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AFRICAN DEVELOPMENT FUND

# SUPPLEMENTARY LOAN FOR SUPPORT TO LOCAL ECONOMIC DEVELOPMENT PROJECT

## MALAWI

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### PROJECT APPRAISAL REPORT

*Date: September 2010*

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# Table of Contents

CURRENCY EQUIVALENTS	i
FISCAL YEAR	i
WEIGHTS & MEASUREMENTS	i
ACRONYMS & ABBREVIATIONS	i
LOAN INFORMATION	ii
PROJECT SUMMARY	iii
RESULT-BASED LOGICAL FRAMEWORK	iv
PROJECT TIMEFRAME	v
<b>PART I – STRATEGIC THRUST AND RATIONALE</b>	<b>1</b>
1.1. Project linkages with country strategy and objectives	1
1.2. Rationale for Bank’s involvement	2
1.3. Donors coordination	5
<b>PART II – PROJECT DESCRIPTION</b>	<b>6</b>
2.1. Project components	6
2.2. Technical solution retained and other alternatives explored	7
2.3. Project type	7
2.4. Project cost and financing arrangements	7
2.5. Project’s target population and key performance indicators	8
2.6. Participatory processes of design and implementation	8
2.7. Experiences and lessons reflected in project design	8
2.8. Key performance indicators	8
<b>PART III – PROJECT FEASIBILITY</b>	<b>9</b>
3.1. Economic and financial performance	9
3.2. Environmental and social impacts (environment, climate change, gender, social, inv. settlement)	9
<b>PART IV - IMPLEMENTATION</b>	<b>10</b>
4.1. Implementation arrangements (Institutional, Procurement, Disbursement, Financial Mgt.)	10
4.2. Monitoring	12
4.3. Governance	12
4.4. Sustainability	12
4.5. Risk Management	13
4.6. Knowledge building	13
<b>PART V – LEGAL INSTRUMENTS AND AUTHORITY</b>	<b>13</b>
5.1. Legal instrument	13
5.2. Conditions associated with Bank’s intervention	13
5.3. Compliance with Bank Policies	14
<b>PART VI – RECOMMENDATION</b>	<b>14</b>
<b>Appendixes</b>	
1. Summary brief of the original project design LED	15
2. Country’s comparative socio-economic indicators	17
3. Table of AfDB portfolio in Malawi	18
4. Similar projects financed by the Bank and other development partners in the country	19
5. Project map	20
6. Detailed cost table	21

## Currency Equivalents

*As of September 2010*

1 UA	=	MWK	223.02
1 USD	=	MWK	147.80
1 UA	=	USD	1.50891

## Fiscal Year

1<sup>st</sup> July – 30<sup>th</sup> 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

ADB	African Development Bank
ADF	African Development Fund
APL	Adaptable Program Lending
BDS	Business Development Services
BESTAP	Business Environment Strengthening Technical Assistance Program
BSU	Business Support Unit
CIAU	Central Internal Audit Unit
CPR	Country Portfolio Review
DAG	Donor Advisory Group
DAs	District Assemblies
DDPs	District Development Plans
DFID	Department for International Development
DP	Development Partners
ERR	Economic Rate of Return
ESMP	Environmental and Social Management Plan
EU	European Union
FIDP	Farm Income Diversification Project
FIMTAP	Financial Management Transparency and Accountability Project
FIRR	Financial Internal Rate of Return
GDP	Gross Domestic Product
GOM	Government of Malawi
GTZ	German Technical Cooperation
IDA	International Development Association
IEC	Information, Education, Communication
IFMIS	Integrated Financial Management Information System
IRDS	Integrated Rural Development Strategy
JICA	Japan International Cooperation Agency
LAs	Local Authorities
LCA	Local Currency Accounts
LDF	Local Development Fund
LED	Local Economic Development
MASAF	Malawi Social Action Fund

M&E	Monitoring and Evaluation
MoDPC	Ministry of Development Planning and Cooperation
MGDS	Malawi Growth & Development Strategy
MIS	Management Information System
MLGRD	Ministry of Local Government and Rural Development
MSEs	Micro and Small Enterprise
MTR	Mid-Term Review
MWFO	Malawi Field Office
NAO	National Audit Office
NGOs	Non Government Organisations
NLGFC	National Local Government Finance Committee
NORAD	Norwegian Agency for Development
NPV	Net Present Value
NTAC	National Technical Advisory Committee
OVOP	One Village One Product
RBCSP	Results-Based Country Strategy Paper
SA	Special Accounts
SB	Standard Bank
TST	Technical Support Team
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
USAID	United States Agency for Int. Development
WB	World Bank

## Loan Information

### Client's information

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**BORROWER:** Government of Malawi

**EXECUTING AGENCY:** Ministry of Finance

### Financing plan

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Source	Amount (UA)	Instrument
ADF	3.162 Million	Loan
GOM	0.30 Million	Counterpart Cont.
<b>TOTAL COST</b>	<b>3.462 million</b>	

### ADB's key financing information (as applicable under the original project)

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ADF Loan Currency	UA
FIRR, NPV (base case)	(21%, NPV value)
EIRR (base case)	(25%)

### Timeframe - Main Milestones (for supplementary loan together with original project)

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Concept Note approval	September, 2010
Project approval	December, 2010
Effectiveness	January, 2011
Completion	December, 2013
Last Disbursement	December, 2014

## **Project Summary**

*Project Overview:* The sector goal is to contribute to pro-poor growth and poverty reduction. The development objective of the project is to improve the socio-economic well being of the local population and strengthen economic growth in four (4) growth centres located in four districts across the country. The project will primarily target the economically active poor, who have the potential to embark on business ventures that will add value to their on-farm and off-farm commercial activities. The present supplementary loan will finance additional group mobilisation and entrepreneurship development under Component 1 – Deepening Enterprise Development due to the demonstrated demand by a growing number of youth and women for access to entrepreneurship opportunities. The growing demand is documented at the LA level through formal requests directly addressed to the District Commissioners from community representatives in each rural growth centre. The present supplementary loan is designed to support the Local Economic Development Project approved on 24<sup>th</sup> September 2008 (document reference ADF/BD/WP/2008/79).

*Beneficiary Participation:* The Local Economic Development (LED) project seeks to develop and sustain an entrepreneurship culture in individuals and groups for broad-based participation in economic growth.

*Project Rationale and Need:* As a result of the combined negative impact of the increased food and fuel prices, it is estimated that as of January 2010 nearly four million people in Malawi are considered to have slid deeper into poverty and are now more food insecure. This situation has further reduced the capacity of the poor to build resilience and climb out of poverty, and vulnerable households are at a greater risk of falling into poverty. The proposed Supplementary Loan will help to address the additional demand for social protection resulting from the additional adverse impacts of the global financial and food crisis. Increased social protection will be achieved through scaling up of business development and start-up capacity of the poor to access micro and small business opportunities with specific focus on youth and women.

*Bank's Value Added:* To this effect, the proposed supplementary loan financing to support the Local Economic Development project will seek to engender pro-poor economic growth and tackle livelihood insecurities (including food insecurity), through the building capacity in selected growth centres regions, for improved local productive activities, promotion of women's and youth participation, facilitation of the diversification of the household economic activities and the creation of jobs and incomes through enterprise development in the four selected rural growth centres of Jenda, Malomo, Chitekesa and Monkey Bay.

*Knowledge Management:* The project will make a deliberate effort to support the generation of knowledge and documentation of best practices to facilitate organisational learning and knowledge sharing.

## Result-Based Logical Framework

Hierarchy of Objectives	Expected Results	Reach (Target Population)	Performance Indicators	Indicative Targets and Time Frame for the Current Project	Assumptions / Risks
<p><b>Sector Goal:</b> Contribute to pro-poor economic growth and poverty reduction.</p>	<p><b>Longer-Term Outcomes:</b></p> <ol style="list-style-type: none"> <li>1. Reduced poverty</li> <li>2. Reduced rural-Urban migration</li> <li>3. Increased smallholder share of GDP</li> </ol>	Malawian population	<p>1.1 Reduction of poverty incidence</p> <p>2.1 % reduction in rural-migration</p> <p>3.1 % increase in smallholder share of GDP</p> <p><u>Source:</u> National Statistics, National Accounts, MGDS</p>	<p><b>By 2015:</b></p> <p>1.1.1 From 52% in 2008 to 48%</p> <p>2.1.1 Reduce from 5.5% in 2008 to 4%</p> <p>3.1.1 Increase from 23.6% in 2008 to 34.9%</p>	The GOM with the support of its partners continues implementation of the MGDS
<p><b>Project Objectives:</b> The Development Objective is to improve the socio-economic well being of the local population and strengthen economic growth in selected growth centres.</p>	<p><b>Medium-Term Outcomes:</b></p> <ol style="list-style-type: none"> <li>1. Increased number of small business start-ups</li> </ol>	Economically active poor; local business associations; small scale entrepreneurs; central and local government agencies	<p>1.1 Increased number of new business start-ups</p> <p><u>Source:</u> GOM Reports, Supervision reports and Project Completion Report, Annual Sample Household Surveys</p>	<p><b>By 2013:</b></p> <p>1.1.1 Additional 3,000 micro and small businesses supported for start-up</p>	LED remains a top priority of GOM
<p><b>Activities</b></p> <p>1. Deepening Enterprise Development</p> <p><b>Inputs:</b></p> <p><b>BUDGET:</b></p> <p>ADF - UA 3.162 M GOM - UA 0.3 M</p> <p><b>TOTAL – UA 3.462</b></p>	<p><b>Short-Term Outputs:</b></p> <p>1.1 Business Groups/Associations formed and engaged in savings</p> <p>1.2 Business Development Services(BDS) provided to local entrepreneurs/value chain actors</p> <p>1.3 BDS providers strengthened</p>	Economically active poor; local business associations; small scale entrepreneurs; central and local government agencies ; selected growth centres	<p>1.1.1 Number of business associations/commodities groups/multi-purpose cooperatives formed engaged in savings</p> <p><u>Source:</u> (a) Disbursement records (b) MIS reports and returns (c) Quarterly progress reports (d) Community Score Cards (e) Annual Reports</p>	<p><b>By 2013:</b></p> <p>1.1.1.1 At least 300 additional business associations/ commodities groups/multi-purpose cooperatives formed and/or strengthened;</p> <p>1.1.1.2 At least 6,000 additional individuals have access to savings mobilization (at least 40% women);</p> <p>1.1.1.3. At least 1,075 additional entrepreneurs/ value chain actors have new skills (at least 40% women)</p>	<p><b>Risks:</b></p> <p>No new risks identified for supplementary loan (see section 4.5)</p>

## Project Timeframe

YEARS MONTHS ACTIVITY	2010												2011												2012												2013												ACTION BY
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	
<b>ADMINISTRATION</b>																																																	
Loan Effectiveness																																																	GOM
Project Launching																																																	ADF/GOM
Baseline Survey																																																	CONSULTANT
Annual Procurement Plan																																																	GOM
Mid-Term Review																																																	ADF/GOM
<b>DEEPENING ENT. DEV COMP</b>																																																	
Call for Proposals																																																	BENEFICIARIES
Proposal Submission & Review																																																	BENEFICIARIES
Implementation of Activities																																																	IMP. AGENCIES/
<b>PROG SUPPORT &amp; KNOW MGT</b>																																																	
Recruit Consultants																																																	GOM/ADF
Equipment Procurement																																																	GOM
IEC																																																	GOM
M&E Activities																																																	GOM/COMM
Annual Reviews																																																	AI G( G( G( G( GOL/ILO
Financial Audit																																																	CONSULTANTS
Beneficiary Assessment																																																	CONSULTANTS
Knowledge Building																																																	CONSULTANTS
Supervisions																																																	GOM/WB/ADF

# **REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO MALAWI FOR THE SUPPORT TO LOCAL ECONOMIC DEVELOPMENT PROJECT**

Management submits the following Report and Recommendation on a proposed loan for UA 3.162 million for supplementary financing to support the Local Economic Development Project in Malawi (Approved LED project document reference ADF/BD/WP/2008/79).

## **I – STRATEGIC THRUST & RATIONALE**

### ***1.1. Project Linkages with Country Strategy and Objectives***

1.1.1 While Malawi was not hit as hard as other countries over the 2008/2009 global economic crisis, it took the country off its intended course towards fiscal consolidation and strengthening of its international reserves position. In particular, the country struggled to hold down the prices of food while attempting to remain on course to meet its Malawi Growth and Development Strategy (MGDS) targets on employment and poverty reduction. The situation has been further exacerbated by localized droughts further affecting agriculture output negatively, which led to the substantial slowdown in the real GDP growth from 9.8% in 2008 to 7.03% in 2009. Given that tobacco, cotton, and coffee constitute over 70 percent of Malawi's export earnings, this also worsened the depletion of foreign reserves to less than one month of imports at the end of December 2009. Significant delays in development partners' disbursements have led the Government to either delay spending on essential services or borrow domestically.

1.1.2 In this regard the Supplementary Loan will support the Government of Malawi (GOM) efforts to remain on course for meeting its targets on poverty reduction and employment generation. The project is fully in line with the goal and vision of the Malawi Growth and Development Strategy (MGDS 2006/2007 to 2010/2011), which indicates promoting sustainable economic growth and poverty reduction. Specifically, the project aims to contribute to achievement of the MGDS targets and outcomes as outlined under thematic area five (5) on building capacity for improved governance with specific reference to sub-thematic area three (3) related to empowering and building capacity at the local government levels with a clear focus on promoting broad based local economic growth. In this sense, the project's support to local economic growth will also directly contribute to the achievement of the MGDS strategic priority thematic area on social protection with specific reference to supporting the most vulnerable with limited factors of production and ensuring that they can be sufficiently empowered to cope with the negative impact of the more recent global economic shocks.

1.1.3 Both the MGDS priorities mentioned above are operationalised by the Government of Malawi (GOM) through the integrated rural development strategy (IRDS), which specifically identifies the following activities for support: (i) provision of basic socio-economic infrastructure at potential growth points and other open markets for rural products; ii) developing capacity for local economic development through entrepreneurship and skills development; iii) improving agricultural productivity; iv) promoting value addition and related economic activities; and (v) provision of rural financial services to support economic activities. The strategy also recognizes the critical role of the private sector and Local authorities (LAs) in fostering local economic development. Furthermore, the MGDS recognizes that gender inequalities in accessing productive resources, development opportunities and decision-making affect economic growth and development and hence seeks to mainstream gender into the national development process.

1.1.4. In alignment with the primary thrust of the MGDS, the Bank’s RBCSP 2005-09 for Malawi, which was extended to 2010, is anchored on two key pillars: (i) expanding rural infrastructure; and (ii) developing human capital and institutional capacity for local economic development. In this regard, the present project will support the goal as well as the specific objectives of the RBCSP to contribute to the GOM efforts on poverty reduction and supporting sustainable economic growth. The financing request for this project is in line with Bank Group policies and procedures for supplementary financing.

**1.2 Rationale for Bank’s Involvement**

1.2.1 In Malawi agriculture is the main stay of livelihood (over 70%), the average incomes of the poor range from MWK19,680 for agricultural households and MWK29,769 for MSE households. For the ultra poor, the average annual income is MWK4,848. Of these ultra poor households, 30% are headed by women.

1.2.2 As a result of the combined negative impact of the increased food and fuel prices, it is estimated that as of January 2010 nearly four million people in Malawi are considered to have slid deeper into poverty and are now more food insecure. This situation has further reduced the capacity of the poor to build resilience and climb out of poverty, and vulnerable households are at a greater risk of falling into poverty. The proposed Supplementary Loan will help to address the additional demand for social protection resulting from the increasingly adverse impacts of the global financial and food crisis. Increased social protection will be achieved through scaling up of business development and start-up capacity of the poor to access micro and small business opportunities with specific focus on youth and women.

1.2.3 The initial Local Economic Development project, approved in 2008, aims at empowering the local governments and communities to support a demand driven development prioritization. In particular, it aimed to provide support at three levels, namely building capacity of the local governments in financial and administrative governance as well as procurement related issues, and key areas of development planning and implementation. The initial project is designed along four components:- Component 1: Deepening Enterprise Development (this component is fully funded by the WB to the tune of UA 3 million); Component 2: Growth Centres Development; Component 3: Local Authorities Capacity Enhancement; and Component 4: Technical Support and Knowledge Management. This project design specifically focuses on kick-starting local economic growth in four rural growth centres, namely: Jenda, Malomo, Chitekesa and Monkey Bay. It is envisaged that the rural economic growth can be kick-started through providing basic socio-economic infrastructure which will make the particular rural growth centre attractive to small and large private/ public-private national and regional investors to the area. This development of physical socio-economic infrastructure would be combined with a further economic growth element namely providing entrepreneurship development support as well as increasing access to business financing. The project is managed by the Local Development Fund created by the GOM to channel all support to the national decentralisation process.

<b>Key features that make the four Rural Growth centres attractive for private and/or public sector investment:</b>
<ul style="list-style-type: none"> <li>All the four rural growth centres (RGCs) Jenda, Malomo, Monkey Bay and Chitekesa are within less than 63 kms from the District Headquarters. The farthest Monkey Bay is 63kms from Mangochi followed by Jenda at 50kms from Mzimba, then Chitekesa at 36kms from Phalombe, and finally Malomo at 33kms from Ntchisi. As such, the four RGCS are strategically located in areas where there is potential for economic activities in terms of industrialization, improved</li> </ul>

services industry, promotion of tourism industry, and agriculture trade.

- Except for Chitekesa, all the other designated Rural Growth Centres and are classified as Main Market Centres by the National Physical Development Plan. These sites are currently flourishing as robust commercial and/or agricultural and fish marketing centres with potential to grow into urban centres.
- Current existing socio-economic developments include commercial infrastructure for health, and education services, post office with extensive ICT systems, private sector agriculture marketing services, new police centres and extended judiciary services. There is strong scope for further development at the centre and the subsequent spurring of economic growth in their hinterland in the form of increased agricultural productivity due to the availability of ready markets and transport systems such as a domestic airport at these RGCs.
- In terms of Governance all these centres have Area Development Committees (ADCs) who demand and decide on their priorities regarding socio economic development at grass root level.

1.2.4 This approach is comprehensive and supported by all partners in the country and is expected to be scaled up as the only mechanism for decentralized economic growth poles in the country. World Bank is a co-financier in this initial project and its support of UA 3 million is directed towards supporting the deepening enterprise development component, nationwide<sup>1</sup>. The AfDB support is directed to financing the other three remaining components restricted to the four rural growth centres of Jenda, Malomo, Chitekesa and Monkey Bay. The Bank's support has become a success story in that the Local Development Fund has now become the interlocutor for local development. The implementation of the existing project has already generated a demand which has exceeded expectations.

1.2.5 The implementation performance of the project is on track with key activities related to training and building capacity of the local governments being rolled. The existing loan under the original Project has already been planned and budgeted within the identified and agreed-upon activities, which have already been communicated to local assemblies in the form of indicative planning figures. These budget envelopes serve as a basis for planning district-level budget allocations. Specifically, the original project's allocation under Component 1 (fully financed by WB co-financing) has been fully committed (see Table 1.1 below) and is therefore not sufficient to address the newly emerged need for additional economic and financial shock mitigating social protection services.

1.2.6 The Project is currently rated *satisfactory* on project development objectives and implementation progress, these ratings are largely attributed to a number of outstanding actions that are related to factors beyond the Project's control. Firstly, the project loan ratification was delayed due to a lengthy Parliamentary review and approval. Moreover, the project activities were adversely affected by the delayed approval of the national budget following the 2009 national elections, which resulted in delayed release of indicative planning figures to local authorities. Lastly, several steps in the Government's decentralization process, including the GOM formal endorsement of the LDF, took more time than anticipated. As of September 2010, there are no outstanding financial audit reports under this project.

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<sup>1</sup> It is to be noted that the WB approved, in June 2010, an additional funding of USD 14 million to the Local Development Fund with the objective of helping to address the additional demand for social protection resulting from the additional adverse impacts of the global financial and food crisis. In this sense, the increased social protection will be achieved through scaling up the public works initiatives in support of vulnerable groups as well as investing in the next generation by restoring education services disrupted by the earthquake.

1.2.7 The present supplementary loan will finance additional group mobilisation and entrepreneurship development under component 1 – Deepening Enterprise Development due to the demonstrated demand by a growing number of youth and women for access to entrepreneurship opportunities. The growing demand is documented at the LA level through formal requests directly addressed to the District Commissioners from community representatives in each rural growth centre<sup>2</sup>. The requests have clearly indicated the demand from communities to be able to take advantage of the new business opportunities that will be created at the local level through the improved access to necessary socio-economic infrastructure, business financing and local government official, which are highly trained and skilled in delivering services.

1.2.8 An experienced business development support and outreach NGO, The Community Savings and Investment Promotion (COMSIP), has been recruited by the project and the WB to mobilize communities in the four growth centres and organize them into business groups and plan for the implementation of specific business ideas. The table 1.1 below shows the Project targets nationwide; of which about 300 business groups and associations and about 100 cooperatives have been directly established in the four growth centres of Jenda, Malomo, Chitekesa and Monkey Bay with at least 1,000 new jobs created. Given the success of this model, additional communities have requested support under this component to be included in the formation of business groups and enable their access to enterprise development as well as empower them to access financing from the market. Therefore, the GOM has requested that the Bank provide additional support to extend support to these additional communities. The additional financing under the supplementary loan is expected to create an additional 300 business associations and value chain entrepreneurs resulting in an expected increase in employment opportunities of about 1,075 new direct jobs and about 3,000 indirect jobs.

**Table 1.1: Deepening Enterprise Development (on-going activities)**

INDICATOR	ANNUAL TARGETS				
	2010-11	2011-12	2012-13	2013-14	Total
Business and savings Group Formation	660	900	600	500	<b>2,660</b>
➤ Members	19,800	27,000	18,000	15,000	<b>79,800</b>
Formation of Cooperatives and Associations	100	140	140	120	<b>500</b>
➤ Members	8,000	11,200	11,200	9,600	<b>40,000</b>
Training Volunteers and Extension workers	350	450	400	300	<b>1,500</b>
Small Business Entrepreneurs supported	200	700	650	600	<b>2,150</b>
Business Development Services outreach	5	5	5	5	<b>5</b>

1.2.9 To this effect, the proposed supplementary loan financing to support the Local Economic Development project will seek to engender pro-poor economic growth and tackle livelihood insecurities (including food insecurity), through the building capacity in selected growth centres regions, for improved local productive activities, promotion of women’s and youth participation, facilitation of the diversification of the household economic activities and the creation of jobs and incomes through enterprise development in the four selected rural growth centres of Jenda, Malomo, Chitekesa and Monkey Bay. It is to be noted that the ADF supplementary Loan is justified in view of the fact that GOM had not foreseen this high demand for additional activities in the budget 2010/ 2011.

<sup>2</sup> On average about 78 new requests have been registered by the District Commissioner in each of the four rural growth centres every quarter over the last one year.

1.2.10. The Bank Group has also gained extensive experience in supporting local service delivery and integrated rural development in Malawi (through its social, agriculture and water sector portfolios). Specifically, the Bank Group has used lessons from the recently completed Poverty Reduction Project that influenced the design of the proposed project. The Bank Group is also an active member of the Donor Advisory Group (DAG) on Decentralisation and has taken the lead in setting up a Private Sector Development DAG. Consequently, it has a comparative advantage in supporting local economic development, drawing on lessons learned from previous and ongoing Bank and other DPs interventions. The proposed additional financing to the Local Economic Development Project currently underway is crucial as it seeks to scale up and widen the emphasis on LED strategies that are territorially based, locally owned and managed and primarily aimed at increasing productivity and economic growth opportunities in rural areas.

### ***1.3. Donors Coordination***

1.3.1. The additional Financing to the Support for the Local Economic Development Project will continue the channelling of resources through the Local Development Fund (LDF) mechanism established under the Ministry of Finance by the Government of Malawi (GOM) as an inter-governmental fiscal transfer mechanism for the implementation of local development initiatives. The LDF provides a common platform on which GOM and DPs will set priorities directly through local authorities. It also responds adequately to the Paris Declaration on Aid Effectiveness in terms of donor harmonization and on alignment with country systems, as the LDF will be implemented utilising GOM structures.

1.3.2. There is also a Donor Advisory Group (DAG) on decentralisation composed of the United Nations Development Program (UNDP), the United Nations Capital Development Fund (UNCDF), the German Technical Cooperation (GTZ), the United States Agency for International Development (USAID), the British Department for International Development (DFID), the Japan International Cooperation Agency (JICA), the World Bank (WB) and the Bank. The DAG, under the chairmanship of GTZ, meets regularly and has been actively involved in the design of the LDF through consultations. It provides a forum for donors to coordinate their activities and share information in local government, decentralised governance and rural development to ensure programme synergy and compliance with GOM policies. In the process of formulating the currently underway support to the Local Economic Development project, the various missions interacted with the donor community to inform them about the project and to benefit from their own experiences.

1.3.3. Direct complementarities and synergies were established between the Support to Local Economic Development project and the parallel World Bank-funded Malawi Social Action Fund (MASAF) Phase III APL II project, which provided a seed capital of USD50 million for the LDF of which USD5 million is being used to co-finance the project. The USD5 million is included in the total cost for the Support to Local Economic Development Project and finances part of Component 1 of the project. To further harmonize with their parallel support, the World Bank agreed to: (a) use the same Operations Manual of the LDF, (b) have joint supervision missions, (c) have common reporting formats, (d) cost-share the operations costs (including management costs) of the LDF mechanism to avoid overlaps and complement each other's contributions.

1.3.4. Complementary synergies have also been identified between the Support to Local Economic Development Project and the following ongoing parallel interventions: (a) DFID-funded Performance, Evidence and Accountability program; (b) UNCDF-funded inclusive financial systems project; (c) JICA funded, rural electrification project and One Village One Product (OVOP) initiative; (d) EU funded Farm Income Diversification Project; (e) German

Development Cooperation-funded operations in the area of mainstreaming local economic development issues in district development plans, (f) USAID-funded Deepening Microfinance project, and Development Credit Authority facility with Standard Bank (SB) of Malawi to facilitate access to finance for the project’s beneficiaries; and (g) World Bank funded Infrastructure Services (ISP). Technical Annex C3 provides a more detailed description of these linkages. During project implementation, the Bank’s Country Office in Malawi (MWFO) will continue to collaborate with these donors through the DAG.

## II – PROJECT DESCRIPTION

### 2.1. Project Components

The supplementary loan is designed under the existing framework of the approved Local Economic Development project and will support additional activities under Component 1, Deepening Enterprise Development, only.

**2.1.1. Deepening Enterprise Development:** In line with section 1.2, there is a demonstrated need to provide additional financing under component 1 in order to increase the outreach and enable greater access to the economically active poor for economic empowerment as well as strengthen their economic shock coping strategies. As such, the supplementary loan will finance the following activities:

*Table 2: Project components*

Component name	Est. cost (UA Million)	Component description
C-1:Deepening Enterprise Development	3.462	<ul style="list-style-type: none"> <li>▪ Demand-Driven Matching Grant Facility with Nation-Wide coverage to support up to 75% of total eligible costs of the proposed Operation financed by the Project from the Community Window of the LDF. This will be done mainly through call for innovative proposals from capable agencies (implementing partners) to deliver on three focus areas: (i) Association Building and Savings Mobilisation; (ii) Business Development Services for Local Entrepreneurs; and (c) Capacity Building for Business Development Service (BDS) providers</li> <li>▪ Private-sector service delivery approach will be used to implement activities;</li> <li>▪ Selection Criteria for agencies, Review process of Proposals, and Eligible costs are summarised in the annex (as approved in the original project) and will be further detailed in an Operations Manual to be approved by the Bank (now in the finalisation stages);</li> <li>▪ Selection Criteria include: (a) proven track-record of agency; (b) significance and relevance of proposal; (c) governance and management structure of agency; (d) technical and financial capabilities of the agency; (e) proposed methodology (such as innovation, M&amp;E); (f) replicability of learning outcomes; and (g) pro-poor and gender considerations</li> <li>▪ Minimum set of performance indicators, outputs and outcomes will be highlighted in the Call-for-Proposals to guide the development of proposals for each Operation.</li> <li>▪ IEC activities on the key focus areas (including gender, HIV/AIDS and environmental issues) will form part of the component’s implementation strategy</li> <li>▪ Expected Outputs: (i) the formation and strengthening of business associations/ commodities groups/multi-purpose cooperatives; (ii) savings mobilisation (at least 40% women); (iii) entrepreneurs/ value chain actors acquiring new technological and business skills (at least 40% women); and (iv) facilitating market linkages through possibly (a) the development of Market Information Systems linked to the Agricultural Resource Centres for at least 4 districts; (b) organisation of at least 8 buyer-seller events;</li> </ul>

## 2.2. Technical Solution Retained and Other Alternatives Explored

The proposed supplementary loan for the Local Economic Development (LED) project is premised on the ongoing LED project and, thus, retains the same assumptions of the LED project; and is an extension and scaling up of activities in the current project.

## 2.3. Project Type

ADF supplementary loan investment project.

## 2.4. Project Cost and Financing Arrangements

2.4.1 Total project cost is UA 3.462 (USD 5.224 million), of which UA 3.162 million (USD 4.77 million) or 91.3 % is from ADF. The total ADF contribution will be provided as a loan and used to finance the project's total foreign currency costs (UA 0.461 million) and part of the local currency costs (UA 2.701 million). A Government counterpart contribution of at least 8.7% of the total loan, amounting to UA 0.3 million is required. The following tables summarize the estimated cost of the project by component.

Table 5: Project cost estimates by component [amounts in million UA]

	COMPONENTS	Dollars (million US\$)			UA (million)			% FE
		LC	FE	Total	LC	FE	Total	
I	Deepening Enterprise Development	3.833	0.575	4.408	2.540	0.381	2.921	13
	Total Base Cost	3.833	0.575	4.408	2.540	0.381	2.921	13
	Physical Contingency	0.349	0.060	0.409	0.231	0.040	0.271	
	Price Contingency	0.347	0.060	0.407	0.230	0.040	0.270	
	<b>Total Project Cost</b>	<b>4.528</b>	<b>0.696</b>	<b>5.224</b>	<b>3.001</b>	<b>0.461</b>	<b>3.462</b>	

Note: Exchange rates used in tables below: [1 UA = 1.50891 US\$, as at 1 September 2010]

Table 6: Sources of financing [amounts in million UA]

Sources of financing	FE	LC	Total Cost	% Total
<b>ADF</b>	0.461	2.701	3.162	91.3
<b>Government</b>	0.000	0.300	0.300	8.7
<b>Total</b>	<b>0.461</b>	<b>3.001</b>	<b>3.462</b>	<b>100.0</b>

Table 7: Project cost by category of expenditure [amounts in million UA]

	Categories of expenditure	LC	FE	Total cost	% FE
A.	<b>GOODS</b>				
	- Equipment	0.003	0.027	0.030	90
B.	<b>SERVICES</b>				
	-Training	2.529	0.281	2.810	10
	-Technical Assistance	0.008	0.073	0.081	90
	Physical Contingency	0.231	0.040	0.271	
	Price Contingency	0.230	0.040	0.270	
	<b>Total Project Cost</b>	<b>3.001</b>	<b>0.461</b>	<b>3.462</b>	

Table 8: Expenditure schedule by component [amounts in million UA]

	COMPONENT	2010	2011	2012	2013	Total
I	Deepening Enterprise Development	0	1.31	1.25	0.90	3.462
	<b>Total per year</b>	<b>0</b>	<b>1.31</b>	<b>1.25</b>	<b>0.90</b>	<b>3.462</b>

## ***2.5. Project's Target Population and Key Performance Indicators***

The principal target group for this additional financing project are the economically active rural poor, specifically from the selected Growth Centres in four districts of Jenda in Mzimba, Malomo in Ntchisi, Monkey Bay in Mangochi and Chiteketsa in Phalombe, who have the potential to embark on business ventures which will bring value addition to their on-farm and off-farm commercial activities. The selection of beneficiaries will include at least 40% women.

## ***2.6. Participatory Processes of Design and Implementation***

2.6.1 The formulation of the LED project, which this supplementary loan will support, followed a decentralized structure. Meetings were held with several stakeholders including GOM officials, local government authorities, private sector representatives, civil society organizations (including village/district development committees), farmer groups, and DPs including international and local NGOs. Specifically, the existing beneficiaries targeted under Component 1 were consulted to assure a clear demand driven service delivery and training orientation. Private sector participation will be enhanced by the use of a private-sector led delivery approach and the encouragement of public-private partnership initiatives during project implementation. Community participatory processes will be further enhanced with the proposed M&E framework for the project, through the use of participatory community monitoring tools such as citizen report cards and community score cards, which are tools to be used to solicit beneficiary feedback on the project implementation process and ensure that project activities are executed in a satisfactory and sustainable manner. This participatory process of implementation was a major factor that led the GOM to request that the Bank provide a supplementary loan to the original LED loan due to the success of creating the deepening enterprise development component and additional communities requesting support to be also included in the formation of business groups, in order to facilitate and enable their access to enterprise development.

## ***2.7. Experience and Lessons Reflected in Project Design***

2.7.1 Lessons learnt from the implementation of the existing Local Economic Development Project and the rural growth centre's development programme in the Ministry of Local Government and Rural Development will be applied to the Additional Finance. These lessons include: (a) coordinated/harmonised implementation arrangements that achieve greater impact and are cost-effective; (b) monitoring and evaluation taking into account community governance structures and tools for results accountability; (c) promotion of private-sector service delivery particularly in enterprise development interventions; (d) training potential applicants in the area proposal development to engender demand of matching grant resources. These lessons will be implemented within the framework of the LDF.

## ***2.8. Key Performance Indicators***

2.8.1 The Logical Results Framework of this supplementary loan has identified key impact and performance indicators.

## **III – PROJECT FEASIBILITY**

### ***3.1. Economic and Financial Performance***

3.1.1 The detailed Economic and Financial analysis was undertaken for the original project and the findings are still applicable to the additional financing.

### ***3.2. Environmental and Social Impacts***

#### **Environment**

3.2.1. In accordance with the Bank's environment and social safeguard policies, this supplementary loan project is classified as Category 3. The interventions under this project are primarily aimed at further improving the socio-economic well-being of the local population through the development of an entrepreneurship culture and targeted capacity building activities geared towards enhancing local economic development.

#### **Climate Change**

3.2.2. The project will support economic development in Malawi and as such it is expected to generate some CO<sup>2</sup> emissions. According to official reports, the Malawian per capita CO<sup>2</sup> emission of 20kg c/year is about the lowest in the world and 60 times lower than the world average. It is reported that the development of CO<sup>2</sup> emission is slow compared to other African countries. On the basis of the observed models, the consequences of climate change on future LED project impact are estimated to be small. This is estimated to remain the same under this additional funding request. These will be closely monitored during project implementation.

#### **Gender**

3.2.3 Women in Malawi play a significant role in the country's economic and social development, as head of households (26.6%), participation in agriculture labour force (70%) and owning 34% of the enterprises individually and 30% jointly with their spouses. Most of women owned enterprises (97%) are considered micro and struggle to survive. Studies have shown that women owned enterprises have very small capital base and often use their business profits for household needs. Their productivity and profitability also suffer from limited skills training, lack of access to appropriate technology, business development services and lack of access to both product and inputs markets. To this effect, the project will apply a multi-faceted approach to increase the market outcome for women by (i) enhancing the value of women dominated production and processing through skills training, use of technologies, using a group (women only or mixed groups established where the groups will be encouraged to jointly produce, quality standard, labelling and marketing will be promoted); (ii) promoting women entrepreneurs (comprising of at least 40% of the envisaged 4,427 households beneficiaries for the business development services and 40% of the 6,000 of the beneficiaries of the savings mobilisation) to venture into the segment of the value chain often dominated by men, for example, as distributors and marketers; (iii) building women's leadership skills to participate in the governance of economic associations such as associations and cooperatives; (iv) sensitizing men to support women's enhanced role in the value chain development and (v) building the capacity of business associations and those of the local government institutions to ensure gender responsive service delivery at the local level.

## **Social**

3.2.4. This project just like the original LED project will support a range of initiatives at the local level with the aim of supporting the emergence of MSEs which will be involved in a range of diverse economic activities that will contribute towards improving the household income and socio-economic well being of at least 4,427 households in the four rural growth centres districts, especially in terms of food security and access to social services. The project will create 1000 new job opportunities, in addition to the collective and household assets that would be built through the productive investments undertaken under the component. The encouragement of community participation in the project's activities will enhance positive social equity outcomes through (i) reducing isolation and improving access to economic opportunities for the poor and (ii) decreasing social exclusion of certain groups such as women. The project's emphasis on partnerships between the local government agencies, civil society and the private sector will be crucial in strengthening local social capital and in supporting community-based economic development interventions that will improve the quality of life of the local population in all aspects.

## **Involuntary resettlement**

3.2.5. The project does not entail any involuntary resettlement.

# **IV – IMPLEMENTATION**

## **4.1. Implementation Arrangements**

### **Institutional**

4.1.1. The project implementation arrangements remain the same as in the original project. Therefore, project resources will be channelled through the LDF, established under the Ministry of Finance. The main management features of the LDF are:

- A *Steering Committee* for policy oversight and representing the main national coordinating Ministries and chaired by the Secretary to Treasury;
- A *National Technical Advisory Committee (NTAC)* chaired by Ministry of Local Government will review and approve proposals and investment plans on behalf of the Steering Committee;
- A *National Local Government Finance Committee (NLGFC)* to coordinate Financial Reporting from LAs' and issue resource allocation guidelines.

4.1.2. A lean Technical Support Team (TST) exists within the Directorate of Debt and Aid Management to provide the needed fiduciary and accountability support to the projects funding the LDF including this one. Specifically, the TST will (i) track the inflows of funds from both Development Partners and Government based on an agreed Programme of Work; (ii) be responsible for releasing funds to the Assemblies as advised by the NLGFC based on the agreed resource transfer formula; (iii) harmonise donor financing standards and agreements; (iv) finance agreed-to studies, evaluations, and processes that support Public and Social Accountability as part of linking resource flows with development outcomes; and (v) undertake knowledge building functions to facilitate organization learning and knowledge sharing. At the DAs level, the Directorate of Planning and Development will assist and provide operational support, prior to and during the implementation of project activities. The project aims to use to the extent possible existing district and community planning and development structures such as the District Executive Committee, Area Development Committee and Village Development Committee at the local level in the implementation of project activities.

## **Procurement**

4.1.3. 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*, using the relevant Bank Standard Bidding Documents. (Please see Annex B5 for details).

Training: Procurement of training services in Association Building and Savings Mobilization, formation of business groups, informal training in group dynamics, business management, credit management, financial management, group members in product value addition, quality standards will be carried out by, but not limited to consulting firms, NGOs, and Universities. The process of selecting firms will be through a shortlist. Consultant services for training estimated to cost USD100,000 equivalent or more shall be procured on the basis of QCBS or Quality Based Selection (QBS) as appropriate. Consulting Services assignments estimated to cost equivalent of UA 50,000 and above, may be procured through the Selection Based on Consultants' Qualifications (CQS) method. Consulting Services estimated to cost less than UA 50,000 will be acquired through Least Cost Selection (LCS) method. For contract amounts valued at less than UA350,000, the Borrower may limit advertisement of the procurement to national or regional newspapers. However, any eligible consultant, regional or not, who wishes to provide the requested services, may express his desire to be short-listed.

The project will formulate an annual training plan and budget which will be submitted to the Bank for its prior review and approval. The annual training plan will, inter alia, identify: (i) the training envisaged; (ii) the justification for the training, how it will lead to effective performance and implementation of the project and or sector (iii) the personnel to be trained; (iv) the selection methods of institutions or individuals conducting such training; (v) the institutions which will conduct training, if already selected; (vi) the duration of proposed training; and (vii) the cost estimate of the training. Report by the trainee upon completion of training would be mandatory.

Goods: The procurement of small training equipment for skills development all valued at UA 30,000 (Thirty Thousand UA) will be awarded under National Shopping procedures, as goods are standard specification commodities readily available in Malawi.

## **Disbursement**

4.1.5. In line with existing disbursement practices and procedures, no separate special account for the supplementary loan will be opened. The Supplementary Loan resources will be deposited into the existing LED account. The project will be obliged to report on the utilisation of all the resources together as well as audit the full amount.

## **Financial Management**

4.1.6. The supplementary loan resources will be managed and monitored through the existing LED financial and accounting mechanisms. The utilisation of these resources will also be audited within the overall audit of the LED project in accordance in accordance with a Bank approved comprehensive Terms of Reference and include specific opinions on the project financial statements and Statements of Expenditures on use of the Special Account, internal control systems, procurement arrangements etc with a detailed management letter. The report will be sent to the Bank within six (6) months of the end of the respective fiscal year. In Malawi, all development aid is audited by the National Audit Office (NAO). However, due to the capacity constraints within the NAO, it has been agreed with the GOM that the original project will support the services of external auditors to be engaged by the NAO to carry out the external audit. The external auditors, during their annual audits, would express an opinion on the utilization of the Loan's proceeds, and compliance with the ADF Loan Agreement. They will also make

recommendations for improving any systemic weaknesses if identified. Follow-up procedures for audit recommendations would be in line with Bank practice. Regarding project external audit, it should be specified that the project audit will be carried out in accordance with a Bank approved comprehensive Terms of Reference and include specific opinions on the project financial statements and Statements of Expenditures on use of the Special Account, internal control systems, procurement arrangements etc with a detailed management letter.

## **4.2. Monitoring**

4.2.1. The Ministry of Development Planning and Cooperation (MODPC) is responsible for monitoring and evaluating the outputs and outcomes of development interventions as they relate to achieving the MGDS. In this regard, in liaison with MLGRD, the MODPC will continue its responsibility over M&E and ensuring that all stakeholders are taking part in the monitoring of project processes. The project will strengthen the M&E capacities of DAs and facilitate implementation of participatory community monitoring tools such as citizen report cards and community score cards to ensure that the project activities are executed in a satisfactory manner and benefits are sustainable.

4.2.2. In accordance with Bank practice, the Directorate of Aid and Debt Management, Ministry of Finance will continue to submit progress reports to the Bank on a quarterly basis. The M&E expert to be recruited under the project will also be responsible for making sure that the M&E system is consistent with the results-based matrix of the project and informed by (a) the baseline survey whose preparatory processes are in progress, (b) the key performance indicators, including targets under the Additional Finance of the project, and (c) the revised results framework on the Bank's RBCSP. This will be further complemented with (i) the establishment of a technical monitoring committee comprising of key stakeholders at the district level; (ii) a beneficiary impact assessment to be carried out at the end of the second year; (iii) supervision missions of the Bank (some jointly with World Bank), a mid-term review and an end-of-project impact study at the completion of the project by GOM and the Bank.

## **4.3. Governance**

The Project will seek to contribute towards the promotion of good governance, with a specific focus on citizen empowerment to demand accountability for quality service delivery and promotion of professional and ethical standards in public service management. To this effect, the supplementary loan will also be used to complement the activities of the parallel World Bank-funded MASAF III APLII Project and DFID-funded Performance, Evidence and Accountability Program geared towards the promotion of transparency and accountability in the delivery of services.

## **4.4. Sustainability**

The sustainability of the project will be enhanced by Government's commitment to local economic development as demonstrated in the MGDS and its broader public sector reform program. In addition, the design of the LDF demonstrates that the mainstreaming of LDF processes within the public expenditure management framework will allow for local economic development to be mainstreamed across all sectors at the national and local levels. It also allows for local economic development to be better aligned with the process of decentralization and devolution of service delivery to Local Authorities. Other important elements ensuring sustainability in the Project relates to the involvement of the private sector and communities in the implementation of the Project including the additional Financing.

## **4.5. Risk management**

4.5.1. There is no new additional risk for this additional supplementary finance request apart from those already highlighted in the LED project. The original project appraisal report identified the following risks which are currently being addressed: (i) *Slow pace of decentralisation* – this risk has been satisfactorily addressed by GOM through the formal parliamentary approval of the Local Development Fund as the national mechanism for decentralisation. In addition the 2009 national budget clear budget envelopes which serve as a basis for planning district-level budget allocations. (ii) *Weak implementation framework of the LDF* – this risk has been mitigated by establishing and empowering the Technical Steering Committee as the policy guidance body. Moreover the LDF is now fully staffed with a newly appointed Chief Executive Director. (iii) *Weak financial management and procurement capacities of the LAs* – Specifically, both the WB and the AfDB support to the Local Economic Development project has targeted capacity building activities for these two key functions. To date, all the relevant experts in the LAs have been selected to undergo training in financial and procurement activities which are also accompanied by further automated systems which are in line with the rolling out of the IFMIS. Several of the donor support to strengthening the local government process has rolled out an extensive capacity building program to address this weakness. There are no other foreseeable exogenous constraints that would hinder the successful completion of the project.

## **4.6. Knowledge Building**

The project in close collaboration with the World Bank-funded MASAF III APL II project will jointly support knowledge building initiatives to create awareness about the LDF and promote transparency and accountability at all levels. Major communication objectives will be to: (i) raise awareness and understanding of stakeholders on key issues (such as LDF issues, safeguards, transparency, etc.) at different levels including communities, Local Government, and sector ministries; (ii) advocate and promote accountability (i.e., on the role of Local Govt./LAs; promote transparency by engaging CBOs and NGOs, media, etc.); (iii) facilitate organisational learning and knowledge sharing within and outside the government; and (iv) build communication capacity in support of project activities.

# **V – LEGAL INSTRUMENTS AND AUTHORITY**

## **5.1. Legal Instrument**

An ADF Loan will be used to finance the project.

## **5.2. Conditions Associated with Bank's Intervention**

### **A. Conditions Precedent to Entry into Force**

The Loan Agreement shall enter into force upon satisfaction of the terms of Section 12.01 of the *General Conditions Applicable to the African Development Fund Loan Agreements and Guarantee Agreements*.

### **B. Conditions Precedent to First Disbursement**

The first disbursement of the Loan shall be conditional upon entry into force of the Loan Agreement and the fulfilment by the Borrower of the following condition:

The Borrower Shall have, to the satisfaction of the Fund, provided evidence of having opened One (1) US Dollar denominated Special Account and One (1) Local Current Account in a Bank acceptable to the Fund for the deposit of the proceeds of the Loan.

**C. Other Conditions**

No new conditions.

**5.3 Compliance with Bank Policies**

This Project complies with Bank Group Response to the Economic Impact of the Financial Crisis (February, 2009) as well as the Procedures for Supplementary Financing (August 1997).

**VI – RECOMMENDATION**

Management recommends that the Board of Directors approve the proposed ADF loan to the Government of Malawi in an amount equivalent to UA 3.162 Million for the purposes and subject to the conditions stipulated in this report.

## Appendix 1

### Summary Brief of the Original Project Design

#### Support to Local Economic Development Project (LED) Description

(Approved LED project document reference ADF/BD/WP/2008/79)

The Local Economic Development project was designed to engender pro-poor economic growth and tackle livelihood insecurities (especially food insecurity), through the improvement of the local productive activities, the facilitation of the diversification of the household economic activities and the creation of jobs and incomes in selected growth centres. Specifically, the project will seek to: (i) contribute to poverty reduction by fostering enterprise development through public-private initiatives; (ii) support productive investments to stimulate pro-poor economic growth in four selected growth centres; and (iii) contribute towards the creation of an enabling environment for local economic development through targeted capacity building interventions at the national and district levels. The project has four components, namely:

1. Deepening Enterprise Development (Component I): This component establishes a nation-wide Matching Grant Facility to support innovative economic development initiatives geared towards (i) promoting the formation of local business organizations or economic clusters of enterprises and value chains; (ii) mobilizing community assets and putting them into productive use; (iii) creating jobs through enterprise development; and (iv) promoting economic development partnerships and alliances between government, business and communities;
2. Growth Centres Development (Component II): This component is geared towards stimulating pro-poor economic growth in the selected growth centres. To this effect, the component will have two sub-components: (i) Technical Studies, which entails a detailed economic assessment of the four growth centers in order to identify potential investment opportunities that are likely to spur growth; and (ii) Productive Investments, which supports the funding and implementation of the sub-projects derived from the Productive Investment Plans produced under sub-component I;
3. Local Authorities Capacity Enhancement (Component III): This component is geared towards the strengthening of local institutions through the support of (i) establishment of Business Support Units (BSU), (ii) technical assistance for the mainstreaming of local economic development in the district development planning processes; (iii) development of community monitoring tools in collaboration with DFID and the World Bank; and (iv) creation of a *forum for local economic development actors* to promote dialogue and exchange of information among local economic stakeholders; and
4. Technical Support and Knowledge Management (Component IV): This component supports the activities geared towards enhancing the operationalisation of the LDF mechanism, implementation of the project and knowledge management to facilitate organizational learning and knowledge sharing.

The initial cost of the LED project is UA 18.66 million (USD 30.39 million), of which the total ADF and World Bank contributions amount to UA 14.00 million and UA 3.04 million, or 75.4 and 16.3 percent of total project cost respectively, excluding taxes and customs duties. The total ADF and World Bank contributions are provided as a loan and used to finance the project's total foreign exchange costs (UA 2.34 million) and part of the local currency costs (UA 16.32 million). A Government counterpart contribution of at least 10.4% of the ADF Loan, amounting to UA 1.62 million is required. The following tables summarize the estimated cost of the project by component.

*Table 1: Project cost estimates by component [amounts in million UA]*

	COMPONENTS	Dollars (US\$)			UA			% FE	% Base cost
		LC	FE	Total	LC	FE	Total		
I	Deepening Enterprise Development	0.00	4.31	4.31	0.00	2.65	2.65	0	16
II	Growth Centres Development	2.28	13.20	15.48	1.40	8.10	9.50	15	58
III	Local Authority Capacity Enhancement	0.26	1.12	1.38	0.16	0.69	0.85	19	5
IV	Program Support & Knowledge Mgt	0.79	4.64	5.44	0.49	2.85	3.34	15	20
	Total Base Cost	3.33	23.29	26.62		14.29	16.34	13	100
	Physical Contingency	0.21	1.59	1.80	0.13	0.98	1.11	12	7
	Price Contingency	0.26	1.71	1.97	0.16	1.05	1.21	13	7
	<b>Total Project Cost</b>	<b>3.82</b>	<b>26.59</b>	<b>30.39</b>	<b>2.34</b>	<b>16.32</b>	<b>18.66</b>	<b>13</b>	<b>114</b>

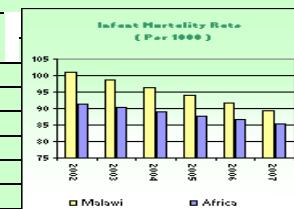
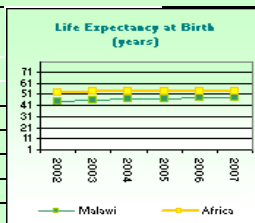
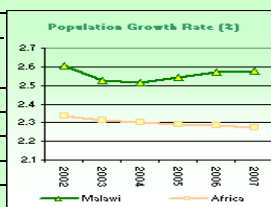
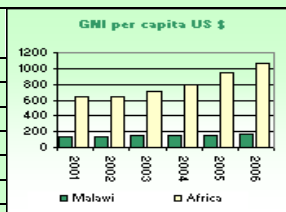
Note: Exchange rates used in tables below: [1 UA = 1.63362 US\$, as at July 1<sup>st</sup> 2008]

*Table 2: Sources of financing [amounts in million UA]*

Sources of financing	FE	LC	Total Cost	% Total
<b>ADF</b>	2.34	11.66	14.00	75.0
<b>World Bank</b>	0.00	3.04	3.04	16.3
<b>Government</b>	0.00	1.62	1.62	8.7
<b>Total</b>	<b>0.00</b>	<b>16.32</b>	<b>18.66</b>	<b>100.0</b>

## APPENDIX 2. MALAWI. SOCIOECONOMIC INDICATORS

MALAWI : COMPARATIVE SOCIO-ECONOMIC INDICATORS					
	Year	Malawi	Africa	Developing Countries	Developed Countries
<b>Basic Indicators</b>					
Area ('000 Km <sup>2</sup> )		118	30 307	80 976	54 658
Total Population (millions)	2007	13.9	963.7	5 448.2	1 223.0
Urban Population (% of Total)	2007	18.4	39.8	43.5	74.2
Population Density (per Km <sup>2</sup> )	2007	117.5	31.8	65.7	23.0
GNI per Capita (US \$)	2006	170	1 071	2 000	36 487
Labor Force Participation - Total (%)	2005	46.3	42.3	45.6	54.6
Labor Force Participation - Female (%)	2005	48.5	41.1	39.7	44.9
Gender -Related Development Index Value	2005	0.432	0.486	0.694	0.911
Human Develop. Index (Rank among 174 countries)	2005	164	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2006	45.0	34.3	...	...
<b>Demographic Indicators</b>					
Population Growth Rate - Total (%)	2007	2.6	2.3	1.4	0.3
Population Growth Rate - Urban (%)	2007	4.7	3.5	2.6	0.5
Population < 15 years (%)	2007	46.9	41.0	30.2	16.7
Population >= 65 years (%)	2007	3.1	3.5	5.6	16.4
Dependency Ratio (%)	2007	99.0	80.1	56.0	47.7
Sex Ratio (per 100 female)	2007	98.9	99.3	103.2	94.3
Female Population 15-49 years (% of total population)	2007	22.2	24.2	24.5	31.4
Life Expectancy at Birth - Total (years)	2007	48.3	54.2	65.4	76.5
Life Expectancy at Birth - Female (years)	2007	48.4	55.3	67.2	80.2
Crude Birth Rate (per 1,000)	2007	40.7	36.1	22.4	11.1
Crude Death Rate (per 1,000)	2007	14.8	13.2	8.3	10.4
Infant Mortality Rate (per 1,000)	2007	89.4	85.3	57.3	7.4
Child Mortality Rate (per 1,000)	2007	131.8	130.2	80.8	8.9
Total Fertility Rate (per woman)	2007	5.6	4.7	2.8	1.6
Maternal Mortality Rate (per 100,000)	2004	984.0	723.6	450	8
Women Using Contraception (%)	2006	41.7	29.8	61.0	75.0
<b>Health &amp; Nutrition Indicators</b>					
Physicians (per 100,000 people)	2004	2.1	39.6	78.0	287.0
Nurses (per 100,000 people)	2004	56.3	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2006	53.6	50.4	59.0	99.0
Access to Safe Water (% of Population)	2006	76.2	62.3	80.0	100.0
Access to Health Services (% of Population)*	2004	35.0	61.7	80.0	100.0
Access to Sanitation (% of Population)	2006	88.2	45.8	50.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2005	14.1	4.7	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2005	409.4	300.7	275.0	18.0
Child Immunization Against Tuberculosis (%)	2006	99.0	83.7	85.0	93.0
Child Immunization Against Measles (%)	2006	85.0	75.4	78.0	93.2
Underweight Children (% of children under 5 years)	2006	19.4	28.6	27.0	0.1
Daily Calorie Supply per Capita	2004	2 077	2 436	2 675	3 285
Public Expenditure on Health (as % of PIB)	2005	8,7	2,4	1,8	6,3
<b>Education Indicators</b>					
Gross Enrolment Ratio (%)					
Primary School - Total	2005	119.0	96.4	91.0	102.3
Primary School - Female	2005	121.6	92.1	105.0	102.0
Secondary School - Total	2004	29.0	44.5	88.0	99.5
Secondary School - Female	2004	25.0	41.8	45.8	100.8
Primary School Female Teaching Staff (% of Total)	2004	45.7	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2007	34.1	33.3	26.6	1.2
Adult Illiteracy Rate - Male (%)	2007	21.9	25.6	19.0	0.8
Adult Illiteracy Rate - Female (%)	2007	46.1	40.8	34.2	1.6
Percentage of PIB Spent on Education	2006	5,3	4,5	3,9	5,9
<b>Environmental Indicators</b>					
Land Use (Arable Land as % of Total Land Area)	2005-07	19.9	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2000-07	2.4	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2000-07	8.0	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2005-07	0.1	1.0	1.9	12.3



Sources: BAD Statistics Department Databases, Banque mondiale; World Development Indicators; UNAIDS; UNSD; WHO; UNICEF; WRI, PNUD; Country Reports

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

**Appendix 3: Table of AfDB Portfolio in Malawi**

<b>Project</b>	<b>Date Approved</b>	<b>Loan/Grant Amount (Million)</b>	<b>Amount Disbursed (Million)</b>	<b>% Disbursed</b>
Lake Malawi Artisanal Fisheries Development Project	29/01/2003	Loan 6.930 Grant 0.840 <b>Total 7.770</b>	7.2	93
Smallholder Crop Production & Marketing Project	26/07/2006	Loan 00.00 Grant 15.00 Total: 15.00	5.4	36
Agriculture Infrastructure Support	09/09/2009	Loan 00.00 Grant 15.00 <b>Total 15.0</b>	0.0	0
National Water Development Programme	02/07/2008	Loan 15.2 Grant 14.10 <b>Total 29.3</b>	2.6	9
Support to Secondary Education Phase IV	21/11/2001	Loan 15.0 Grant 00.0 <b>Total 15.0</b>	14.3	95
Support to Secondary Education Phase V	07/06/2006	Loan 0.00 Grant 15.0 <b>Total 15.0</b>	6.7.	45
Support to Health Sector Program SWAp	24/11/2005	Loan 0.00 Grant 15.0 <b>Total 15.0</b>	8.3	56
Support to Local Economic Development	22/09/2008	Loan 14.00 Grant 00.00 <b>Total 14.00</b>	0.286	2.05
Trunk Road Rehabilitation Blantyre - Zomba	22/05/2009	Loan 22.98 Grant 1.12 <b>Total 24.1</b>	0.0	0
Nacala Corridor Phase I	24/06/2009	Loan 14.32 Grant 00.0 <b>Total 14.32</b>	0.0	0

**Appendix 4: Similar projects financed by the Bank and other Development Partners**

Sector Issues	Project	Last Supervision Ratings	
		Implementation Progress	Development Objectives
Adult Literacy, business and vocational skills development	Skills Development and Income Generation Project (ADB)	S	S
Increased productivity and marketing of cash crops	Smallholder Crop Production & Marketing (ADB)	S	S
Focus on value addition on selected commodities	Rural Livelihoods and Economic Enhancement Programme (IFAD)	Not yet Effective	Not yet Effective
Extension and training services, farmers mobilization to manage productive assets and natural resources, agri-business	Farm Income Diversification Program (EU)	S	S
Capacity building and microfinance	Inclusive Micro-Finance Sector in Malawi (UNCDF/UNDP)	S	S
Microfinance development	Deepening Microfinance (USAID)	S	S
Local governance and results accountability	Local Government Capacity Enhancement (DFID)	S	S
Social protection and empowerment of communities	Malawi Social Action Fund Phase III APL II (WB)	S	S
Creation of a favourable business environment at National Level	Business Environment Strengthening Technical Assistance Program (BESTAP)	S	S

S = Satisfactory

**Appendix 5: Map of Malawi showing Project Area**



This map has been drawn specifically by the African Development Bank

## APPENDIX 6 – Detailed Cost Table

			Totals Including Contingencies (UA '000)			
COMP I: DEEPENING ENTERPRISE DEVELOPMENT	Unit	Total	2011	2012	2013	Total
<b>1) Association Building &amp; Savings Mobilization</b>						
<b>A. GOODS</b>						
IEC Material for sensitization	lumpsum/year		12.1	12.4	12.7	37.2
<b>subtotal Goods</b>			<b>12.1</b>	<b>12.4</b>	<b>12.7</b>	<b>37.2</b>
<b>B. SERVICES</b>						
<b>Training</b>						
Savings Mobilization sensitization activities 10 trips/year	lumpsum/year		60.7	62.1	63.6	186.4
Formation of business groups@100 per year	lumpsum/year		90.7	92.1	93.6	276.4
Formation of professional associations (value additions)	lumpsum/year		90.7	92.1	93.6	276.4
Development & Disseminate IEC Strategy	lumpsum/year		36.4	37.3	14.1	87.8
Training of business groups in saving mobilization	5 person day	1,150	160.3	224.2	222.5	607.0
Facilitation of opening group accounts	lumpsum/year		56.4	57.3	38.2	151.8
Facilitation of registration of groups as cooperatives	lumpsum/year		56.4	57.3	38.2	151.8
Informal training on group dynamics	units	1,000	39.5	40.4	15.3	95.1
<b>Subtotal Training</b>			<b>591.2</b>	<b>662.8</b>	<b>578.9</b>	<b>1832.8</b>
<b>Total: Association Building &amp; Savings Mobilization</b>			<b>603.3</b>	<b>675.2</b>	<b>591.6</b>	<b>1870.0</b>
<b>2) Business Development Services for local Entrepreneurs</b>						
<b>A. SERVICES</b>						
<b>Training</b>						
Training in business management	3 person day	1,000	118.4	121.1	45.8	285.3
Training in credit management	3 person day	1,000	118.4	121.1	45.8	285.3
Training in financial management	3 person day	1,000	118.4	121.1	45.8	285.3
Training of group members in product value addition	3 person day	900	142.1	54.9	54.9	251.9
Training in marketing/market research	person day	900	47.4	18.3	18.3	84.0
Facilitating national field days (Trade fair)	lumpsum		87.8			87.8
Facilitating the establishment of market linkages both local & international	lumpsum		69.1			69.1
Facilitating regional/international exchange visits	lumpsum		31.6			31.6
Training on Quality Standards	3 person day	300	38.2	24.2	24.8	87.2
<b>Subtotal Training</b>			<b>650.7</b>	<b>532.7</b>	<b>284.1</b>	<b>1470.5</b>
<b>Total: BDS for local Entrepreneurs</b>			<b>650.7</b>	<b>532.7</b>	<b>284.1</b>	<b>1470.5</b>
<b>3) Capacity Building for BDS Providers</b>						
<b>A. SERVICES</b>						
<b>I. Technical Assistance</b>						
Consultant training in new BDS tools	person day	360	37.4	37.9	14.6	89.9
<b>II. Training</b>						
Facilitating exchange visit for BDS in the region	lumpsum		34.6			34.6
<b>Subtotal Training</b>			<b>72.0</b>	<b>37.9</b>	<b>14.6</b>	<b>124.5</b>
<b>Total: Capacity Building for BDS</b>			<b>72.0</b>	<b>37.9</b>	<b>14.6</b>	<b>124.5</b>
<b>TOTAL COMPONENT I</b>			<b>1302.9</b>	<b>1257.3</b>	<b>901.8</b>	<b>3462.0</b>
<b>TOTAL PROJECT COST</b>			<b>1302.9</b>	<b>1257.3</b>	<b>901.8</b>	<b>3462.0</b>

## **OUTCOME OF NEGOTIATIONS**

The ADF Supplementary Loan for UA 3.162 million was negotiated on 4<sup>th</sup> and 5<sup>th</sup> November 2010, with the official delegation from the Government of the Republic of Malawi. The negotiations were successfully concluded and the terms and conditions of the ADF supplementary loan have been accepted by the delegation of the Government of the Republic of Malawi.