

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**MALAWI**  
**COUNTRY PORTFOLIO PERFORMANCE REPORT**

**ORSB DEPARTMENT  
MALAWI FIELD OFFICE**

**June, 2008**

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**ANNEX I: LIST OF PARTICIPANTS IN THE WRAP-UP MEETING**

**ANNEX II: COUNTRY PORTFOLIO IMPROVEMENT PLAN**

**ABBREVIATIONS**

ADB	African Development Bank
ADF	African Development Fund
APPR	Annual Portfolio Performance Review
CABS	Common Approach to Budget Support
CIDA	Canadian International Development Agency
CPR	Country Portfolio Review
CPPR	Country Portfolio Review Report
CSP	Country Strategy Paper
DHRMD	Department of Human Resource Management and Development
DFID	UK Department for International Development
DO	Development Objective
ESW	Economic and Sector Work
GoM	Government of Malawi
IP	Implementation Progress
JICA	Japanese International Cooperation Agency
MCA	U.S. Millennium Challenge Account
M&E	Monitoring and Evaluation
MGDS	Malawi Growth and Development Strategy
MoF	Ministry of Finance
MTR	Mid Term Review
MWFO	Malawi Field Office
NAO	National Audit Office
OECD-DAC	Organization for Economic Cooperation and Development - Development Assistance Committee
PAR	Projects at Risk
PCR	Project Completion Report
PEFA	Public Expenditure and Financial Assessment
PIU	Project Implementation Unit
PP	Problem Project
PPP	Potential Problem Project
RBCSP	Poverty Reduction Strategy Loan
SCG	Results Based Country Strategy Paper
SWAp	Sector Coordinating Group
UA	Sector Wide Approach
WB	Units of Account
	World Bank

**DEFINITIONS**

Implementation Progress Rating	Rating based on actual performance with compliance of conditions, procurement, financial management and progress on activities and outputs
Development Objective Disbursement Rate	Rating based on expected sustainability and outcomes of the project
Disbursement Ratio	Total ADF disbursements for projects / Total portfolio commitments
Projects at Risk	Ratio of disbursements during the reporting period / Undisbursed size of the Bank's portfolio at the end of the previous period
Commitments at Risk Age	Number of projects with an IP or an DO rating below 2.0 and with two or more risk flags / Number of projects in the portfolio
Problem Project	Value of projects that are at risk
Potential Problem Project	Time elapsed from approval to-date
Predictability of Aid	Number of projects with an IP or an DO rating below 2.0
Coordinated Missions	Number of projects with two or more risk flags
Coordinated Analytical Works	Actual aid disbursed / Expected aid received by Government Joint missions with one or more partners (apart from the Bank)
Effectiveness	Joint analytical works prepared together with another donor Time elapsed from approval to effectiveness

## I. INTRODUCTION

1.1 The last Country Portfolio Review Report (CPRR) (ADB/BD/WP/2006/39 - ADF/BD/WP/2006/37) for Malawi was presented to the Boards in April, 2006. The report showed a satisfactory Development Objective (DO) rating at 2.4 and a satisfactory, but weak, Implementation Performance (IP) rating at 1.8. The 2008 Country Portfolio Review (CPR) mission was conducted from April 15-25, 2008 to review the performance of the portfolio, to anticipate future problems and to recommend measures for portfolio improvements.

1.2 The CPR report has benefited from the CPR mission dialogue with Government of Malawi (GoM), Development Partners and other stakeholders, the Results Based Country Strategy Paper (RBCSP) Mid Term Review (MTR), the draft Malawi Growth and Development Strategy (MGDS) Annual Review 2008, Government's Development Assistance Strategy 2006-2011, the draft Policy on Public Debt and Aid, the 2008 draft OECD-DAC Paris Declaration Progress Report for Malawi and the Bank's supervision mission reports.

1.3 Since 1969, the Bank Group has funded 92 lending and non-lending operations in Malawi. The total net commitments amount to UA 595.5 million (UA 532.1m in loans and UA 63.4 in grants), less UA 62.0m in cancellations. Two CSPs have been prepared for 2000-2004 and 2005-2009, which have guided the identification of new projects. The latter CSP has been designed around two pillars addressing the expansion of rural infrastructure and the development of human capital and institutional capacity. The 2005-2009 CSP is aligned with priority sectors identified in the 2006-2010 MGDS, which is Malawi's second-generation national poverty reduction strategy.

## II. OVERALL REVIEW OF THE ON-GOING PROJECTS

2.1 The 2008 RBCSP MTR reported on the outcomes achieved by the Bank-funded projects and programs. Responding to this, Table 1 provides a glance at the financial underpinnings, risk assessments and project ages/sizes on which the results are anchored.

Table 1: Key Portfolio Data

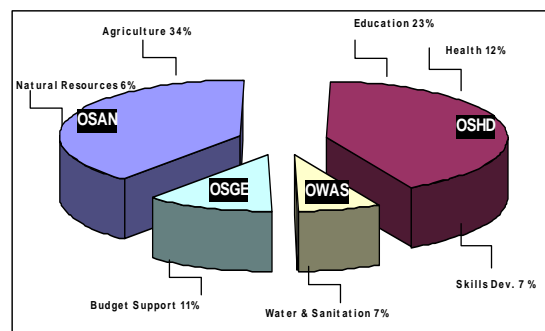
Projects/Programs/Operations		Financial Information			Risks		Project Design	
		Amount Approved (UA m)	Disbursements (UA m)	Disbursement Rate	Projects at Risk (#)	Comm'ts at Risk (%)	Age (years)	Average Size
<b>MGDS Theme 1</b>	<b>Ec. Growth/Rural Develop. OSAN</b>	<b>51.1</b>	<b>20.0</b>	<b>39%</b>	<b>5</b>		<b>7.4</b>	<b>8.5</b>
	<b>Agricultural Development</b>	<b>43.3</b>	<b>16.9</b>	<b>39%</b>	<b>4</b>		<b>7.9</b>	<b>8.7</b>
	Horticulture & Foods Crop Development	7.5	4.6	61%	PPP		9.3	
	Smallholder Irrigation Project	5.0	2.9	58%	PPP		9.3	
	Macademia Smallholder Development	6.9	3.9	57%	PPP		9.7	
	Smallholder Outgrowers Sugarcane	8.9	5.3	60%	PPP		9.3	
	Smallholder Crop Production & Marketing	15.0	0.2	1%			1.7	
	<b>Natural Resources Management</b>	<b>7.8</b>	<b>3.1</b>	<b>40%</b>	<b>1</b>		<b>5.2</b>	<b>7.8</b>
	Lake Malawi Artisanal Fisheries	7.8	3.1	40%	PPP		5.2	
<b>MGDS Theme 3</b>	<b>Social Development OSHD</b>	<b>54.6</b>	<b>18.6</b>	<b>34%</b>	<b>1</b>		<b>4.2</b>	<b>13.7</b>
	<b>Education</b>	<b>30.0</b>	<b>11.9</b>	<b>40%</b>			<b>4.1</b>	<b>15.0</b>
	Secondary Education Phase IV	15.0	11.6	77%			6.4	
	Secondary Education Phase V	15.0	0.3	2%			1.8	
	<b>Health</b>	<b>15.0</b>	<b>0.7</b>	<b>5%</b>	<b>1</b>		<b>2.3</b>	<b>15.0</b>
	Health Sector Program SWAp	15.0	0.7	5%	PPP		2.3	
	<b>Skills Development</b>	<b>9.6</b>	<b>6.0</b>	<b>63%</b>			<b>6.2</b>	<b>9.6</b>
	Skills Development & Income Generation	9.6	6.0	63%			6.2	
<b>MGDS Theme 4</b>	<b>Infrastructure OWAS</b>	<b>9.6</b>	<b>6.4</b>	<b>67%</b>			<b>6.3</b>	<b>9.6</b>
	Integrated Rural Water Supply & San.	9.6	6.4	67%			6.3	
<b>MGDS Theme 5</b>	<b>Governance OSGE</b>	<b>14.9</b>	<b>0.0</b>	<b>0%</b>			<b>1.0</b>	<b>14.9</b>
	Poverty Reduction Support Loan I	14.9	0.0	0%			1.0	
<b>TOTAL 2008 (without budget support)</b>		<b>115.3</b>	<b>45.0</b>	<b>39%</b>	<b>6 (55% PAR)</b>	<b>44%</b>	<b>6.1</b>	<b>10.5</b>
<b>TOTAL 2008 (with budget support)</b>		<b>130.2</b>	<b>45.0</b>	<b>35%</b>	<b>6 (50% PAR)</b>	<b>39%</b>	<b>5.7</b>	<b>10.9</b>
<b>CPRR 2006</b>		<b>137.0</b>	<b>42.2</b>	<b>31%</b>	<b>5 (35.7% PAR)</b>	<b>32%</b>	<b>3.2</b>	<b>9.1</b>

2.2 Table 1 has been expanded to encompass key portfolio data with and without the PRSL I budget support operation, which has not yet been ratified by Parliament. Table 1 shows that the current portfolio consists of 11 projects (2006: 14 projects) and one budget support operation with a total commitment of UA 130.2m (2006: UA 137m). The 2008 disbursement rate (39%, projects only) is higher than in 2006 (31%, projects only), which is attributable to an aging portfolio (up from 3.2 to 6.1 years) disbursing relatively more funds for large value civil works at the end of the project cycles, and shorter effectiveness periods for new portfolio entrants.

2.3 The portfolio has six Potential Problem Projects (PPPs) – mainly in the agricultural sector<sup>1</sup> – which translates into a high *riskiness* rate of 55% (Projects-at-Risk, PAR). The reasons for the high PAR are over-aging and effectiveness delays for older projects. This rate is outside the range of what is normally considered satisfactory (15-20%). Compared to the 2006 CPPR, there are no longer any Problem Projects (PPs) in the portfolio<sup>2</sup>, but the number of PPPs has increased from three to six. However, three PPPs will exit the portfolio during 2008.

### A. Key Characteristics of the On-going Portfolio

Figure 1: Sectoral Distribution, by Commitments



2.4 During the ADF X period (2005-2007) two projects (Smallholder Crop Production and Education V), one program-based approach (Health Sector Program SWAp) and one budget support operation (PRSL I) entered the portfolio. During 2006-2007 six projects closed or were cancelled. Five projects are exiting the portfolio during 2008, thus reducing the aging problem and the level of PARs. Figure 1 illustrates the structure of the portfolio, and the dominant share of the agriculture and social sectors (42% each). In particular new social sector operations (education and health) have contributed to increasing project sizes since 2006 with an average current project size of UA 10.9m.

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### B. General Assessment of Portfolio Performance

2.5 Table 2 on Key Performance and Effectiveness Ratings (below) shows a satisfactory Bank performance in 2008 (rated 2.2), and thus higher than the 2006 CPPR (rated 2.0). The higher rating is largely attributable to better Government performance in the adherence to streamlined conditions (up from 1.8 in 2006 to 2.3 in 2008) together with the exit of two PPs.

2.6 Table 2 also illustrates that the Bank has gradually moved towards greater use of country systems. This is reflected in the effectiveness columns in Table 2, which shows a decrease in the number of parallel PIUs used (down from 11 in 2006 to 8 in 2008), a greater share of co-financed deliverables (from zero operations in 2006 to two operations in 2008) and better harmonization with other development partners.

<sup>1</sup>Once a project has obtained two risk flags, the project becomes “potentially problematic”. Some flags (e.g. “delayed effectiveness”) cannot be removed once it has been assigned. The effect is that a project is still considered risky, even though a project has improved.

<sup>2</sup>In 2006, the portfolio consisted of two PPs (Kironga-Chitipa Roads Project and Small-holder Outgrower Sugarcane Project). Whereas the former was cancelled in July 2006, the latter improved its performance since 2006..

Table 2: Key Performance and Effectiveness Ratings

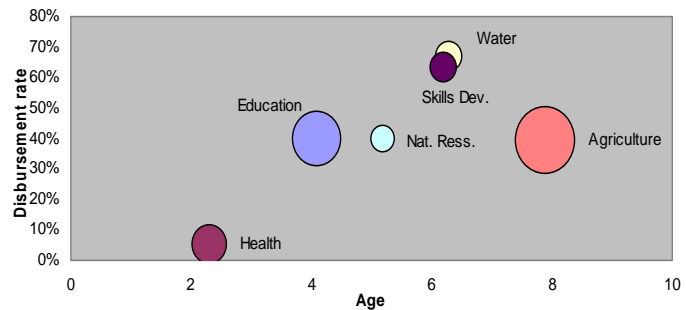
Projects/Programs/Operations	Ratings						Effectiveness	
	Compliance	Procurement	Financial	Activities &	Impact on	Overall	PIU	Co-fin.
	w/ conditions		Performance	Outputs	Develop.	Assessment		Projects
<b>MGDS Theme 1</b>	<b>Ec. Growth/Rural Develop. OSAN</b>	<b>2.1</b>	<b>2.3</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>	
5	Agricultural Development	1.9	2.4	2.2	2.4	2.3	2.2	
	Horticulture & Foods Crop Development	1.7	2.5	2.0	2.0	2.0	2.0	No
	Smallholder Irrigation Project	2.0	2.5	2.0	2.0	2.0	2.1	No
	Macademia Smallholder Development	2.0	2.0	2.2	2.3	2.3	2.1	No
	Smallholder Outgrowers Sugarcane	1.0	3.0	2.2	2.8	2.3	2.1	No
	Smallholder Crop Production & Marketing	2.7	2.0	2.8	3.0	3.0	2.7	No
1	Natural Resources Management	3.0	2.0	2.0	1.8	2.0	2.1	No
	Lake Malawi Artisanal Fisheries	3.0	2.0	2.0	1.8	2.0	2.1	No
<b>MGDS Theme 3</b>	<b>Social Development OSHD</b>	<b>2.5</b>	<b>1.6</b>	<b>2.5</b>	<b>1.9</b>	<b>2.5</b>	<b>2.3</b>	
2	Education	2.4	1.8	2.5	1.9	2.4	2.2	
	Secondary Education Phase IV	2.7	2.5	3.0	2.3	2.7	2.6	No
	Secondary Education Phase V	2.0	1.0	2.0	1.5	2.0	1.8	Yes <sup>1</sup>
1	Health	3.0	1.0	3.0	2.0	3.0	2.7	No
	Health Sector Program SWAp	3.0	1.0	3.0	2.0	3.0	2.7	Yes
1	Skills Development	2.3	2.0	2.0	1.8	2.3	2.1	No
	Skills Development & Income Generation	2.3	2.0	2.0	1.8	2.3	2.1	Yes
<b>MGDS Theme 4</b>	<b>Infrastructure OWAS</b>	<b>2.3</b>	<b>3.0</b>	<b>2.0</b>	<b>2.3</b>	<b>3.0</b>	<b>2.4</b>	
1	Integrated Rural Water Supply & San.	2.3	3.0	2.0	2.3	3.0	2.4	Yes
<b>MGDS Theme 5</b>	<b>Governance OSGE</b>	<b>2.3</b>		<b>1.7</b>	<b>1.0</b>	<b>2.0</b>	<b>1.8</b>	
1	Poverty Reduction Support Loan I	2.3		1.7	1.0	2.0	1.8	No
<b>TOTAL 2008</b>		<b>2.3</b>	<b>2.1</b>	<b>2.2</b>	<b>2.1</b>	<b>2.4</b>	<b>2.2</b>	<b>8</b>
<b>CPFR 2006</b>		<b>1.8</b>	<b>2.1</b>	<b>2.2</b>	<b>2.1</b>	<b>2.4</b>	<b>2.0</b>	<b>11</b>

<sup>1</sup> Covering both Phase IV & V

2.7 As indicated in figure 2, the average disbursement rate is 35% with an average portfolio age of 5.7 years. Analyzing projects only (without budget support), the disbursement rate is 39% and the portfolio age is 6.1 years. Given that the project cycle normally envisions a project life span of 5 years, disbursement rates are low, in particular for agricultural projects and the health program.

Figure 2: Disbursement Rates and Age

2.8 Further analysis reveals that the Health SWAp program performance is affected by a low disbursement rate of 5%, despite being effective for 2 years. As noted in the Bank's 2006 Annual Portfolio Performance Review (APPR) report, SWAp are fast disbursement vehicles as opposed to stand-alone projects. In spite of a dedicated SWAp support unit, lack of a capacity in the Ministry of Health has negatively affected the disbursement rate. There is strong evidence that lack of capacity to manage ring-fenced Bank funding<sup>3</sup> and complex aid mechanisms within line ministries, undermines the expected benefits of participating in SWAp. Whilst the provision of technical assistance to the Ministry of Health may address the problem, such a solution would have to take into account the desire by the Government to minimize the provision of technical assistance to ministries to no more than 10% of any project size (*Draft Policy on Debt and Aid, Ministry of Finance, Malawi, 2008*).



2.9 Figures 3 and 4 (below) on Implementation Progress (IP) and Development Objective (DO) and risk ratings indicate that performance in the agriculture sector is lower than in other

<sup>3</sup> In May 2008 the Board of Governors approved an amendment to the Article 15.4 of the ADF Agreement to remove the country of origin rule on procurements, which, pending parliamentary approvals, will open up for pooled funding.

sectors. Five out of six Potential Problem Projects are found within the realm of agriculture and natural resources management.

Figure 3: Implementation Progress Ratings, by Sectors

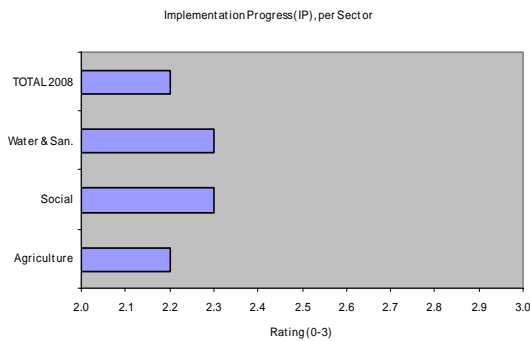
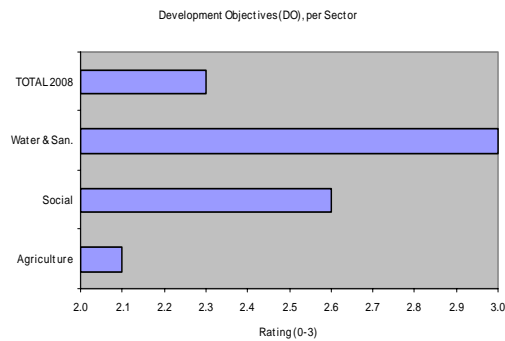


Figure 4: Development Objective Ratings, by Sector



A number of factors contributed to the relative low IP and DO ratings in the agricultural sector (including natural resources management). These are:

- (i) Lack of adherence to agreed contracts and civil works schedules by contractors<sup>4</sup> has led to delays in project implementation leading to an aged agriculture sector portfolio (7.9 years on average);
- (ii) Quality-at-entry shortcomings, including slow set-up of PIUs<sup>5</sup>, design flaws<sup>6</sup>, lack of sufficient project preparation and complex project conditionalities, resulting in prolonged periods of effectiveness (19 months on average).
- (iii) The proliferation of five PIUs within the same sector has led to a situation where lessons across the agricultural portfolio have not been learned in a dynamic way, and synergies have not been optimally internalized and exploited;
- (iv) The micro finance sector is under-developed, institutional capacities are weak and repayment culture is poor<sup>7</sup>. Due to poor performance, many agricultural micro finance activities have been cancelled.

2.10 Further analysis reveals that the slow roll-out of the sector devolution program under the national decentralization program has hampered project implementation at the local level. Project visits found that some districts lack sectoral officers (e.g. water and sanitation or agricultural officers), while in other districts a single District Development Officer attempts to cover all ongoing projects in the area. During CPR mission visits to rural communities to consult with district administrators and beneficiaries, it was noted that the lack of skilled personnel leads to poor implementation monitoring, inadequate supervision of contractors, and less than satisfactory construction work is accepted as being “sufficient”. Government agrees that sector ministries need to redouble their efforts to supervise projects.

2.11 As noted in the RBCSP MTR report, better baseline indicators with annualized targets and end-of-project target indicators are indispensable, and project outcome indicators should be aligned to MGDS indicators. Extending the analysis to the Government sector, stakeholders agree that the challenge is compounded by Government’s problems with data

<sup>4</sup> Although found in other sectors, this problem is particularly pervasive in the agriculture sector.

<sup>5</sup> Originally, no PIU was established for the three oldest projects. This slowed down implementation, and PIUs were subsequently established.

<sup>6</sup> E.g. beneficiaries have been provided with inadequate fishing gears.

<sup>7</sup> While micro-finance has been successful for small-scale businesses, lessons learned from the agricultural sector have shown that many farmers believe, willfully or not, that the money is given to them on a grant basis.

capacity and collection. Embryonic moves towards addressing M&E shortcomings are, however, evident, at sectoral level, e.g the Education projects where the M&E capacity of the Ministry is being strengthened. At the national level, Government - with support from some development partners - has since 2005 implemented a UNDP-managed “*Joint Support for M&E Program*”. The results in terms of real strengthening of M&E capacities and data collection and analysis have so far been below expectations. Both Government and the Bank attach high priority to strengthening project capacities to report on results in order to respond to the expectations embedded in the increased ADF XI allocation for Malawi of UA 112.79m (up from UA 47.2m during ADF X). Government agrees that Project Steering Committees need to play a key role in tracking performance and reporting on results.

2.12 The 2006 APPR report highlighted the need for the Bank to improve quality-at-entry in a bid to spur implementation rates, address the weaknesses of the PIUs and to achieve greater results-orientation in the logframes. The opening of the Field Office with fiduciary and sector staff in place has increasingly helped Bank teams to sharpen the focus of the project development objectives from identification to appraisal, including provision of critical support to procurement and disbursement processes. Finally, efforts are being made to move towards more project supervision by the Malawi Field Office (MWFO), in close coordination with Sector Departments at Head Office.

### C. Comparison of the Portfolio Performance

2.13 As illustrated in Table 3, the Bank’s portfolio performance in Malawi is mixed compared to the 2006 CPPR and the ADF Africa-wide performance indicators. The high Commitments-at-Risk rate (up from 32% in 2006 to 39% in 2008) is related to late project start ups and an over-aging portfolio. While aging was not a problem in 2006, it has become a problem now as agricultural projects have been extended more than once. However, the *riskiness* is expected to be reduced by the end of 2008, as three PPPs are exiting the portfolio, together with an ongoing effort to increase the project supervision rate (up from an average of 0.8 missions per project in 2006 to 1.6 in 2008).

Table 3: Comparative Performance Indicators

Performance Indicators		Evolution		Internal Comparison		External Comparison		
		2006	2008	Malawi	Bank (ADF)	Malawi	WB Malawi	
Implementation & Impact	Age (years)	3.2	5.7	5.7	4.3	5.7	2.7	
	Disbursement Rate (%)	30.9	35.0	35.0	N/A	35.0	43.0	
	Disbursement Ratio (%)	14.5	5.0 *	5.0	18.0	5.0	N/A	
	Average Project Size (UA m)	9.1	10.9	10.9	14.6	10.9	22.0	
	Project's Overall Evaluation (Scale 0-3)	2.0	2.2	2.2	N/A	2.2	N/A	
	Projects-At-Risk (%)	35.7	50.0	50.0	47.0	50.0	18.0	
	Problem Projects (%)	14.2	0.0	0.0	11.0	0.0	0.0	
	Ageing Projects more than 8 years (%)	0.0	36.0	36.0	17.0	36.0	0.0	
	From Approval to Effectiveness (months)	18.0	12.0	12.0	17.0	12.0	N/A	
	Investment Operations <UA 10m (% of projects)	21.0	36.0	36.0	21.0	36.0	90.0	
	Actual Supervision Rate (avg # of missions per yr)	0.8	1.6	1.6	N/A	1.6	N/A	
	Commitments-At-Risk (%)	32.0	39.0	39.0	33.0	39.0	24.0	
	Harmonization & Alignment	Coordinated Technical Cooperation (%)	0	19	19	38	19	100
		Use of Gov. Audit Systems (% of disbursements)	0	100	100	33	100	39
Use of Gov. Other PFM Systems (% of disbursements)		0	0	0	33	0	26	
Use of Gov. Procurement Systems (% of Disbursements)		0	0	0	43	0	81	
Parallel PIUs (#)		11	8	8	N/A	8	3	
Predictability of Aid (%)		56	85	85	56	85	63	
Use of Program-based Approaches (#)		0	2	2	N/A	2	4	
Coordinated missions (%)		30	4	4	19	4	44	
Coordinated analytical works (%)	100	50	50	55	50	100		

\* Only 1st Quarter 2008

Sources: 2006 ADB APPR; 2006 ADB Paris Declaration (PD) baseline survey and 2008 PD progress report; World Bank CPPR 2005

2.14 As indicated by Table 3, the World Bank's (WB) performance indicators are in general showing better results compared to the Bank. Interviews with stakeholders suggest that a longer history of country presence, larger WB staffing numbers, better skills mix and the ability to pool resources in basket funds are contributing to better performance. The Bank is working more closely with the WB and other development partners to espouse co-financing opportunities for lending and non-lending products and to learn lessons for designing better joint programs.

2.15 The main reasons behind the mixed performance of the comparative performance indicators are: (i) inadequate knowledge of the Bank's procedures and rules of procurement, disbursement and auditing in Malawian PIUs and ministries; (ii) baselines and annualized targets are being developed during project implementation rather than at the appraisal stage; (iii) PIUs indicated that there was an inadequate Bank skills mix, in particular on financial management and procurement matters, during project launching missions.

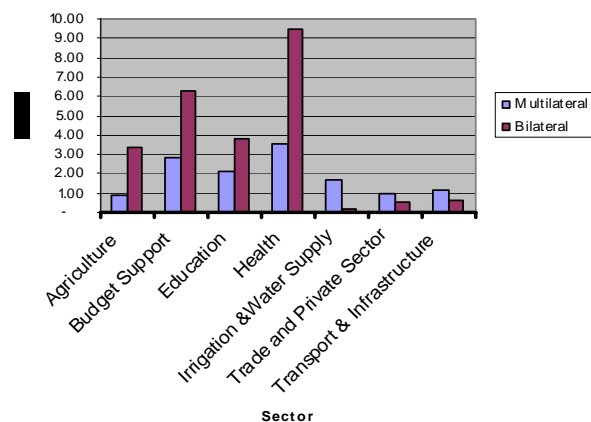
2.16 There are, however, a number of lessons learned and improvements from the 2006 CPPR which gives reason for cautious optimism. Effectiveness delays have been reduced, as reflected in shorter periods between loan approval and effectiveness from 18 months (2006) to 12 month (2008). The last four projects entering the portfolio were effective after 5 months on average. This is a function of an increased effort by Government in facilitating the ratification of Bank-funded projects in Parliament, and the simplification of conditionalities by the Bank. Another achievement is the wider availability of Government counterpart funding, as reflected in the improved counterpart fund ratings given by task teams (up from 1.9 in 2006 to 2.3 in 2008). This positive development can be attributed to increased GoM budget effectiveness and efficiency, as suggested in the 2007 Public Financial Management Assessment (PEFA).

2.17 There are also indications of improved Bank disbursement performances with a disbursement ratio of 19% (2007) and 5% (1<sup>st</sup> quarter 2008 only), which are well above the 2006 annual CPPR (14.5%) and the ADF Africa-wide (18%) ratios. Whereas the disbursement ratio captures disbursement performance on a quarterly/annual basis, the disbursement rate (which has jumped from 31% in 2006 to 35% in 2008) reflects disbursements throughout the entire portfolio age. Sustained efforts will be made to keep the momentum.

2.18 Development partners have indicated that more is needed to harmonize project interventions, including a sharper focus on the Bank's comparative advantages, while taking into account interventions by other development partners across sectors. Figure 5 illustrates the current distribution of donor support with a strong focus on social sectors and a lesser focus on growth sectors. The Bank will support

strong GoM leadership leading to a more efficient and effective donor division of labor, anchored around the principles of selectivity and complementarity. A deepened policy dialogue with GoM and the Bank's participation in Sector Coordinating Groups will ensure that the Bank's comparative advantages can be pursued more forcefully and will enable the Bank to provide leadership in sectors such as private sector development and water and sanitation.

Figure 5: Development Partner's Expenditure



### III. ASSESSMENT OF MANAGEMENT IMPLEMENTATION CAPACITY AND COORDINATION WITH OTHER DONORS

3.1 At the governmental level, many parallel and integrated PIUs are still weak on project management, fiduciary management and M&E reporting. However, the Bank has embarked on a series of training programs to address these challenges. The Office of the Auditor General's 2006 Annual Report on projects highlighted weaknesses in internal controls systems on the use of Special Accounts funds to cover counterpart funds and payment of ineligible expenditures. In addition, skills and capacity shortages at the National Audit Office were also reported. At the Bank level, there is a need to enhance the skills mix throughout the project cycle by ensuring inclusion of fiduciary staff in missions. Ratings by task managers (in SAP) show that out of the top 5 most commonly rated problems, 3 are within the realm of procurement and disbursement (*"procurement of goods and services"*, *"performance of contractors"* and *"efficiency of disbursements"*). More also needs to be done in following-up on recommendations and deadlines set out in the supervision reports, and more joint Bank missions coalescing with sector reviews are critical. In turn, missions should be held to a minimum from April to June, as Government is occupied with the preparation of the Annual Budget.

3.2 In order to capture the full dimension of the review, the CPR mission also engaged in consultations with beneficiaries and district administrators, and the mission carried out a survey among PIUs and Government staff to ascertain the areas of most frequent portfolio problems. Whilst the outcome of the survey may not be seen as an unbiased reality check of the SAP ratings, it still offers important clues to problems, as perceived on the ground. Out of the top 5 most commonly rated problems, 2 are found within the area of results-orientation (*"lack of an M&E framework to measure results"*, and *"insufficient plans to collect data"*). Other major problems were *"slow disbursement"*, *"inadequate stakeholder participation at appraisal"* and *"key assumptions at appraisal did not happen"*. These findings point towards a tendency to rush projects that are not ready and mature to the Board, without having spent sufficient time during preparation and appraisal to ensure quality-at-entry.

3.3 In response to these concerns, the Malawi Field Office (MWFO) has been involved in helping to improve dialogue and portfolio monitoring. The Field Office conducts PIU management meetings every quarter to discuss progress and share lessons, and quarterly portfolio status reports are prepared for the Country Team as a repository instrument in capturing and tracing portfolio monitoring issues at country level. A disbursement seminar, which MWFO conducted in February 2008 for Government staff and PIUs for Bank financed projects, will be done yearly. The same will be done with regards to procurement training with the first seminar planned for end of 2008. The establishment of a Project Monitoring Committee in the Ministry of Finance will, once operationalized, also contribute to improved portfolio monitoring and performance. MWFO will work with Bank sector departments to develop sectoral portfolio performance improvement plans to ensure better portfolio performance.

3.4 A good measure of the Bank's effectiveness on the ground is its ability to increasingly coordinate interventions with other development partners. Following the opening of the MWFO, the Bank is now participating actively in twelve sectoral and thematic development partner groups in Malawi, which provide a platform for discussing ongoing, planned and joint sector interventions (see Box 1 below). At project level, the

proposed ADF XI-funded program “*Support to Local Economic Development*” has benefited from close consultations with partners, in particular the World Bank, in the Decentralization Donor Group. As a result the two banks will leverage funds for co-financing the *Malawi Local Development Fund*. The same consultation process was followed in the development of the forthcoming *National Water Development Program*.

3.5 The Bank is also a member of the Donor Committee on Agriculture and Food Security, where it is contributing to the development of the Agriculture Development Program, which is designed to harmonize government and donor investments relating to agriculture and food security. The Bank has successfully raised the awareness of other development partners towards the positive results achieved in the *Smallholder Outgrower Sugarcane Production Project* to the extent that the EU is now showing an interest in co-financing an expanded smallholder outgrower sugarcane scheme with the Bank during ADF XI.

Box 1

**Selected Donor Harmonization Efforts in 2008**

- Joint *Country Economic Memorandum* with WB, DFID and MCA
- Joint SME seminar with JICA
- Co-financing *National Water Development Program* with CIDA
- Co-financing *Support to Local Economic Development* with WB

3.6 At the strategic level, the Bank has benefited from its membership in the Common Approach to Budget Support (CABS) Group, which reviews the annual budget, its alignment to the MGDS and public financial management issues. The Bank chaired the October 2007 CABS review. By participating in the CABS and its sub-group on Finance and Economic Management, the Bank has been able to identify areas of collaboration with other development partners, such as the jointly funded World Bank/DFID ESW on the Country Economic Memorandum. The Bank is also actively participating in Government-led working groups related to the follow-up on the Paris Declaration on Aid Effectiveness, and the Bank has been able to explain its ongoing reform-efforts to better harmonize and align with partners. Together with JICA, the Bank sponsored a Small and Medium Sized Enterprise development seminar sensitizing stakeholders working on private sector development issues, and the Bank has also taken the leadership on the development of a Private Sector Development Partner group, which would ensure a greater degree of cohesion among the actors in this thematic area.

#### **IV. POTENTIAL FUTURE PROBLEMS AND LESSONS FOR CSP AND PORTFOLIO MANAGEMENT**

4.1 As Government continues to embrace SWAps the Bank must, more than ever, be reassured that sector ministries have the capacity to manage these complex multi-donor funded implementation arrangements. The building of a strong project pipeline based on high-quality ESWs in the Bank’s focus sectors and thematic areas should take this into account. An important lesson for portfolio management is the need for a more evidence-based approach to support Bank project ratings. It is important to identify the right incentives for Bank staff to foster an environment of more candidness and objectivity in rating the performance of projects, in order to preserve the credibility and sustainability of the Bank’s rating system.

4.2 Whilst some of the previous major problems reported in the 2006 CPR have been overcome or reduced (e.g. delayed effectiveness and delayed or poor provision of counterpart funding), some problems persist and new challenges have emerged, such as: (i) Weak procurement and accounting capacities due to projects hiring staff with insufficient skills necessary for the identification of procurement requirements, preparation of procurement specifications and disbursement applications; (ii) Poor project management compounds the problem in some projects. While some project managers do not pay enough attention to the performance of their procurement officers and accountants, other project managers are suffering from a lack of supervisory capacity and lack of sanctions in the line ministries; and (iii) Audits are often delayed or not forthcoming, thus undermining the credibility of the financial management process.

4.3 It was noted with concern that some PIU Managers met by the CPR mission were not familiar with the intricacies and relationships between project outputs and outcomes. While these managers felt accountable for achieving project implementation rates, they did not display any particular interest in reporting on intended project results. In response to this, Government's position is clear on the need to include performance evaluation clauses in the contracts of PIU staff and to put greater emphasis on key financial management and procurement competencies when selecting PIU managers.

## **V. CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 At a joint level of the Bank and the Government**

- An enhanced effort to consolidate and follow-up on recommendations made in supervision mission reports is needed. The MWFO, the ADB Desk Officer in MoF and Government's Project Monitoring Committee will each have to follow up on these recommendations.
- Government should strengthen its capacity to manage SWApS in order to enable the Bank to increase its use of country systems. The Bank should by default – as a matter of operational strategy - consider the possibility at all times of joint financing arrangements with other development partners at the project identification stage.
- In the short-term, Government and the Bank need to pursue technical assistance (max 10% of the project size) in case implementation progress in an operation, such as Health SWAp, is facing difficulties. In the long-term, strategic use of Bank trust funds to finance capacity building should be explored.
- Whereas lessons learnt from micro-finance interventions - in particularly for agricultural activities - show weak results, community savings initiatives based on farm group dynamics have shown better results, and should be supported.

### **5.2 At the Bank's level**

- The Bank needs to further improve on its quality-at-entry and to avoid rushing projects, which have not yet matured in the pipeline, to the Board. Project design should be informed by a detailed baseline analysis to be done during project preparation. Issues of project coordination and associated staff identification within line ministries should be addressed during appraisal. Guidelines for data collection and M&E responsibilities should also be outlined at appraisal.

- Supervision mission reports have too often been compartmentalized away from results reporting. They need to record assessments on progress for all project indicators, and task teams need to document and track project progress, including any changes to the project design.
- Tailor-made procurement seminars should be held for contractors and consultants to sensitize them about adherence to contracts, the meaning of responsive bidding and adherence to construction schedules.
- It is recommended to strengthen the Bank's mission skills mix by including MWFO disbursement and procurement staff in the mission composition.
- In response to the need to coordinate portfolio interventions and monitoring more closely with other development partners, it is recommended to undertake a joint CPPR in 2010 with the World Bank. Such a joint CPPR should be results and evidence-based.
- There is a need to place a Financial Management Specialist in MWFO.

### **5.3 At Government level**

- The Government should create a central project coordination unit to manage all Bank-funded agricultural projects and ensure that ongoing projects are integrated in the Agricultural Development Programme, which is the national sector plan for agriculture.
- All projects funded by the Bank are implemented in rural areas where local government capacities to monitor project progress are weak. Government still needs to ensure that local governments are ready to monitor the projects and that human and budgetary resources are available in local governments and districts for doing so.
- Government needs to put in place a regular schedule for project visitations in order to enable sector ministries to monitor and evaluate civil works contractors.
- DHRMD under the Office of the President should ensure that PIU recruitment guidelines, including the timing of recruitment and key post competencies, for hiring sector PIU staff are shared with all sector ministries.
- Government needs to finalize the MGDS Results Matrix with annualized targets to allow the Bank to align the project indicators to the MGDS indicators, and to operationalize all SCGs and the Portfolio Monitoring Committee in Ministry of Finance.

### **5.4 At the Board members level**

Board members are invited to take note of the conclusions of the Country Portfolio Performance Report and to approve the recommendations in the report.

**ANNEX I**  
**WRAP UP MEETING – MINISTRY OF FINANCE – 01.07.2008**

**ATTENDANCE LIST**

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## ANNEX II: COUNTRY PORTFOLIO IMPROVEMENT PLAN

Operations	Major issues	Actions required	Responsible	Deadline	
<b>GENERIC ISSUES</b>					
1. Quality-at-Entry	1.1 Inadequate stakeholders' participation in the preparation stage	1.1.1 Mandatory participatory workshops to cover project cycle for all stakeholders.	Sector ministries	Ongoing	
		1.1.2 Ensure that local governments are willing and able to monitor project activities in their districts.	Sector ministries & Bank	Periodic	
	1.2 Delayed effectiveness and start up	1.2.1 Better use of lessons learnt from the PCRs and ESWs in designing new operations	Sector Coordinating Groups & Bank	2008	
		1.2.2 Include MWFO disbursement & procurement assistants as team members in appraisal & supervision missions	Bank	2008	
		1.2.3 PIUs and staffing arrangements to be established during appraisal	DHRMD & Bank	All new projects	
		1.2.4 Ensure that launching take place immediately after Board approval.	Sector ministries & Bank	Ongoing	
	1.3 Lack of hands-on guidance in start-up phase	1.3.1 Increase the number of supervision missions led by MWFO	Bank	2008	
		1.3.2 Provide hands-on support to set up and use appropriate FM and procurement systems. MWFO to provide back-up	Bank	Ongoing	
	2. Fiduciary assurance	2.1 Late audits	2.1.1 Audit firms to be appointed 9 months prior to submission of audits for periods of 3 years and renewable.	Government PIUs	Ongoing
			2.1.2 Address skills shortages in the NAO and provide support for capacity building.	Ministry of Finance	Ongoing
2.2 Poor procurement management		2.2.1 Disbursement & procurement clinics for PIUs and contractors to address contracts and civil works. 2.2.2 Ensure that coordinating units in ministries have procurement specialists. 2.2.3 Introduce more regular procurement audits	Bank Sector ministries Bank	Once a year 2008 Once a year 2008	
3. Implementation management	2.3 Slow disbursement. 3.1 Weak PIUs	2.3.1 Speed up disbursement reviews in MoF	Ministry of Finance	Once a year	
		3.1.1 Provide training on results-based tracking to promote impact-focused monitoring	Bank		Each quarter
		3.1.2 Arrange PIU meetings to ensure better links between the PIUs, MWFO, sector ministries and MoF.	Bank	Ongoing	
		3.1.3 Select Project Steering Committee members who can commit themselves to meet regularly	Sector ministries	2008	
		3.1.4 Operationalize Sector Coordinating Groups and the Portfolio Monitoring Committee	Ministry of Finance	2008	
		3.1.5 Ensure that all PIU staff are evaluated annually on performance	Sector ministries	Ongoing	
4. Sustainability	4.1. MTRs are not used as a strategic tool to re-orient projects	4.1.1 Project exit strategies should be developed during MTR	Sector ministries & Bank	Ongoing	
		4.1.2 A critical review of the adequacy of the logframe is needed during MTR	Bank	Ongoing	
	4.2 PIUs are not properly phased into mainstream government activities	4.2.1 Justification for a parallel PIU should be presented in the appraisal report	Bank	All new projects 2009	
		4.2.2 Create a central coordination unit for all agriculture projects	Ministry of Agriculture		
5. M&E Arrangements and Harmonization & Alignment	5.1 Poor Monitoring and Evaluation system	5.1.1 Ensure that baselines are embedded in appraisal report	Bank	All new projects	
		5.1.2 M&E function to be included in the Coordinating Units.	Sector ministries	All new projects	
		5.1.3 M&E plans & budgets are in place at appraisal	Bank	All new projects	
		5.1.4 Align project outcome indicators to the MGDS indicators	Bank	Ongoing	
	5.2 Uneven progress towards the Paris Declaration	5.1.5 Strengthen GoM M&E capacities	MEDP	Ongoing	
		5.1.6 Finalize the MGDS annualized policy matrix	MEPD	2009	
		5.2.1 Prepare a donor division of labor exercise based on comparative advantages.	Ministry of Finance	Q3 2008	
		5.2.2 Better identification of joint financing opportunities.	Sector Coordinating Groups & Bank	Ongoing	
		5.2.3 Move away from small projects towards bigger programs	Government & Bank	Ongoing	
		5.2.4 Minimize missions during the Budget Season (April-June)	Bank	As of 2009	

Operations	Major issues	Actions required	Responsible	Deadline
<b>SECTOR AND PROJECT SPECIFIC ISSUES</b>				
<b>AGRICULTURAL SECTOR:</b>				
1 Macademia Project	1.1 Ensure proper handover of the project.	1.1.1 GoM to retain nursery assistants after project closure 1.1.2 Submit justifications for Special Account 1.1.3 Submit audit report for 05/06 1.1.4 Submit audit report for 06/07 1.1.5 Complete GoM PCR 1.1.6 Complete final audit	Ministry of Agriculture PIU PIU PIU Ministry of Agriculture PIU	July 08 July 08 July 08 July 08 August 08 August 08
2 Horticulture Project	2.1 Ensure proper handover of the project	2.1.1 Complete audit report for 2006 2.1.2 Complete GoM PCR 2.1.3 Complete final audit 2.1.4 Appoint GoM staff to oversee handover of the project	PIU Ministry of Agriculture PIU Ministry of Agriculture	July 08 August 08 August 08 July 08
3. Irrigation Project	3.1 Better cost management 3.2. Preparation for project completion	3.1.1 Send justification for cost overruns to ADB 3.2.1 Send request for 18 months audit to ADB 3.2.2. Prepare GoM PCR	PIU PIU Ministry of Agriculture	July 08 July 08 Nov. 08
4. Sugarcane Project	4.1 Improve drainage mngt. 4.2 Finalize outstanding civil works	4.1.1 Submit drainage recommendations to ADB 4.2.1 Submit final request for replenishment	PIU PIU	August 08 July 08
5. Crop Production & Marketing Project	5.1 Ensure improved speed of implement.	5.1.1 Sign bicycle contract 5.1.2 Complete recruitment of consultants	PIU PIU	July 08 Sep. 08
<b>NATURAL RESOURCE SECTOR:</b>				
6. Lake Malawi Artisanal Fisheries Development Project	6.1 Ensure implementation of critical components	6.1.1 Send request for stock assessment survey to the Bank 6.1.2 Prepare business plan for ice plant 6.1.3 Reforestation strategy in place 6.1.4 Implement ESMP 6.1.5 GoM to deploy critical project staff	PIU PIU Government Government Government	July 08 July 08 July 08 July 08 July 08
<b>MULTISECTOR:</b>				
7. Poverty Reduction Support Loan	7.1. Disbursement of the loan	7.1.1 Ensure Parliament ratification	Ministry of Finance	July 08
<b>SOCIAL SECTOR:</b>				
8. Support to Secondary Education Phase IV and V	8.1. Ensure adherence to Bank disbursement rules 8.2 Speed up implementation	8.1.1 Reimbursement of bank charges 8.2.1 Provide PIU staff contract information to the RR 8.2.2 Revise implementation plan	PIU PIU PIU	July 08 July 08 July 08
9. Skills & Income Generation Project	9.1 Widen the skills development training	9.1.1 Increase the number of literacy graduates participating in business training 9.1.2 Prepare action plan for business training activities 9.1.3 Organize District Business Opportunity meetings and Open Days in all project districts	PIU PIU PIU	2008 2008 2008
10. Support to Health Sector Program SWAp	10.1 Enhance capacities in the Ministry	10.1.1 Recruit short-term TA to assist with processing of Bank funds 10.1.2 Appoint a focal point in the Ministry of Health for the Bank contribution 10.1.3 Submit justifications for replenishment of Special Account	Ministry of Health Ministry of Health Ministry of Health	July 08 July 08 July 08
<b>INFRASTRUCTURE</b>				
11. Integrated Rural Water Supply & Sanitation	11.1 Ensure proper handover of the project	11.1.1 Complete GoM PCR 11.1.2 Complete final audit	Ministry of Irrigation & Water	Sep. 08 July 08