

**OPERATIONS EVALUATION DEPARTMENT**  
**MALAWI COUNTRY ASSISTANCE EVALUATION (CAE)**  
**APPROACH PAPER**

**Country Background**

1. Malawi is a small, land-locked country with a population of just over 11 million and is one of the most densely populated countries in Africa. It is also among the poorest countries in the world, with per capita income of US\$170 (Atlas method) in 2003. The income distribution is highly unequal and poverty is widespread and severe. In 2000, measured by the headcount index, nearly 60 percent of the population lived below the poverty line. While rural poverty is higher than urban poverty, the difference is not very significant; neither is the variation in poverty across three regions—south, central, and north. Nearly 85 percent of the population live in rural areas and only 10 percent is engaged in formal sector wage employment. Most health and education indicators are extremely weak, and Malawi is one of the hardest-hit countries by the HIV/AIDS epidemic. With an estimated one million adults and children infected with HIV, the country has more people living with HIV/AIDS than North America and Western Europe combined. As a result, life expectancy has fallen from 44 years in 1980 to 37 years in 2001. Finally, Malawi has continued to grapple with challenges of food insecurity and its fiscal impacts caused by the sharp annual fluctuations in maize production. In addition, the country is still highly dependent on tobacco production and exports.

2. Malawi's economic performance since the early-1990s has been erratic with repeated attempts at macroeconomic stabilization and structural adjustment, interrupted by economic policy slippages and exogenous shocks. Since the mid-1990s, the country has succeeded in completing some key reforms—liberalization of agricultural policies including the extension of the right to grow tobacco to all households, privatization of some utilities, liberalization of the exchange rate and trade regimes, and improvements in public financial management. Moreover, Malawi achieved significant political reform in 1994 when the first multi-party elections were held. But the growth performance was modest during most of the 1990s and early-2000s. Official statistics show that since 1995, GDP has grown on average by about 3.0 percent per annum, which is only 0.8 percentage points above the population growth rate of 2.2 percent. Economic growth performance has slowed recently. GDP grew by 1.4 percent per annum during 1998-03 compared to 4.6 percent per annum during 1995-98.

3. OED last completed an evaluation of the Bank's assistance to Malawi in 1998 covering the period 1991-97. This was intended as a contribution to the design of the Bank's 1998 Country Assistance Strategy (CAS) for FY98-01. The present evaluation will focus primarily on the Bank's assistance to Malawi over the period FY98-05, but will do so in the overall context of developments since 1994, when both the political economy and development strategy changed.

## The Bank Program

4. During the period FY98 to mid-FY05, the Bank approved 18 new loans for a total of US\$614 million. There were three adjustment and fifteen investment credits. Adjustment loans accounted for about a third of the total lending portfolio in US dollar terms. The investment operations covered a variety of sectors. In addition to lending activities, the Bank undertook a substantive amount of analytical and advisory activities (economic and sector work, workshops, and policy notes), including a country procurement assessment report (CPAR), a country financial accountability assessment (CFAA), a country economic memorandum (CEM), and a public expenditure review (PER).

5. Bank assistance to Malawi since FY98 has been guided by a CAS in 1998, a progress report in 2000, and a CAS in 2003. In essence, the Bank's strategy has remained largely unchanged over time and in line with the Government's objectives. The overriding objective of the 1998 CAS was sustained poverty reduction through the pursuit of four sub-objectives: (a) *create the conditions for broad-based, labor-intensive growth* (promoting small holder agriculture, rural financial services, and social action fund projects, as well as assistance to land reform); (b) *foster environmental sustainability and human development* (empowering communities to manage their natural resources, maintaining the quality of primary education and expanding secondary education, tackling HIV/AIDS and family planning, and developing sector-wide programs in the education and health sectors); (c) *improve public sector management and capacity* (improving the medium-term expenditure framework, introducing a centralized revenue authority, strengthening civil service reform, and building capacity); and (d) *strengthen policy dialogue, implementation, and donor coordination* (focusing on implementation and strengthening collaboration among the external partners).

6. The CAS Update in 2000 endorsed the 1998 CAS objectives without major changes. In April 2002, the Government prepared its first full Poverty Reduction Strategy Paper (PRSP), which became the strategic basis of the Bank's assistance and of coordination with other partners. The poverty strategy as set out in the PRSP had four objectives: (a) promoting economic growth and structural transformation; (b) enhancing human development; (c) protecting the most vulnerable; and (d) promoting good governance.

7. A new CAS was prepared in 2003 for the FY04-06 period to support the PRSP objectives under a three-pillar Bank program. The pillars and objectives were: (a) *strengthen economic management and accountability* (improving public expenditure management, enhancing public accountability, and achieving macroeconomic stability); (b) *establish a platform for long-term sustainable growth* (improving land management and agriculture markets; eliminating bottlenecks in the tobacco supply chain; improving critical infrastructure; and establishing simple, predictable, transparent tax and incentive structures); and (c) *improve service delivery and expand the social safety net* (controlling the spread of HIV/AIDS and creating a reliable food security system).

## **General Approach to the Evaluation**

8. The CAE will evaluate the relevance of the Bank's strategy in relation to the above CAS objectives. The CAE will evaluate the relevance of Bank objectives in the context of the development constraints facing Malawi at the time the CASs were prepared, and the realism of Bank assistance objectives in view of the political environment for development and the capacity of the government to carry forward. In evaluating the Bank's Malawi program, the study will also draw, as appropriate, on evidence and findings in recent and ongoing OED evaluations of the Poverty Reduction Strategy Initiative, Highly-Indebted Poor Countries (HIPC) Initiative, HIV/AIDS Review, Trade Study, Community Driven Development, Social Funds, Capacity Building in Africa and Natural Disasters, as well as on work by the Quality Assurance Group.

9. The CAE will evaluate the efficacy of Bank assistance in supporting the attainment of program objectives. This will be done for each objective in three steps. First, the status of progress toward the objectives will be determined based on the examination of relevant indicators of performance. The CAS documents contain clear statements of Bank assistance objectives and monitorable targets for reduction of the income and non-income aspects of poverty. Both indicators defined in CASs and related indicators will be evaluated. Second, the performance of Bank products and services (lending, analytical and advisory services, and aid coordination) intended to contribute to the achievement of Bank objectives will be examined, drawing both on evaluation and portfolio implementation evidence. Third, the CAE will assess the relative contribution to attainment of objectives of the Bank's interventions, taking into account the interventions of other donors, the Government, and exogenous factors, which have been exceptionally important for Malawi.

## **Issues Focus of the Evaluation**

10. In accordance with the substance of the Bank's program discussed above, the CAE will focus on the following four strategic objectives:

### *Broad-Based Labor-Intensive Growth*

- A major objective of the Bank's assistance has been to facilitate broad based-labor intensive growth in Malawi by promoting small-scale farming and associated demand linkages to off-farm activities. How effectively did the Bank's program contribute to Malawi's growth performance? Was the mix between adjustment and investment lending conducive to achieve the right balance between macro-economic stability and long-term growth? What was the drought-adjusted growth rate? Did the Bank's program contribute effectively to export development and diversification? Were there serious exogenous factors that dampened export performance and expectations?
- What have been the relevance and efficacy of the Bank's assistance to help improve the quantity and quality of infrastructure (roads, electricity, and water supply) services? Have reforms in the transportation sector been carried out?

What are the issues facing land-locked Malawi with regard to international and regional transport corridors? Could international co-operation help resolve Malawi's high external transportation costs?

- Have the cost of doing business and administrative barriers to investment been lowered? Has the business climate improved in response to reducing the oligopolistic nature of the economy and to reforms in the financial sector?

#### Strengthening Public Sector Management and Accountability

- Despite numerous attempts at reform, and substantial technical assistance, public expenditure management has remained weak. Was the Bank's assistance strategy to improve public sector financial and expenditure management relevant, and what have been the outcomes? Are recent improvements in the public sector, including the steps in anti-corruption activities, sufficient to justify additional development policy lending?

#### Social Programs, Poverty and Food Security

- *Social Programs.* Have Malawi's human development indicators and progress toward the Millennium Development Goals (MDGs) been commensurate with its growth performance and potential? If not, why not, and what has been the Bank's role? What has been the impact of sector programs (SWAPs) in education and health? What have been the role and efficacy of the Bank's interventions towards the control of HIV/AIDS?
- *Poverty and Food Security.* Given the overwhelming importance of agriculture for most families' incomes, has the Bank assistance to the sector been relevant? How effective has it been? Have measures been introduced during the review period to enhance general food security and mitigate "downside risk," especially risks associated with food consumption levels among the poor?

#### Aid Dependence and Donor Coordination

- Malawi has long been heavily-dependent on aid flows and received support from a number of donors. How has the Bank dealt with donor coordination issues and with the aid dependence problem?

#### **CAE Outputs and Timetable**

11. The CAE will be issued to CODE during FY06, well before the next country assistance strategy. The main mission to Malawi is scheduled to take place on the first quarter of FY06. The task manager is Ismail Arslan. Peer reviewers are Yvonne Tsikata (OEDCR) and John Nash (ARD).