and appraisal of the Project included a wide consultation of stakeholders and its design has been conducted through a participatory process. Public sector institutions, private sector operators, financial institutions, the civil society and main development partners were consulted during all the stages of the preparation of the Project and their views incorporated in its design. These stakeholders will equally be involved in the implementation of the Project in various capacities, such as in monitoring and as service providers.

Project rationale: Malawi faces key challenges in sustaining its economic growth and the reduction of poverty. MSMEs, which have a major role in the socioeconomic development of the country, are in particular faced with poor access to finance, foreign exchange scarcity and low entrepreneurial skills. The proposed support by the Bank will address these constraints as a means of fostering job creation in the private sector and thereby contribute to the reduction of poverty in the country.

Bank's Added Value: In responding to the Government of Malawi's request, the Bank is focusing its intervention in a sector that receives considerably less support from donors (just 1% in 2010) compared to other sectors. The Project will also contribute directly to the implementation of the Malawi Growth and Development Strategy (MGDS), which prioritize private sector development for sustainable economic growth in Malawi. The Project will provide opportunities in Malawi for further interventions in key priority areas of the Bank's Mid-Term Strategy. The project includes institutional capacity building activities, for improved governance as well as entrepreneurship skills development with linkages to the Bank's development efforts in Higher Education Science and Technology (HEST).

Knowledge Management: The project's M&E process will include implementation monitoring by the project management team and the Bank as well as participatory monitoring by the Project's public sector and private sector stakeholders. The project will generate lessons of interest to Government, the private sector, development partners and other stakeholders. Key knowledge generation processes envisaged under the project include a baseline survey, focus group discussions, in-depth interviews, a labour force sample survey, project reviews at stakeholder meetings, an impact evaluation study and the final project evaluation.

Result-Based Logical Framework

Country and Project Name:

MALAWI – Competitiveness and Job Creation Support Project

Purpose of the project:

To improve the capabilities and the competitiveness of the private sector as well as increase export diversification and job creation

RESULTS CHAIN		PERFORMANCE INDICATORS			Means of Verification	RISKS / MITIGATION MEASURES
		Indicator (including CSI)	Baseline	Target		
IMPACT	Reduced poverty in Malawi through sustainable pro-poor economic growth led by the private sector	Prevalence of poverty in Malawi GNI per capita	40% in 2009 USD 290 in 2008	30% in 2020. USD 350 by 2020.	UN Human Development Report. ADB Statistics.	
	Outcome 1. Increased private credit by commercial banks to MSMEs	Ratio of private credit to GDP by commercial banks	8.9% in 2009	12% by 2016.	WB/IFC Reports.	Risk: Ineffective implementation of the Project's Financial Innovation matching grant activities could fail to bring changes in lending to MSMEs. Mitigating Measure: TA and Stakeholder Group will be used to ensure effective engagement of commercial banks to innovate and increase lending to MSMEs.
	Outcome 2. Increased Export Diversification	Percentage of non-traditional exports in total exports (Traditional exports: tobacco, tea, sugar & cotton)	10.7% in 2009	14% by 2016.	Trade Statistics from the NSO.	Risk: Low priority in the development of non-traditional exports crops Mitigating Measure: The project includes advocacy and sensitization campaigns to promote the development of non-traditional agribusiness value chains.
	Outcome 3. Increased volume of export of pulses	Volume of export of pulses (pigeon pea)	220000 MT in 2010	300,000MT in 2016	Trade Statistics from the NSO	Risk: -Climate variability: -Fluctuation of international agriculture commodity prices Mitigation Measure: -improved seed varieties that are early maturing and more drought-resistant will be promoted under the Project. - Exploration of new markets - Promote farmer flexibility in responding to price fluctuations by crop substitution.
	Outcome 4 Reduced import of edible oils	Value of import of edible oils (soya)	USD 18m in 2010	USD 9m in 2016	Trade Statistics from the NSO.	
OUTPUTS	Component 1 1.1. Policy research conducted and policy briefs prepare for policy reform 1.2 Public Sector Institutions strengthened to support private sector development; 1.3 MSMEs strengthened with B2B linkages 1.4 MSMEs supported through mentoring & counselling facility 1.5 Sustainable jobs created by MSMEs 1.6 local communities sensitised on gender equality 1.7 development and implementation of a Gender Equality and Women's Economic Empowerment Action Plan Supported.	1.1 Number of new policy research studies conducted 1.2 Number of staff trained in MoIT, SETFI and MITC in PSD and MSME development issues 1.3 Number of new business to business (B2B) linkages established 1.4 Number of MSMEs that benefit from mentoring and counselling support under project 1.5 Number of sustainable jobs created by MSMEs that benefit from B2B linkages under the project 1.6 N° of District sensitized under the project 1.7 N° of Empowerment Action Plans developed	1.1 None at project start-up (M+0) 1.2 Five at M+0 1.3 None at M+0 1.4 None at M+0 1.5 None at M+0 1.6 None at M+0 1.7 None at M+0	1.1 At least 5 private sector policy research studies on reforms by end of 2015; 1.2 At least 35 staff in MoIT, SETFI and MITC trained (50% women) by 2014. 1.3 At least 160 business to business linkages established (including at least 50% women-owned MSMEs) by 2014 1.4 At least 50 MSMEs (35% female-headed or owned) benefit from the mentoring and counseling facility by 2015 1.5 At least 2000 sustainable jobs created (including 50% women and 25% youth) by 2016 1.6 At least 10 Districts sensitized by 2015. 1.7 One Empowerment Action Plans developed by 2014.	Project Quarterly Progress Reports; Annual Reports Mid-term review	Risk: Ineffective Selection of MSMEs for the Project Mitigating Measure(s): A Stakeholder Group drawn from the Public and the Private Sector will assist the project implementation team in the selection of MSMEs to receive Project support

	Component 2	<p>2.1.1 % increase in the income of 20,000 existing pulse farmers in target areas;</p> <p>2.1.2 per cent increase in the incomes of 5,000 new pulse farmers</p> <p>2.1.3 per cent increase in the incomes of 40,000 existing edible oil farmers in target areas</p> <p>2.1.4 per cent increase in the incomes of 10,000 new edible oil farmers</p> <p>2.1.5 N° of pigeon pea/soya cooperatives created under project</p>	<p>2.1.1 Zero % at M+0</p> <p>2.1.2 Zero % at M+0</p> <p>2.1.3 Zero % at M+0</p> <p>2.1.4 Zero % at M+0</p> <p>2.2.5 Zero at M+0</p>	<p>2.1.1 At least 15% increase in the income of 20,000 existing pulse farmers in target areas (including 50% women and 25% youth); by 2016</p> <p>2.1.2 At least 25% increase in the incomes of 5,000 new pulse farmers in target areas (including 50% women and 25% youth) by 2016</p> <p>2.1.3 At least 15% increase in the incomes of 40,000 existing edible oil farmers in target areas (including 50% women and 25% youth by) by 2016</p> <p>2.1.4 At least 25% increase in the incomes of 10,000 new edible oil farmers in target areas (including 50% youth) by 2016</p> <p>2.1.5 At least 10 cooperatives created.</p>	<p>Project Quarterly Progress Reports; PSDP Annual Report</p>	<p>Risks:</p> <p>1. Farmers do not get the right price for their produce due to poor market information.</p> <p>2. Commercial banks do not lend adequately to MSMEs due to weak business practices</p> <p>Mitigation Measures:</p> <p>1. Communication in the value chains will be enhanced under the Project to improve market information for all stakeholders in the chain.</p> <p>2. Mentoring and counselling will be provided to selected MSMEs for an extended duration, to reduce this risk.</p>					
	2.2 Access to finance by MSME facilitated through innovative financial practices	<p>2.2.1. Number of commercial banks that development innovative lending practices under the project</p> <p>2.2.2 Number of MSMEs that access finance through innovative financing practices under the Project</p>	<p>2.2.1 None at M+0</p> <p>2.2.2 None at M+0</p>	<p>2.2.1 At 6 of the 10 main commercial banks development innovative lending practices by 2014.</p> <p>2.2.2 At least 50 MSMEs access long-term loans through innovative lending practices (at least 35% women-headed and 25% youth-headed) by 2014</p>							
	Component 3 Project effectively and efficiently implemented	<p>Project implementation and reporting;</p> <p>Project financial management and accounts reporting</p>	<p>None at M+0</p> <p>None at M+0</p>	<p>Project Steering Committee meets regularly and follows up on the implementation of its resolutions</p> <p>Project Quarterly Progress Reports prepared each quarter; and all outputs and outcomes achieved by the target dates.</p> <p>Valid audit reports submitted on time, following Bank procedures.</p>	<p>Project Quarterly Progress Reports; PSDP Annual Report</p>	<p>Risk</p> <p>Ineffective coordination of the large project management team</p> <p>Mitigation measures:</p> <p>Strengthening MoIT capacity will reduce this risk.</p>					
KEY ACTIVITIES	Component 1: Capacity Building				Inputs:						
	<p><i>Sub-component 1.1: Institutional Strengthening</i></p> <ul style="list-style-type: none"> - Strengthen the capacity of the MoIT in policy research and reform; - Training of MoIT, SETFI and MITC staff; - Conduct baseline survey - Conduct labour force sample survey; sensitise local communities on gender equality; and Support the development of a Gender Equality and Women's Economic Empowerment Action Plan <p><i>Sub-component 1.2: Entrepreneurship skills development</i></p> <ul style="list-style-type: none"> - Develop business to business linkages between MSMEs and large firms - Mentor and Counsel MSMEs for extended durations; <p>Component 2: Strategic Value Chains Development & Access to Finance</p> <p><i>Sub-component 2.1: Value Chains:</i></p> <ul style="list-style-type: none"> - Organise farming groups into cooperatives - Conduct selection of innovative value chain development sub-projects; - Promote value chains through facilitation and technical assistance - Improve market information and identify new external markets for pulses - Add value to cooperatives by promoting processing, packaging and marketing sub-projects <p><i>Sub-component 2.2: Access to Finance</i></p> <ul style="list-style-type: none"> - incentivise commercial banks to develop innovative lending practices - monitor the implementation of innovative lending practices selected for support by the Project. <p>Component 3: Project Management</p> <ul style="list-style-type: none"> - Undertake project implementation and financial management activities; - Prepare and submit all project reports on schedule. 				<p>Project Sources of Financing (million UA):</p> <table> <tr> <td>ADF</td> <td>10</td> </tr> <tr> <td>Gov't of Malawi</td> <td>1.18</td> </tr> <tr> <td>Total cost</td> <td>11.18</td> </tr> </table>		ADF	10	Gov't of Malawi	1.18	Total cost
ADF	10										
Gov't of Malawi	1.18										
Total cost	11.18										

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE REPUBLIC OF MALAWI FOR THE COMPETITIVENESS AND JOB CREATION SUPPORT PROJECT

Management submits the following Report and Recommendation on a proposed ADF loan for UA 10.00 million to finance the Competitiveness and Job Creation Support Project in the Republic of Malawi.

I – STRATEGIC THRUST & RATIONALE

1.1. Project linkages with country strategy and objectives

1.1.1 The Malawi Growth and Development Strategy (MGDS) (2006 - 2011), envisages private sector-led growth in Malawi under Pillar II, “Sustainable Economic Growth”. The MGDS equally aims to transform Malawi from a net importing country to a net exporting country. The goal is pursued within the framework of five themes (i) Sustainable Economic Growth (ii) Social Development (iii) Social protection (iv) Infrastructure Development, and (v) Good Governance. The MGDS II (2012 – 2016), which is planned for validation in 2012, retains the same priority areas as the MGDS I (2006 – 2011). Other related strategies include the Financial Sector Development Strategy, recently approved by the Government of Malawi (GOM).

1.1.2 The proposed ADF project is in conformity with the above mentioned documents and strategies as well as the Bank’s MTS (2008 – 2012), which prioritizes private sector development and skills development, through Higher Education, Science and Technology. The access to finance component of the proposed project, is equally in line with the Bank’s Private Sector Operations (PSO) strategy and business plan for increased involvement in supporting private enterprises in access to finance. The overall objective of the proposed Project is to develop the private sector in Malawi at an operational level by enhancing the current MSME backbone; the project interventions aim at upgrading the entrepreneurial skills base of MSMEs, to enable access to new markets, to consolidate and extend value chains in existing markets, to enhance business infrastructure and improve the service delivery of the private sector supporting institutions. Private sector supporting institutions participate in the development of the private sector by providing skilled labour to the sector and by training sector operators to improve their skills and these include the Technical Education, Vocational and Entrepreneurship Training (TEVET) and HEST institutions.

1.1.3 The project is in line with the priorities of the Malawi Interim Country Strategy Paper (ICSP) for 2011 to 2012. The ICSP pillars focus on: (a) Improving Infrastructure (Pillar I); and (b) Accelerating Private Sector Development (Pillar II) as key priorities for the Government and the Bank. The Project falls under the Private Sector Development Project included in the under ADF XII lending program for Malawi.

1.2. Rationale for Bank’s involvement

1.2.1 Recent studies on the private sector in Malawi have highlighted a number of microeconomic and macroeconomic constraints that impede the development of Malawi’s private sector and its potential to support the growth of businesses and the creation of jobs. According to the 2010 Malawi Business Climate Survey; the 2009 Supply Side Study of Financial Inclusion in Malawi; the “Skills for Private Sector Development” study conducted by the MWFO of the Bank in 2009; and the 2010 Malawi Doing Business report, the difficulties faced by the MSME’s in particular include: poor access to finance, foreign exchange scarcity, poor access to serviced land, low entrepreneurial skills, low quality products and services, poor infrastructure (energy, transportation and ICT) as well as the absence of a functional Credit

Reference Bureau. In spite of the slow progress, the GOM has initiated a number of reforms aimed at addressing some of these constraints. The Act establishing a Credit Reference Bureau (CRB) has already been passed in parliament and a Kenyan company was identified to operate the first licensed CRB under the CRB Act. The proposed support by the Bank will target the development of MSMEs and particularly address the issues of poor access to finance and low entrepreneurial skills. Details of the position of MSMEs in the Private Sector in Malawi and the binding constraints to their development are found in Technical Annex C1.

1.2.2 In responding to the GOM’s request, the Bank is focusing its intervention in a sector that receives considerably less support from donors (just 1% in 2010)¹ compared to other sectors. The Private Sector, and in particular the MSMEs, has been recognized by all donors and the GOM as the engine of growth, required to sustain the high economic growth observed in Malawi in the past few years. The Bank will thus be bringing greater value-addition by focusing on the development of the private sector in Malawi, through the proposed Project. The project equally aims at developing a critical mass of MSMEs, which currently each employ about 5 workers, to grow into MSMEs employing over 25 workers each, by developing their entrepreneurial skills and facilitating their access to finance.

1.2.3. The proposed Project will pursue and strengthen priority areas in Malawi’s development agenda and facilitate further interventions, in the country, in key areas of the Bank’s Mid-Term Strategy. The Project includes institutional capacity building, which will contribute to governance efforts and in improving the enabling environment for businesses to operate and grow sustainably. Entrepreneurship skills development activities are also included in the Project, with linkages to the Bank’s development efforts in Technical Education, Vocational and Entrepreneurship Training (TEVET) and Higher Education Science and Technology (HEST). The Project will also prepare the ground for the Bank’s private sector operations by building the capacity of Financial Institutions (FIs) to deliver services to MSMEs in Malawi.

1.3. Donor coordination

1.3.1. Malawi has formulated a Development Assistance Strategy (DAS) which is in line with the Malawi Growth and Development Strategy (MGDS). DAS sets out the policy and strategies for increasing efficiency and effectiveness in mobilization and utilization of development assistance in order to achieve the development results set out in the MGDS. The main development partners working on the development of the Private Sector in Malawi include the UNDP, the EU, the World Bank (WB), the UK Department for International Development (DfID) and the United States Government (USAID). Details of their development efforts are shown in Technical Annex A. The situation of the coordination of the Private Sector and the Agriculture Sector coordination is summarized in Table 1.1.

Table 1.1: Donor Coordination in Private Sector & Trade and Agriculture

	Sector or subsector	size			
		% of GDP	% Export	% Labour Force	
	Private Sector & Trade	2.1	n/a	n/a	
	Agriculture	39	80	85	
	Players - Public Annual Expenditure (2008 to 2010 average)				
	Government	AfDB	World Bank	USAID	EU
UA (m)	9.27	5.97	2.05	8.26	4.54

¹ Malawi : RBCSP Completion Report 2010, §5.3.8.

%	30.81	19.84	6.80	27.47	15.08
Level of Donor Coordination					
Existence of Thematic Working Group					Y
Existence of Private Sector SWAp					N
AfDB involvement in donor coordination					Member

1.3.2 In line with the Private Sector Development Policy and Strategy, the Government has set up a number of forums in Malawi to facilitate coordination in the sector. These include the Public Private Dialogue Forum (PPD), the Trade and Industry Sector Working Group (SWG), the Technical Working Group (TWG) on Industry and Micro-Small and Medium Enterprise (MSME) Development; the National Working Group on Trade Policy and the Donor Working Group for Private Sector Development in Malawi, which includes the key donors and development partners in the country (§1.3.1). The organisation of the Private Sector is still in progress: the Trade and Industry Sector Working Group (SWG), was established in September 2011. The private sector development policy reform and the MSME entrepreneurship development activities under the proposed Project will contribute to and inform the work the Trade and Industry Sector Working Group, led by the Ministry of Industry and Trade (MoIT). Further details of Development Partner activities in Malawi are found in Technical Annex A

II – PROJECT DESCRIPTION

2.1. Project components

2.1.1. The sector goal of the Project is to contribute towards the reduction of poverty in Malawi through sustainable pro-poor economic growth and improved socio-economic development led by the private sector. The objective of the Project is to improve the capabilities and the competitiveness of private sector as well increase export diversification and job creation.

2.1.2 The Project consists of 3 components and the key activities under each component are outline in Table 2.1.

Table 2.1: Project components (cost in million UA)

Nr.	Component name	(UA)	Component description
1	Capacity Building	3.54	<p><i>Sub-component 1.1: Institutional Strengthening (UA 1.89)</i></p> <ul style="list-style-type: none"> - Strengthen the capacity of the Ministry of Industry and Trade (MoIT), which is the key Private Sector Development (PSD) policy making body in Malawi, through TA and training of 15 MoIT staff. - Training of 35 MoIT, SETFI and MITC staff on Entrepreneurship skills development; - Conduct baseline survey; - sensitise local communities on gender equality -Support the development and implementation of a Gender Equality and Women’s Economic Empowerment Action Plan, relevant to the Project; and - Conduct labour force sample survey. <p><i>Sub-component 1.2: Entrepreneurship skills development (UA 1.65)</i></p> <ul style="list-style-type: none"> - Develop 160 business to business (B2B) linkages between MSMEs and 16 large firms in Malawi, through competitive matching grants to large firms to provide embedded business development services to competitively selected MSMEs. - Mentor and Counsel 50 MSMEs, on matching grant basis, for extended durations of between 1 and 2 years. - MSMEs grow and create 2,000 sustainable jobs (50% women and 25% youth)

Nr.	Component name	(UA)	Component description
2	Strategic Value Chains Development & Access to Finance	6.59	<p><i>Sub-component 2.1: Competitiveness of Strategic Value Chains (UA 5.00)</i></p> <ul style="list-style-type: none"> - Organise pigeon pea and soya bean smallholder farmers into cooperatives; - Conduct competitive selection and support, through matching grants; innovative pigeon pea and soya bean value chain development sub-projects; - Promote the soya and pigeon pea value chains through direct facilitation and technical assistance; extracts of the study justifying the selection of pigeon pea and soya for promotions are found in Technical Annex C1. - Improve market information, through value chain communications and identify 2 new international markets for pulses and competitive national markets for soya bean oil, milk and cake, through market research. - Identify a third edible oil value chain (sunflower, groundnuts or other), through a value chain analysis study, and promote its development. <p><i>Sub-component 2.2: Access to Finance (UA 1.59)</i></p> <ul style="list-style-type: none"> - Incentivise commercial banks, through matching grants, to develop innovative lending practices for lending to MSMEs; - Monitor the implementation of innovative lending practices and changes in lending volumes to MSMEs by commercial banks supported by the Project with matching grants.
3	Project Management	1.05	<ul style="list-style-type: none"> - Undertake project implementation (procurement, disbursement and financial management activities); - Supervise all Project activities and prepare and submit all project reports on schedule.

2.1.3 Under the Capacity Building Component of the Project, the staff of the MoIT will be trained in the following areas: a) identification and the prioritization of PSD policy reforms; b) conduct 5 of policy research studies and develop policy briefs to advocate for policy reforms; c) facilitation of Public-Private Partnerships; d) analysis of export performance and competitiveness; and e) Gender sensitization. Also, the staff of SETFI, MITC and MoIT will be trained on the development of business to business linkages, value chain development and access to finance for Micro, Small and Medium Enterprises (MSMEs). Training and services to MSMEs will include corporate governance, preparation of business plans, basic accounting and introduction to financiers offering different financing options.

2.1.4 Under the Value Chain Development Component of the Project, pigeon pea and soya bean value chains will be developed. These crops were identified, through a value chain analysis study conducted in 2010; pigeon pea was identified as a crop with a high export potential and soya as a high potential import substitution crop – see Technical Annex C2 and C3. The financial value of pigeon pea compared to the traditional crop (maize) is about 2 to 3 times, as outlined in Technical Annex C2, Box 2. Under the strategic value chains development sub-component, pigeon pea and soya bean farmers will be targeted in the 10 Districts of Mzimba, Kasungu, Ntchisi, Dowa, Lilongwe Rural, Dedza, Zomba Rural, Chiradzulu, Thyolo and Mulanje. 20,000 existing and 5,000 new pulse farmers as well as 40,000 existing and 10,000 new edible oil farmers will be targeted in these Districts. Innovative sub-projects to be supported under the Project will include those on improved seed variety multiplication and distribution, improved soil and water management practices, processing, packaging and marketing. Technical assistance will be provided to 10 smallholder cooperatives to be created under the Project. The situation of cooperative development in Malawi is outlined in Technical Annex C1, §1.4. Technical assistance will also include improved communication, advocacy for government support, reduction of post-harvest losses, inputs, processing and packaging techniques and marketing. In addition, to improve benefits for the value chain stakeholders, new markets will be identified through market research and by organising or participating in trade fairs.

2.1.5 Activities under the access to finance sub-component will include incentivizing commercial banks through matching grants that will finance innovative activities. The activities include i) the creation or expansion of an MSME Departments and the development of better systems (e.g. cash flow-based loan appraisals;); ii) the development of new products for MSMEs (e.g. invoice-based and warehouse receipt-based lending; and loaning to MSMEs through financial management intermediaries to bridge the skills & governance gaps that hamper lending to MSMEs); iii) investment in ICT solutions that deepen and widen access to finance (cell phone & mobile banking, extension of networks); iv) creation of partnerships with international banks with expertise in MSME lending and thereby increasing access to finance); v) providing embedded financial services to MSMEs; and vi) up-scaling microfinance operations to SMEs; and downscaling large business operations to MSMEs. Further details of the Project description are found in Technical Annex C 3.

2.1.6 Business Infrastructure Development: A sub-project of the larger Malawi Private Sector Development Programme, Business Infrastructure Development, will be implemented, in parallel, by the UNDP, the EU and the GoM. This sub-project will provide Standards, Quality Assurance, Accreditation and Metrology (SQAM) infrastructure and equipment to strengthen the Private Sector and thereby complement the proposed Project by improving the competitiveness of private sector enterprises. The EU has made a commitment to support the sub-project with USD 4.5 million for metrology and testing equipment, upon the construction of the new Bureau of Standards building by the GoM.

2.2. Technical solution retained and other alternatives explored

2.2.1 The GoM considers the private sector as the engine of socioeconomic growth of the country. To enable the private sector play this important role effectively, the selected design of the Project aims at addressing the most important binding constraint to private sector development, which is the low competitiveness of the sector, by creating a platform for public-private partnership. The Project includes demonstration activities that will promote evidence-based decision making and facilitate advocacy for policy reforms that will bring change to the competitiveness of the private sector.

2.2.2. The Project combines the profit motive in the private sector and incentives provided by the public sector to drive the private sector to innovate and bring about improvements in competitiveness, job creation and inclusiveness. Alternative technical solutions considered in the design of the Project and the reasons for their rejection are summarized in Table 2.2 below:

Table 2.2: project alternatives considered and reasons for rejection

Alternative	Brief description	Reasons for rejection
Private Sector Development Focusing on SMEs only	This approach was to limit support to SMEs only, leaving out the micro enterprises	<ul style="list-style-type: none"> ▪ This approach was considered not adequately inclusive; since micro enterprises play an important role in agribusiness value chains selected for support
Private Sector Development providing access to finance for MSMEs through a Revolving Fund	In this design, a Revolving Fund was to be setup under the Project to facilitate access to finance to eligible MSMEs.	<ul style="list-style-type: none"> ▪ Bank policy does not allow the setting up of Revolving Funds under Projects; ▪ Commercial banks in Malawi have no shortage of liquidity to lend to MSMEs; but do not lend to them due to entrepreneurship skills issues or would lend to them at high interests rates, ranging from 20 to 35% per annum, which are generally too high for MSMEs.

Private Sector Development led by the private sector	In this approach, the implementation of the Project would have been led by the Private Sector that would chair the Steering Committee and select beneficiaries for Project support.	<ul style="list-style-type: none"> The approach was considered to be socioeconomically non-optimal, because the Private Sector's profit-only motive would exclude support for vulnerable and marginalized groups in the society.
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2.3. Project type

2.3.1 **This Project is a standalone operation designed to strengthen the partnership between the public and the private sector.** The public sector provides incentives to private sector operators to develop innovative approaches to improve the inclusiveness of growth and competitiveness in the private sector. This modality has been adopted due to the non-existence of a functional Sector Wide Approach (SWAp) in the country for private sector development at the time of the preparation of the Project. A SWAp mechanism is being developed (Technical Annex A).

2.4. Project cost and financing arrangements

2.4.1 **The total cost of the project is estimated at UA 11.18 million, net of taxes and duties, of which UA 3.63 million (32.44%) is in foreign currency and UA 7.55 million (67.56%) in local currency.** The cost estimate includes 5% physical contingency for both foreign and local cost items, and price contingency of 7.5 % on all works, goods and services items. A summary of cost by component of the project is presented in Table 2.3 below.

Table 2.3: Project Cost Estimates by Component (in million)

component	USD	Cost (UA)			%	
	Total	Local	Foreign	Total	Foreign	Base
Component 1: Capacity Building	4.90	1.64	1.51	3.15	47.85	31.70
Component 2 – Development of Strategic Value Chains and Access to Finance for MSMEs	9.11	4.14	1.72	5.86	29.29	58.95
Component 3: Project Management	1.45	0.93	-	0.93	-	9.35
Total Base Cost	15.46	6.71	3.22	9.94	32.4	100.00
Physical Contingency (5%)	0.77	0.34	0.16	0.50		
Price Contingency (7.5%)	1.16	0.50	0.24	0.75		
TOTAL	17.39	7.55	3.63	11.18		

2.4.2 **The project will be financed by an ADF loan and cash and in-kind contributions of the Government of the Republic of Malawi (GoM).** The respective contributions are as shown in Table 2.4 below.

Table 2.4: Sources of financing ('million UA)

Sources of Financing (UA)	FE	%	LC	%	Total	%
ADF Loan	3.63	100.00	6.38	84.42	10.00	89.47
GoM Contribution	-	-	1.18	15.58	1.18	10.53
Total	3.63		7.55		11.18	100
Percentage	32.44	-	67.56	-	-	-

FE – Foreign Exchange costs; LC – Local Currency costs

2.4.4 The cost of the project by category of expenditure is presented in Table 2.5 below.

Table 2.5: Project Cost by Category of Expenditure: ADF Loan

Disbursement categories	Cost In million UA					
	Local		Foreign		Total Cost	
	ADF	GoM	ADF	GoM	ADF	GoM
Civil Works	0.83	-	0.21	-	1.04	-
Goods	2.13	0.52	0.52	-	2.66	0.52
Services	2.71	-	2.36	-	5.07	-
Miscellaneous	0.70	0.66	0.53	-	1.23	0.66
Total cost	6.38	1.18	3.63	-	10.00	1.18

Table 2.6: Project Expenditure Schedule (million UA)

Components	2012	2013	2014	2015	2016	Total
Component 1: Capacity Building	0.47	0.79	0.94	0.63	0.31	3.15
Component 2 – Development of Strategic Value Chains and Access to Finance for MSMEs	0.88	1.46	1.76	1.17	0.59	5.86
Component 3: Project Management	0.14	0.23	0.28	0.19	0.09	0.93
Total Base Cost	1.49	2.48	2.98	1.99	0.99	9.94
Physical Contingency (5%)	0.07	0.12	0.15	0.10	0.05	0.50
Price Contingency (7.5%)	0.11	0.19	0.22	0.15	0.07	0.75
TOTAL	1.68	2.79	3.35	2.24	1.12	11.18

2.5. Project's target area and population

2.5.1. **The Project will be implemented nation-wide.** Its primary target beneficiaries are operators of Micro, Small and Medium Enterprises (MSMEs) and small-holder farmers in the soya and pigeon pea sub-sectors. For greater focus and impact in the development of the selected value chains, the Project will target about 75,000 (50% women) farmers in the 10 soya bean and pigeon pea growing districts of Mzimba, Kasungu, Ntchisi, Dowa, Lilongwe Rural, Dedza, Zomba Rural, Chiradzulu, Thyolo and Mulanje. At the MSME level, at least 160 businesses will benefit from various forms of support including business-to-business linkages, access to finance and mentoring and counselling services. The criteria for selecting beneficiary MSMEs will include innovation, growth and job-creation potential, track record, gender balance and geographic spread.

2.5.2 **Improvements in the soya and pigeon peas value chain would create more agribusiness jobs and enhance incomes of small holder farmers and enterprises engaged in the sector.** About 15,000 agribusiness jobs shall be created by incentivizing the target population to engage in the production and commercialization of pigeon pea and the incomes of 60,000 farmers in the target area are expected to increase by at least 25% due to increased productivity. The project's focus on strengthening MSMEs would also enhance their overall competitiveness and efficiency. This would increase profit margins for the operators and create about 2000 job opportunities, especially for the youth. The increased profitability of these operations could also increase the interest of commercial banks to finance the sector and bring in competition, which will contribute to the reduction of lending rates and the improvement of the competitiveness of the sector in the long run.

2.6. Participatory process for project identification, design and implementation

2.6.1. **Consultation sessions were held with officials of relevant government ministries, financial institutions, civil society organisations and trade associations (CSOs).** Some CSOs consulted include the National Association of Business Women, agro-processors and small-scale farmers (see Technical Annex C4). This was to identify the priorities, constraints and opportunities that could inform the design of the

project. The consultation process involved meetings with stakeholders, discussion fora and working sessions. Key issues that emerged from these consultations include: (i) weak capacity of relevant government institutions; (ii) inadequate access to quality seeds, unfair market prices as well as inadequate access to information on financial services and marketing opportunities; and (iii) the absence of adequate financing for financial institutions and MSMEs. The project design includes specific provisions to address these issues. Umbrella bodies of direct project beneficiaries such as the farmers' Union will be represented on the Project Steering Committee to provide strategic guidance during implementation. The project's monitoring arrangements also provide for beneficiary involvement in monitoring the implementation of the project. Similarly, selected NGOs and associations that work with farmers will be engaged, on a competitive basis, to carry out specific project activities such as community sensitization and training.

2.6.2 A bi-annual stakeholder review forum will be instituted to enable all project beneficiaries and other stakeholders participate in reviewing project implementation progress. Selected public sector, private sector and civil society organisations will be engaged to work in stakeholder groups to select beneficiaries of matching grant support and conduct the community sensitisation and awareness creation on the promotion of the selected value chains to be developed. These stakeholders will also be represented on the project's Steering Committee.

2.7. Bank Group experience, lessons reflected in project design

2.7.1. Challenges faced in the implementation and lessons learnt from completed projects have been used to inform the design of the proposed Project. These challenges and the lessons learnt as a result were extracted from the Project Completion Reports (PCRs) of completed socioeconomic development projects in Malawi. These include: Rural Income Enhancement Project (1998-2008); and Skills Development and Income Generation Project (2003-2009). Particular difficulties and lessons learnt from them include the importance of training in marketing and value-addition for MSME development and the need to combine access to finance and business advisory services to improve the competitiveness of MSMEs. The Project includes a number of activities, which aimed at surmount these difficulties.

2.7.2 Lessons learnt from the difficulties in the implementation some agribusiness projects in Malawi have been taken into account to better inform the design of the agribusiness value chain development component of the Project. These completed projects include: the Smallholder irrigation Project (1999-2008); and Macadamia Smallholder Development Project (2001-2008). Specific difficulties and lessons learnt include i) group mobilisation for effective sensitisation and access to finance; ii) capacity building for project implementation staff to ensure sustainability of project outcomes; iii) basic management training and training in marketing and value addition of target groups before access to finance for successful agribusiness development; and iv) recruiting technical experts to strengthen the implementation team when the project is to be implemented using existing institutions staff who are not likely to be engaged full-time in project activities. Activities have been included in the Project to avoid these difficulties during project implementation, as detailed in Technical Annex C3. Details of Bank Group experience on completed operations are found in Technical Annex B 1. Relevant on-going sector operations and their supervision rates are included in Appendix II.

2.8. Key performance indicators

2.8.1 The Project Results-Based Logical Framework contains key impact and outcome indicators for the monitoring of the performance of the Project. The main outcomes expected are related to: (i) Increased private credit by commercial banks to MSMEs; (ii) Increased Export Diversification; (iii) Increased volume of export of pulses; and (iv) Reduced import of edible oils. Progress towards achieving these outcomes will be monitored through the Monitoring and Evaluation System to be put in place (see section 4.2 on monitoring arrangements) on a quarterly basis and during supervision missions.

III – PROJECT FEASIBILITY

3.1. Economic and financial performance

3.1.1 Given the nature of the Project (public and private sector capacity building and agribusiness value chain development), the analysis has been based only on those sub-components that lend themselves to traditional cost-benefit assessment. The inflows of the economic analysis include benefits from foreign exchange earnings on the export of pigeon pea and foreign exchange savings from the import substitution effects of soya beans production; and increased earnings to smallholder farmers due to improved crop yields; The economic analysis outflows are the cost of investment from donor funding as well as the operating cost that the GoM will incur in executing the project. The operation and maintenance cost to the GoM is estimated at 5% per year of the total original investment outlay over the entire project life. The economic net present value (ENPV) is estimated at USD 5.8 million using economic cost of capital of 12% real. The economic internal rate of return (EIRR) is 20% and is higher than the opportunity cost of capital, which indicates the economic sustainability of the project.

3.1.2 The financial analysis has been conducted for the project from the perspective of the government. The cash-flow statement includes inflow benefits from foreign exchange earnings and foreign exchange savings generated from the value chains, which have fiscal impacts on the budget of Malawi; turnover taxes on the increase business turnover of the MSMEs; the development loan provided to the GoM by donors; and externalities on the investment and operating costs of the project. Using a discount rate of 8%² real, the financial net present value (FNPV) of the project is 216, 000 US\$. The financial internal rate of return (FIRR) is 11% in real terms, which is higher than 8%, the cost of finance to the Malawi government and indicates the financial viability of the Project.

3.1.3 Sensitivity analysis, with 5 scenarios (changes in costs & benefits and changes in yield), indicates that the project is resilient to decrease in benefits and increase in costs. However, the analysis shows that a 10% decrease in the crop yields of the typical farmer has a significant impact on the sustainability of the project and that the effective implementation of the program (over 20% increase in yields) will lead to significantly increased benefits to the typical farmer and to the GoM. Based on the 5 scenarios in the detailed Economic and Financial Analysis (Technical Annex B7), the ENPV and EIRR are estimated as USD 4.38m, USD 7.25m, USD 7.83m, USD 3.80m and USD -2.930m and then 18%, 23%, 23%, 17% and 8% respectively.

3.1.4 The socioeconomic benefits of the project will result from the increased incomes of about 60,000 men, women and youth already involved in the pigeon pea and soya bean value chains in the targeted districts. The project also aims at providing agribusiness related work for about 15,000 additional people, who will be incentivised to engage in the production, processing and commercialisation of pigeon peas and soya beans. MSMEs to be supported under the project are expected to grow and create about 2,000 formal jobs for the youth in particular. The reduction of poverty among the targeted population, resulting from increased production, value-addition and job creation in the targeted value chains, will translate into improved nutrition and food security for the household as well as overall social wellbeing (health, education and reduced vulnerability).

² The 8% real is approximated from the free rate of return on Malawi Treasury Bills.

3.2. Environmental and Social impacts

Environment

3.2.1 The Project is not expected to have any significant direct negative impacts on the environment and its environmental categorization is category 3. Also, the agricultural value chains supported under the Project will contribute to environmental sustainability by promoting two nitrogen fixing legumes (pigeon pea and soya beans) that require no fertilizers and will instead improve soil fertility. Pigeon pea also has the virtue of being drought resistant with deep roots and so will help farmers cope with the greater climatic variations that are likely to occur in future and also help fight against erosion. However, the sub-projects to be supported under the Project, under matching grant arrangements, could have an impact on the environment and therefore appropriate measures shall be taken to protect the environment in accordance with the environmental protection policies of Malawi and the AfDB's Environmental and Social Safeguard Policies. In particular, an environmentalist will participate in the assessment and selection of sub-projects submitted for support and, where it is deemed necessary; an Environmental and Social Management Plan (ESMP) will be developed and its implementation monitored under the sub-project in question.

Climate Change

3.2.2. Adverse changes in weather patterns associated with climate change such as droughts and floods have increased in frequency and magnitude in Malawi. The country has suffered from 3 major droughts in the last 20 years as well as from dry spells at critical stages for crop development in recent years. Hence, climate resilience shall be built into any activities to be carried out under the Project in accordance with the Bank's Climate Risk Management Policy. The Project will promote the use of improved seed varieties that are high yielding, drought-resistant and early maturing as well as soil and water conservation measures to ensure optimal crop productivity.

Gender

3.2.3. Removing barriers to women's participation in the private sector enhances equality, reduces poverty and promotes growth. Women do over 80% of the work associated with soya and pigeon pea cultivation. However, their control over the farm produce and associated incomes is limited. Access and control of land is another challenge facing women. Traditional and customary practices of land ownership systematically disadvantage women. The land act of 1965 created three regimes of tenure which are customary, freehold and leasehold tenure. Customary land accounts for land ownership in the targeted project areas and land is held there and used in accordance with customary law. Details of the land tenure system in Malawi are included in Technical Annex C1, §1.5. About 34% of small-businesses in Malawi are female-headed and women constitute the bulk of operators in the informal sector. Though MSMEs owned by men and women face various constraints in accessing finance, women-owned enterprises suffer disproportionately. The requirements for collateral which poor women hardly possess and loan application procedures of most banks are cumbersome for women MSME operators (most of whom are illiterate). Male dominance in decision making at the household is another challenge affecting the success of women owned businesses including the effective use of micro loans. (see details in Technical Annex B8).

3.2.4 The project will support advocacy and sensitization of men and large private sector operators to build support for women's economic empowerment. The project will use a quota system to encourage participation of women in leadership positions of producer associations. All training activities supported under the project will include a quota for women participants. Similarly, the project's Innovation Challenge Facility will set quotas on number of women owned enterprises benefiting from mentoring and counseling services as well as Business to Business Linkages and will further give priority to financial institutions seeking matching grants to develop innovative products that enhance women's access to finance. For example, the project commits to ensuring that 35% of MSMEs accessing adequate financing will be women-owned, proportionally with the percentage of MSMEs owned by women in the country.

3.2.5 To strengthen the focus on gender equality and social inclusion during project implementation, a Gender and Social Development Officer will be assigned to the Project Management Team. A representative of the Ministry of Gender, Child Development and Community Development will be included in the Project's Steering Committee.

Social

3.2.6 This project will make a contribution in reducing the proportion of people living in poverty in Malawi. According to the 2009 Welfare Monitoring Survey, 40% of Malawians live in poverty. The emphasis on value addition and productivity enhancement would increase earnings and the quality of jobs. Official estimates suggest that about 3% of Malawians are unemployed. While this estimate appears impressive, the mission learnt that under-employment is considerably high especially amongst young people, who work on average on 10 hours a week compared to the target of 40 hours per week. The informal sector including MSMEs and smallholder agriculture is the biggest contributor to employment in the country.

3.2.7 Consultations with stakeholders revealed that this sector is also the livelihood source for many vulnerable groups. Increasing competitiveness and productivity of operators in this sector would create additional jobs and increased profits. For example, a total of 75,000 edible oil and pulse farmers (over 50% of whom are women) are expected to increase their incomes by about 30% by the end of the Project.

3.2.8 The Project will work to strengthen the existing initiatives supporting youth employment; linkages will be created with the Youth Enterprise Development Fund. The innovative approaches embedded in the Project would foster financial inclusion, enhance participation of MSMEs in the selected value chains and promote the participation of the youth, women and other vulnerable groups in the value chain and non-agricultural MSMEs. In implementing the Project attention will be paid to spatial inequalities, with measures taken to extend benefits to remote locations

Involuntary resettlement

3.2.9. The project is not expected to directly trigger any involuntary relocation. Disruption of economic activity, livelihood sources or displacement of populations during implementation is not foreseen.

IV – IMPLEMENTATION

4.1. Implementation arrangements

4.1.1. The Ministry of Industry and Trade (MoIT) will be the Executing Agency and the project will be managed within the institutional set-up of the Ministry. The MoIT is the Executing Agency for the WB/EU funded BESTAP project. However, this projects is being implemented by a Project Implementation Unit (PIU), which is winding down in 2012 and the MoIT does not have adequate capacity to implement the proposed Project, without a PIU, as designed. Therefore, the Project will strengthen the Private Sector Development Department of the Ministry to undertake the implementation of the Project. A Project Coordinator will be assigned for the day to day management of the project. The project management team will also include a Financial Management Officer, a Procurement Officer, a Gender/Social Development Officer and a Monitoring and Evaluation Officer. The project management team will be assisted by an environmentalist in the selection of agribusiness subprojects and in the environmental monitoring of their implementation. The project management team will equally be supported by officers in Entrepreneurship skills development, Business to Business linkages, Agribusiness Value Chain Development and Access to Finance for MSMEs to be sourced from the Ministry's staff and trained. The project management team, assisted by MITC and SETFI, will supervise the work of BDS providers and other consultants recruited to implement the various activities.

4.1.2 A Stakeholder Group will be set up to provide guidance in the selection of innovative sub-projects submitted for support under the matching grant facilities of the Project. The Stakeholder Group will be constituted by credible and capable individuals from the public and private sectors as well as representatives, selected for their expertise in the target sectors, from MoIT, SETFI, MITC, Department of Economic Planning, Leasing and Finance Institute, the Farmers' Union and the MCCI. A PSD Policy Adviser (Technical Assistant) will equally be recruited to strengthen the MoIT and facilitate the implementation of the Project. To facilitate the development of the competitive strategic value chains, a consulting firm will be recruited to serve as Facilitator for the value chains. The Facilitator will be guided by Stakeholder Groups composed of credible and capable individuals from the public and private sectors. The extension services of the Ministry of Agriculture, Irrigation and Water Development (MAIWD) will assist the project implementation in the promotion of the agribusiness values chains. The MoIT will enter into an MoU with the MAIWD; the Bank will give a no objection prior to the signing of the MoU.

4.1.3 The project being cross-cutting in nature, will have a Project Steering Committee with representation from the key sector Ministries, the private sector and the civil society, including the MoIT, the Ministry of Youth, Ministry of Finance and Development Planning, Ministry of Labour, the National Statistics Office (NSO), Ministry of Gender, Child and Community Development, Ministry of Agriculture, Irrigation and Water Development, SETFI, MITC, Malawi Bureau of Standards, Banker's Association of Malawi, MCCI, Manufacturers' Association of Malawi and the Farmers' Union (a Civil Society umbrella body). To strengthen coordination and synergy, the Coordinator of the WB/EU funded BESTAP project and other relevant stakeholders could be invited to the Steering Committee Meetings when necessary. Specialist Consultants will be recruited to support the project implementation team in the implementation of the different activities of the Project and for knowledge transfer, to enable the MoIT, SETFI and MITC pursue similar activities, during after the Project.

Procurement Arrangements

4.1.4. All procurement of goods and works and acquisition of consulting services financed by the Bank will be in accordance with the Bank's Rules and Procedures for Procurement of Goods and Works or, as appropriate, Rules and Procedures for the Use of Consultants. All procurement will be carried out using the relevant Bank Standard Bidding Documents. Procurement arrangements are summarized in Table 4.1.

4.1.5 Works such as access roads, warehouses for storage of farm inputs and produce, processing facilities that hold equipment, micro irrigation schemes, training and office facilities, totalling an estimated amount of UA 1.04 million shall be procured following International Competitive Bidding (ICB) procedures. However, for works packages valued at less than UA 0.75 million, National Competitive Bidding (NCB) procedures will be used and for works packages valued at less than UA 100,000, shopping procedures will be used, since the character and location of works contracts of less than these amounts are unlikely to attract bids from outside Malawi. Furthermore, there are sufficiently qualified local contractors and in adequate numbers to ensure competitive bidding in these cases.

4.1.6 Goods such as agribusiness equipment, machines, plants, farm inputs (seeds & insecticides), office equipment, computers, photocopiers, printers, scanners and other accessories all valued at an aggregate of UA 2.66 million will be procured through ICB procedures. However, for goods packages valued at less than UA 0.3 million, National Competitive Bidding (NCB) procedures will be used and for goods packages valued at less than UA 75,000, shopping procedures will be used, since goods contracts of less than these amounts are unlikely to attract bids from outside Malawi. Furthermore, there are sufficiently qualified local suppliers and in adequate numbers to ensure competitive bidding in these cases.

4.1.7 The procurement of the services of consulting firms are valued in aggregate at UA 1.577 million (m). These services are to provide technical assistance in the development of B2B linkages; provide mentoring and counselling services to MSMEs; conduct a labour force survey; provide facilitation and technical assistance services for the development of the pigeon pea and soya bean value chains; provide TA in the development of financial innovation activities; and conduct the technical audit of the project, will be carried out under Shortlist

procedures. The method for evaluation of proposals from firms shall be as follows: i) Contracts for consulting services, each estimated to cost US\$100,000 equivalent or more, will be awarded following the procedure of QCBS, ii) Consulting services estimated to cost less than US\$100,000 per contract under this project will be procured following the procedures of Selection Based on CQS, iii) Selections under Fixed Budget Selection (FBS) and Least Cost Selection (LCS) methods will be applied in the circumstances as respectively described under paragraphs 3.5 and 3.6 of the Rules and Procedures for Use of Consultants.

Table 4.1: Summary of Procurement Arrangements (Amounts in UA million)

	Categories	ICB	NCB	Short - list	Shopping	Other*	Non- Bank Funded	Total
1	GOODS							
	1.1 Vehicles	-	-	-	0.072	-	-	0.072
	1.2 ICT Equipment	-	-	-	0.123	-	-	0.123
	1.3 Agribusiness Subproject: equipment, machines, plants, farm inputs (seeds, insecticides), office equipment, computers and other accessories	1.562	-	-	-	-	-	1.562
	1.4 Matching Grants for MSME B2B Linkages sub-projects (goods)	0.411	-	-	-	-	-	0.411
	1.5 Matching Grants for Financial Innovation sub-projects (goods)	0.492	-	-	-	-	-	0.492
	1.5 Land for the construction of agribusiness facilities (warehouses, processing facilities, micro irrigation schemes)	-	-	-	-	-	0.515	0.515
2	WORKS	-	-	-	-	-	-	-
	Agribusiness subprojects: access roads, warehouses, processing facilities, micro irrigation schemes, training and office facilities	-	1.040	-	-	-	-	1.040
3	SERVICES	-	-	-	-	-	-	-
	3.1 Training	-	-	0.810	-	-	-	0.810
	3.2 Consulting Services/TA -Firms	-	-	1.577	-	-	-	1.577
	3.2 Consulting Services/TA - Individual consultant	-	-	1.043	-	-	-	1.043
	3.3 Extension Services for Value chain development (MoU with Min. Agri.)	-	-	-	-	0.181	-	0.181
	3.4 Financial Audit	-	-	0.108	-	-	-	0.108
	3.5 Matching Grants for MSME B2B Linkages sub-projects (services)	-	-	0.616	-	-	-	0.616
	3.6 Matching Grants for Financial Innovation sub-projects (services)	-	-	0.737	-	-	-	0.737
4	OPERATING COSTS							
	4.1 Value chain communications and facilitation of meetings and working sessions	-	-	-	-	0.428	-	0.428
	4.2 Formation of cooperatives and monitoring of value chain activities in the field by project management team	-	-	-	-	0.434	-	0.434
	4.3 Trade & Investment promotion missions	-	-	-	-	0.095	-	0.095
	4.4 Other operating costs - ADF (PSC, launching, supplies)	-	-	-	-	0.271	-	0.271
	4.5 Other Operating costs - GoM (veh. Maintenance, salaries, reporting)	-	-	-	-	-	0.662	0.662
	TOTAL	2.465	1.040	4.892	0.195	1.409	1.177	11.177

*Other refers to direct negotiation; Non-Bank Funded refers to GoM contribution.

Procurement Reviews

4.1.8. Contracts for goods valued at below UA 250,000, works valued at less than UA 450,000 and consultancy services for firms valued at below UA 70,000 are subject to post-review. However, the first two NCB goods and works contracts and consultancy contracts below UA70,000 for firms will be subject to prior review. Appropriate bidding documents and evaluation reports shall be kept at the project implementation agency for post-review audit. All other contracts and all direct contracting contracts of any value will be subject to prior review. The thresholds for use of various procurement methods are shown in Technical Annex B5. The Ministry of Industry and Trade (MoIT) is the Executing Agency and will be responsible for the procurement of goods/works/ service contracts, consulting services and training as detailed in Technical Annex B5 (a). The resources, capacity, expertise and experience of MoIT are described in Annex B5 (b). Procurement Plan is indicated in the Technical Annex 5B (c). Post Review procedure has been authorized in the conditions specified in Annex B5 (b).

Financial Management and audit Arrangements

4.1.9. MoIT, as the Project Implementing Agency, shall coordinate project implementation and manage the specific activities and financial management including planning and budgeting, record keeping, accounting and reporting etc. An assessment of MoIT's financial management capacity for the implementation of the project indicates that they satisfy Bank requirements to ensure that the funds made available for the financing of the project are used economically and efficiently and for the purpose intended. In addition, given the complexity of the project activities, technical assistance will also be given to the MoIT accounting staff during the initial implementation period to build capacity and ensure proper start-up of project activities (A detailed financial management assessment is attached as Annex B4)

4.1.10. In accordance with the Bank's requirements, a separate audit report will be prepared for the Private Sector Development Project with the involvement of the National Audit Office in Malawi as per their mandate. The audit of the project may be subcontracted to a firm of private auditors as necessary to be procured through short-lists using the Bank's rules and procedures for procurement and the cost will be financed from the loan if carried out by a private firm. The project audit will be carried out in accordance with an audit Terms of Reference (TOR) that has been approved by the Bank and the audit report will be sent to the Bank no later than six (6) months after the end of the respective fiscal year together with a management letter indicating any weakness in internal control together with the responses from management.

Funds Flow and Disbursement Arrangements

4.1.11. The disbursement methods that can be used for the Bank funded components of the project include: (i) the Direct Payment (ii) Special Account and (iii) Reimbursement methods. The Special Account method will be used for financing the Project Implementing Agency's operating and other recurring costs to be financed under the project. Disbursements under the loan would be made in accordance with the Bank's rules and procedures as laid out in the Disbursement handbook as applicable that can be accessed from the Bank's website. In addition, the Bank will issue a Disbursement Letter of which the content will be discussed and agreed during negotiations.

4.1.12 The implementing entity will open a Project Special Account in foreign currency, and a local currency account, both accounts to be opened with banks acceptable to the African Development Bank. The local currency account will be used to transfer money from the special account to cover eligible Project expenditures only. Replenishment of the special accounts will be based on justification and submission of statements of expenditures for at least 50% of the preceding advance, and 100% of any previous advances.

Implementation schedule

4.1.13. The project will be implemented over a period of 5 years. The capacity building and value chain development activities are expected to start by May 2012 and completed by December 2016. The Bank will monitor implementation through reviews of project reports and field visits to be conducted twice every year.

Once every six months, the project management team will be responsible for routine monitoring and will organize a stakeholder review meeting to assess implementation progress and issues arising. A report on this will be submitted to the Bank.

4.2. Monitoring

4.2.1 **Monitoring will be done jointly by the Bank and the project management team of the MoIT.** The M&E officer, to be assigned to the project management team, will have principal responsibility for project monitoring. The Bank’s monitoring will be periodic; including six-monthly supervision missions, a mid-term review, an impact evaluation study and a review at completion and this will be supported by the Malawi Field Office. The logical framework found on page v will serve in the monitoring and the evaluation of the attainment of the Project’s outcomes.

4.2.2 **All the monitoring reports will include youth and gender disaggregated data.** A youth and gender audit will be conducted as part of the project’s Mid-term Review. The private sector and selected CSOs will conduct participatory monitoring of the project. A further mechanism for stakeholder involvement, which will include the participation of the Technical Working Group (TWG) on Industry and Micro-Small and Medium Enterprise (MSME) Development, is the biannual stakeholder review meetings that will be organised by the project management team to discuss implementation issues. Table 4.2 shows the detailed sequence of monitoring activities.

Table 4.2 Monitoring schedule

Timeframe	Milestone	Monitoring process /
		feedback loop
November 2011	Nomination of key project management team	GoM
December 2011	Board Approval staff	ADF
February 2012	Signing of Loan Agreement	ADF and GoM
March 2012	Loan Effectiveness	GoM and ADF
April 2012	Project Launching	GoM and ADF
July 2012	First Project supervision Mission	GoM and ADF
December 2012	Stakeholder Review meeting	Project management team
December 2012	Submission of first Audit report	Project management team
July 2014	Submission of Mid-term Report	GoM
December 2013	Submission of 2 nd Audit Report	GoM
December 2014	Submission of 3 rd Audit Report	GoM
December 2015	Submission of 4 th Audit Report	GoM
December 2016	Submission of PCR	GoM and ADF
June 2017	Preparation of final Audit Report	GoM and ADF

4.3. Governance

4.3.1 The political environment has been relatively stable following the 2009 elections. During the 2011 Global Peace Index, Malawi was ranked second to Botswana in Africa as the most peaceful country in Africa. The country has made considerable progress in fighting fraud and corruption. The existence of a National Anti-Corruption Strategy and Institutional Integrity Committees also minimizes the risk of abuse, fraud and corruption. The country has moved from a Corruption Perception Index score of 2.8 in 2005 to 3.4 in 2010, with an overall ranking of 85 in the world and 10 in Sub-Saharan Africa. However, recent political developments arising from concerns raised by the civil society over political and economic governance issues threaten the gains Malawi has achieved over the years.

4.3.2 In order to address these economic governance issues, the Government has instituted high level dialogue with civil society. The resumption of talks between the IMF and the Government is also bringing hope for economic stability in the country. The Bank will thus work with other Development Partners as well as with the GoM in supporting measures for promoting a sound macroeconomic and private sector development reforms.

4.3.3. The project will be overseen by a public-private sector Steering Committee, with a membership outlined in §4.1.3. The Committee will review reports on implementation progress as well as audit reports and provide guidance on strategic issues amongst others. The project will be audited as stipulated in § 4.1.5.

4.4. Sustainability

4.4.1 The sustainability of the Project outcomes and the continuation of the major actions of the Project are partly ensured by the execution of the Project by the Ministry of Industry and Trade (MoIT) and the participation of other public and private institutions in the implementation of the Project. The capacity of the MoIT, will be strengthened under the Project to provide it with adequate skills to continue playing its PSD policy-making and policy-implementation roles, which are essential for the continuous improvement of the enabling environment for Private Sector Development. The public institutions, MITC and SETFI, will receive staff training and be supported under the Project to conduct high impact export promotion and investment promotion actions. These actions will demonstrate the importance of their activities in private sector development to the GoM, donors and other stakeholders and thereby attract more funds for the continuation of these activities.

4.4.2 The sustainability of the business to business (B2B) linkage activities and the mentoring and counseling facility will be ensured by adopting cost-recovery methods. MSMEs will be charged 50% of the Business Development Service (BDS) fee at the onset of the Project implementation, for accessing the mentoring and counseling facility and the cost recovery rate will be increased progressively as the MSMEs better appreciate the value of the services, based on results obtained as the Project progresses. By the 3rd year of the Project, the facility and the B2B linkage activities would be attached to one of the participating public institutions, to continue the activities under the institutions or the facility could be established as a standalone private sector entity, operating at full cost recovery.

4.4.3 The value chain development outcomes of the project will be sustained by the gains in competitiveness that the project will induce. These gains are expected to result from i) the Project's improvement of the quality of labour and management for MSMEs, the quality of institutions that provide support services for Private Sector Development, access to finance by MSMEs, reforms in government policies affecting effective development of value chains, and the development of Business to Business linkages between large firms and MSMEs; and ii) support to smallholder farmers in reducing post-harvest losses and ensuring the availability and the quality (high yielding, drought-resistant and early maturing) of seeds as well as good husbandry practices, which are the main binding constraints to the productivity of soya and pigeon pea smallholder farmers. The increased production will enable edible oil processors to procure

locally produced crude oil instead of procuring expensive imports, which now stand at USD 18 million annually. Procuring locally produced and cheaper crude oil will improve the competitiveness of edible oil processors and give them the competitive advantage to export refined edible oil to parts of Northern Mozambique and Eastern Zambia. These areas are far from the commercial/industrial centers of the respective countries.

4.5. Risk management

4.5.1 **The Project could face some risks related to timely implementation, sustainability or impact on intended beneficiaries.** These risks and associated mitigation measures have been articulated in Table 4.6.

Table 4.6: Risks and risk mitigation measures

Risk	Mitigation Measure(s)
1. Ineffective implementation of the Project's Financial Innovation matching grant activities could fail to bring changes in lending to MSMEs	TA and Stakeholder Groups, drawn from the public and private sector, will be used to ensure effective engagement of commercial banks to innovate and increase lending to MSMEs.
2 Low priority in the development of non-traditional exports crops	The project includes advocacy and sensitization campaigns to promote the development of non-traditional agribusiness value chains.
3. Climate variability and the fluctuation of international agriculture commodity prices could impede the attainment of income objectives for smallholder farmers.	Improved seed varieties that are early maturing, high yielding and more drought-resistant will be promoted under the Project to mitigate climate variability risks. Farmer flexibility, through crop substitution and the identification of new markets will also be promoted in order to mitigate price fluctuation risks.
4. Ineffective Selection of MSMEs for the Project	A Stakeholder Group drawn from the Public and the Private Sector will assist the project implementation team in the selection of MSMEs to receive Project support
5. Farmers do not get the right price for their produce due to poor market information; and Commercial banks do not lend adequately to MSMEs due to weak business practices	Communication in the value chains will be enhanced under the Project to improve market information for all stakeholders in the chain. Mentoring and counselling will be provided to selected MSMEs for an extended duration of about 2 years, to reduce this risk.
6. Ineffective coordination of the large project management team.	Strengthening MoIT capacity, as envisaged under the Project, will reduce this risk.

4.6. Knowledge Management

4.6.1 **The project adopts a holistic approach to issues of job creation and competitiveness in the Malawian private sector.** As the first intervention of this nature in the country, the project would generate lessons of interest to government, the private sector, development partners and other stakeholders. Key knowledge generation processes envisaged under the project include a baseline survey, integrated labour force survey, project reviews and the final project evaluation. The knowledge generated through this project will be disseminated through websites of the Ministry of Industry and Trade and the African Development Bank. The project Team will also organise interactive sessions with stakeholders to disseminate reports and other knowledge products.

V. LEGAL INSTRUMENTS AND LEGAL AUTHORITY

5.1 Legal Instrument

The legal instrument to be used for the Project is the Loan Agreement between the Republic of Malawi (“Borrower”) and the African Development Fund (the “Fund”)

5.2 Conditions Precedent to Bank Intervention

5.2.1 Conditions precedent to entry into force of the loan

The entry into force of the Loan Agreement is subject to the fulfilment of the Borrower of the conditions stipulated in Section 12.01 of the Fund’s General Conditions Applicable to Loan Agreements and Guarantee Agreements (Sovereign Entities).

5.2.2 Conditions precedent to first disbursement

The obligation of the Fund to make the first disbursement of the Loan shall be conditional upon the entry into force of this Agreement in accordance with §5.2.1 above and evidence provided by the Borrower, in a form and substance satisfactory to the Fund, of the fulfilment of the following conditions:

- a)** The Borrower shall have opened a foreign exchange Special Account in a Bank acceptable to the Fund for the deposit of the proceeds of the Loan.
- b)** The Borrower shall have submitted for the Fund’s No Objection a draft Memorandum of Understanding (MOU) between MoIT and Ministry of Agriculture, Irrigation and Water Development with respect to the implementation of agribusiness extension services for the development of the relevant value chains under the Project.

5.2.3 Other Conditions

The obligation of the Fund to make further disbursements of the Loan under the Loan Agreement shall be conditional upon the Borrower providing evidence, in form and substance acceptable to the Fund, of:

- (a)** The Borrower having assigned (i) a second Procurement Officer and (ii) a Gender Specialist to the Project Management Team by 31st March 2012; and,
- (b)** The Borrower having established (i) a Project Steering Committee and (ii) a Stakeholder Group, with composition and membership acceptable to the Fund by 31st March 2012.

5.3 Compliance with Bank Policies

- a)** The objectives of the Project are consistent with the Bank’s *Medium Term Strategy (2008-2012)* and the *Private Sector Operations Strategy*, particularly through the Projects emphasis on private sector and skills development through training, job creation and access to finance.
- b)** Additionally, the Project complies with the relevant provisions of the Bank’s *Policy on Expenditure Eligible for Bank Group Financing*, the *Environmental and Social Safeguards Policy*, and the *Gender Equality and Women’s Empowerment: Updated Action Plan (2009-2011)*.

No exception with respect to the Bank’s policies is sought in this proposal.

VI – RECOMMENDATION

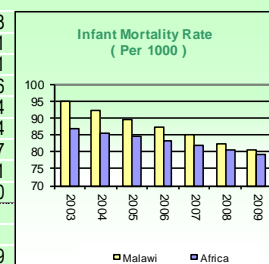
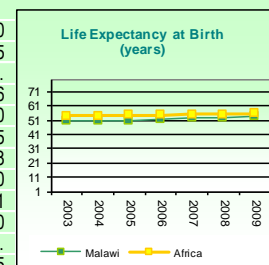
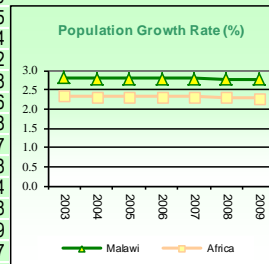
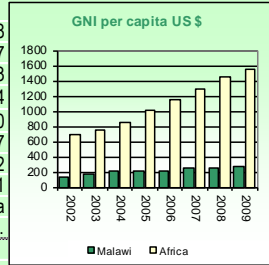
Management recommends that the Board of Directors approve the proposed loan of UA 10.00 million to the Government of the Republic of Malawi for the project and subject to the conditions stipulated in this report.

Appendix I: Malawi – Comparative Socioeconomic Indicators

Malawi

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Malawi	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		118	30 323	80 976	54 658
Total Population (millions)	2010	15.7	1,031.5	5,659	1,117
Urban Population (% of Total)	2010	19.8	39.9	45.1	77.3
Population Density (per Km ²)	2010	132.4	34.0	69.9	20.4
GNI per Capita (US \$)	2009	280	1 525	2 968	37 990
Labor Force Participation - Total (%)	2010	41.5	40.1	61.8	60.7
Labor Force Participation - Female (%)	2010	49.7	41.0	49.1	52.2
Gender -Related Development Index Value	2007	0.490	0.433	0.694	0.911
Human Develop. Index (Rank among 169 countries)	2010	153	n.a	n.a	n.a
Popul. Living Below \$ 1 a Day (% of Population)	2005-08	...	42.3	25.2	...
Demographic Indicators					
Population Growth Rate - Total (%)	2010	2.8	2.3	1.3	0.6
Population Growth Rate - Urban (%)	2010	5.4	3.4	2.4	1.0
Population < 15 years (%)	2010	45.9	40.3	29.0	17.5
Population >= 65 years (%)	2010	3.5	3.8	6.0	15.4
Dependency Ratio (%)	2010	96.2	77.6	55.4	49.2
Sex Ratio (per 100 female)	2010	98.9	99.5	93.5	94.8
Female Population 15-49 years (% of total populatic	2010	22.5	24.4	49.4	50.6
Life Expectancy at Birth - Total (years)	2010	54.6	56.0	67.1	79.8
Life Expectancy at Birth - Female (years)	2010	55.4	57.1	69.1	82.7
Crude Birth Rate (per 1,000)	2010	39.2	34.2	21.4	11.8
Crude Death Rate (per 1,000)	2010	11.4	12.6	8.2	8.4
Infant Mortality Rate (per 1,000)	2010	78.4	78.6	46.9	5.8
Child Mortality Rate (per 1,000)	2010	110.8	127.2	66.5	6.9
Total Fertility Rate (per woman)	2010	5.4	4.4	2.7	1.7
Maternal Mortality Rate (per 100,000)	2008	510.0	530.2	290.0	15.2
Women Using Contraception (%)	2006	41.7	...	61.0	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2008	2.0	58.3	109.5	286.0
Nurses (per 100,000 people)*	2008	26.2	113.3	204.0	786.5
Births attended by Trained Health Personnel (%)	2006	53.6	50.2	64.1	...
Access to Safe Water (% of Population)	2008	80.0	64.5	84.3	99.6
Access to Health Services (% of Population)	2005-08	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	56.0	41.0	53.6	99.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	11.9	4.9	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2009	304.0	294.9	161.0	14.0
Child Immunization Against Tuberculosis (%)	2009	95.0	79.9	81.0	95.1
Child Immunization Against Measles (%)	2009	92.0	71.1	80.7	93.0
Underweight Children (% of children under 5 years)	2006	15.5	30.9	22.4	...
Daily Calorie Supply per Capita	2007	2 172	2 465	2 675	3 285
Public Expenditure on Health (as % of GDP)	2008	9.7	5.7	2.9	7.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	119.3	102.7	107.2	101.3
Primary School - Female	2009	121.1	99.0	109.2	101.1
Secondary School - Total	2009	29.5	37.8	62.9	100.1
Secondary School - Female	2009	27.6	33.8	61.3	99.6
Primary School Female Teaching Staff (% of Total)	2005-09	...	47.0	60.5	81.4
Adult literacy Rate - Total (%)	2008	72.8	64.8	80.3	98.4
Adult literacy Rate - Male (%)	2008	80.2	74.0	86.0	98.7
Adult literacy Rate - Female (%)	2008	65.8	55.9	74.8	98.1
Percentage of GDP Spent on Education	2005-08	...	4.6	3.8	5.0
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2008	37.2	7.8	10.6	10.9
Annual Rate of Deforestation (%)	2005-09	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005-09	...	10.9
Per Capita CO2 Emissions (metric tons)	2009	0.1	1.1	2.9	12.5



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; last update : May 2011

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available.

Appendix II. Bank Group Operations in Malawi

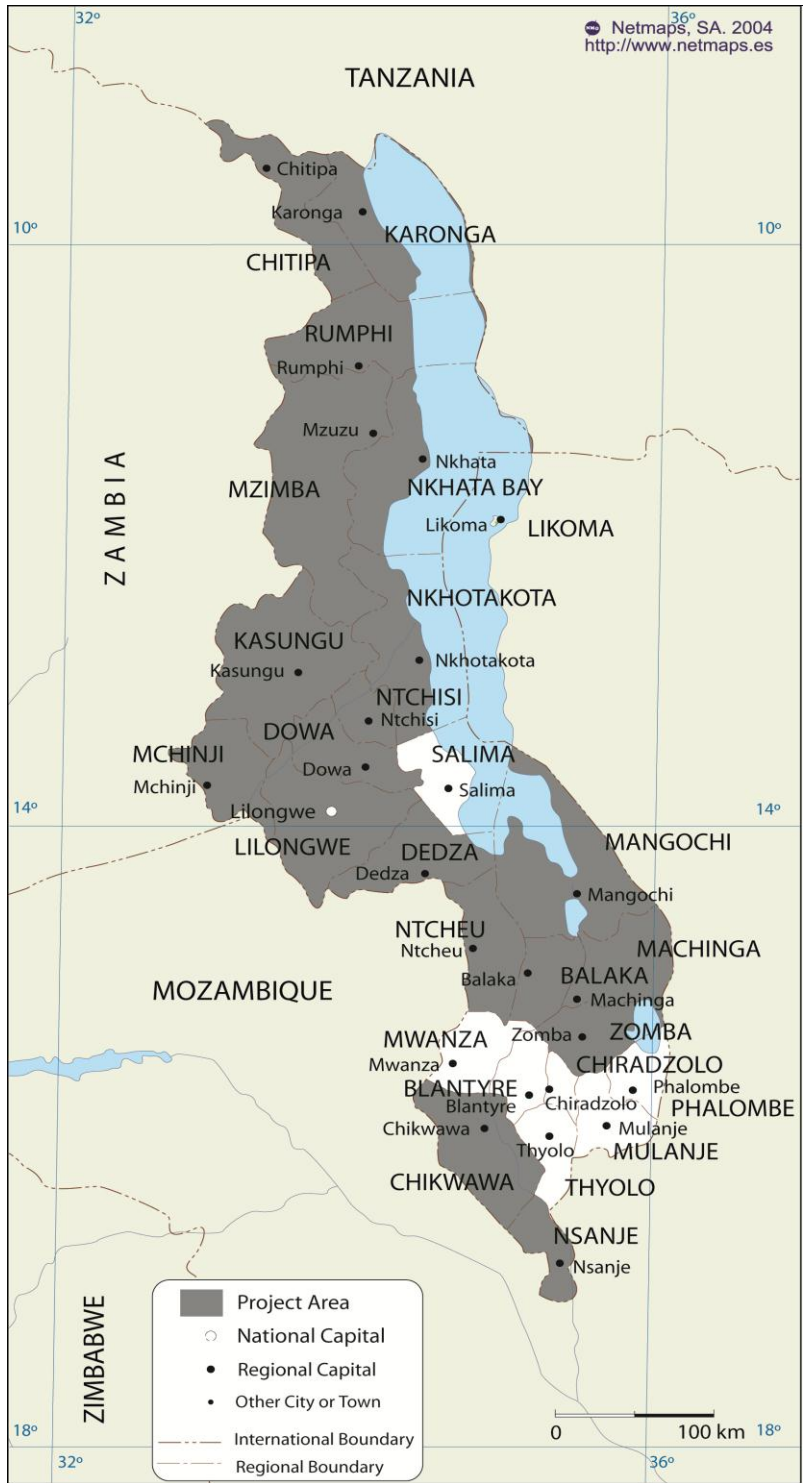
	Sectors/Operations	Approval Date	Funding Type	Approved Amount (UA m)	Disbursement (UA m)	Disbursement Rate	Current Performance Rating	Age
AGRICULTURE SECTOR								
1	Smallholder Crop Production & Marketing							
	ADF Loan	26/07/06	Loan	15.0	9.00	60.0%	2.31	5.2
2	Agriculture Infrastructure Support							
	ADF Loan	09/09/09	Loan	15.0	1.31	8.7%	2.15	2.1
SOCIAL SECTOR								
3	Support to the Health Sector Project							
	ADF Loan	24/11/05	Loan	15.0	11.33	75.5%	2.36	5.9
4	Support to Secondary Education V							
	ADF Loan	07/06/06	Loan	15.0	11.21	74.7%	2.00	5.3
5	Support to Local Economic Development							
	ADF Loan	24/09/08	Loan	14.0	0.68	4.8%	2.11	3.0
6	Supplementary Loan Local Economic Development							
	ADF Loan	09/12/10	Loan	3.2	0.00	0.0%	-	0.8
WATER & SANITATION SECTOR								
7	National Water Development Program							
	ADF Loan	02/07/08	Loan	15.2	3.79	24.9%	2.25	3.3
	ADF Grant		Grant	10.7	0.73	6.8%		
	RWSS Trust Fund		RWSSI	3.4	1.22	36.2%		
8	Access to Water & Sanitation for Urban Poor	28/12/09	AWF	0.6	0.20	35.1%	2.31	1.8
9	Strengthening Water Sector M&E in Malawi	28/01/10	AWF	1.7	0.68	38.8%	-	1.7
10	Songwe River Basin Development	25/05/10	AWF	3.12	0.00	0.0%	-	1.4
TRANSPORT SECTOR								
11	Trunk Road Rehabilitation Blantyre-Zomba (Loan)	22/05/09	Loan	23.0	0.00	0.0%	1.56	2.4
	Ntcheu-Tsangano-Mwanza Feasibility Study (Grant)		Grant	1.1	0.04	3.3%		
12	Multinational: Nacala Road Corridor							
	ADF Loan	24/06/09	Loan	14.3	0.09	0.6%	2.10	2.3
TOTAL				164.6	40.3	24.5%		
Total Loan				144.0	37.5	26.0%		
Total Grant				20.7	2.9	13.8%		

Annex III: Main Related Projects Financed by the Bank and other Development Partners in Malawi

DONOR	PROJECT TITLE	Amount	INTERVENTION AREAS
World Bank	Business Environment Technical Assistance Project	USD 18.7 Million	(co-financed by the EU) aims to strengthen investment climate reforms through support to private property rights institutions, PSD support institutions as well as promotion of access to finance through a matching grants scheme.
	Financial Sector Technical Assistance Project	USD 28.2 Million	The project supports; (a) financial sector regulation and supervision capacity building; (b) financial infrastructure; (c) financial consumer protection and financial literacy; (d) capacity building of Ministry of Finance and Development Planning's financial sector policy unit including capacity to formulate policies which support long term financing; and (e) administrative costs for the multi-donor Financial Sector Deepening Trust.
	Mining Governance and Growth Support Project	USD 24.5 Million	project so-financed by the EU and supports activities that (a) support government build an efficient, transparent and environmentally and socially sustainable framework for managing mineral rights and operations; (b) support the government develop transparent arrangements for optimal generation and use of mineral revenues; and support the government improve the enabling environment for mining sector development by acquiring and disseminating geo-data, foster more sustainable artisanal and small scale mining, increase the supply of Malawians trained at tertiary level in minerals and improve the policy environment for mining-related infrastructure development.
USAID	Developing Credit Authority (DCA)	USD 13 Million	A USAID guarantee intended to strengthen partner banks' ability to finance loans to MSMEs in Malawi's agriculture and agriculturally linked business sectors. USAID shares 50% percent of a guaranteed bank's net losses of principal with respect to qualifying loans. Loans up to \$20,000. Partners: Standard Bank, OIBM and IndeBank
	Market Linkages Initiative (MLI)	USD 4 Million	MLI supports innovative solutions to increase smallholder producers' linkages to markets and increase the variety of sale options. The project provides grant funding to small and medium sized traders, farmer associations, large traders/processors and the Agricultural Commodity Exchange (ACE).
EU	Capacity Building for	EURO 10.95	The overall objective of the project is to reduce

DONOR	PROJECT TITLE	Amount	INTERVENTION AREAS
	Trade and Private Sector Development	Million	poverty in Malawi through the promotion of exports and the diversification of the economy, including the mineral sector. Components: Trade & Statistics Information Systems - € 3 M (Technical Assistance + Project Estimate with NSO) SQAM Infrastructure Development - € 3.8 M (Contribution Agreement with UNDP) Mining Sector Development - € 4.15 M (Administrative Agreement with WB)
	Senior Trade and Private Sector Development Advisor	EURO 200,000	To assist Ministry of Industry and Trade and related public sector institutions involved in trade and private sector development policy formulation and implementation and put in place appropriate industrial, trade and investment policy implementation and monitoring frameworks that will contribute to government main vision statement.
UNDP	Growing Sustainable Business (GSB)	USD 1.4 Million	The project is engaged in pro-poor business models which links companies with the poor such as smallholder farmers and women groups
	Integrated Youth Development Project (IYDP)	USD 1.05 Million	The project focuses on youth entrepreneurship development and the development of National Employment Policy.
	Financial Inclusion in Malawi (FIMA)	USD 6.2 Million	The project focuses on building capacity of MFIs
DFID	Business Innovation Facility	USD 1.6 Million	Pilot to test methods to support expansion of inclusive businesses, mostly through technical assistance to firms/NGOs. Delivered through an implementing agency – Imani Development
	Low-energy lightbulbs	USD 4.8 Million	Replacing existing lightbulbs across Malawi with low-energy bulbs to reduce electricity demand. Delivered with ESCOM and Ministry of Natural Resources, Energy, and Environment.
AfDB	Support to Local Economic Development (LED) Project	UA 18.66 Million	The main objective of the project is to improve the socio-economic wellbeing of the rural population through strengthening of economic activities in 4 rural growth centres located in 4 districts across the country.

Appendix IV: Map of the Republic of Malawi



Disclaimer
 This map was provided by the African Development Bank exclusively for the use of the readers of the report to which it is attached. The names used and the borders shown do not imply on the part of the Bank and its members any judgment concerning the legal status of a territory nor any approval or acceptance of these borders.

**REPUBLIC OF MALAWI: PROPOSAL FOR AN ADF LOAN OF UA
10.00 MILLION TO FINANCE THE COMPETITIVENESS AND JOB
CREATION SUPPORT PROJECT (CJCSP)**

OUTCOME OF NEGOTIATIONS

The delegations of the Republic of Malawi and the African Development Bank held negotiations on the 23rd of November 2011 for an ADF Loan of UA 10.00 million to Finance the Competitiveness and Job Creation Support Project (CJCSP). The negotiations were held by Video Conference between Lilongwe, Malawi and the African Development Bank (Temporary Relocation Agency) premises in Tunis, Tunisia. The negotiations were successfully concluded and the terms and conditions of the Loan, accepted.