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Malawi
Country Assistance Evaluation

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Acronyms and Abbreviations

ADMARC	Agricultural Development and Marketing Corporation
AIDS	Acquired immune-deficiency syndrome
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
ESW	Economic and sector work
FIMAG	Financial Management and Accelerating Growth Credit
FIMTAP	Financial Management, Accountability and Transparency Project
FRDP	Fiscal Restructuring and Deregulation Project
GDP	Gross domestic product
HIPC	Heavily indebted poor country
HIV	Human immunodeficiency virus
IDA	International Development Association
IEG	Independent Evaluation Group
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
MASAF	Malawi Social Action Fund
MEGS	Malawi Economic Growth Strategy
MTEF	Medium-term Expenditure Framework
MTL	Malawi Telecommunications Limited
NFRA	National Food Reserve Agency
NGO	Non-governmental organization
ODA	Official Development Assistance
PER	Public Expenditure Review
PRGF	Poverty Reduction and Growth Facility
PSD	Private Sector Development
PURP	Privatization and Utilities Reform Project
SADC	Southern Africa Development Community
SAFEX	South African (Commodity) Exchange
SGR	Strategic grain reserve
SWAps	Sector-wide approaches
TA	Technical Assistance
UNDP	United Nations Development Programme

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Preface

This Country Assistance Evaluation (CAE) provides an independent assessment of World Bank assistance to Malawi during the period FY96-05. The CAE examines whether: (a) the objectives of Bank assistance were relevant; (b) the Bank's assistance program was effectively designed and consistent with its objectives; and (c) the Bank's program achieved its objectives and had a substantial impact on the country's development during this period. Examining these questions allows the CAE to draw lessons and recommendations for future Bank assistance. Annex C describes the methodological approach.

The basis for the CAE consists of IEG background papers, sectoral reviews, project assessments, and interviews with senior government officials, representatives of the private sector and civil society, NGOs, members of the donor community, Bank and IMF staff at headquarters and in Malawi. A list of those interviewed is in Annex B. An IEG mission visited Malawi during July/August 2005.

The Management Action Record is attached as Annex D. Comments from the Bank's Regional Management have been incorporated in the report. The report was also sent to the Malawian authorities whose comments are reflected in the report and attached in Attachment 1.

This CAE was written by Ismail Arslan (Task Manager, IEGCR) with contribution by Steve O'Brien, Richard Burcroff, David Berk, René Vandendries, and Brian Mtonya (consultants). The evaluation also benefited from a project performance assessment (forthcoming), prepared by Elliott Hurwitz (consultant), on Fiscal Restructuring and Deregulation Program (FRDP) loans. Peer reviewers were Yvonne Tsikata (IEGCR) and John Nash (ARD). Bora Yagiz (consultant) provided research and data support. Agnes Santos (IEGCR) provided administrative assistance.

The report includes a contribution by the Independent Evaluation Group (IEG-IFC) of the World Bank's International Finance Corporation (Box 2), prepared by Denis Carpio and Aygul Ozen.

Malawi: Summary of CAE Outcome Ratings

OBJECTIVES OF BANK ASSISTANCE PROGRAM	OUTCOMES	RATINGS
First Pillar: Macroeconomic Stability and Public Sector Reform		Unsatisfactory
Improved public financial management	Fiscal discipline could not be established prior to FY05, despite efforts at institutional reforms (paras 3.6 – 3.9).	Unsatisfactory
Improved parastatal effectiveness	Some progress in privatization program. Government still faces the challenge of imposing hard budget constraint and restricting borrowing (paras 3.18 – 3.21).	Moderately Unsatisfactory
Better governance	No progress in improving overall public sector governance (paras 3.26 – 3.28).	Unsatisfactory
Second Pillar: Broad-based, Labor Intensive Growth		Unsatisfactory
Improving the environment for PSD	Institutional and regulatory reforms introduced, but these have had little impact (paras 4.6 – 4.10).	Moderately Unsatisfactory
Improved agricultural productivity and income	Agricultural growth has been erratic since 2000, maize and burley yields have declined, little crop diversification despite costly input subsidy programs (paras 4.15 – 4.16).	Unsatisfactory
Third Pillar: Improving Service Delivery and Expanding the Safety Net		Moderately Unsatisfactory
Promote primary and secondary education	Limited increases in primary enrollments; quality remained low. Secondary enrollments expanded and quality improved (paras 5.5 – 5.7).	Moderately Unsatisfactory
Improve the quality of health care and reduce HIV/AIDS incidence	Child mortality and fertility declined, but overall progress mixed and health indicators remain poor. Some progress in combating HIV/AIDS (paras 5.11 – 5.12).	Moderately Satisfactory
Establish social safety nets and support vulnerable groups	Safety net expensive yet coverage limited. Social action fund has brought substantial benefits to communities, groups, and individuals (paras 5.16 – 5.18).	Moderately Satisfactory
Provide food security and improve the systems for managing food emergencies	Erratic government policies delayed critical imports, increased price instability, and discouraged private traders. Strategic grain reserves very poorly managed in times of food emergency (paras 5.21 – 5.24).	Unsatisfactory
OVERALL PROGRAM		UNSATISFACTORY

Summary

1. Malawi is one of the poorest countries in the world, with a per capita in-come of only $160 in 2004. Toward the beginning of the period under review (FY1996 through FY2005), the poverty rate was 54 percent, concentrated in rural areas, and social indicators were among the lowest in the world; including a life expectancy of only 43 years. Malawi was one of the African countries most affected by HIV/AIDS, with about 15 percent of the adult population HIV positive, and was handicapped by a number of structural constraints—it is landlocked and has internal and external transport barriers, limited (and deteriorating) arable land and lack of other natural resources, a climate characterized by frequently recurring floods and droughts, and limited human resources, made worse by the AIDS crisis.

2. Malawi's post-independence development strategy under "Life-President " Banda was based on estate-agriculture and import substitution with a high degree of administrative controls. Political pressures for change led to a referendum in 1993 and to the first multi-party elections in 1994 in which Banda's Malawi Congress Party was defeated, ending 30 years of authoritarian, single-party rule. The new administration carried out significant changes in the development strategy, emphasizing smallholder agriculture, reliance on the private sector, and reorientation of public expenditures toward social services. However, after a promising start in the mid-1990s as smallholder farmers responded to the new strategy, the economic performance deteriorated after 1997. Governance was weak throughout the Muluzi period (1994-2004), and a new government was elected in mid-2004.

3. The central theme of the Bank's assistance strategy during the review period, as expressed in three country assistance strategies (CASs), was sustained poverty reduction through the pursuit of three main objectives: (i) macroeconomic stability and public sector reform, which included public financial management reforms, improved parastatal effectiveness, and governance sub-objectives; (ii) broad-based, labor-intensive growth; to be achieved through improvements in the environment for private sector development and agriculture productivity; and (iii) improving social service delivery and expanding social safety nets, particularly education, health, and food security sub-objectives. Given Malawi's challenges, these objectives were relevant and consistent with the government's stated objectives, but the strategies consistently over estimated the government's capacity and commitment for structural reforms, particularly in the areas of public

financial management. In addition, the Bank's program was not sufficiently selective, targeting interventions in many sectors and designing lending operations that were insufficiently focused.

4. Since FY1996, the Bank has lent about $850 million, of which a little over a third has been for adjustment loans and the remainder for 19 investment loans. The adjustment operations covered too many sectors, which made oversight and implementation difficult. The quality of supervision has been uneven, varying from high quality to poor. There has also been excessive turnover of task management. The Bank also carried out a substantial program of economic and sector work (ESW) over this period. However, good-quality economic and sector studies were not always translated into results on the ground through successful design and implementation of lending operations. The Bank paid inadequate attention to dialogue and dissemination of its analytical studies.

5. The outcome of the Bank's support of the first objective, macroeconomic stability and public sector reform, has been unsatisfactory. Although the bulk of the Bank's adjustment lending was aimed at fiscal reforms, throughout the period under review Malawi experienced a high level of macroeconomic instability—due in large part to fiscal mismanagement. In spite of improved public revenue performance, fiscal deficits have mostly increased over the period, at least through FY2004; fiscal discipline could not be established: fiscal deficits, be-fore donor grants, averaged 16 percent of gross domestic product (GDP) from 1998 to 2004. The Bank should have focused more on reforms aimed at: (i) increasing the incentives of political principals and senior officials to commit to medium-term expenditure targets; (ii) improving the robustness of budget planning and execution systems; and (iii) clarifying reporting relationships and accountability.

6. In recent years, limited progress has been made under subobjectives of this pillar. In public financial management, supported by the Bank, the provisions of the Public Finance Management Act, Public Audit Act, and Public Procurement Act are now being implemented and fiscal management is now improving, although it is too soon to tell whether this sound budgetary process and public expenditure management will be sustained. Again with Bank support, there has been some progress in privatization, with a large number of firms sold, although the Bank has been less successful in its support for large public enterprises, particularly the large agricultural input and marketing conglomerate, ADMARC. Despite the reforms supported by the Bank, governance issues, especially corruption, remain a concern.

7. The Bank program did not achieve its second objective of broad-based, labor-intensive growth. Malawi has taken some positive

steps in support of private sector development. For example, Bank support helped the government to privatize large banks, although the government continues to wield influence through its remaining minority shareholdings. The sector is still characterized by a lack of competition, high transaction costs and margins, as well as high real interest rates. In addition, the government maintained a liberalized trade regime, but exports have remained heavily dependent on a few agricultural products, primarily tobacco, and the growth rate of exports has been very modest. In the agriculture sector, the government introduced a series of subsidized input policies, supported by the Bank. But, agricultural growth has been low and variable, and productivity has declined due to weak and unreliable delivery of agricultural services, changing input policies, and deterioration in the quality of land, as well as adverse weather conditions. The outcome of Bank assistance in support of broad-based, labor-intensive growth was unsatisfactory.

8. Under the third objective of the Bank's assistance, improving service de-livery and expanding social safety nets, progress has been uneven. Health trends during the review period have been mixed. On the positive side, infant and un-der-5 mortality have increased their secular downward trend. The HIV/AIDS prevalence rate also declined to around 12 percent in 2004, but this decline may reflect to some extent high AIDS mortality. Bank assistance contributed through two sectorwide programs, one for health and another for tackling all aspects of HIV/AIDS. On the negative side, child malnutrition and maternal mortality rates remain very high. The quality of education has remained low. Although retention rates are improving, repetition and dropout rates remain high, and the net enrollment rate in secondary education was only about 9 percent in 2000.

9. In the area of social safety nets, existing programs are expensive and have limited coverage. However, the Bank's assistance to the Malawi Social Action Fund, (MASAF), has brought substantial infrastructure benefits and some benefits to communities, groups, and individuals. MASAF estimates that it has provided assistance to as many as 5 million people. In food security, an institutional structure has been created, but there has been little progress in stabilizing food supplies during periods of anticipated droughts, much less increasing the production of staple foods. Based on these results, the outcome of Bank assistance in support of the third objective, improving service delivery and food security, was moderately unsatisfactory.

10. Overall, the Bank activities in Malawi have had limited success in achieving the ultimate program objectives set out in the Bank's strategies. GDP growth has averaged 2.8 percent per year (0.7 percent on a per capita basis) since 1996 but has averaged only 1.5 percent per year since 2000, which is below the rate of population growth. Poverty incidence has remained virtually unchanged over the past eight

years, estimated at 54 percent in 1998 and at 53 percent in 2005. Therefore, the overall outcome of the Bank assistance program is rated unsatisfactory. Because of limited progress on improving public financial management, privatization, and restructuring of the large public enterprise ADMARC, improving governance, and addressing the low productivity for agricultural production, the institutional impact of the program is rated modest. As noted in paragraph 5, in the absence of fiscal discipline, macroeconomic stability has not been achieved, and instability has been compounded by exogenous shocks. Therefore, Malawi is unlikely to be able to maintain or enhance private sector development and, there-fore, growth. Thus, the sustainability of the overall assistance program is unlikely.

11. The principal lessons and recommendations for future Bank support:

- During the CAE period, the Bank's adjustment lending had limited outcomes in terms of policy and institutional reforms. The Bank approved four adjustment credits despite clear evidence of the government's weak commitment and performance, especially in fiscal management, and the adjustment operations covered many issues in several sectors, making implementation difficult for the government and supervision difficult for the Bank. The new government is now attempting to reverse a 10-year record of fiscal mismanagement and lack of accountability. The Bank support for this reform effort is appropriate, but *future adjustment lending needs to be based on actions taken, not on action plans. Lending operations, adjustment loans in particular, also need to be more focused and scaled to fit implementation capacity. Priority should be given to strengthening budget implementation, better public expenditure management, and enhanced fiscal discipline.*

- Agriculture is the most important sector of the Malawi economy and agricultural development remains crucial for aggregate growth and poverty alleviation. But sector productivity has been declining and government institutions are weak. During the CAE period the Bank moved away from direct investments in the sector addressing agricultural and rural issues through multisector adjustment loans. The multisector approach diluted the significance and impact of Bank interventions. In the *future the Bank needs to focus on helping the government develop better policies to address agriculture productivity, food security, especially related to management of strategic grain reserves; on strengthening sector institutions; and on strengthening rural finance.* The Bank also needs to revisit the balances between adjustment and investment lending in the sector.

- While there have been some improvements, social indicators remain weak. *Therefore, the Bank needs to continue to devote substantial resources to education, health, and social safety net issues.* In education, the Bank needs to focus on increasing student achievement through improvements in educational quality. In health, including HIV/AIDS, the Bank needs to continue to support the programs now being carried out through sector-wide, multi-donor operations. The Bank needs to give increased priority to tackling high maternal mortality, high and persistent child malnutrition, and declining immunization.

- The Bank should continue *with its high-quality analytical work, but with improved consultations with key stakeholders and wider dissemination, as well as improved integration with sector strategies and project design are key priorities.* Looking forward, the Bank needs to strengthen its analysis on poverty, agriculture, and governance.

- The Bank's efforts at aid coordination have been unsatisfactory and needs to be improved. The Bank gave inadequate attention to working with other donors, preferring to work unilaterally with the government at a high level, which has hurt the Bank's credibility. *In the future the Bank needs to allocate additional efforts to working with other donors.*

- Despite decentralization, the Bank's office in Malawi is relatively small and the limited number of headquarters staff constrains its ability to coordinate with other donors, and, according to the government, has led to delays in receiving information or decisions from the Bank. There has also been excessive turnover of task management on several projects. *The Bank needs to enhance the Country Office, reduce turnover in task managers, and shorten response time from headquarters.*

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Evaluation

1. Background

1.1 Malawi is one of the poorest countries in the world with a GNP per capita of only $160 in 2004,[1] a high incidence of poverty, a highly unequal distribution of income, and one of the highest population densities in Sub-Saharan Africa. Agriculture accounts for about 85 percent of employment and nearly 90 percent of export earnings. About 85 percent of agricultural output comes from smallholders cultivating on average less than one hectare of land and the rest from medium and large estates producing mainly cash crops. Productivity in agriculture is low as the sector contributes only to about one-third of GDP. Social indicators are among the lowest in the world—high infant, child, and maternal mortality, one of the lowest life expectancies in the world, and a high incidence of HIV/AIDS. Malawi ranked 165th of 175 countries in the UNDP 2005 Human Development Index.

1.2 The country is also handicapped by several structural constraints—it is landlocked and has internal and external transport barriers, limited and deteriorating agricultural land, lack of other natural resources, frequent floods and droughts, and limited human resources, made worse by the AIDS crisis. Barriers to entry, regulatory constraints, and corruption pose hurdles for private investors. While Malawi has an adequate legal and institutional base for addressing corruption, institutions suffer from lack of political support, low budgetary resources, and resultant staffing weaknesses.

1.3 Malawi's post-independence development strategy under "Life-President" Banda concentrated on estate-based agriculture. In industry the role of public enterprises was limited, but the strategy favored private monopolies or oligopolies such as the Press Corporation. Also, the strategy was inward looking, based on import substitution in consumer goods manufacturing. The economy, especially smallholder agriculture, was highly regulated and the government discriminated against Asian-owned businesses. This strategy produced high annual rates of economic growth in the first 15 years following Independence (6 percent per annum during 1964-79), above the average for all developing countries and one of the highest rates in Sub-Saharan Africa, but growth benefited only a small portion of the population, had little impact on poverty, and was unsustainable. Following this initial period of high growth the economy stagnated in the 1980s and early 1990s.

A Promising Start Did Not Last Long

1.4 Political pressures for change led to a referendum in 1993 and to the first multi-party elections in 1994 in which Banda's Malawi Congress Party was defeated, ending 30 years of authoritarian, single-party rule. The new government initiated a new strategy based on: (i) smallholder agriculture as the central element; (ii) reliance on the private sector and competitive markets; (iii) restoration of macroeconomic stability; and (iv) a reorientation of public expenditures toward social services. Malawi made a promising start at encouraging the rule of law and strengthening institutions. A new constitution granting more civil rights was adopted in 1995. Several new governance-related institutions were created—the Ombudsman's Office, Human Rights Commission, Law Commission, and the Anti-Corruption Bureau. Unfortunately, the hopeful beginning did not last long. The political situation during the first 10 years of the post-Banda era was still characterized by power centralized in the office of the president, with decision-making highly influenced by patronage and entrenched, elitist interests. Governance has been poor throughout the Muluzi period (1994-2004).

1.5 Economic performance improved initially in response to the new strategy. Inflation was brought down and smallholders benefited enormously from market liberalizations such as the removal of restrictions on growing burley tobacco. Growth recovered in 1995 and 1996, helped by sound economic policies and favorable external conditions: good agricultural production, no major commodity price shocks, and a period of growth and recovery in the region. However, this good performance was temporary. Macroeconomic indicators deteriorated from 1997 onwards.

Weak Economic Performance

1.6 GDP growth during 1997-2004 barely exceeded the rate of population growth.[2] There has been little diversification of the economy, the export growth rate has been low, and the trade gap has been large and growing. The heavy dependence on maize production and tobacco exports has left Malawi vulnerable to exogenous shocks such as droughts, disruption of transport links, and fluctuations in international tobacco prices. Agricultural productivity has remained extremely low, yields of the major crops have declined, and the country suffers from repeated food shortages. Savings and investment rates are low, especially private sector savings and investment, and formal sector manufacturing accounts for less than 2 percent of total employment. Finally, Malawi has suffered from macroeconomic instability caused by excessive fiscal deficits leading to high inflation, high nominal and real interest rates, and a substantial decline in the purchasing power of the Malawian currency.

Social, Education, and Health Indicators

1.7 At the beginning of the review period, Malawi was not only one of the poorest countries in the world, it also had weak education and health indicators. Its education issues included poor and inadequate physical infrastructure, inadequate trained and experienced teachers, high repetition and drop-out rates, and gender inequality. Primary education gross enrollments surged past 100 percent following the introduction of free primary education in 1994, but the education was of poor quality. The secondary education net enrollment ratio was only 5 percent in 1997. As many as 60 percent of women and 30 percent of men were illiterate.

1.8 In the health sector, among other diseases, Malawi had one of the highest rates of HIV/AIDS prevalence. Infant mortality was estimated at over 133/1,000, under-5 mortality around a very high 225/1,000, and maternal mortality also extremely high at around 1,120/100,000 in 1997. About 50 percent of children under 5, an extremely high proportion, were moderately or severely stunted. The total fertility rate was still high at around 6.5 children per woman. Water and sanitation infrastructure was severely inadequate—almost half the population did not have access to safe water, and over two-thirds of households used unimproved pit latrines.

1.9 Malawi's poverty and social indicators have remained weak over the review period, with progress highly uneven and with some retrogression. Between 1997 and 2004, GNP per capita fell from $166 to $160. Other social indicators are still among the worst in the world—especially maternal mortality, life expectancy, and child malnutrition, while infant and child mortality, and the incidence of HIV/AIDS have improved, but they are still well above the average of Sub-Saharan Africa. Because of the depth of poverty and inequalities in access to assets, the responsiveness of poverty measures to changes in average incomes, the "growth elasticity of poverty," is low in Malawi. The implication is that growth rates need to be high, sustained, and broad-based to make much of a dent in poverty. This has not been achieved.

1.10 Malawi has been one of the developing world's most aid-dependent countries. In 1997 external grants and borrowings were equivalent to 10 percent of GDP and 40 percent of government expenditure, Malawi's external debt was about $2.6 billion, equivalent to 107 percent of GDP. Multilateral debt accounted for a high 86 percent of the total, with $1.6 billion owed to the World Bank, about $340 million to the African Development Bank and about $120 million to the International Monetary Fund (IMF). Aid dependency increased overtime (see para. 2.16). By 2000, Malawi's external debt had risen to 140 percent of GDP; even though most of the debt was official debt at highly concessional terms the net present value of the debt/GDP ratio was still 86 percent. This made Malawi eligible for heavily indebted poor country (HIPC) debt relief. Malawi was granted HIPC debt relief, amounting to 42 percent of its debt, after reaching the decision point in December 2000.

Overview of the Report

1.11 This report evaluates the Bank's assistance to Malawi during the period FY96-FY05. Bank assistance to Malawi between FY91 and FY96 was evaluated previously by IEG (see Box 1). Chapter 2 reviews the Bank's strategy and assistance program during this period. Chapter 3, Chapter 4, and Chapter 5 assess the extent to which the Bank program objectives have been achieved. Chapter 6 assesses the outcomes against overall objectives, including the sustainability of the results, and the institutional development impact of Bank assistance. The contribution of the Bank, the government, and development partners is reviewed in Chapter 7. Chapter 8 provides main lessons and recommendations.

Box 1. Recommendations of the Previous CAE

IEG's previous CAE found that Bank performance was satisfactory overall, while noting that the effectiveness of Bank assistance was undermined by the government's weak commitment to structural reforms and Bank failure to fully confront some of the underlying systemic weaknesses (for example, in the civil service, corporate and financial sectors). The findings of the 2000 Malawi CAE were:

- Macroeconomic stability was not maintained, resulting in crowding out of credit to the private sector and inflation.
- Bank support to the financial sector has been inadequate and has not yielded the desired results.
- The poor competitive environment is a strong disincentive to private investment.

It recommended that:

- The Bank reassess its approach to capacity building; traditional technical assistance projects have had limited impact because of underlying systemic weaknesses— inability of government to attract and retain capable staff, poor internal coordination, and lack of incentives.
- The Bank focus on quality improvements in education. Monitorable intermediate indicators in social sector interventions are essential to enable proper assessment of the progress being achieved.

Source: Malawi CAE, Report No. 21395, November 2000.

NOTES

1. World Bank Atlas Method.

2. Different estimates of Malawi's population growth rate can be found in various sources. The inter-census rate derived from the 1987 and 1998 censuses is 2 percent per annum, which is the rate assumed in this report for the entire review period.

2. Bank Strategy and Assistance

Main CAS Objectives

2.1 Bank assistance to Malawi since FY96 has been guided by three country assistance strategies (CASs)—two in the 1990s and one in 2003. Bank's strategy has remained largely unchanged over time. **The overriding aim was sustained poverty reduction through the pursuit of three main objectives: (i) macroeconomic stability and public sector reform—improved public financial management, reform of public enterprises, civil service reform and curtailment of the growing problem of corruption in public service; (ii) broad-based, labor-intensive growth, to be achieved through improvements in the environment for private sector development and agriculture productivity; and (iii) improvements in delivery of education and health services, in food security, and in social safety nets**. Throughout the review period macroeconomic instability, largely dependent on fiscal discipline, was a key issue.

2.2 While the main thrust of the three CASs was basically similar, some differences of emphasis and approach are apparent. The country strategy in the mid-1990s emphasized the adoption of a Medium-Term Expenditure Framework (MTEF) for public expenditure planning and prioritization, and it gave priority to education, health, and social protection investments, using the Malawi Social Action Fund (MASAF) as one of its main vehicles to fund public works programs to benefit the poor. The FY99 CAS gave less priority to MTEF, but relatively more focus on civil service reform, creation of a new, independent revenue authority, and the privatization of public enterprises. The FY03 CAS was closely aligned with the government's Poverty Reduction Strategy Paper (PRSP) (see para. 2.4). This CAS did signal a change toward shorter-term actions to improve public finance rather than broad systemic changes in recognition that previous strategies had exceeded the government's capacity and commitment to change.

Relevance of Bank Strategy

2.3 The government's 1995 *Policy Framework for Poverty Alleviation* emphasized maintaining a sound macroeconomic framework and reliance on the private sector and competitive markets rather than on public enterprises. The Vision 2020 statement issued in 1998 promised transformation to middle-income status, food security, an increase in the manufacturing share of GDP from 12 percent to 25 percent, and quality health and education services for all; however, **this Vision was an expression of long-term hopes, with little operational significance** for the medium-term. In 2000 the government stated that it was committed to macroeconomic stability in its *Ten-Point Economic Plan,* which was simply a list of measures to be adopted to achieve fiscal discipline.

2.4 The most comprehensive and significant government policy statement is the 2002 Poverty Reduction Strategy Paper (PRSP) or Malawi Poverty Reduction Strategy (MPRS).[1] The four "pillars" of the PRSP are (a) promoting sustainable, pro-poor economic growth and structural transformation; (b) enhancing human capital development; (c) improving the quality of life of the most vulnerable—safety nets; and (d) promoting good governance. The PRSP recognizes the fundamental importance of macroeconomic stability, stating that "It is a precondition for economic growth and poverty reduction, and requires fiscal discipline and tight monetary policies." **However, the joint staff assessment (JSA) of the PRSP, dated July 2002, points out that the linkage between the PRSP objectives and the central government budget is missing**. Also, while the joint staff assessment is highly positive about the participatory process that supported the PRSP, and the degree of government ownership of the document, **there is a widespread view and perception in Malawi that the PRSP carries an excessive degree of Bank and Fund authorship**.

2.5 In 2003, the government issued the Malawi Economic Growth Strategy (MEGS), which emphasizes that sustained poverty alleviation is not possible without economic growth. Some officials in the current government stated that previous strategies, in particular the PRSP, placed too much emphasis on "consumption"—the delivery of social services that are consumed by the poor, and not enough emphasis on investment for growth, the emphasis of the MEGS.[2] Whether this will lead to significant reorientation of public sector expenditures or of government policies vis-à-vis the private sector is still unclear.

ASSESSMENT OF BANK STRATEGIES

2.6 The successive country assistance strategies were **relevant** in addressing the key development constraints facing Malawi, and consistent with the government's objectives. However, the CASs can be criticized on several counts. **First, while the CASs clearly stated the weaknesses in previous government performance in many areas, the Bank consistently overestimated the government's capacity and commitment to structural reforms in the ensuing CAS period**. This was notably the case for public expenditure controls and public financial management reforms.[3] **Second, each successive CAS, and the 2000 country assistance strategy progress report, acknowledged that the previous CAS was too ambitious, non-strategic, and non-selective in spreading Bank lending across too many sectors**. Each CAS indicated that the next strategy would be more focused, but failed to indicate specifically what would be eliminated or reduced; as a result, the Bank program continued to spread itself too thinly across sectors and within individual adjustment operations.[4] **Finally, the Bank decided, in the FY03 CAS, to relegate Malawi to the low case lending scenario, but then restored the country to the base case program in early FY04 on the basis of untimely and highly questionable, conclusions of improvements in macroeconomic indicators and PRSP implementation.**

Overview of Lending Services

2.7 During fiscal 1996-2005 the Bank lent Malawi $847 million, against a planned base case total in the three CASs of $1.2 billion. The lack of progress in implementing structural and fiscal reforms, and the difficult environment for project implementation are partly responsible for this difference between the CAS base case lending programs and the actual lending. Several operations fell victim to the slow implementation of the existing program, which delayed the preparation of new activities. Annual lending fluctuated greatly between fiscal years 1996 and 2005, reaching its highest level in 1999, at $195 million, and lowest in fiscal 2002 when no lending occurred because of disagreements on macroeconomic policies between the government and donors, including the Bank. Lending resumed in fiscal 2003 with emergency and social protection loans to assist Malawi to deal with the recurrent drought (see Table 1).

Table 1. Malawi - Lending (Planned versus Actual), FY96-05
(US$ Million)

	FY96-98		*FY99-01*		*FY02*		*FY03-05*		*Total*	
	Planned	*Actual*	*Planned*	*Actual*	*Planned*	*Actual*	*Planned*	*Actual*	*Planned*	*Actual*
Lending Program	408.0	248.8	403.9	297.9	100.0	0.0	240.0	300.1	1,151.9	846.8
- Adjustment	170.0	109.8	170.0	147.6	50.0	0.0	30.0	50.0	420.0	307.4
- Investment	238.0	139.0	233.9	150.3	50.0	0.0	210.0	250.1	731.9	539.4

Source: World Bank internal database.

2.8 In terms of sectoral distribution of lending, the largest share has been allocated to economic policy reforms. Social protection and education have been other important sectors. Adjustment lending has included the series of Fiscal Restructuring and Deregulation Program Loans (FRDP I, FRDP II, FRDP III) and the Fiscal Management and Accelerating Growth Program Loan (FIMAG)—totaling $307.4 million, 36 percent of total commitments. These adjustment operations covered a large number of sectors, from public financial management and agriculture to private sector development and social sectors, which made oversight and implementation difficult. There was too much emphasis on institutional changes such as MTEF and creation of regulatory agencies, but inadequate attention to the weak government ownership and fiscal discipline. The most serious criticism is that the Bank persisted in adjustment lending in the face of continued evidence of lack of political will.

Table 2. Malawi - Sectoral Distribution of Bank Lending (1996-2005)

Sector Board	*US$ million*	*%*
Economic Policy	307.4	36.3
Education	103.2	12.2
Environment	12.0	1.4
Financial Sector	15.0	1.8
Health, Nutrition and Population	55.0	6.5
Private Sector Development	28.9	3.4
Public Sector Governance	33.1	3.9
Rural Sector	77.0	9.1
Social Protection	182.0	21.5
Infrastructure	33.2	3.9
Total	846.8	100.0
Share of Adjustment Loans	307.4	36.3

Source: World Bank internal database.

2.9 Investment lending was spread across several sectors, including large loans to the Malawi Social Action Fund. The Bank lending was instrumental in scaling up the HIV/AIDS program, establishment of the institutional framework, and in capacity building for the National AIDS Commission (NAC). The quality of supervision has been uneven, varying from high (MASAF, HIV/AIDS, and Roads Maintenance) to poor for the Financial Management, Accountability and Transparency Project (FIMTAP) and the Privatization and Utilities Reform Project (PURP). There has also been excessive turnover of task management—three for PURP in four years and five for FIMTAP in less than three years. Similarly, there has been turnover on the Government side, which has adversely affected project performance.

2.10 *The quality of Bank Lending.* According to IEG assessments 63 percent of commitments to Malawi for projects/programs that exited the portfolio between 1996 and 2005 had satisfactory outcomes, compared to 72 percent for the Africa region and 81 percent for the Bank as a whole. However, Malawi's performance has deteriorated over the past five years: the percentage of projects/programs with satisfactory outcomes declined to 60 percent, considerably lower than the 76 percent for the Africa region. In terms of institutional development, an extremely low 22 percent of commitments to Malawi for projects that exited the portfolio during the review period were rated by IEG to have substantial institutional development impact, compared to 37 percent and 50 percent for the Africa region and the Bank, respectively. Sustainability for projects that exited the Malawi portfolio from 1996 to 2005 was rated likely at 59 percent, against 54 percent for Africa and 73 percent for the Bank. Prospects for sustainability have improved slightly in recent years.

Table 3. Malawi - IEG Ratings FY1996-2005

Region	*Total Evaluated ($M)*	*Total Evaluated (No)*	*Outcome % Sat ($)*	*Outcome % Sat (No)*	*Inst Dev Impact % Subst ($)*	*Inst Dev Impact % Subst (No)*	*Sustain-ability % Likely ($)*	*Sustain-ability % Likely (No)*
Malawi	1,125	28	63	46	22	29	59	48
AFR	24,983	696	72	64	37	38	54	48
World Bank	197,560	2,592	81	75	50	46	73	65

Source: World Bank internal database as of October 2005.

2.11 The ongoing portfolio, consisting of 12 projects at the end of FY05, showed 36 percent of projects at risk, an indicator that the downward trend in outcome ratings has not been reversed.[5] Though several projects are in the early stages of implementation, supervision reports reveal some basic design and implementation problems. Delays are substantial.

2.12 The International Finance Corporation's (IFC) strategy and program are assessed in Box 2.

Box 2. IFC Operations in Malawi: 1996-2005

Malawi's investment climate, particularly infrastructure facilities, has been consistently poor and has hindered private sector development. As a percentage of GDP, the private sector gross fixed capital formation has been very low and has declined from 5.2 percent in 1995 to 1.7 percent in 2004. The World Bank's Malawi Country Economic Memorandum (2004) also ranks Malawi the lowest among all African countries in private business access to financing, next to last in quality of roads, and among the lowest three in infrastructure. Malawi's business climate improved slightly from 1990 through 1999 but has deteriorated since then, based on the Institutional Investor Country Credit Risk scores.

Given the poor business climate, IFC operations in Malawi were very limited: four indirect small and medium-size enterprise (SME) transactions through the Africa Enterprise Fund (AEF)[1] and one direct investment during FY1996-2000. IFC did not make any investments during FY2001-05 but instead provided Technical Assistance and Advisory Services (TAAS) to SME capacity-building through the Africa Project Development Facility (APDF). This period also coincided with a sharp decline in foreign direct investment as a percentage of GDP. IFC committed a total of $3.8 million in the five investments during FY1996-2000, equivalent to 0.2 percent of Malawi's average

Continued⇨⇨⇨

Box 2 (continued)

GDP, which is less than the Sub-Saharan average of 0.9 percent for the same period. Furthermore, tobacco accounts for 65 percent of Malawi's total foreign exchange earnings, and IFC does not support the tobacco sector. IFC's TAAS in Malawi was also constrained by the country's weak commitment to reforms. Nevertheless, under the donor-assisted Technical Assistance Trust Funds (TATF) program IFC's total TAAS was 1.5 percent of total investment commitments between FY1990-99— significantly higher than the average of 0.51 percent for similar countries in the same period. In addition, APDF undertook five TAAS operations during the 1990s and three between 2001 and 2003 to support SMEs on various subjects and facilitated the access to financing for start-ups and expansions. Finally, the Foreign Investment Advisory Service completed two operations (Investment Law and Assistance to the Investment Promotion Agency) in the mid-1990s.

Performance of IFC operations. Despite the poor business climate, two out of five AEF projects and the only direct IFC project had satisfactory outcomes and four out of five projects had satisfactory IFC work quality. The common features of the successful projects were: very good management, including the presence of strong and committed technical partner; and no "crowding-out" effect from a large conglomerate that dominates their respective sectors. The common features of the unsuccessful projects included poor management and poor infrastructure.

Challenges and opportunities: Poor business climate remains a challenge for the IFC in Malawi. Until the government demonstrates commitment for private sector development, IFC can only explore possible microfinance operations and continue TAAS.

1. AEF (1988) was established by IFC to finance small projects. In 2001, AEF was phased out since it was not sustainable.

Source: IEG-IFC

Overview of Economic and Sector Work

2.13 During the period under review the World Bank completed a large number of economic and sector studies of relatively high quality. These studies focused on key issues in macroeconomic stability, growth, public expenditure management and improved parastatal effectiveness, agriculture, and the institutional structure for service delivery in the education and health sectors. In the early part of the review period there was limited analytical work in the social sectors.

2.14 With respect to poverty reduction, the principal Bank intervention was support for preparation of the Malawi PRSP. The Bank also scheduled a Poverty Assessment for FY02, contingent on the completion of another household income survey to update information in the initial 1997/98 survey. **The PRSP and JSA indicated that the survey would begin in late 2002, but work on the second household survey was delayed due to lack of funds**, finally beginning in March 2004 supported by an Institutional Development Fund (IDF) grant from the Bank. The Bank is working closely with the Malawi National Statistics Office on processing and analyzing the survey data, and results are now becoming available.

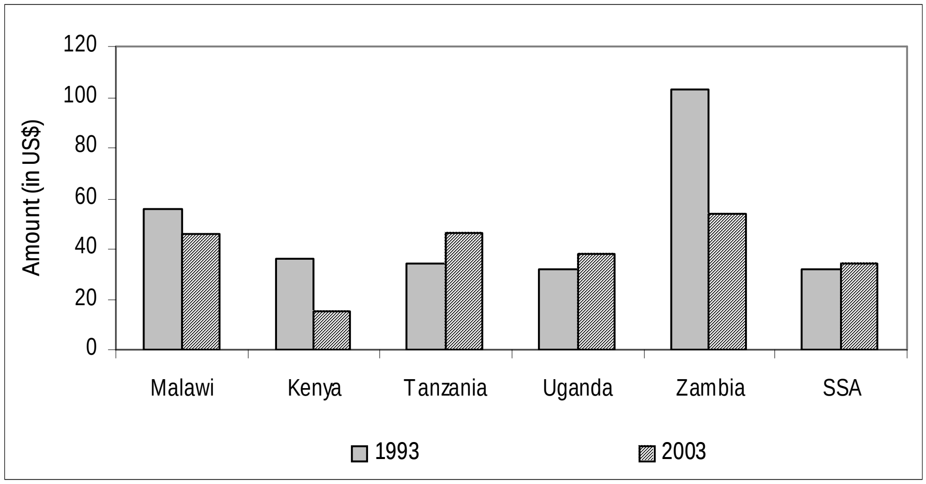
2.15 The Bank has paid inadequate attention to dialogue and dissemination of its analytical studies. Some task teams (Public Expenditure Review [PER], Integrated Trade Study, and education sector) worked with key stakeholders and attempted to create consensus on the main recommendations. Others were satisfied with the government counterpart teams which facilitated the work of the mission and provided comments on draft reports. The government was usually involved in commenting on the initial design of studies and on draft products, but not in the preparation of the reports. Dissemination efforts were limited and most of the Bank reports did not reach to other donors, academia, and line ministries. Finally, good quality economic and sector studies were not always translated into results on the ground through dissemination, policy dialogue, and the successful design and implementation of lending operations.

Partnerships

2.16 Malawi is one of the developing world's most aid-dependent countries. In per-capita terms it receives a significantly higher level of official development assistance (ODA) than the average for Sub-Saharan Africa, and a higher level than a group of neighboring comparator countries, with the exception of Zambia (see Figure 1). Net ODA during 1998-2004 averaged almost $450 million per year. The International Development Association (IDA) has remained one of the major aid partners accounting for 18 percent of disbursements over this period. In recent years donor aid disbursements have been equivalent to over 20 percent of GDP, 40-50 percent of government spending, and as much as 80 percent of the development budget.

2.17 Many donors are active in Malawi. Aid coordination was listed as an objective in the three CASs under review. However, beyond stating Bank support for sector-wide approaches (SWAps) and similar pooling arrangements for donor funding, the Bank did not commit to any specific actions to improve coordination. The donor community has, in recent years, made some progress in joint funding operations—the health sector support SWAp and the pool arrangement for HIV/AIDS funding. However, in other sectors, such as education, efforts to develop a SWAp have not yet proven successful.

Figure 1. Malawi – Per Capita ODA Assistance



Source: WB Development Data Platform (DDP) website as of October 4, 2005.

2.18 Four key donors (the European Union, Norway, Sweden, and the United Kingdom) are also taking a Common Approach to Budget Support (CABS) by pooling their resources for balance-of-payments support. Donors' dissatisfaction with the government's performance on reforms has at times led to a suspension of some aid for investment projects and for balance of payments or budget support, such as the freeze on budget support by bilateral donors from December 2002 to February 2004 because of Malawi's failure to meet the conditions for tranche releases under the IMF's Poverty Reduction and Growth Facility (PRGF). Some donors have withdrawn from Malawi (Denmark, Netherlands) or have steadily reduced their level of support, but this has been compensated by increases on the part of other major donors such as the European Union, United Kingdom, and United States.

2.19 With a large volume of aid and multiple donors there is a strong need for coordination. Coordination can take place both at the level of the Consultative Group (CG), which brings together senior government ministers and representatives from donor agencies' headquarters, and at the local level between aid agency field staff and possibly government representatives. CG meetings were held regularly during the 1990s, but the last one was held in Lilongwe in May 2000. The structure for local coordination includes a monthly meeting of heads of donor agencies. These meetings were formerly chaired alternately by the Bank and the United Nations Development Programme (UNDP) but now are chaired by the Minister or Principal Secretary of Finance. Unfortunately, this meeting is seen by donors as a "one-way street" with communication coming only from the government and no opportunity for donors to exchange information among themselves and with government on the status of their programs or their future plans.

2.20 There are also sector working groups (SWGs) chaired by a lead donor for the sector. The Bank participates in some of the SWGs but faces a constraint relative to the situation of most bilateral donors. Bilateral donors tend to restrict their activities to a few sectors, and for these activities they normally have staff, including task managers, located in the field office. The Bank, on the other hand, is spread over many sectors and has very few task managers in the field. While the Bank Country Office has local staff assigned to cover most sectors, other donors told the CAE mission that local staff and headquarters task managers do not always attend meetings where the donors thought the Bank should be represented or, if they did attend, Bank representatives did not always elaborate the Bank's plans in the sector. Donors also expressed the view that the Bank preferred to work unilaterally with the Muluzi government. Although a close relationship between the Bank and government has advantages, in this case it led to distancing other donors, affecting objective judgments about the health of Bank's ongoing portfolio (see para. 3.11), proceeding with new adjustment loans (see para. 2.6), and also initially affected relations with the current government. Several donors stated that they would welcome a more active Bank role in leadership and in working with the rest of the donor community in policy dialogue and aid coordination. Both the government and donors also point to what they regard as an excessive turnover in task managers for several Bank projects (see para. 2.9).

2.21 Collaboration with the IMF has been closer. Bank-Fund collaboration in Malawi regarding policy advice and timing of joint support has been generally satisfactory during the CAE period. The Fund has remained engaged with Malawi through much of the review period, with a series of financial arrangements and staff-monitored programs (SMP). Malawi's previous PRGF arrangement expired in December 2004. There was a staff-monitored program covering July 2004-July 2005 to build a performance record. Policy implementation under the SMP was much stronger than in previous years. In light of this satisfactory performance under the SMP, the IMF extended a new PRGF arrangement in the amount of SDR 38.2 million in August 2005.

NOTES

[1]. An interim paper on poverty reduction strategy was issued in 2000 and the final document in April 2002. The PRSP was developed through a highly participatory process. The Bank-IMF Joint Staff Assessment in 2002 concluded that the PRSP provided a credible framework for reducing poverty.

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2. This emphasis is consistent with the findings of the 2004 Annual Review of Development Effectiveness (IEG 2005).

3. "A key reason for the limited effectiveness of Malawi's public sector capacity building is that the government has not identified and prioritized its capacity building goals. Nor has the Bank developed a clear and coherent capacity building strategy to guide its activities in Malawi, despite its repeated identification of capacity as constraint to development." Capacity Building in Africa, An IEG Evaluation of World Bank Support, The Case of Malawi, 2005.

4. This ambivalence is particularly apparent in the 2000 CAS progress report, which states that the FY99 CAS program was too ambitious but then concludes that "the program set out in the FY99 CAS is relevant but unfinished and the Bank will complete it."

5. The Bank's Regional Management notes that the recent restructuring and cancellation of problem projects have improved portfolio performance.

3. Macroeconomic Stability and Public Sector Reform

3.1 Throughout the review period macroeconomic instability was a key issue. Bank analysis had shown that the principal prerequisite for higher growth in Malawi was macroeconomic stability, largely dependent on fiscal discipline and improved public financial management. The budgetary process, particularly expenditure control, was extremely weak with outturns frequently differing from the original budget by substantial margins. Large parastatals were receiving unbudgeted support, placing pressure on the fiscal situation as well as providing a disincentive to private sector development. Corruption in public services was a serious problem.

3.2 The Bank's country assistance strategies reflected the country's strong need for fiscal control and structural fiscal reforms. To achieve macroeconomic stability (the first major program objective), the Bank aimed to support the government's efforts to improve public financial management, to staunch the fiscal drain and to reform public enterprises, and to stem the growing problem of corruption in public service through a strengthening of institutional accountability.

3.3 A large portion of Bank activities in the period under review were in support of these intermediate objectives. Bank lending in support of fiscal reforms included four adjustment loans (three FRDPs and FIMAG) and four related technical assistance (TA) loans (FRDP II and FRDP III TA, PURP and FIMTAP). The adjustment loans were focused, among other objectives, on public expenditure management, tax policy and administration reform, privatization, and civil service reform. Technical assistance loans focused on capacity building and institutional strengthening to improve financial management systems and improve the allocation and utilization of public resources.

3.4 The Bank also completed a number of highly relevant economic and sector studies focused on key issues in fiscal policy and public sector reform—an economic report in 1997, the 2001 PER, the 2004 Country Economic Memorandum (CEM), a 2003 Country Financial Accountability Assessment (CFAA), and a Country Procurement Assessment Report (CPAR). Some of these economic and sector work (ESW)—CEM, PER and CFAA provided policy recommendations that were incorporated in subsequent lending operations, a point acknowledged by government officials. Both the PER and the 2004 CEM were cited by government officials as providing a "bible" of sound recommendations for government reforms.

Improving Public Sector Management

3.5 **The Bank's Strategy**. On the expenditure side, the Bank's strategy aimed to introduce a Medium-Term Expenditure Framework to ensure a more accurate budgetary allocation process as well as ensure the consistency of the recurrent and development budgets. In addition, the strategy also intended to introduce an Integrated Financial Management System (IFMIS) to further strengthen expenditure controls and introduce efficiency gains. An additional aim was to reorient public spending to pro-poor areas. On the revenue side, the strategy supported tax and tariff reforms for improving the revenue performance.

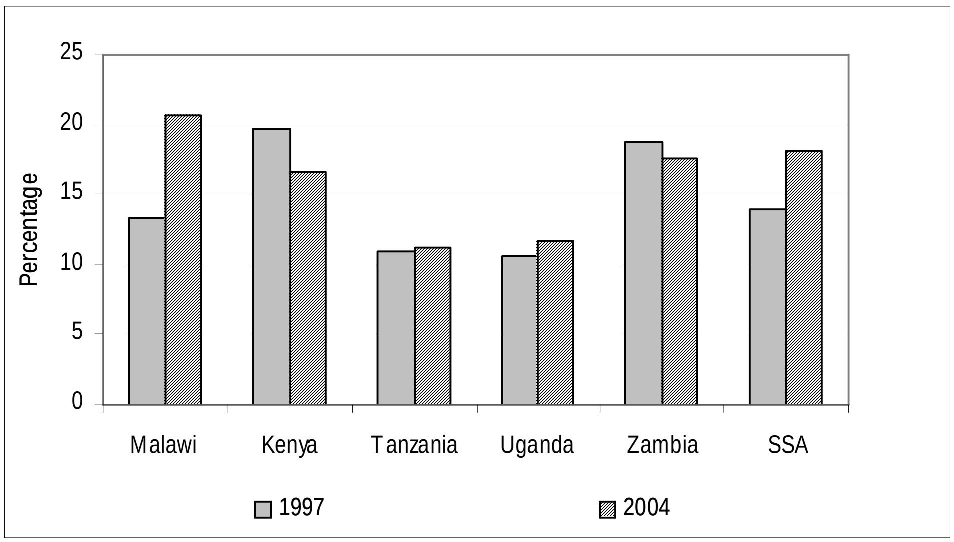
3.6 **Outcome. Fiscal deficits, before donor grants, averaged 16 percent of GDP from FY96 through FY04 and almost 20 percent of GDP in FY02-04**, the last three years of the Muluzi regime. Total public expenditures increased from 23 percent of GDP in 1996 to 43 percent in 2004. Key contributors were interest payments, wages and salaries, agriculture subsidies, and other current transfers. All the budgetary measures and administrative reforms, including cash budgeting, publication of budget data on the Internet, MTEF, and IFMIS, proved ineffective tools for expenditure control. Budget *overruns*, the extent to which the final expenditure exceeded the original budget, averaged over 9 percent of GDP in FY02-FY04. Some overspending was due to emergencies such as the drought in 2001/2002, but the main source was that ministries and agencies were allowed to overspend their budgets or accumulate arrears without penalty. The highest overspending occurred in the Office of the President, Parliament, defense, police, and foreign affairs. Fiscal mismanagement produced high inflation, high interest rates, and an unsustainable buildup of domestic debt, which rose from 5 percent of GDP in FY99 to 24 percent at the end of FY04. The interest burden in the budget almost tripled, from 4 percent of GDP to 11 percent, during this period.

3.7 In recent years there has been some limited progress in improving budgetary rules and institutions. The provisions of the Public Finance Management Act, Public Audit Act, and Public Procurement Act are now being implemented effectively and fiscal management is now improving although it is too soon to tell whether this sound budgetary process and public expenditure management will be sustained. The Central Tender Board was disbanded due to pervasive abuse and replaced by the Directorate of Public Procurement, which oversees all procurement activity. Steps have been taken to strengthen the National Audit Office, the Accountant General, and the Internal

Audit function, but it is uncertain whether these institutions will be adequately funded.

3.8 **The one positive outcome in fiscal management during the CAE period has been in revenue mobilization**. The Malawi Revenue Authority, established in 1998, has succeeded in raising the ratio of fiscal revenue to GDP by 6-7 percentage points (see Figure 2). Malawi's performance in fiscal revenue mobilization now exceeds that of neighboring comparator countries. This has been achieved largely through reforms of the indirect tax structure, including introduction of the VAT, and strengthened tax administration.

Figure 2. Tax Revenue/ GDP



Source: WB Regional Database, Africa as of August 2005.

3.9 Despite several attempts at reform, and substantial technical assistance by donors, public expenditure management remained weak through FY04. Malawi only met 5 out of 16 benchmarks in the 2004 assessment of Public Expenditure Management (PEM) systems for HIPC countries, two fewer than in the 2001 HIPC Africa Action Plan (AAP) Report. The results suggest deterioration in the PEM system performance in Malawi between 2001 and 2004. In short, there is a need for substantial upgrading in the PEM system in Malawi.

3.10 **Assessing the Bank's Contribution**. The Bank's efforts to improve Malawi's public financial management, particularly expenditure management, failed. An MTEF was introduced to strengthen public expenditure management, under the FRDP adjustment operations, without a solid foundation for budgetary management and fiscal discipline. **The MTEF was not a proper instrument for correcting the urgent problem, chronic overspending.** The Bank should have focused on reforms in budget execution and reporting, rather than budget formulation covering multiple years. There was a sequencing problem with the design of budgetary reforms.[1] Therefore, the improvements in fiscal management under the FRDP I-III were limited. The Bank's operations can also be criticized for being too broad, covering too many issues at the same time, and putting too much emphasis on institutional changes.[2] However, the main problem was not in the design but rather in the implementation of reforms, clearly demonstrating the Muluzi government's weak commitment to sound fiscal management.

3.11 FIMTAP has also had limited impact on public financial management. Its design was ambitious and implementation was spread across a wide range of government ministries and agencies. These agencies have demonstrated quite varying levels of capacity and commitment to the objectives of the project. Furthermore, technical preparation of the project was weak and there was lack of coordination with other donors who were providing TA to the same government institutions. The project has had five Bank task managers in fewer than three years of implementation, an excessive turnover. At the end of 2004 progress was at a standstill in all components of FIMTAP (despite satisfactory ratings in the supervision report) and the project is now being restructured with a much reduced scope. Reaching agreement with the government on the details of restructuring is proving difficult. The most visible problem has been the failure to implement IFMIS. The government has decided to abandon the IFMIS contract which the Bank financed, after several years of work without significant progress, and to adopt another approach with other, non-Bank, funding.

3.12 The Bank can be faulted for persisting with these efforts despite clear evidence of a lack of government commitment to fiscal discipline. The Bank continued to provide adjustment lending even though the justification for it was weak. This willingness to sustain lending even in the face of marked shortcomings in government performance is epitomized by the circumstances surrounding FIMAG. In late 2003 the Bank had restored the country to the base case and to eligibility for adjustment lending, arguing that all the triggers had been met, including restoration of macroeconomic stability, because the IMF had approved the second drawing under its 2000 PRGF.[3] Based on this Fund action in October 2003, the Bank presented FIMAG to the Bank's Board in April 2004. However, by this time the IMF program was again off track, in large part because of government overspending for the May 2004 elections, and the Fund was unable to complete another review of the PRGF. The Bank delayed effectiveness of FIMAG until September waiting for the PRGF to come back on track, but the Fund program was eventually cancelled and later succeeded by a staff-monitored program. The Bank released the first tranche of FIMAG in September 2004 even though the Fund program had not been reinstated. However, the release of the second tranche of FIMAG has been significantly delayed, because of slow progress in agricultural reforms, mainly tobacco marketing and ADMARC restructuring.

3.13 The quality of ESW on public financial management (PER, CFAA, and CPAR) has been high. The analysis most appreciated by the Malawians was the PER, which was participatory, involved Malawians in its conception and provided useful analysis and policy recommendations. The extent of quantitative data presented in the CPAR is particularly impressive, presenting estimates of savings to the government of improved procurement procedures.

Improved Parastatal Effectiveness

3.14 **The Bank's Strategy.** In the mid-1980s the Bank and government recognized the need for improved public enterprise performance. However, privatization was not mentioned as an objective at that time. By the mid-1990s the new government had begun to focus attention on the serious problems of public enterprises' operating deficits and debt, and on privatization as a way to resolve many of these problems. In 1996 the government passed a privatization law and established a Privatization Commission and in 1997 designated 100 enterprises for liquidation, privatization, or commercialization. Following this government decision the Bank became more involved in public enterprise reform.

3.15 Through the series of the FRDPs, the Bank focused on the legal and institutional framework for privatization, the privatization of commercial public enterprises, including petroleum importation and marketing and the major commercial banks, completion of an action plan for privatization and commercialization of ADMARC and its subsidiary companies, as well as support for monitoring public enterprise finances through the Public Enterprise Reform and Management Unit (PERMU) established in the Ministry of Finance in 2000.[4] The FRDPs and related TA also supported the separation of the posts and telecommunications corporations and preparation of Malawi Telecommunications Limited (MTL) for privatization.

3.16 The FY00 Privatization and Utility Reform Project (PURP) was intended to provide assistance for managing reforms and privatization, particularly of major utilities (the postal corporation, telecommunications, electricity, and water utilities) and ADMARC, establishing regulatory agencies for telecommunications, power and railways, and promotion of public/private partnerships in water.

3.17 The Bank is also supporting public enterprise reform and privatization through conditionality in FIMAG on telecommunications privatization, ADMARC restructuring and divestiture of its subsidiary companies, enforcement of borrowing constraints, and limiting government arrears to public utilities to 60 days. First tranche release conditions included repeal of the ADMARC act and full divestiture of ADMARC non-core subsidiary companies. A key second tranche condition is implementation of the ADMARC downsizing and restructuring plan, which involves splitting the company into two units—a commercial operation and a second company with only a social function—agricultural input supply and crop purchasing in remote, poorer areas.

3.18 **Outcomes**. There has been progress in privatization. Malawi has enacted a good privatization law and established a capable Privatization Commission. Of those enterprises designated for privatization in 1997, originally 100 firms but expanded to 140 by listing subsidiaries as separate entities, approximately 70 had been privatized, commercialized, or liquidated by the end of FY05. Most of these are small to medium-sized companies, although some large-scale privatizations or concessions have been carried out in banking, railroads, petroleum import and distribution, sugar production, and hotels.

3.19 One of the highest-profile privatization efforts has involved the telecommunications sector. A policy for privatization of the state-owned telecommunications agency and enabling regulations was adopted in 1998, the postal services and telecommunications agencies were separated, and a telecommunications regulatory agency (MACRA) was established in 1999. The sector has been partially liberalized through the introduction of independent cellular operators, as well as some expansion of the number of fixed lines operated by MTL, but attempts to privatize MTL have not yet been successful. [5]

3.20 In the electricity sector, another high-priority issue for Malawi because of the poor level of service and high costs of the government-owned utility, the electricity act of 1998 permitted the establishment of an independent regulatory agency and entry of private firms into certain parts of the sector, but there has been no entry of private firms and little progress toward the establishment of an independent regulatory agency.

3.21 ADMARC, a sprawling conglomerate, is a huge drain on Malawi's limited budgetary resources and has long been seen as an ineffective agro-marketing agency. ADMARC has long been the single biggest obstacle to agricultural development in Malawi; however, it is not just an agriculture problem, but also a fiscal, social, private sector development, and business climate problem. Continuing efforts by the Bank and authorities to divest and privatize ADMARC's core business operations, and restructure the residual capacity to meet the needs of Malawi's more remote areas have thus far failed (see Box 3).

Box 3. ADMARC's Core Business Operations

Malawi's parastatal Agricultural Development and Marketing Corporation (ADMARC) was established in 1971 and assigned primary responsibility for providing marketing services to the country's agricultural sector. It also was charged with servicing Malawi's food security needs in the country's maize markets. This function was especially critical at times of maize scarcity. Its social role was reflected in the pan-territorial and pan-seasonal pricing system for smallholder farmers, particularly for maize, and the establishment of markets in non-profitable areas.

ADMARC's purchases of agricultural produce were buoyant up to the mid-1980s, with maize purchases accounting for the largest proportion of the crop purchases, in some years as much as 80 percent. Official data on the sale of inputs also shows that ADMARC led in fertilizer sales until 1991, but as in maize marketing, fertilizer trade has been in decline ever since.

ADMARC developed an extensive network of storage and marketing facilities throughout the country. Until 2002 its total storage capacity was 468,000 metric tons, or 20 to 25 percent of an annual harvest, but has been reduced to 180,000 metric tons following the transfer of silos and other grain storage facilities to the National Food Reserve Agency (NFRA). There also has been a sharp reduction in the number of marketing establishments during the 1990s, though this has not been accompanied by an equivalent reduction of permanent staff. ADMARC currently has 3,250 permanent employees.

ADMARC's financial losses have mounted since the 1980s. Although it became taxable in 1987 it has only paid tax in 3 of the 18 years since, and has received large government subsidies since 1998. Furthermore, the deterioration of ADMARC's investment holding company (AIHC) portfolio has resulted in the loss of an important source of supplementary income, needed to finance ADMARC's core operations. Concerns have been raised about ADMARC's operational inefficiency and about the extent to which the parastatal provides useful marketing services to smallholder farmers and poor consumers. The corporation continues to register operating losses mainly due to the high overheads, subsidized in part by some of ADMARC's other investments and by budgetary transfers.

Source: IEG mission findings, 2005.

3.22 **Assessing the Bank's Contribution**. Despite a mixed record of progress in privatization, in 2000 the Bank assumed that the entire privatization program could be completed by 2004 with PURP support. The Bank overestimated the extent of political commitment to privatization of the large and strategic public enterprises such as ADMARC and the electricity company. Also, it did not ensure that sufficient attention was given to developing an information campaign to better inform the public of the potential benefits of privatization, thereby building general support for the program. As a result, PURP encountered initial difficulties shortly after it was made effective, as the Muluzi government suspended the privatization program for several months in 2001 over concerns about strategic areas of the economy being sold to foreigners, loss of jobs, and the alleged poor financial yield from past privatizations. Following pressure from donors, the program was resumed in October 2001. But progress in the first two years of PURP implementation was slow; at the original closing date of end-2004 only 40 percent of the credit had been disbursed. Following the May 2004 election, the new Mutharika government again suspended the privatization program in order to review the results; activity was resumed after a few months, but as a consequence only 4-5 further privatizations were completed during FY05. The PURP project was clearly over-ambitious, attempting to set up or strengthen regulatory authorities for the public utilities and complete all privatizations, including major ones such as telecommunications, components of the electrical power system, ADMARC, and the national airline, all in four years. The project is currently being restructured with the number of anticipated privatizations scaled back significantly; it will in future deal primarily with the power utility and the urban water boards.[6]

3.23 ADMARC's restructuring and privatization has been part of the Bank's assistance strategy in Malawi for over 25 years because of its deteriorating financial position and its role in agricultural markets and food security. It took almost a decade to divest and privatize non-core ADMARC subsidiaries in agriculture, textiles, banking, and services. It required more than four years to transfer responsibility for managing the strategic grain reserves to NFRA. Therefore, the Bank's overall interventions related to ADMARC, and particularly under the FRDPs, were too gradual and too piecemeal to achieve significant influence on ADMARC operations. The findings of the Poverty and Social Impact Analysis (PSIA) of ADMARC facilities on household welfare confirmed in 2003 that maintaining ADMARC in its current form was wasteful. In line with the findings of the PSIA, under FIMAG, ADMARC will be restructured into two firms, one with solely commercial functions for privatization and another with responsibility for maize marketing in remote areas—essentially social function. This condition has not been met, delaying the second tranche release of FIMAG.

3.24 In addition to the question of government commitment, the Bank and government program did not take sufficient account of the underlying problem of limited foreign investor interest in Malawi's public enterprises, while the financial capacity of the local population to invest in public enterprises is limited. The government still faces the challenge of imposing a hard budget constraint, and restricting borrowing for public enterprises not scheduled for privatization, a subject on which little progress had been made prior to FY05.

Better Governance

3.25 **The Bank's Strategy**. Through the FRDPs and associated TA operations, the Bank focused on building institutions to strengthen the civil service and support to anti-corruption initiatives. The Bank also provided an IDF grant to the Anti-Corruption Bureau (ACB) that funded workshops, staff training, and consultants to carry out a national survey on the extent of corruption. FIMTAP was designed to provide support for a wide range of institutions involved both in overseeing fiscal management and in establishing accountability in the use of public funds.

3.26 **Outcome**. Despite these efforts, public sector governance is still weak and corruption is widespread. One important reason for poor results in public sector management has been the failure of the government, until recently, to implement civil service reforms to deal with low pay, lack of skills, inadequate training, and poor enforcement of standards of performance. A functional review of ministries was carried out in 1997/98, but no action was taken at that time to follow up the study's recommendations. Inadequate pay has been one of the most serious problems affecting performance of the civil service. While salaries of the 500 top civil servants were increased substantially in 2000 and the top ranks were given additional incentives through performance contracts, the remainder of the civil servants had not had a salary adjustment for five years until late 2004, and the median civil service salary was $45 per month, among the lowest in Africa. A medium-term pay policy study was finally completed under the FRDP III, leading to significant reforms in 2004—monetization of most of allowances, a reduction in the number of pay grades, and a 26 percent general salary increase.

3.27 There has been concern over governance issues in Malawi, in particular the perception that corruption has been increasing. In the World Bank Institute's comprehensive indicators of governance (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption), Malawi fares poorly.[7] Malawi's performance has deteriorated over the past six years in all but political stability and rule of law. In the 2004 rankings Malawi ranked between the 22nd and 36th percentile on all of the above indicators except rule of law (45th percentile), and the percentile rankings had fallen between 1998 and 2004 for all indicators except rule of law. The measure for control of corruption showed a marked deterioration in the period 2000-2002. Furthermore, when Malawi is compared with a group of similar East African countries (Kenya, Tanzania, and Zambia), Malawi ranks lowest in regulatory quality and voice and accountability, next to lowest in government effectiveness, and above only Kenya in control of corruption.[8]

Table 4. Malawi - Governance Indicators

Governance Indicator	*1996*	*1998*	*2000*	*2002*	*2004*
Voice and Accountability	36.6	47.1	41.4	29.8	33.0
Political Stability	49.4	51.5	52.7	48.6	35.9
Government Effectiveness	21.2	27.3	28.0	27.4	22.1
Regulatory Quality	30.4	46.2	42.2	40.3	27.6
Rule of Law	48.2	35.7	41.2	40.3	45.4
Control of Corruption	10.7	39.3	50.5	22.4	23.6

Source: World Bank, Governance Matters IV: Governance Indicators for 1996-2004.

3.28 In recent years, some progress has been made in public sector management and in governance reforms. In April 2004, the number of ministries was reduced from 30 to 19, but this number has again risen to 24, with the addition of several more deputy minister positions in August 2005. The Mutharika government has declared its intention to reverse the record of the past and to demand higher standards of accountability, but a lack of accountability has permeated the public sector for over a decade, and whether the trend can be reversed is still uncertain. The legal/judicial system is weak and prior to the 2004 elections there were few indictments or convictions stemming from cases investigated by the ACB. A major reason cited for this failing was dependence on the agreement of the highly politicized office of the Director of Public Prosecutions (DPP) before proceeding with a case. Amendments to the Corrupt Practices Act, to deal with this issue by providing the ACB the authority to handle its own prosecutions, as well as other needed strengthening, have now been enacted. The Government also reports that it is implementing a "zero-tolerance" policy on corruption through the ACB (see Attachment 1).

3.29 **Assessing the Bank's Contribution**. The achievements in improving governance in Malawi have been limited and substantial problems have remained. Within the context of adjustment loans a lot of diagnostic work has been undertaken, but its impact on governance has been modest. In some cases, the Bank granted a waiver for a tranche release when action plans had not been implemented as what happened under the FRDP I for the Civil Service Reform Action Plan. Key issues such as incentives for civil service reform were not well understood. Officials told the IEG mission that performance contracts—now provided to about 500 civil servants—have led to a large increase in wage payments but there was no improvement in performance because the contracts were introduced without predetermined performance criteria and monitoring mechanisms. The Bank's technical assistance projects helped to establish and strengthen several offices that were expected to transform and improve public administration, but with mixed results. Despite the support the new government has provided, the ACB and the Office of Auditor General remain understaffed and under-funded, and the Directorate of Public Procurement is at a very early stage of development. The outcome of the Bank strategy is rated unsatisfactory.

Table 5. Objective 1: Summary Outcome Rating

Objectives	*Outcome*
Macroeconomic stability and public sector reform	Unsatisfactory
Improved public financial management	Unsatisfactory
Improved parastatal effectiveness	Moderately unsatisfactory
Better governance	Unsatisfactory

3.30 **Summary**. Progress toward the Bank's objective has been uneven. Despite improved public revenue performance, fiscal deficits have increased over the period through FY04. Fiscal discipline could not be established. Malawi has made significant progress in privatization in comparison with many other Sub-Saharan African countries, although, privatization of major enterprises, such as the public utilities, remains a challenge and limited progress has been made in restructuring ADMARC. Governance remains poor, as civil service reform has not progressed, and corruption remains a serious problem (Table 5).

NOTES

1. This sequencing problem was acknowledged in the FIMTAP Program Document, where it is argued that MTEF cannot be implemented without a working within-year budget process.

2. "Donor conditionalities and capacity building have strengthened formal institutions but decisions are determined by informal practice that undermines the formal institutions." DfID, The Budget as Theatre, p. 5.

3. The Fund's tranche release also induced a number of bilateral donors to release budget support which had been suspended for 18-24 months.

4. The Bank has attempted through TA to build capacity in this unit, but it has only three staff at the present time.

5. The sale was finally completed in January 2006

6. In the restructured project, $4 million of the IDA credit is being reallocated to finance the retrenchment of ADMARC staff.

7. See Kaufmann, D., A. Kraay and M. Mastruzzi, Governance Matters IV: Governance Indicators for 1996-2004, World Bank, 2005.

8. See also, African Development Bank, Malawi: Country Governance Profile Report, May 17, 2004, and NEPAD, Malawi and the African Peer Review Mechanism, August 23, 2004.

4. Broad-Based, Labor-Intensive Growth

4.1 The Bank strategy, articulated in all three CASs, aimed at broad-based, labor-intensive growth (the second major program objective) for sustained poverty reduction. The growth was to be achieved by creating a stable macroeconomic environment (discussed above), improving the regulatory and incentive framework for private sector investment, and increasing productivity in both smallholder and estate-based agriculture. The analytical base for the Bank's assistance strategy, growth projections, and structural and economic management reforms needed to support private sector-led growth were set out primarily in the two CEMs produced in the late 1990s and in 2004.

4.2 Bank interventions directly linked to these intermediate objectives included four adjustment loans (three FRDPs and FIMAG) and five related TA loans (PURP, regional trade, railways, roads, and land development projects). The Bank also completed a number of economic and sector studies focused on the financial, transportation, and agriculture sectors. The financial sector report was overly descriptive and insufficient in the depth of its analysis. Studies on the impact of agricultural liberalization and rural development strategy were not undertaken until FY04, despite heavy reliance on the sector by the economy and the poor.

Private Sector Development

4.3 **The Bank's Strategy.** The Bank's assistance strategy aimed to prepare the foundation for broad-based, labor-intensive growth by addressing the main constraints to private sector development. The strategy aimed to improve the business climate, reform tax and trade regimes, and enhance competition in the financial sector. It also aimed to reduce transportation costs through investment in rehabilitating and maintaining transportation infrastructure.

4.4 All three FRDP projects included measures to promote private sector development, including TA support to the Malawi Investment Promotion Agency (MIPA), liberalization of investment regulations, easing of business licensing requirements, reducing constraints on temporary employment permits for expatriate workers, and facilitating access to industrial land.[1] The FRDPs also supported tax and tariff reforms, financial sector development, and commercial bank privatization.

4.5 There were two loans to the transportation sector. The Malawi Railways Restructuring Project aimed to revitalize the Nacala rail route, restructure, commercialize, and eventually privatize the Malawi Railways and Malawi Lake Services. The Roads Maintenance and Rehabilitation Project was designed to establish a National Roads Authority and bring sustainable improvements in the quality of Malawi's road infrastructure. The Regional Trade Facilitation Project provides access to financial and political risk insurance.

4.6 **Outcome**. Malawi's private sector is still small, and output has been stagnating because of low capacity utilization and declining investment. Private investment, already low, has declined steadily, from 5 percent of GDP in 1995 to an average of only 1.6 percent of GDP in 2000-04, and foreign direct investment (FDI) has been negligible as a share of GDP.[2] Monopolies and oligopolies continue to dominate many economic activities, including banking, petroleum retailing, tobacco auctioning, and transportation.

4.7 The government has introduced some improvements in the regulatory environment, established the Malawi Investment Promotion Agency as a one-stop investment center, partially streamlined investment procedures, resolved the problem of temporary employment permits for expatriate workers—considered a major constraint for the modern private sector—and made progress in providing government-owned land for industrial development.

4.8 The trade regime has become progressively more open as a result of policy reforms carried out since 1990. The average tariff has been reduced to 14 percent and the maximum tariff to 30 percent. There are no quantitative restrictions on imports and all taxes on exports were eliminated in 1998. Malawi maintains a floating exchange rate (essentially a managed peg) and participates in a number of regional trade agreements. However, despite trade liberalization, the lack of supporting business climate has implied that export growth remained slow and exports are still heavily dependent on a few agricultural products, primarily tobacco. This has also prevented Malawi from taking advantage of the United States trade liberalization, the African Growth Opportunity Act (AGOA).

4.9 The financial sector is often cited among the main constraints to private sector development. At the beginning of the review period, state-owned banks controlled 100 percent of the banking sector assets. However, in recent years significant privatization has taken place through the sale of government ownership in the largest banks and the entry of new private banks. By 2005 over 97 percent of the sector's assets were in majority privately-owned banks. Nevertheless, the government still wields strong influence through its remaining minority shareholdings and the holdings of Press Corporation. The sector is characterized by a lack of competition, high transaction costs and high real interest rates, a major proportion of assets held in the form of government debt, and reluctance to lend to the private sector. Efficiency has not improved following liberalization—spreads between deposit and lending rates have not declined.[3] Bank credit to the private sector was equivalent to 7.7 percent of GDP in 2003 and 37 percent of total credit, and lending to agriculture is negligible. The conclusion of the 2000 CAE is still valid: "World Bank support to the financial sector has yielded disappointing results."

Table 6. Malawi - Doing Business (2005)

	Malawi	*SSA*	*Kenya*	*Zambia*	*Tanzania*
Starting a Business					
Number of procedures	10	11	13	6	13
Time (days)	35	63	54	35	35
Cost (% of income per capita)	140	215	48	18	161
Labor Market					
Difficulty of Hiring Index	22	48	33	0	67
Difficulty of Firing Index	20	48	30	10	60
Registering Property					
Number of procedures	6	6	8	6	12
Time (days)	118	117	73	70	61
Dealing with Licenses					
Number of procedures	23	20	11	16	26
Enforcing Contracts					
Time (days)	277	434	360	274	242
Cost (% of debt)	137	42	41	29	35
Closing a Business					
Cost (% of estate)	8	21	22	9	22

Source: Doing Business, World Bank, as of October 18, 2005.

4.10 Measures were introduced to improve competition and efficiency in the transport sector—concessioning of the railway and liberalization of freight rates, but these have yet to have a significant impact. International comparisons indicate that the costs in time and money of starting a business, hiring workers, registering property, obtaining licenses, and enforcing contracts are generally in line with or better than those of comparator countries and of Sub-Saharan Africa in general (see Table 6). However, while on paper the regulatory regime may not be out of line with other countries, the underlying attitude of the government toward the private sector appears to be of distrust and desire for control. Therefore, a mutual distrust between the government and private sector, together with an unfavorable macro-economic environment, has prevented the development of the private sector.

4.11 **Assessing the Bank Contribution**. The Bank deserves credit for its contribution to the program of trade and domestic market liberalization carried out by the Malawi government. Although these reforms were introduced prior to this CAE period, support continued through the FRDPs and the reforms have been sustained. Unfortunately, there has been little private sector response to these reforms. Bank efforts to improve infrastructure, competition and efficiency in the transport sector have had limited impact. The sector still suffers from overregulation, lack of competition, and high taxation. A study of the regulatory framework for business environment was completed under the FRDP II, but the new framework was not implemented, necessitating a partial waiver of conditions for second tranche release of the credit. More attention should have been given by the Bank to regulatory reforms and their implementation, and to strengthening government agencies whose function is to support private sector development. Furthermore, the failure of the program to establish macroeconomic stability has diverted financial resources away from the private sector. Finally, while limited analytical work exclusively focused on private sector development has been carried out by the Bank in recent years, the Integrated Trade Study and the CEMs present useful analysis of the main constraints faced by the private sector.

Agriculture and Rural Development

4.12 **The Bank's Strategy.** Agriculture is the most important sector of the Malawian economy, contributing about 36 percent of value-added to GDP, 90 percent of foreign exchange earnings in 2003, and employing the vast majority of the workforce. Though maize continues to be the dominant staple food crop in Malawi, and is grown by virtually all smallholders, it is increasingly being supplemented by root crops, such as cassava and sweet potatoes, and cereals, such as rice. Among agricultural trade crops, tobacco is Malawi's largest export, accounting for 50-70 percent of export earnings, followed by tea and sugar.

4.13 The Bank strategy in agriculture was to promote smallholder development and increase employment in rural areas through increases in agriculture production and more efficient marketing. This was to be accomplished through improved agricultural productivity at the farm level via technology transfer and increased use of modern inputs, particularly for staple foods, expanded crop diversification, development of the marketing chain in order to both promote the commercialization of agriculture and enhance domestic value added, the development of water control infrastructure and rural roads, and strengthening of agriculture support services.

4.14 The Bank strategy had important objectives in the sector that were central to improving the livelihoods of Malawi's rural poor, but during the CAE period the Bank moved away from direct investments in the sector,[4] therefore, Bank assistance to agriculture has been, at best, indirect. Multisector adjustment operations (FRDPs and FIMAG) were the instruments used to increase and further diversify agricultural production, deepen price and trade liberalization in the maize and tobacco sectors, and boost rural incomes. There was only one investment grant, Community-Based Rural Land Development Project (FY04), to the agriculture sector during the entire review period. In-depth analytical studies started only in 2003.[5]

Table 7. Malawi: Annual Production of Main Crops (000 mt)

	94/95	*95/96*	*96/97*	*97/98*	*98/99*	*99/00*	*00/01*	*01/02*	*02/03*	*03/04*
Maize	1,661	1,793	1,226	1,772	2,479	2,501	1,713	1,557	1,983	1,733
Tobacco (sales)	130	142	158	134	134	160	125	138	117	180
Sugar	190	186	175	190	170	200	190	190	210	267
Coffee	5.5	4.8	4.6	3.8	3.5	3.8	4.3	3.6	3.9	3.9
Tea	35.1	34.2	37.2	44.1	40.4	48.2	44.7	36.8	39.2	37.6

Source: FAOSTAT.

4.15 **Outcome**. Agricultural growth over the review period has been low and variable, and has not kept pace with population growth (see Table 7). Productivity in major crops has declined. Output diversification has been limited, despite attempts to broaden cultivars being made available to farmers through the subsidized input programs. Over an extended period, Malawi's tobacco farmers have been experiencing a decline in productivity. This decline has been accompanied by a decline in prices at the auction floors, which determine the return to farmers. The decline in prices follows the general trend in world prices, compounded by a decline in the quality of the burley crop. Bank efforts to introduce contract farming in burley production and sales have not been successful yet. Government has also not fulfilled its commitment under FIMAG to reduce the current excessive array of fees and charges deducted from sales revenues on the auction floor.[6]

4.16 The government re-introduced subsidized farm inputs programs in 1998 in order to address a sharp decline in the use of chemical fertilizers, particularly by smallholders. Outcomes were mixed. The universal starter pack (USP) likely made progress toward its productivity objectives, as maize production peaked in 1998 and 1999, as did farm yields, but this necessitated budgetary outlays of $25 million and more in both years. When the targeted inputs program (TIP) was introduced in 2000, however, most of maize seeds offered to the very poor farmers were open-pollinated varieties and less resistant to pests and drought, and the TIP failed to achieve its objectives.[7] This disappointing performance is reflected in the progression of maize and tobacco yields. Not only did yields largely decline over the review period, but they also remain low by international standards (see Table 8).

Table 8. Comparative Maize Yields (mt/ha)

	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Malawi	1.4	1.4	1.0	1.4	1.8	1.7	1.1	1.0	1.3	1.1
Kenya	1.9	1.5	1.5	1.7	1.5	1.4	1.7	1.5	1.6	1.3
Mozambique	0.7	0.9	0.9	0.9	1.1	0.9	0.8	1.0	1.0	1.0
Tanzania	1.6	1.6	1.2	1.3	1.4	1.5	1.7	1.7	1.6	1.8
Zambia	1.4	2.1	1.5	1.3	1.4	1.5	1.5	1.4	1.5	1.5
China	4.9	5.2	4.4	5.3	4.9	4.6	4.7	4.9	4.8	5.2
Mexico	2.3	2.2	2.4	2.3	2.5	2.5	2.6	2.7	2.5	2.5

Source: FAOSTAT.

4.17 **Assessing the Bank's Contribution**. The Bank program did not achieve its objectives in agriculture. This can be attributed to several factors. First, the Bank's agriculture sector project implementation record has not been good. There have been six completed projects since FY96, only one of which has had a satisfactory outcome rating. Second, the Bank moved away from direct investments in the sector, addressing agricultural and rural economy issues primarily through multisector adjustment loans. This approach diluted the significance and impact of Bank interventions. Third, the Bank did very little policy analysis until 2003. Fourth, attempts to improve the quality of burley tobacco and strengthen farm-to-market links have not been successful. Finally, progress in developing Malawi's rural financial markets has been insubstantial. Thus, with respect to the subobjective for improved agricultural productivity and more efficient marketing, the outcome is *unsatisfactory*.

Table 9. Objective 2: Summary Outcome Rating

Objectives	*Outcome*
Broad-based, labor-intensive growth	Unsatisfactory
Improving environment for PSD	Moderately unsatisfactory
Improved agriculture productivity	Unsatisfactory

4.18 **Summary.** Real GDP growth was low during most of the review period. As a result, there has been no improvement in widespread poverty (see Chapter 6 for more comprehensive evaluation).

The past decade has been one of decline for the private sector in Malawi with low investment, low output and capacity utilization, and the closing of numerous enterprises. Agricultural growth has been low and variable, and productivity has declined due to weak and unreliable delivery of agricultural services, changing input policies and deterioration in the quality of land, as well as adverse weather conditions. Based on all these results, the outcome of Bank assistance in *support of broad-based, labor-intensive growth is rated* unsatisfactory (see Table 9).

NOTES

1. Also, a Private Sector Development Project was proposed for FY98 to provide business support services and export promotion for micro, small, and medium enterprises, but the project was dropped.

2. FDI fell from 2.1 percent of GDP in 1994 to 0.3 percent in 2002. Another manifestation of the poor environment for PSD and FDI is the fact that IFC has made no new investment in Malawi since FY2001.

3. See Chirwa and Mlachila, "Financial Reforms and Interest Rate Spreads in Commercial Banking System in Malawi" IMF Staff Paper 51(1).

4. Many earlier Bank projects in agriculture had unsuccessful outcomes. This was a main factor for scaling down Bank direct lending to the agriculture sector.

5. The Bank's Regional Management notes that this project has helped progress in reforming land administration governing estate lands, which offers the potential to address issues of land deprivation and landlessness in southern Malawi.

6. The Bank's Regional Management notes that many of the levies were reduced in FY06.

7. The Bank's Regional Management notes that "the failure of the TIP was because the beneficiary selection criteria (elderly, widows, orphans, etc.) were not good proxy indicators of poverty and targeted beneficiaries were not the most productive to impact on food security. Because the TIP was not well-targeted—to a population not necessarily the most active and productive—this may have been the reason why national maize production went down in the year after it was adopted—not necessarily the use of open pollinated varieties."

5. Improving Service Delivery and Expanding the Safety Net

5.1 The third major objective of Bank assistance was to help improve service delivery in education and health, nutrition and food security, and other social safety nets. In both education and health, the Bank strategy was to support simultaneous increases in access and quality, with the help of higher budgetary allocations pursued through adjustment loans. In health, addressing Malawi's raging AIDS epidemic became a high priority by the late 1990s. The Bank contributed to a sectorwide program, tackling all aspects of HIV/AIDS. Recently it has financed part of another sectorwide program for health in general. Three projects with the Malawi Social Action Fund (MASAF) have provided sizeable lending to community-based programs for the construction of social and economic infrastructure in rural areas and for urban and rural public works programs. The Bank provided policy and institutional recommendations on food security through adjustment loans and extended an emergency drought relief lending when production failed.

5.2 In the early part of the review period there was limited analytical work in the social sectors. The new analytical and advisory assistance (AAA) products in and around 2004, notably a high–quality education country status report and a useful health sector work, had good linkage with the lending program, especially the FY05 education and health support operations.

Education

5.3 **The Bank's Strategy**. Malawi introduced free primary education in 1994. A million additional children flooded primary schools, for a 50 percent increase in total enrollments in one year. Class sizes became much larger, and Malawi suddenly needed 38,000 additional classrooms to achieve its desired ratio of 60 pupils per classroom, training of thousands of unqualified teachers, and provision of instructional materials. The Bank's education sector strategy during the review period was to increase both access and quality simultaneously, at both primary and secondary levels. It promoted higher budgetary allocations for primary education through adjustment loans. There were three investment loans. The first two were designed to support both construction and quality—improving inputs of teacher training and teaching and learning materials for primary and secondary education, while the most recent project focuses more directly on quality.

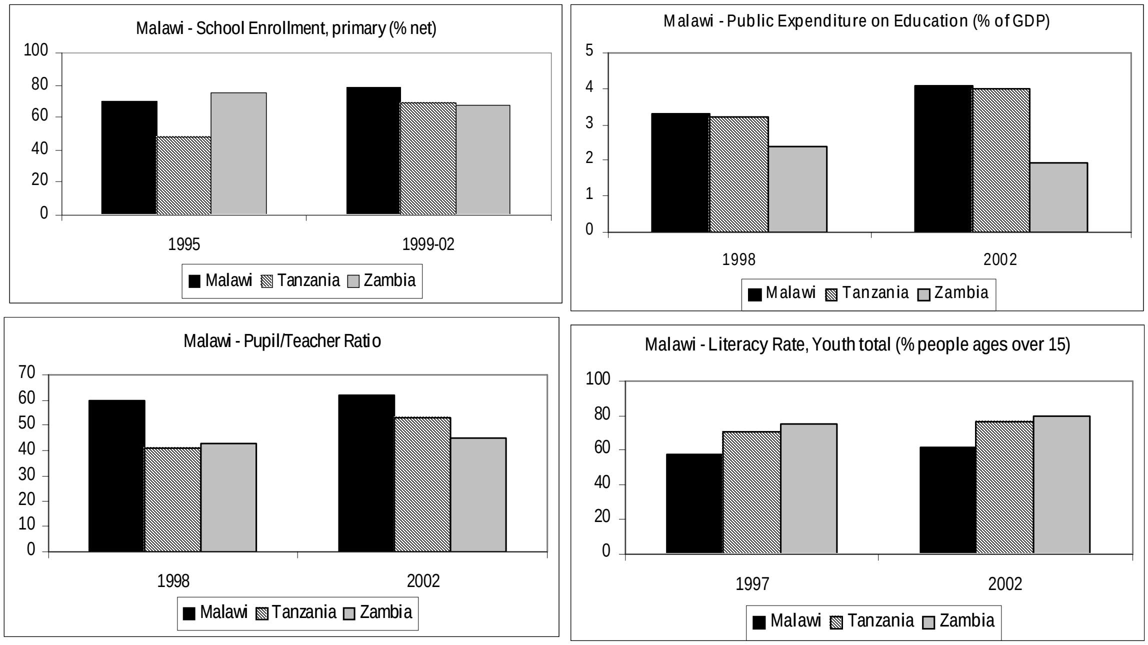
5.4 The 2001 PER demonstrated that government primary expenditure was pro-poor, but secondary and tertiary expenditures mostly benefited the rich. It recommended increased cost recovery at secondary and tertiary levels. In 2004 the Bank produced a timely and high-quality education country status report, entitled "Cost, Financing and School Effectiveness in Malawi." The report influenced the design of the next operation in FY05, Education Sector Support Project.

5.5 **Outcomes**. Education expenditures increased modestly from 4 percent of GDP in the first half of the review period to 5 percent of GDP in the second half. The share of public expenditures on primary education also increased. On access, the achievements in primary education have been inadequate. Primary enrollments have increased only 10 percent since 1995/96, well below the growth in the age group, so the net primary enrollment ratio, now about 80 percent, is falling. Secondary enrollments grew sharply through 2000, to a gross enrollment ratio of 30 percent, but may have fallen since. The net enrollment ratio was very much lower, at only about 9 percent, as so many secondary pupils were over-age. The gender balance in secondary education has improved, with the female share of enrollments having risen from 35 percent in 1992/93 to 43 percent in 2004.

5.6 The quality of education at both primary and secondary levels remains poor. In primary, the average number of pupils per teacher is still a very high 72. The proportion of qualified teachers has, however, risen to reach 88 percent. In 2004 the average number of pupils per classroom was 107. While repetition and dropout rates remain high, retention is improving. By 2003, pupils spent 3.6 years in school before dropping out, compared to 2.6 years in 1999. The biggest improvement has been in the supply of textbooks, now 1.5 students per book instead of 24 in 1997. Examination pass rates have improved during the review period, especially for girls. A government crackdown on cheating at both levels, forcing pupils to study harder, has contributed to the improved results.

5.7 Malawi's primary school net enrollment ratio after the decision for free primary education in 1994 surpassed those of neighboring countries, and it stayed higher throughout the review period even though Malawi lost a lot of ground (see para. 5. 3). This high enrollment ratio also partially explains Malawi's higher pupil-teacher ratio. Malawi's increase in public expenditure compares well with its neighbors. Partly as an outcome of increased primary enrollments, literacy levels in Malawi increased slowly, in line with its neighbors (see Figure 3).

Figure 3. Malawi: Comparative Education Sector Performance



Source: WB Regional Database, Africa as of August 2005.

5.8 **Assessing the Bank's Contribution**. The Bank has contributed somewhat (about 4,500 classrooms) to increased access to primary education using two instruments, the Primary Education Project and MASAF, but should have left construction to MASAF earlier. It has made a more significant contribution to access secondary education, including a better gender balance. It did contribute to quality improvement at the primary level but more so at the secondary level, through training of teachers and others and provision of teaching and learning materials. However, the Bank's main focus should have been even more on increasing student achievement, especially through quality improvement, rather than on school construction. The recent Education Sector Support Project represents a desirable change in strategy in that it focuses on quality improvement. For most of the review period there was little analytical work in the education sector. The high-quality education country status report in 2004 had good linkage with the lending program.

Health

5.9 **The Bank's Strategy**. Health status indicators in Malawi have long been among the worst in Africa, indeed in the world. In confronting its health problems, Malawi had only limited resources. Only half of the rural population lived at a reasonable distance from a health center. In the mid-1990s, Malawi started to experience a human resource crisis, as health workers left both government and NGO health facilities in large numbers largely because of inadequate salaries, but also because of deaths from AIDS. Drugs were short almost everywhere; the Central Medical Stores was performing poorly and not transparently.

5.10 The Bank's strategy in the health sector before the review period was to address Malawi's health needs across the board while also promoting family planning. An ongoing Population, Health and Nutrition Sector Credit and Population and Family Planning Project were the key instruments. The Bank promoted higher budgetary allocation for the health sector through adjustment loans. However, addressing Malawi's raging AIDS epidemic became high priority by the late 1990s. In response, the Bank projected the macroeconomic implications of the epidemic through two CEMs. It attempted to address HIV/AIDS policy and institutional issues through adjustment lending, and program issues through a Multisectoral AIDS Project in support of a sectorwide program tackling all aspects of HIV/AIDS. More recently it has financed part of another sectorwide program, supported by multiple donors through the Health Sector Support Project. In these programs IDA contributes to pooled funding.

Table 10. Malawi - Health Indicators

	1992	*2000*	*2004*
Health			
Infant mortality rate/1,000	130	104	76
<5 mortality rate/1,000	234	189	133
Maternal mortality rate/100,000	620	1,120	970
Nutrition			
% <5 moderately/severely stunted	49	49	48
Population			
Total fertility rate	6.7	6.3	6.0
Contraceptive prevalence rate %	7	26	28

Source: CAS 1998, IMF, International Financial Statistics (IFS), Demographic and Health Survey (DHS), government and WB staff estimates.

5.11 **Outcome.** Progress in improving Malawi's very poor health indicators has been mixed. Infant and under-five mortality rates speeded up their secular downward trend, putting Malawi on track to realize its related millennium development goals (MDGs). The total fertility rate has also continued its slow downward trend, probably linked to a significant increase in the contraceptive prevalence rate. Public expenditures on health have risen substantially, from about 2 percent of GDP in 1997 to almost 5 percent in the last two years. However, under-five malnutrition remains extremely high and has barely changed since 1992. The maternal mortality rate also remains high, although it has fallen slightly in recent years. Finally, life expectancy in Malawi is estimated to have declined from 43 years in 1996 to 36 years now, largely under the impact of the AIDS epidemic (see Table 10).

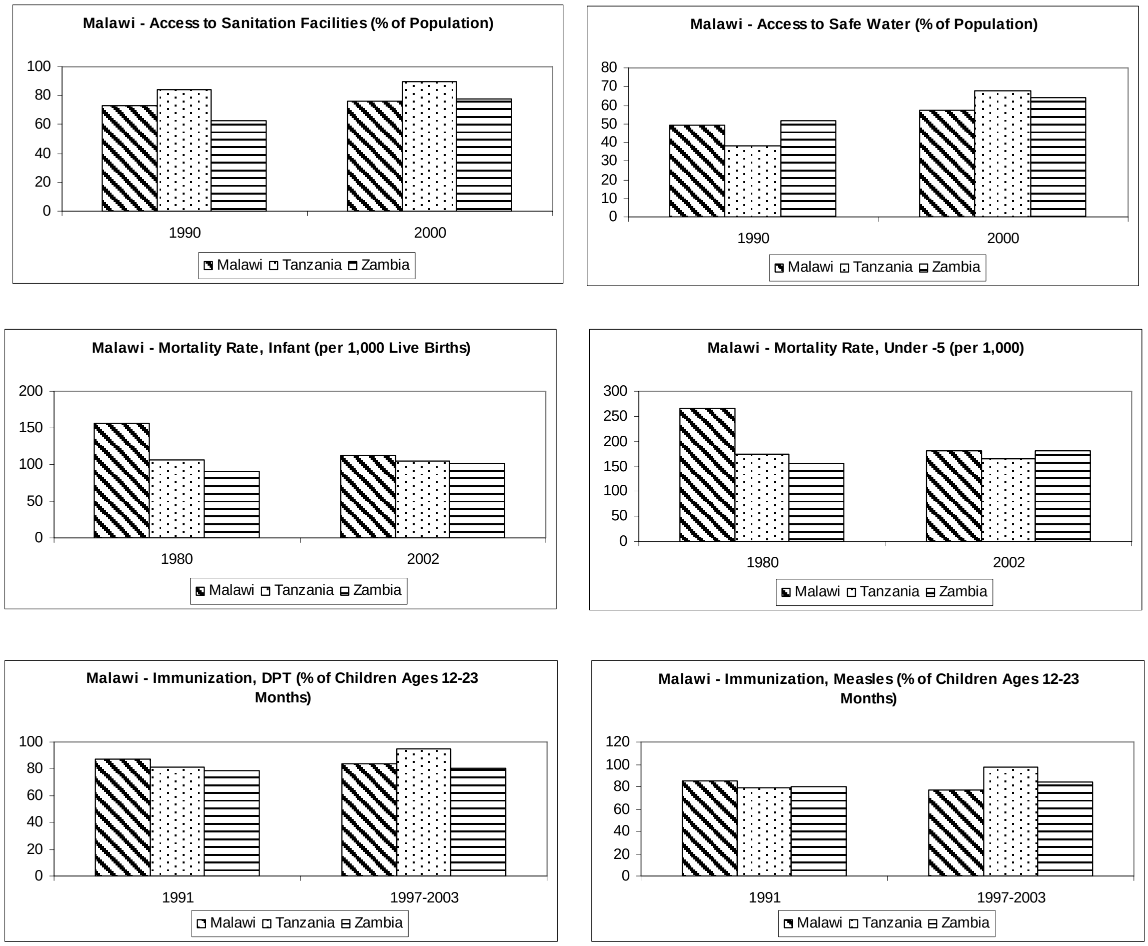
5.12 As for health services, the picture is mixed. The proportion of children 12-23 months fully immunized fell from 82 percent in 1992 to 70 percent in 2000 and to 64 percent in 2004; nevertheless, measles and neonatal tetanus have been virtually eliminated. Maternal health services continued as before: about 90 percent of pregnant women continued to receive antenatal care, and about 55 percent of deliveries continued to take place in health facilities. However, pregnant women at high risk of complications used health facilities less frequently, partly because very few facilities can handle obstetric emergencies. Tuberculosis (TB) cure rates were sustained at 70 percent. Overall, Malawi struggled to meet its health challenges after losing a large proportion of its health personnel to emigration and HIV/AIDS. International comparisons (see Figure 4) show that during the review period Malawi has reduced its infant and child mortality to the levels in neighboring countries, but the trends in its immunization performance are worrisome.

5.13 **Assessing the Bank Contribution**. The Bank made a number of contributions during the review period through investment lending, especially at the community level, to the factors associated closely with the observed improvements in mortality and fertility. It demonstrated the potential of community-level family planning workers. The Bank's adjustment lending and PER were important in increasing public expenditures on health. These have contributed to positive development in most of the health indicators. In HIV/AIDS, the Bank was instrumental in the scaling up of the program, in the establishment of the institutional framework and key implementation arrangements, and in capacity building and government funding for the National AIDS Commission (NAC) (see Box 4). In *health*, although the Bank came late to the sector discussions, the 2005 country status report was very useful for the subsequent sectorwide operation. It pointed out the ground to be covered for Malawi to reach the MDGs, some constraints, the uneven progress of different health services, and the need to double or triple 2001 expenditures to fund the government's plans; and analyzed imaginative responses to the human resources crisis.

Safety Nets and Social Infrastructure

5.14 **The Bank's Strategy.** The poverty profile and diagnostic studies in Malawi highlighted the diversity among the poor. Many people lack the assets (land, finance, skills) to take full advantage of economic growth. Moreover, the analysis of growth performance in the mid-1990s clearly demonstrated that there would be substantial numbers of poor in Malawi for the foreseeable future, regardless of the growth rates and patterns of growth achieved. Therefore, the Bank strategy was to help support a safety net to protect or raise the standard of living of these poor households.

Figure 4. Malawi – Comparative Health Sector Performance



Source: UNDP, WDI and ADI.

5.15 The Bank promoted the development of a well-articulated and fiscally sustainable *safety net* strategy through ESW and tried to bring about its implementation through adjustment loans (FRDPs and FIMAG). Furthermore, three *social infrastructure* projects with the Malawi Social Action Fund (MASAF) provided sizeable lending to community-based programs for the construction of social and economic infrastructure in rural areas and for urban and rural public works programs.

Box 4. HIV/AIDS

At the start of the review period, Malawi was experiencing one of the more severe epidemics in Sub-Saharan Africa. By 1997, HIV prevalence among pregnant women at sentinel antenatal clinics was already 21 percent. Deaths were rising sharply and cases of TB had multiplied several fold. Adult prevalence reached 16 percent in 2001. There is a pattern of older men, and younger women whom they infect, being the peak age groups for infection. Annual AIDS mortality in Malawi (all ages and causes) is now about 85,000. Already there are about 400,000 AIDS orphans. Life expectancy has deteriorated to only an estimated 36 years in 2003, a return to the situation 50 years earlier. The epidemic is having a major impact on the most productive age groups, including teachers and health workers.

Malawi's HIV/AIDS epidemic may have stabilized during the review period. New cases detected are stable or slightly declining at about 110,000 per annum now. Adult prevalence declined to 11-12 percent in 2004. A slight decline in Lilongwe and in the Central Region is now occurring countrywide. However, this decline should be interpreted cautiously.[1]

The question now is how efforts can be pressed further. A comprehensive prevention, treatment, and mitigation strategy has been launched with broad donor support through a SWAp program, including the Bank's Multi-sector AIDS Project. Awareness of AIDS is almost universal, although there are still misconceptions. The behavior of some groups at high risk is improving. The age of first sex has continued to rise slowly. The proportion of men reporting sex outside their usual cohabiting relationship has declined from 33 percent to 26 percent, and their use of condoms has increased from 39 percent to 47 percent over the past four years. Condom sales in general are up greatly too, but the extent of correct and consistent use is unknown. The use of related services has risen rapidly since 2002, though it is still low. Some 110,000 sexually active people underwent voluntary counseling and testing, and some 27,000 pregnant women received services aimed at preventing mother-to-child transmission. About half of large employers, a higher proportion of ministries, and some districts are implementing HIV/AIDS programs. The National AIDS Commission is functioning well. By mid-2005, 23,500 persons were receiving anti-retroviral drugs. One issue for the future is that male behavior has improved more than female, suggesting that a stronger gender focus of the program is necessary in the next phase.

1. "The HIV prevalence rate can rise or fall, depending on whether more people become infected than die over a given period. When HIV prevalence "stabilizes" it means that new infections and deaths are in balance: both could be high or both could be low. HIV prevalence declines when deaths exceed new infections. Thus, neither "maintaining stable HIV prevalence" nor "reducing HIV prevalence" indicate success in prevention programs, since they reveal nothing about the number of new infections." *Committing to Results: Improving Effectiveness of HIV/AIDS Assistance.* IEG. 2005.

Source: IEG mission findings, 2005.

5.16 **Outcome.** Malawi has introduced a number of safety net programs with objectives of productivity enhancement and welfare transfers. Their cost has more than doubled over the review period, to 5 percent of GDP. The productivity enhancement programs have not been effective. The largest program, for agricultural inputs, reached as many as 2.7 million farm families, as it oscillated between universal and targeted forms. However, neither production nor productivity increased (see para. 4.15 and 4.16). Also, the fiscal burden is unsustainable. Public works programs have constructed economic and social infrastructure, which has contributed to economic growth. However, there have been and remain problems of poor location, poor construction, and inadequate maintenance of these works. As for recipients, the income has helped them through the lean season or otherwise supplemented family incomes. However, the payments were not high enough for recipients to save and use these programs to exit from poverty. Finally, only a small portion of households (4 percent in 2003) has benefited from these programs. Welfare transfers have taken many forms, the most important of which was emergency food distribution during drought years, followed by support for several major vulnerable groups: orphans, people affected by AIDS, school feeding for educational purposes, and therapeutic feeding for highly malnourished children and for pregnant and lactating women. Unfortunately, the support for vulnerable groups has reached such a small proportion of each group that it has not significantly improved the situation of the whole group (see Table 11).

Table 11. Malawi Safety Nets

Program	*1998/99*		*2004/05*	
	Beneficiaries	*Cost ($m)*	*Beneficiaries*	*Cost ($m)*
Productivity Enhancement	2,490.0	34.0	2,350.0	72.0
Agricultural Inputs	2,400.0	27.0	2,000.0	42.0
Public Works	90.0	7.0	350.0	30.0
Welfare Transfer	240.0	11.5	1,377.0	40.0
Total	2,730.0	45.5	3,727.0	112.0

Source: IEG mission findings, 2005.

5.17 **Social Infrastructure**. The Malawi Social Action Fund (MASAF) has built an efficient system for handling subprojects, as shown in their flexibility to extend its operations to many new types of subprojects. The number of subprojects financed and completed under MASAF I and II together is quite impressive: about 3,800 primary classrooms, over 2,100 boreholes, over 1,100 road and bridge segments, about 100 health facilities, nearly 200 afforestation schemes, and about 400 projects for orphans. Under MASAF III almost 2,000 subprojects have been approved by mid-2005, including about 600 for economic empowerment or vocational skills training. MASAF estimates that 5 million people have benefited from its activities through mid-2005.

5.18 An independent evaluation of MASAF's first five years,[1] and several beneficiary assessments, have found that MASAF has brought substantial infrastructure benefits and some benefits to communities, groups, and individuals; however, there is little evidence of targeting to the poor or vulnerable. Under the third Bank-financed project, MASAF is now being integrated fully with both the priorities and the technical standards of sector ministries, and efforts are being made to decentralize responsibilities and resources to local assemblies and district administrations. While IDA still provides the majority of its funds, MASAF has begun to diversify its sources to include both the government and other donors (see Table 12).

Table 12. Malawi—MASAF Indicators

	MASAF I	*MASAF II*	*MASAF III*	*Total*
Social infrastructure subprojects (by sector – approx.)				
Education	735	739	429	1,903
Water	307	1,643	191	2,141
Bridges	120			120
Health facilities	56	54	32	142
Food security			63	63
Environmental			70	70
Other	13	4	22	39
Total (approx.)	1,392	2,255	1,068	5,300

Source: MASAF Project Documents.

5.19 **Assessing the Bank's Contribution**. The Bank's interventions have advanced Malawi's safety net strategy but have not led to its implementation as agreed. A collaborative AAA effort among government, the Bank, and donors led to the formulation and adoption by the government of a national safety net strategy in 2000. However, policy-based loan conditions and HIPC Completion Point triggers covering key aspects of its implementation have been met only to a limited extent. In social infrastructure, the Bank's massive support for the Malawi Social Action Fund (accounting for 22 percent of its total commitments) has been its most successful experience in the social sectors during the review period (see Box 5).

Food Security

5.20 **The Bank's Strategy**. The severe food crisis currently facing Malawi illustrates the longstanding problems of food security. The Bank has engaged in the food security policy debate since the late 1990s. Through the FRDP adjustment loans, the administered maize price band was first widened, then formally abolished. The National Food Reserve Agency (NFRA) took over national grain reserve management responsibilities from ADMARC. The government amended NFRA's deed to limit its mandate to manage the strategic grain reserve for disaster relief exclusively and constrain the volume of its total maize stocks. Under the ongoing adjustment loan, FIMAG, the Bank has recommended that the government develop a transparent, rules-based food security policy. The Bank extended two emergency loans to respond to the droughts in 2001/02 and 2005/06.

5.21 **Outcome.** On average 2 million tons of maize, or maize equivalent are estimated to be needed to meet the basic nutritional requirements of the population, that is, to maintain a basic food supply of 2,000 plus K/calories per capita per day. This has usually required annual maize imports, or releases from stockpiles, of between 54,000 tons (2001) and an estimated 272,000 tons in 2005/2006 to fill deficits in supply.

Box 5. MASAF

MASAF has extended its activities progressively to a wide range of projects. MASAF I covered community infrastructure and public works. MASAF II introduced support for vulnerable groups. MASAF III promotes community saving and investment and provides extensive technical assistance to district assemblies to prepare them to take over subproject financing gradually. MASAF has built an efficient system for handling large numbers of subprojects. It estimates that as many as 5 million people have benefited from its activities through mid-2005.

MASAF has had the advantage of being headed by the same former senior civil servant from its founding. Independent evaluation and beneficiary assessments have found that MASAF has brought substantial infrastructure benefits and some benefits to communities, groups, and individuals, albeit there has not been special targeting of the poor. However, MASAF has been criticized for its parallel operation, especially in its early years; for the quality of infrastructure construction, especially by communities; and for the maintenance of completed facilities. While IDA still provides the majority of its funds, MASAF has begun to diversify its sources to include both the government and other donors.

MASAF's experience is typical of social funds elsewhere in several respects. Their status as semi-autonomous institutions, and greater continuity of their management, and often better salaries and working conditions than in the civil service, have enabled them to attract competent staff, install professional ways of working and systems, and establish strong relationships with many stakeholders. Nevertheless, they continually experience political pressures, for example, regarding the location of subprojects and the allocation of the credit for their success. They tend to operate as parallel governments, and have to be integrated more into processes of local government decision making, especially as these benefit from countries' policies of decentralization. Finally, they often remain highly dependent on World Bank financing (see *Social Funds Assessing Effectiveness*, IEG, 2002).

Source: IEG mission findings, 2005.

5.22 Apart from maintaining minimum food consumption balances, a key indicator of the degree of food security being achieved has been the comparative stability of staple food prices. Though maize prices were liberalized in steps, the government's interventions in the maize market continued until recently. This created further distortions and volatility in maize prices. An extreme example occurred in 2000/01. The government (ADMARC/NFRA) sold its maize reserves during a period of bumper harvest when prices were already depressed. This left farmers—especially smallholders—with insufficient income to purchase fertilizer and seeds, resulting in sharply lower harvest the following year. Regional studies confirm that **staple food prices in Malawi have been much more volatile** than those of Zambia, Mozambique, or South Africa, even though price intervention and stabilization have been pursued most aggressively in Malawi over the review period (see Box 6).

Box 6. Food Security and Maize Price Stabilization

Policy making throughout Eastern and Southern Africa often has led to price instability, constrained access to markets, and weak coordination between the various stages in the food supply chain. These have been especially acute in Malawi. Since 1970, the governments of Kenya, Malawi, Zambia, and Zimbabwe have aimed to achieve maize self-sufficiency in a fundamentally similar way. The expansion of state buying stations in remote areas under uniform national pricing aimed to encourage smallholder grain production. Heavy volume of Treasury outlays to sustain this policy generated inflation and contributed to sudden devaluations, especially in Zambia and later, in Malawi since the mid-1990s. The degree of maize price stability that has been achieved correlated positively with the extent to which governments have been willing to partner with private sector grain traders, and to rely on mainly private initiative in order to realize national price stabilization and food security objectives.

Nonetheless, the government's interventions would have been more effective and more supportive of market development had government followed well-defined, consistent, and transparent rules. Also, overstating government import intentions has in the past led the private sector to conclude that it had no role to play in importation, which contributed to a situation where prices later rose above import parity levels as they did in Malawi in 2001/02, again in 2004/2005 and once more during the current marketing season, as well as in Zambia in 1999/2000.

Source: IEG mission findings, 2005.

5.23 The management of the country's strategic grain reserve (SGR) for disaster relief was transferred to the newly established National Food Reserve Agency (NFRA) in 1999. However, **the NFRA soon intervened in maize market in much the same manner as ADMARC had, accumulating large loans from commercial banks that were ultimately borne by the Treasury**. In addition, rather than reduce the SGR to 60,000 tons, the NFRA sold virtually the entire stock of maize, planning to replenish the minimum quantity of the SGR when the 2001 harvest came to market. Between August 2000 and January 2001, some 68,000 tons of maize was sold from the SGR without proper authorization of the NFRA management. Under the FRDP II, the government amended NFRA's deed to limit its mandate to manage the strategic grain reserve for disaster relief exclusively and constrain the volume of its total maize stocks.

5.24 The Bank responded to the 2000/2002 food supply shortfall with an Emergency Drought Recovery Credit ($50 million) to prevent the food crisis. This project also provided support for the development of a long-term disaster management system. However, by mid-2005 Malawi was in the grip of another food crisis, resurrecting a universal fertilizer subsidy and committing large budget resources for it and for maize imports, and heavily dependent on another round of exceptional external assistance which was not proving easy to mobilize.

5.25 **Assessing the Bank's Contribution**. The Bank's strategy was unsuccessful in improving food security in Malawi. It did not achieve limiting market interventions by ADMARC or NFRA. Nor did the Bank's recommendation lead the government to develop a transparent, rules-based food security policy.[2] However, its emergency drought recovery loan did mitigate the impact of production shortfalls in times of droughts.

5.26 **Summary.** Progress toward the Bank's third objective has been uneven. It was most significant in the area of safety nets and social infrastructure. MASAF has brought substantial infrastructure benefits and some benefits to communities, groups, and individuals. In health, indicators of child health and fertility have improved, and HIV/AIDS prevalence has declined, but this needs to be interpreted cautiously. However, child malnutrition and maternal mortality have remained very high. In education, primary enrollments have not kept pace with population growth, and quality has not regained pre-1994 levels, but secondary enrollments have expanded greatly and quality has improved. In food security, a better institutional structure has been created for food security, but policy has not been successful in promoting price stability, and there has been no progress in increasing food production. Based on these results, the outcome of Bank assistance in support of the improving service delivery and food security objective is assessed as *moderately unsatisfactory* (see Table 13).

Table 13. Objective 3: Summary Outcome Rating

Objectives	*Outcome*
Improving service delivery and food security	Moderately unsatisfactory
Promote primary and secondary education	Moderately unsatisfactory
Improve the quality of healthcare and reduce HIV/AIDS incidence	Moderately satisfactory
Establish social safety nets and support vulnerable groups	Moderately satisfactory
Provide food security and improve the systems for managing food emergencies	Unsatisfactory

NOTES

1. Bloom, G., et. al. 2005. *Poverty Reduction During Democratic Transition: The Malawi Social Action Fund 1996-2001*. Institute of Development Studies.

2. The Bank's Regional Management notes that the Bank provided TA on food security in early FY06 and Malawi established an option position in maize on South Africa's SAFEX commodity exchange, which the Government expects will lead to more active participation and price hedging in future years. Malawi has also begun to implement an innovative approach to crop insurance, through the mechanism of "weather risk insurance" that is being pioneered by the Bank.

6. Outcomes Against Overall Objectives

6.1 **Macroeconomic performance in Malawi during the past decade did not reach the objectives set out in the CASs.** Growth has averaged 2.8 percent per year (0.7 percent on a per capita basis) since 1996 but has averaged only 1.5 percent per year since 2000, which is below the rate of population growth. Malawi has suffered from macroeconomic instability caused by excessive fiscal deficits leading to high inflation, high nominal and real interest rates, and a substantial decline in the purchasing power of the Malawian currency. While it is certainly the case that some of Malawi's poor growth performance in recent years can be attributed to the impact of the HIV/AIDS pandemic (see Box 7) and recurrent droughts, weak economic management and failure to implement needed policy reforms are also important contributors.

Table 14. Malawi - Key Economic Indicators

	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Real GDP Growth	7.3	3.8	3.3	4.0	1.1	-4.2	1.8	3.9	4.6
Per Capita GDP($)	164	166	168	170	169	157	158	162	160
Gross Domestic Savings/GDP	3.1	-0.7	7.5	-0.2	-2.8	-10.3	-5.7	-5.1	-3.6
Inflation (CPI)	37.6	9.1	29.7	44.8	29.6	27.2	14.8	9.6	13.7
Treasury Bill Rate (%)	30.8	18.3	33.0	42.9	39.5	42.4	41.8	39.3	28.6
Public Expenditures/GDP	22.7	23.8	29.1	29.6	32.8	31.9	39.7	43.3	42.9
Tax Revenue/GDP	15.5	14.8	18.1	17.2	18.4	17.2	20.7	23.5	23.6
Fiscal deficit before grants/GDP	-7.2	-9.0	-11.0	-12.4	-14.4	-14.7	-12.1	-19.8	19.3
Current Account Balance/GDP	-6.1	-10.9	-0.3	-8.7	-4.3	-3.6	-10.6	-7.6	-8.0
Foreign Aid in Current US$m	492	344	435	447	446	404	377	518	477

Source: World Bank and IMF reports.

6.2 **The outcome for employment generation cannot be assessed because there are no adequate employment statistics for Malawi**. Given that the agriculture sector, which employs an estimated 80 percent of the population, has been growing slowly in recent years (an estimated 2.7 percent per annum since 2000), that there is a lack of off-farm employment opportunities in rural areas, that the formal manufacturing sector has been stagnant, and there is no evidence of dynamism in the urban informal economy, it is likely that unemployment and under employment have been increasing.

Box 7. The Economic Impact of HIV/AIDS[1]

Numerous studies have estimated the economic impact of HIV/AIDS in the countries most seriously affected. AIDS affects the economic growth potential of a country primarily by (a) increasing the mortality and morbidity of the working-age population, which reduces the returns from investment in human capital because many workers will not live through a normal working life and will have lower productivity during their working life due to poor health and increased absenteeism; and (b) diverting public and private resources from productive investments into expenditures to cope with AIDS. The full cost of care for AIDS patients could greatly exceed total public and private expenditures on health in a poor country such as Malawi. There is likely to be a decline in both savings and investment rates in the economy. More resources must also be invested in training, especially of teachers and health workers, to replace those lost to AIDS. Another cost is the increased outlay by government for pensions and death benefits.[2] Studies of other countries with an HIV/AIDS problem similar to Malawi's have estimated that the overall impact on GDP growth of the negative influences described above could be as much as 1.5-2.0 percent per annum.

For Malawi the estimated macroeconomic impact of AIDS is analyzed in the 2004 CEM. The prevalence of HIV in the Malawian adult population[3] peaked at 16 percent in the late 1990s and seems to have been reduced now to 12 percent, but this decline should be interpreted cautiously. During the 1990s life expectancy fell from 45 to 37, and the population growth rate declined from 2.6 percent per annum to 2.0 percent, not all of which can be attributed to AIDS. Nevertheless, combining these two rates would lead to the conclusion that Malawi could suffer a reduction in the rate of growth of GDP per capita of 1.0-1.5 percent per annum. This is consistent with the results noted above.

In contrast to these conclusions, a recent World Bank Policy Research Working Paper argues, based on econometric modeling, that the long-run economic impact of AIDS will be much greater.[4] The authors argue that AIDS will severely retard future economic growth, leading to economic collapse in the most seriously affected countries. They attribute this outcome to the effect of AIDS in reducing income potential in families where surviving children will not be able to afford schooling, and the transmission of knowledge across generations will not occur. The poor education of children today translates into low productivity of adults in the future. They also argue that the disease will lead to increased inequality between those with and without AIDS.

1. This deals only with the macroeconomic implications of the HIV/AIDS pandemic in Malawi.
2. In Malawi the cost to government of pensions and death benefits doubled from 0.8 percent of GDP in 1995 to 1.7 percent in 2000.
3. Defined as the 15-49 age group. Nearly 95 percent of those affected by HIV/AIDS are in this age cohort.
4. Bell, Clive, Shantayanan Devarajan, and Hans Gersbach. 2003. "The Long-run Economic Costs of AIDS: Theory and an Application to South Africa," World Bank Policy Research Working Paper No. 3152.

Source: IEG mission findings, 2005.

6.3 With respect to poverty alleviation, only the most recent CAS set a quantitative objective, which was to reduce the poverty headcount from 65.3 percent—the overall poverty headcount derived from the 1997/98 poverty survey—to 59.3 percent by 2005. The Bank intended to support a second household survey and complete a poverty assessment report during FY02, but this work was postponed. A second household survey was finally carried out in 2004/05 with Bank financial and technical support and the results of this survey are currently being analyzed by a joint Bank and Malawi government team. In an effort to ensure comparability of the two surveys, the analytical team has carefully reviewed the results of the 1997/98 household survey and concluded that the incidence of poverty was significantly overstated. Based on this revision, t**he preliminary results show that the incidence of poverty has remained virtually unchanged over the past eight years, declining from 53.9 percent in 1997/98 to 52.4 percent in 2004/05. Malawi's income distribution has also remained highly unequal**.[1] These results—an essentially unchanged incidence of poverty and unchanged income distribution—are consistent with the macroeconomic indicators showing no significant increase in GDP per capita.[2] Malawi's social indicators have remained weak over the review period, with progress highly uneven and with some retrogression (see Table 15).

Table 15. Malawi—Social Indicators

	1996/97	*2004/05*
Per capital income ($)	166	160
Life expectancy (years)	43	36
Poverty incidence (%)	54	52
Child malnutrition (%)	50	48
Infant mortality rate (per 000)	133	76
Child mortality rate (per 000)	225	133
Maternal mortality rate (per 000,000)	1,120	970
Access to safe water (%)	54	67
Primary net enrollment (%)	81	80
Secondary net enrollment (%)	5	9
HIV prevalence	15	12

Source: CAS 1998, IMF, IFS, DHS, government and WB staff estimates.

6.4 Overall, the results set out in the CASs were not achieved. Therefore, the overall outcomes of the Bank assistance program are rated *unsatisfactory*. The results of the Bank's program in support of its first objective, macroeconomic stability and public sector reform, have been unsatisfactory. Macroeconomic stability was undermined by continued budgetary overruns. Fiscal discipline could not be established prior to FY05, despite strong efforts at institutional reforms. There was no progress in improving overall public sector governance. The outcome on the second objective, broad-based, labor-intensive growth, is also *unsatisfactory*. Private sector activities have deteriorated and agricultural productivity has declined. Regarding the third objective, the outcome of Bank assistance in support of improving service delivery and food security is rated *moderately unsatisfactory*. The quality of education has remained low. Health trends during the review period have been mixed. HIV/AIDS prevalence rate has been reduced. Social safety net programs have provided assistance to as many as 5 million people. There was no progress in providing food security to the poor.

Table 16. Overall Outcome Rating

Objectives	*Outcome*
Overall	Unsatisfactory
Macroeconomic stability and public sector reform	Unsatisfactory
Broad-based, labor-intensive growth	Unsatisfactory
Improving service delivery and food security	Moderately unsatisfactory

Institutional Development Impact and Sustainability

6.5 *Institutional Development Impact*. The Bank provided extensive technical assistance and policy recommendations on institutional development to the Government of Malawi throughout the CAE period. Technical assistance in improved revenue performance through creation of the Independent Revenue Authority was successful. The Bank's capacity building support has been most effective in roads. The roads sector has been restructured and sector institutions—such as the Ministry of Transport and Works and National Authority—are functioning and providing the services expected. The Bank attempted to persuade the government of the necessity for comprehensive civil service reform and provided TA for analysis of deficiencies and recommendations on a reform strategy, but with little response until the past year or two. The most significant failing of Bank TA was in the area of public financial management, where years of effort and substantial IDA resources were invested in institutional reforms—the MTEF and IFMIS—with virtually no attributable results to date. Another area in which Bank TA has had mixed results is in public enterprise reform, regulation and privatization, where the PURP project has fallen far short of its initial objectives for the scope and timing of results in privatization and establishment of regulatory agencies.

6.6 The program did have substantial impact in three areas: HIV/AIDS, social infrastructure (MASAF), and water and sanitation. However, institutional development impact was negligible in education. It is notable that success in these sectors was nearly all with semi-autonomous agencies, especially the National AIDS Commission, MASAF, and various water boards, and not with ministries. Overall, institutional development impact of the program is rated *modest*.

6.7 *Sustainability.* The comprehensive liberalization of the domestic economy and foreign trade regime is imbedded and will remain. The limited efforts to liberalize the regulatory regime facing the private sector, and to improve the overall climate for private sector investment, seem likely to be sustained, but whether they can be enhanced through a genuine attitude of cooperation between the government and the private sector is uncertain. Progress in privatization of public enterprises is likely to continue, at least for the smaller and medium-sized firms remaining on the government list of candidates for action. But the difficulties the government has faced (or has created for itself) in dealing with such major privatizations as the MTL, Electricity Supply Corporation of Malawi (ESCOM), ADMARC, and Air Malawi are still very present and there is no clear path ahead for these "strategic enterprises." But the most vital question regarding sustainability pertains to fiscal management and its impact on macroeconomic stability. Since mid-2004 the new government, at least the new Minister of Finance with the assumed backing of the President, has radically shifted course from the overspending that characterized the previous regime. This reform effort can only be sustained if fiscal discipline is restored throughout all branches of the government. In social sectors, the benefits of the program likely to be sustained are: health, including HIV/AIDS, social infrastructure, and water and sanitation. Overall, there is enough doubt to warrant the sustainability rating as *unlikely*.

NOTES

[1] These preliminary results show that the consumption share of the top quintile rose from 47 percent in 1997/98 to 48 percent in 2004/05, while the share of the bottom quintile rose from 6 percent to 7 percent over the same period.

[2] See "Malawi: Poverty Reduction Strategy—Annual Progress Report—Joint Staff Advisory Note," IMF Country Report No.05/279, August 2005.

7. Contributions

Bank Performance

7.1 In the current CAE period and throughout the country's post-independence history, the Bank has been a major contributor of financial assistance, analytical work, technical assistance, and policy advice. IDA is the largest creditor to Malawi, accounting for 64 percent of the entire external debt of $3.1 billion at the end of 2004. The Bank, therefore, has had an influential role in Malawi's development. The Bank strategy during the CAE period was largely relevant, although the Bank can be faulted for its approach on the agriculture sector during these years (relying heavily on adjustment lending), and failing to advance work on poverty monitoring and analysis. Despite the Bank's strategic relevance, the objectives of its program were not met and there is little evidence that the Bank modified its objectives or calibrated its assistance to account to emerging shortcomings.

7.2 IDA's lending approach in Malawi had important shortcomings. The series of adjustment loans lacked realism about the government's commitment to reform, especially regarding fiscal discipline.[1] The loans implicitly assumed a capacity to implement that was lacking and the limited capacity to implement was exacerbated by the large number of sectors and conditions contained in these operations (for example, the FRDP I covered five sectors and contained 42 conditions). Also, IDA persisted in adjustment lending without ensuring that a credible macroeconomic framework was in place, resulting in "moral hazard" problems. To some extent, IDA was relying on signals regarding the macroeconomic framework from the IMF, but the Bank should have had an independent view on macroeconomic developments. In addition, there were also some problems with the choice of instruments and of unnecessary duplication between IDA projects. In agriculture, there was an excessive reliance on adjustment operations. In education, there were parallel operations (sector credits and MASAF credits) involved in school construction.

7.3 The quality of ESW was generally good, although wider dissemination both inside and outside government should have been given more priority. The ESW reviewed in this report did focus on the relevant issues—the necessary conditions for accelerating growth and reducing macroeconomic instability—but some areas such as the financial sector, the regulatory framework, governance, and poverty monitoring—should have received more attention.

7.4 Finally, the Bank has pursued an approach to country dialogue in recent years that has tended to isolate the Bank from the rest of the donor community; as a result the Bank must be given low marks on fostering partnerships. Despite the degree of decentralization that has occurred in the past 10 years, the Bank has not located many task managers in the field office. This has occasionally led to problems of coordination with other donors, and, according to the government, has also led to delays in receiving information or in getting decision from the Bank. There has also been excessive turnover of task managers on several projects. In a number of projects, including Secondary Education, PURP, and FIMTAP, performance and progress reporting have been deficient, and the ratings of project implementation performance have been too generous.

Government Performance

7.5 The government was willing throughout the period to engage in dialogue with the Bank and the donor community and to commit to reform packages, but in the critical areas of fiscal management and governance the record on implementation of reforms was poor. Weak government commitment is a major factor in explaining the poor performance of the Malawian economy over the past decade in growth, investment, diversification, employment generation, and poverty alleviation. This picture, at least on the surface, changed significantly following the May 2004 election, but whether the reform effort can be sustained remains an open question.

7.6 The government's performance in the social sectors has been more positive. These sectors have been given more prominence and additional budgetary resources, especially in the second half of the period. The government has been willing to acknowledge its own limited capacity and to work with and/or entrust responsibility to others, notably semi-autonomous public sector agencies in HIV/AIDS, social infrastructure, and water supply; NGOs; and recently local government. With donors it has been diffident about asserting sector leadership, but has gradually been taking a more central role in the development and now the implementation of sectorwide programs.

7.7 The government's rural sector management has become erratic since 1999. The disincentives felt by private sector agribusiness and later by the more commercialized smallholders during the review period have been magnified by rounds of macroeconomic instability, drought, and food shortages. The abrupt policy reversals alluded to above, and ill-fated attempts by government to manage the maize and fertilizer markets in times of impending crisis have been sidetracked by political maneuvering. The dysfunctional responses to the 2001/02 food crisis, which is being repeated again during the present one, have also been fueled by a profound distrust of the private sector, which has an ethnic dimension as well.

Other Partners

7.8 Malawi has attracted numerous donors apart from the Bank. The African Development Bank (AfDB) has concentrated its activities mostly to rural infrastructure, including transport, energy, and water. The United Kingdom (DFID) has focused on basic health and education, food security and good governance. The European Union has given priority to poverty reduction efforts. Germany (GTZ/KfW) has provided assistance on decentralization, health, and basic education. USAID provided support for health, HIV/AIDS, good governance, and private sector development. All the major U.N. agencies are represented in Malawi and their focus included the promotion of democratic governance, poverty reduction, environmental sustainability, and gender equity. The Fund has remained engaged with Malawi through much of the review period, with a series of financial arrangements and staff monitored programs.

7.9 During the period, several of these donors maintained an active technical staff presence in Malawi. This enabled them, unlike the Bank, to engage fully in the day-to-day discussions with government that were necessary to advance sector reform agendas in education, health, and HIV/AIDS in the early 2000s. The thinking of some of these donors was well advanced along lines of supporting government-led sector reform and expenditure programs, often through pooling of donor funds. As a result, the Bank was in a catch-up situation and a junior partner when it eventually joined the processes in the three areas.

External Factors

7.10 *Recurrent droughts*. Malawi is highly vulnerable to climatic variability, particularly periodic droughts. It suffered three droughts during the review period, in 1996-97, 2001-02, and again in 2004-05 when rains came late. From a macroeconomic standpoint the impact of these droughts has been decisive, leading to large income losses, macroeconomic instability, and other costs. They were in part responsible for the reintroduction of farm input subsidies in 1998 and low growth in agriculture.

7.11 *High cost of transport*. Malawi has successfully privatized (concession agreement) the railways, has opened the Nacala corridor, and has created the National Road Authority to improve road maintenance during the last decade. Despite these measures, transport costs are still much higher than in neighboring countries. This partly reflects Malawi's long and uncertain links to ports, and also lack of competition in a small economy. Malawi will necessarily continue to bear a substantial charge imposed by geography.

NOTES

1. The Government notes in its comments that the "unrealistic design" of some reform packages contributed to this "slow progress in implementation" (see Attachment 1).

8. Lessons and Recommendations

8.1 Adjustment Lending and Fiscal Management. During the CAE period the Bank provided a high proportion of IDA resources for Malawi through adjustment lending, with limited outcomes for policy and institutional reforms. The Bank clearly overestimated the government's commitment to reforms and persisted with this series of operations despite the government's weak performance. These operations overemphasized institutional changes such as the MTEF and IFMIS which were not effectively implemented, and gave inadequate attention to the underlying causes of bad fiscal management and governance. Multisector adjustment operations covered too many issues across several sectors, which made oversight difficult for both Bank and government. The new government is now attempting to reverse a 10-year record of fiscal mismanagement and lack of accountability. *The Bank support for this reform effort is justified, but future adjustment lending needs to be based on concrete actions taken, not on action plans. Lending operations, adjustment loans in particular, also need to be more focused and scaled to fit implementation capacity. Priority should be given to such areas as strengthening budget implementation, better public expenditure management, and enhanced fiscal discipline.*

8.2 *Agriculture*. This is the most important sector of the Malawi economy and agricultural development remains essential for aggregate growth and poverty alleviation. But sector productivity has been deteriorating and government institutions are weak. Many earlier Bank projects in agriculture had unsuccessful outcomes. During the CAE period the Bank moved away from direct investments in the sector, addressing agricultural and rural economy issues primarily through multisector adjustment loans. The Bank has also provided drought emergency response loans with little policy content. This approach diluted the significance and impact of Bank interventions. Also, Bank efforts to obtain government commitment to ADMARC and the NFRA restructuring, despite excellent AAA, have not yet succeeded. *In the future the Bank needs to focus on helping the government develop better policies to address agriculture productivity, food security, in particular management of strategic grain reserves, on strengthening sector institutions and, in particular, on rural finance.* The Bank also needs to revisit the balance between adjustment and investment lending in this sector.

8.3 *Social sectors*. While there have been some improvements, social indicators remain weak. *The Bank therefore needs to continue to devote substantial resources to education, health, nutrition and population*. In education the Bank should focus on increasing student achievement through improvements in educational quality. In health, including HIV/AIDS, the Bank should continue to support the programs now being carried out through sectorwide, multi-donor operations. The Bank needs to give increased priority to tackling high maternal mortality, high and persistent child malnutrition, and declining immunization. On the input side, addressing the staffing crisis, ensuring more adequate drugs and supplies, and maintaining health facilities are prime concerns.

8.4 *Economic and Sector Work*. During the review period the Bank completed a large number of economic and sector studies in macroeconomic stability, growth, public expenditure management, agriculture, and social sectors. The quality of ESW was generally good, although the Bank paid inadequate attention to dialogue and dissemination of its analytical studies. The Bank needs to continue *with its high quality analytical work, but also needs to improve consultations with key stakeholders, disseminate it more widely,* and improve integration with sector strategies and project design. Priorities are in poverty, agriculture, private sector development, and governance.

8.5 *Partnerships*. Aid coordination and the Bank's participation therein have been problematic. The Country Office gave inadequate attention to working with other key donors, preferring to work unilaterally with the government at a high level. Bilateral and other multilateral aid agencies are critical of this approach, which has hurt the Bank's credibility. Donors have clearly indicated that they would welcome a more open, collaborative approach by the Bank, and urged the Bank to take a more active role in such donor groups as the Common Approach to Budget Support (CABS). In the future the Bank needs to allocate additional effort to working with other donors.

8.6 *Country Office and Task Management*. Despite the degree of decentralization to the field that has occurred in the past 10 years, the Bank has not located many task managers in the field office. This has occasionally led to problems of coordination and collaboration with other donors active in the same sectors as the Bank, and, according to the government, has led to delays in receiving information or decisions from the Bank. There has also been excessive turnover of task management on several projects—three for PURP in four years and five for FIMTAP in less than three years. The Bank needs to enhance the Country Office, reduce turnover in task managers, and shorten response time from headquarters.

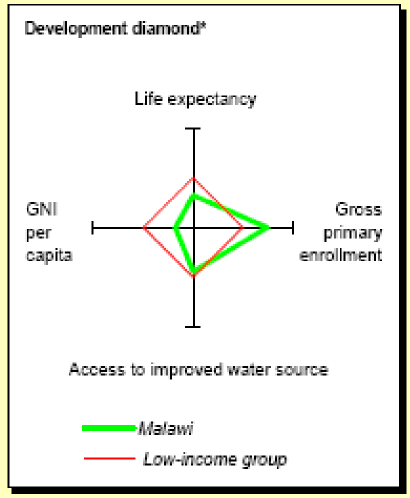
8.7 *Accuracy in Reporting* In several projects, including Secondary Education, PURP, and FIMTAP, supervision missions have reported satisfactory ratings in implementation progress and/or development objectives, sometimes for a prolonged period, when progress was clearly unsatisfactory. Bank management needs to demand more realism and accuracy in supervision of both investment and adjustment operations.

Annex A. Statistical Tables

Malawi at a glance

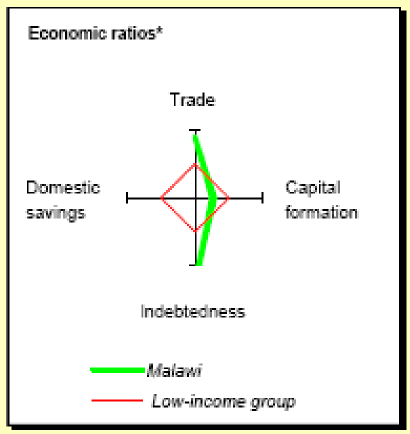
9/8/05

POVERTY and SOCIAL	Malawi	Sub-Saharan Africa	Low-income
2004			
Population, mid-year *(millions)*	11.2	719	2,338
GNI per capita *(Atlas method, US$)*	180	600	510
GNI *(Atlas method, US$ billions)*	2.0	432	1,184
Average annual growth, 1998-04			
Population *(%)*	2.1	2.2	1.8
Labor force *(%)*	1.9	1.0	2.1
Most recent estimate (latest year available, 1998-04)			
Poverty *(% of population below national poverty line)*	65	..	..
Urban population *(% of total population)*	17	37	31
Life expectancy at birth *(years)*	38	46	58
Infant mortality *(per 1,000 live births)*	112	101	79
Child malnutrition *(% of children under 5)*	25	..	44
Access to an improved water source *(% of population)*	67	58	75
Literacy *(% of population age 15+)*	64	65	61
Gross primary enrollment *(% of school-age population)*	140	95	94
Male	143	102	101
Female	137	88	88

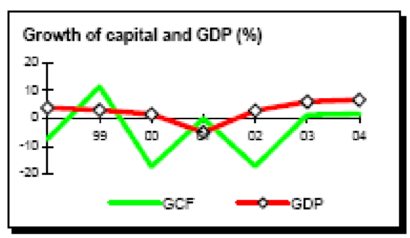


KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1984	1994	2003	2004
GDP *(US$ billions)*	1.2	1.2	1.8	1.9
Gross capital formation/GDP	12.7	29.1	10.8	11.0
Exports of goods and services/GDP	28.4	29.6	27.2	26.5
Gross domestic savings/GDP	14.7	-3.0	-11.7	-11.6
Gross national savings/GDP	11.4	-5.0	-6.1	-7.7
Current account balance/GDP	-1.7	-22.7	-16.9	-19.1
Interest payments/GDP	3.8	2.3	1.0	1.7
Total debt/GDP	73.0	171.3	177.6	162.9
Total debt service/exports	37.5	22.2	7.1	18.6
Present value of debt/GDP	..	..	105.9	..
Present value of debt/exports	..	..	292.5	..

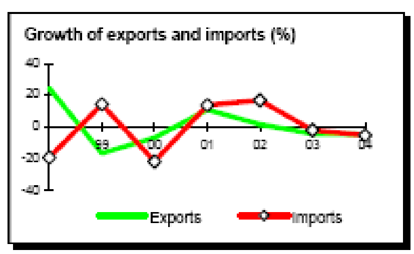
	1984-94	1994-04	2003	2004	2004-08
(average annual growth)					
GDP	2.2	3.3	6.1	6.7	5.6
GDP per capita	-0.4	1.1	4.0	4.6	3.6
Exports of goods and services	1.5	2.0	-4.3	-4.6	6.2



STRUCTURE of the ECONOMY	1984	1994	2003	2004
(% of GDP)				
Agriculture	42.0	25.2	39.8	39.1
Industry	20.1	21.7	16.4	16.6
Manufacturing	13.8	17.4	11.2	11.4
Services	37.9	53.1	43.9	44.3
Household final consumption expenditure	69.6	71.5	95.4	94.5
General gov't final consumption expenditure	15.7	31.6	16.3	17.1
Imports of goods and services	26.5	61.7	49.7	49.2



	1984-94	1994-04	2003	2004
(average annual growth)				
Agriculture	1.0	7.0	5.9	2.7
Industry	3.7	0.5	5.6	6.3
Manufacturing	3.4	-1.1	3.2	6.9
Services	2.7	1.4	1.6	5.7
Household final consumption expenditure	3.3	4.9	3.8	3.4
General gov't final consumption expenditure	4.1	0.2	16.1	12.0
Gross capital formation	2.0	-4.6	1.3	1.7
Imports of goods and services	3.9	1.1	-2.1	-5.3



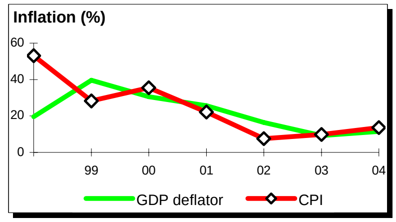
Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

*** Some data may differ from those in the text due to updating of the World Bank's Central Database

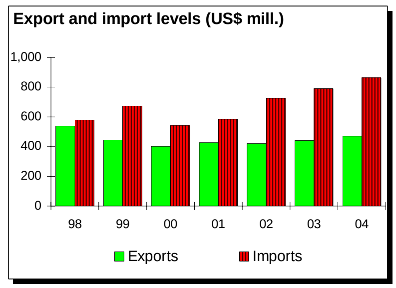
Malawi

PRICES and GOVERNMENT FINANCE	1984	1994	2003	2004
Domestic prices				
(% change)				
Consumer prices	19.9	34.5	9.8	13.7
Implicit GDP deflator	3.2	26.2	9.2	11.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	20.7	19.5	22.0	23.6
Current budget balance	-0.7	-21.1	-7.9	-8.3
Overall surplus/deficit	-8.7	-29.5	-17.3	-17.5



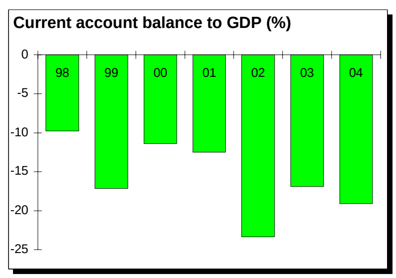
Inflation (%)

TRADE	1984	1994	2003	2004
(US$ millions)				
Total exports (fob)	..	327	441	470
Tobacco	..	194	206	230
Tea	..	30	38	47
Manufactures	..	39	103	105
Total imports (cif)	..	536	792	862
Food	..	115	169	185
Fuel and energy	..	51	76	82
Capital goods	..	178	263	286
Export price index *(2000=100)*	..	105	99	108
Import price index *(2000=100)*	..	90	99	98
Terms of trade *(2000=100)*	..	116	101	110



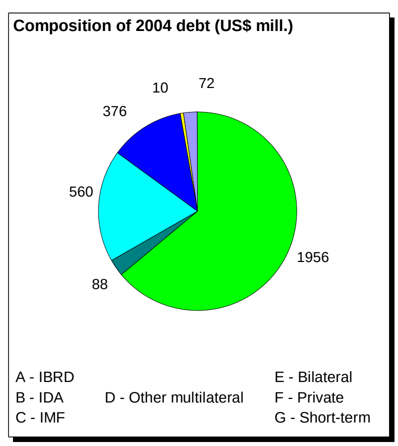
Export and import levels (US$ mill.)

BALANCE of PAYMENTS	1984	1994	2003	2004
(US$ millions)				
Exports of goods and services	339	354	481	511
Imports of goods and services	319	600	878	943
Resource balance	20	-246	-398	-432
Net income	-56	-43	-42	-45
Net current transfers	16	20	141	118
Current account balance	-21	-269	-298	-359
Financing items (net)	28	240	299	375
Changes in net reserves	-7	29	-1	-16
Memo:				
Reserves including gold *(US$ millions)*	128	37	123	129
Conversion rate *(DEC, local/US$)*	1.4	8.7	97.4	108.9



Current account balance to GDP (%)

EXTERNAL DEBT and RESOURCE FLOWS	1984	1994	2003	2004
(US$ millions)				
Total debt outstanding and disbursed	880	2,025	3,134	3,062
IBRD	60	64	1	0
IDA	275	1,160	1,958	1,956
Total debt service	128	87	46	119
IBRD	7	11	2	0
IDA	3	14	20	46
Composition of net resource flows				
Official grants	..	111	164	209
Official creditors	91	77	68	1
Private creditors	-18	-4	0	0
Foreign direct investment (net inflows)	..	0	43	44
Portfolio equity (net inflows)	..	..	..	..
World Bank program				
Commitments	..	..	..	..
Disbursements	77	59	75	75
Principal repayments	2	13	11	31
Net flows	75	46	65	44
Interest payments	7	12	11	15
Net transfers	68	34	54	29



Composition of 2004 debt (US$ mill.)

Annex Table 2: Malawi - Economic & Social Indicators (1994-2004)

										Average 1996-2004							
Series Name	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*Malawi*	*Low Income*	*Sub-Saharan Africa*	*Kenya*	*Tanzania*	*Uganda*	*Zambia*	*Zimbabwe*
Growth																	
GDP growth (annual %)	7.3	3.8	3.9	3.0	1.6	(5.0)	2.7	4.4	3.8	2.8	5.2	3.6	1.7	5.2	6.2	3.6	(0.5)
GDP per capita growth (annual %)	4.7	1.4	1.6	0.9	(0.5)	(6.9)	0.6	2.3	1.8	0.7	3.2	1.2	(0.5)	2.8	3.3	1.6	(2.3)
GNI per capita, PPP (current international $)	530.0	550.0	560.0	580.0	590.0	560.0	570.0	590.0	620.0	572.2	1,833.3	1,631.1	1,002.2	531.1	1,267.8	765.6	2,477.1
GNI per capita, Atlas method (current US$)	180.0	220.0	220.0	190.0	170.0	160.0	160.0	160.0	170.0	181.1	398.9	513.3	368.9	273.3	271.1	358.9	551.7
Agriculture, value added (% of GDP)	35.0	33.7	33.5	35.4	36.9	36.4	36.7	38.4	38.6	36.1	27.3	18.2	21.5	45.5	37.4	21.3	19.3
Industry, value added (% of GDP)	19.5	18.8	18.4	17.9	17.4	16.4	14.9	14.9	15.2	17.0	26.1	29.7	17.9	15.5	19.6	29.1	24.7
Services, etc., value added (% of GDP)	45.5	47.5	48.1	46.7	45.7	47.3	48.4	46.7	46.2	46.9	46.6	52.1	60.6	39.0	43.0	49.6	56.0
Macroeconomic Indicators																	
Gross capital formation (% of GDP)	12.3	11.6	13.5	14.7	13.6	13.9	10.9	11.2	11.1	12.5	21.4	18.1	14.9	16.9	18.8	19.3	14.1
Gross domestic savings (% of GDP)	3.1	(0.7)	7.5	(0.2)	(2.8)	(10.2)	(5.8)	(5.0)	-	(1.6)	18.9	17.2	9.0	6.2	6.8	10.9	13.6
Inflation, consumer prices (annual %)	37.6	9.1	29.7	44.8	29.6	22.7	14.7	9.6	..	24.7	..	..	8.0	8.6	4.0	26.9	57.6
Real effective exchange rate index (2000 = 100)	122.3	136.6	99.3	99.7	100.0	103.4	102.2	79.6	74.7	102.0	..	..	..	..	101.6	102.8	..
Official exchange rate (LCU per US$, period average)	15.3	16.4	31.1	44.1	59.5	72.2	76.7	97.4	108.9	58.0	..	..	70.6	819.2	1,532.9	3,045.0	117.0
External Balance																	
Exports of goods and services (% of GDP)	21.4	22.5	32.4	27.5	26.2	28.2	25.4	27.5	27.3	26.5	18.7	31.1	26.9	15.9	12.1	24.9	34.4
Imports of goods and services (% of GDP)	29.9	35.3	38.4	42.5	38.5	39.4	43.7	40.6	38.2	38.5	21.4	31.9	33.0	26.4	24.1	33.2	34.9
Current account balance (% of GDP)	(6.5)	(10.4)	(0.2)	(8.9)	(4.2)	(3.5)	(10.8)	(12.3)	(10.2)	(7.4)	..	..	(2.3)	(7.1)	(5.4)	(10.3)	..
Total debt service (% of GNI)	4.0	3.3	4.9	4.0	3.4	2.3	1.6	2.1	..	3.2	3.3	4.4	5.8	2.2	1.8	6.7	8.9
External debt (% of GNI)	103.3	85.0	143.0	158.6	159.1	155.8	160.2	188.7	..	144.2	47.2	66.5	58.6	87.5	64.2	188.4	64.3
Total reserves in months of imports	3.4	2.1	4.6	3.8	4.4	3.7	2.4	2.4	2.3	3.2	6.8	7.6	3.0	5.5	5.7	1.6	..
IBRD Loans and IDA credits (PPG DOD, million current US$)	1,387.9	1,409.1	1,567.7	1,603.0	1,600.7	1,627.4	1,772.6	1,958.8	..	1,615.9	86,267.5	40,088.9	2,386.7	2,660.3	2,231.7	1,840.9	883.2
Public Finances																	
Grants and other Revenue (% of revenue)	..	..	..	..	..	..	..	..	..	..	..	..	16.7	..	37.9	17.3	7.8
Overall budget balance, excluding capital grants (% of GDP)	..	..	..	..	..	..	..	..	..	..	..	..	(1.8)	..	(6.2)	..	..
Overall budget balance, including grants (% of GDP)	..	..	..	..	..	..	..	..	..	..	(4.4)	(2.8)	(0.4)	..	(1.9)	..	(5.5)
Current revenue, excluding grants (% of GDP)	..	..	..	..	..	..	..	..	..	..	12.8	22.4	25.4	..	7.4	..	27.4
Current expenditure, total (% of GDP):d	..	..	..	..	..	..	..	..	..	..	..	..	23.9	..	7.3	..	33.3
Social Indicators																	
Immunization, DPT (% of children ages 12-23 months)	90.0	95.0	93.0	84.0	75.0	90.0	64.0	84.0	..	84.4	60.9	51.8	76.9	83.0	61.6	80.8	80.6
Improved water source (% of population with access)	..	..	..	..	..	..	67.0	..	..	67.0	75.1	58.2	62.0	73.0	56.0	55.0	83.0
Improved sanitation facilities (% of population with access)	..	..	..	..	..	..	46.0	..	..	46.0	35.6	36.0	48.0	46.0	41.0	45.0	57.0
Life expectancy at birth, total (years)	..	40.7	..	..	..	..	37.5	37.5	..	38.6	58.3	46.7	47.1	44.7	42.7	38.8	40.6
Mortality rate, infant (per 1,000 live births)	..	..	..	..	117.0	..	..	112.0	..	114.5	79.1	101.0	78.0	104.0	83.0	102.0	75.5
Population, total (in million)	9.4	9.7	9.9	10.1	10.3	10.5	10.7	11.0	11.2	10.3	2,174.9	658.4	30.0	33.6	23.3	9.9	12.5
Urban population (% of total)	13.6	14.0	14.4	14.7	15.1	15.5	15.9	16.3	16.7	15.1	29.2	34.2	35.8	32.2	12.0	35.9	33.7
Population growth (annual %)	2.5	2.4	2.2	2.1	2.1	2.1	2.0	2.0	2.0	2.2	1.9	2.4	2.2	2.3	2.7	1.9	1.5
Literacy rate, adult total (% of people ages 15 and above)	..	..	64.1	..	..	..	..	..	..	64.1	61.0	59.3	73.6	69.4	68.9	67.9	90.0
School enrollment, preprimary (% gross)	..	..	..	..	..	..	..	..	..	..	24.0	..	45.7	13.9	4.1	2.3	37.2
School enrollment, primary (% gross)	..	..	146.2	143.4	143.7	145.8	140.1	..	..	143.8	92.9	86.5	92.2	68.4	137.4	80.0	96.4
School enrollment, secondary (% gross)	..	..	32.9	38.1	32.6	34.0	33.0	..	..	34.1	40.9	26.2	31.1	5.7	14.6	23.0	42.3

Source: WB DDP database, as of November 9, 2005

1/ Data obtained from IMF Selected Issues and Statistical Appendix, Recent Economic Developments (1997, 2002, 2004)

2/ Calculated from IMF data as Revenue excluding grants- Total expenditure

*** Some data may differ from those in the text due to updating of the World Bank's Central Database

Annex Table 3: Malawi - Development Assistance and World Bank Lending

Table 3a. Total Receipts (ODA*, OOF*, Private). 1996-2004

Data in USD million

	1996	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*1996-2004*
All Donors, Total	492	344	435	447	446	404	377	518	477	3,939
DAC Countries, Total	264	174	204	228	269	196	225	314	309	2,182
o/w Germany	32	33	26	29	25	20	24	29	25	242
o/w Japan	64	35	47	34	39	18	19	31	19	307
o/w United Kingdom	84	28	57	77	97	66	50	111	120	690
o/w United States	32	27	20	28	59	31	61	60	57	374
Multilateral ,Total	228	171	230	214	171	198	142	202	166	1722
o/w AfDF	15	30	15	31	16	8	21	26	21	183
o/w EC	43	28	76	89	49	65	52	80	64	547
o/w IBRD	-9	-6	-10	-8	-8	-4	-2	-2	-	-48
o/w IDA	133	98	120	75	81	107	48	69	65	795
IBRD/ IDA Total	124	92	110	67	74	102	46	67	65	747
IBRD & IDA Share of Multilateral Assistance, %	0.54	0.54	0.48	0.31	0.43	0.52	0.33	0.33	0.39	0.43
IBRD & IDA Share of Total Assistance, %	0.25	0.27	0.25	0.15	0.16	0.25	0.12	0.13	0.14	0.19

Source: OECD International Development Statistics (IDS) Online. Dec. 2, 2005.

Some data may differ from those in the text due to updating of the World Bank's Central Database

*ODA: Official Development Assistance- Grants or loans to countries and territories on Part 1 of the DAC List of Aid Recipients (developing countries) that are:

1- Undertaken by the Official Sector; 2- Have promotion of economic development and welfare as their main objective, 3- Are granted at concessional terms. (The loan has a grant element of at least 25%)

* Other Official Flows (OOF)- Transactions by the official sector with countries on the List of Aid Recipients that do not meet the conditions of Official Development Assistance or Official Aid eligibility, either because they are not primarily aimed at development, or because they have a grant element of less than 25 percent.

** DAC: Development Assistance Committee. The committee of the OECD which deals with development cooperation matters.

Annex Table 3b: Malawi - World Bank Commitments by Sector Board 1996-2005

Sector Board\Fiscal Year	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2003*	*2004*	*2005*	*1996-2005*
Economic Policy	110			92		56		50		307
Education	23		48						32	103
Environment		12								12
Financial Sector						15				15
Health, Nutrition and Population				5				35	15	55
Private Sector Development					29					29
Public Sector Governance				2		3	24	4		33
Rural Sector							50	27		77
Social Protection	56			66			60			182
Infrastructure				30			3			33
Total Commitments	188	12	48	195	29	74	137	116	47	847

Source: BW Tables 2a.1 IBRD/IDA No. and Commitments (and Supplements) as of December 2, 2005

Annex Table 3c: Malawi - List of IBRD/IDA Approved Projects 1996-2005 (By Approval Year)

Proj ID	*Proj Name*	*Approval FY*	*Sector Board*	*IBRD/ IDA Amt.*	*Latest DO*	*Latest IP*	*Latest Risk Rating*	*Project Status*	*Date, Rev. Closing*	*Outcome*	*Sustainability*	*Institutional Development*
P001670	Secondary Education	1998	Education	48	U	S	M	Active	12/31/2005			
P001666	MW Road Main. & Rehab	1999	Transport	30	S	S	M	Active	03/31/2006			
P063095	Privatization and Utility Reform Project	2000	Private Sector Development	29	S	S	H	Active	12/31/2005			
P070235	Regional Trade Fac. Proj. - Malawi	2001	Financial Sector	15	S	S	S	Active	06/30/2011			
P075911	MW-MASAF APL 3 (FY03)	2003	Social Protection	60	S	S	M	Active	12/31/2006			
P078408	Fin. Mgmt, Transparency, Accountability	2003	Public Sector Governance	24	S	S	S	Active	03/01/2008			
P072395	MW-FIMAG SAL (FY04)	2004	Economic Policy	50	S	S	S	Active	12/31/2005			
P073821	Multi-Sectoral AIDS Project (MAP) (LCKD)	2004	Health, Nutrition and Population	35	S	S	S	Active	12/31/2008			
P075247	MW-Com Based Rural Land Dev (FY04)	2004	Rural Sector	27	S	S	S	Active	06/30/2009			
P083704	MW-GDLN LIL (FY04)	2004	Public Sector Governance	4	S	S	M	Active	06/30/2009			
P070823	MW-Edu Sec Supt SIL 1 (FY05)	2005	Education	32	#	#	#	Active	09/15/2010			
P083401	MW-Health Sec Supt SIM (FY05)	2005	Health, Nutrition and Population	15	#	#	#	Active	09/15/2008			
P001648	Fiscal Restr & Dere	1996	Economic Policy	102	S	S	M	Closed	03/15/2001	Moderately Satisfactory	Likely	Modest
P001668	Social Action Fund	1996	Social Protection	56	S	S	N	Closed	12/31/2001	Satisfactory	Likely	Modest
P042305	Primary Education Project	1996	Education	23	S	U	N	Closed	12/31/2000	Unsatisfactory	Unlikely	Negligible
P001664	Environmental Management	1997	Environment	12	U	U	M	Closed	12/31/2002	Unsatisfactory	Unlikely	Modest
P036038	Pop./Family Planning	1999	Health, Nutrition and Population	5	S	S	N	Closed	12/31/2003	Highly Satisfactory	Likely	Substantial
P045030	FRDP II	1999	Economic Policy	92	S	S	M	Closed	06/30/2000	Moderately Satisfactory	Likely	Modest
P049599	MASAF II	1999	Social Protection	66	S	HS	M	Closed	11/30/2003	Moderately Satisfactory	Non-Evaluable	Substantial
P056376	FRDP II TA	1999	Public Sector Governance	2	S	S	S	Closed	06/30/2001	Satisfactory	Likely	Substantial
P050294	LKD FRDP III	2001	Economic Policy	55	S	S	S	Closed	06/30/2002	Unsatisfactory	Unlikely	Modest
P073832	TA - Adjustment (FRDP III)	2001	Public Sector Governance	3	S	S	S	Closed	06/30/2004	Unsatisfactory	Likely	Modest
P080368	MW-Emerg Drought Recovery ERL (FY03)	2003	Rural Sector	50	S	HS	N	Closed	11/30/2004	Satisfactory	Likely	Substantial

Source: Table 4a.6 Key IEG Ratings and Table 2a.1 IBRD/IDA No. and Commitments as of December 2, 2005

Annex Table 4: Malawi Selected Economic and Sector Work, 1996-2005

Document Title	*Date*	*Report No*	*Document Type*
Country Assistance Strategy			
Malawi - Country assistance strategy	8/4/1998	18349	Country Assistance Strategy Document
Malawi - Country assistance strategy progress report	11/28/2000	21419	CAS Progress Report
Malawi - Country assistance strategy	5/14/2003	25906	Country Assistance Strategy Document
Country Assessments			
Malawi - Country financial accountability assessment	9/15/2003	26765	Country Financial Accountability Assessment
Malawi - Country procurement assessment report - Main findings and recommendations, Details and Annexes, and Executive summary	5/24/2004	29295	Country Procurement Assessment Report
Poverty Reduction Strategy Paper			
Malawi - Poverty reduction strategy paper and joint staff assessment	7/19/2002	24427	Poverty Reduction Strategy Paper (PRSP)
Malawi - Joint IDA-IMF assessment of the Poverty Reduction Strategy Paper	10/6/2003	26926	Poverty Reduction Strategy Paper (PRSP)
Malawi - Poverty reduction strategy paper annual progress report and joint staff advisory note	7/22/2005	32645	Poverty Reduction Strategy Paper (PRSP)
Economic and Sector Reports			
Malawi - Public expenditures - issues and options	9/30/2001	22440	Economic Report
Reforming the Malawi Agricultural Development and Marketing Corporation (ADMARC) : synthesis report of the poverty and social impact analysis	12/1/2003	27512	Sector Report
Malawi - Country Economic Memorandum - Policies for accelerating growth	6/1/2004	25293	Economic Report
Malawi - Civil service pay and employment study	12/6/1994	13071	Sector Report
Malawi - Human resources and poverty : profile and priorities for action	3/19/1996	15437	Sector Report
Energy Sector Management Assessment Program (ESMAP)			
Malawi - Rural energy and institutional development	4/1/2005	32846	ESMAP
Working Papers			
Who benefits from public education spending in Malawi? Results from the recent education reform Vol. 1 (English)	12/31/1996	WDP350	Publication
Changes in girls lives - Malawi from 1990 to 1997	11/30/1999	22980	Departmental Working Paper
Socio-economic differences in health, nutrition, and population in Malawi	5/1/2000	30576	Working Paper
Spending on safety nets for the poor : how much, for how many? The case of Malawi	1/31/2001	22701	Working Paper (Numbered Series)
The changing distribution of public education expenditure in Malawi	3/30/2002	26693	Working Paper (Numbered Series)
Better health outcomes from limited resources - focusing on priority services in Malawi	4/30/2002	24132	Departmental Working Paper
Telecommunications reform in Malawi	4/30/2003	WPS3036	Policy Research Working Paper
Malawi ' s tobacco sector : standing on one strong leg is better than on none	6/1/2003	26738	Working Paper (Numbered Series)

Source: Imagebank, World Bank as of November 10, 2005.

Note: Excluded from this list are three reports which have not been disclosed at the present time.

Annex Table 5a: Key IEG Ratings (by Project Approval Year) FY 1996-2005

	Total Evaluated (No)	*Outcome % Sat (No)*	*Inst Dev Impact % Subst (No)*	*Sustainability % Likely (No)*	*Total Evaluated ($ million)*	*Outcome % Sat ($)*	*Inst Dev Impact % Subst ($)*	*Sustainability % Likely ($)*
Malawi	11	63.6	36.4	70	469.4	81.5	27.6	79.1
Madagascar	10	70.0	50.0	66.7	400.1	88.8	53	72.0
Mozambique	6	100.0	50.0	80.0	485.9	100.0	67	100.0
Niger	9	66.7	33.3	62.5	374.8	76.1	19	74.8
Rwanda	5	100.0	80.0	50.0	256.8	100.0	81	68.4
Tanzania	10	100.0	100.0	100.0	696.8	100.0	100	100.0
Uganda	13	100.0	45.5	87.5	909.2	100.0	29	81.4
Zambia	7	85.7	42.9	42.9	703.9	99.2	36	40.8
Zimbabwe	6	25.0	0.0	0.0	42.5	10.2	0	0.0
Africa	235	74.2	46.7	68.0	10,344.1	84.9	42	75.8
World Bank	1,085	81.0	52.8	77.6	92,600.4	86.0	54	82.8

Source: WB Business Warehouse Table 4a. 5 IEG Rating Aggregates- By Net Commitments and Number as of November 10, 2005.

Annex Table 5b: Projects at Risk

Country	*# Proj*	*Net Comm Amt (US$ million)*	*# Proj At Risk*	*% At Risk*	*Comm At Risk (US$ million)*	*% Commit at Risk*
Malawi	13	399.0	4	30.8	106.6	26.7
Madagascar	15	942.7	4	26.7	365.1	38.7
Mozambique	17	1,004.0	4	23.5	119.8	11.9
Niger	7	210.1	3	42.9	98.7	47.0
Rwanda	10	271.8	0	0.0	0.0	0.0
Tanzania	23	1,534.0	4	17.4	124.9	8.1
Uganda	20	1,030.5	7	35.0	388.6	37.7
Zambia	11	457.6	4	36.4	168.2	36.8
Africa	340	17,266.2	94	27.6	4,552.4	26.4
World Bank	1,360	95,440.0	234	17.2	13,596.8	14.2

Source: WB Business Warehouse Table 3c. 4- Projects at Risk as of November 10, 2005.

Annex Table 6: Malawi Comparative Bank Budget by Cost Category (in USD thousands) 1996-2005

Country/ Regions	*Cost Category*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*1997-2005*	*1997-2005 (%)*
Malawi	ESW	191	574	444	367	531	495	806	598	837	810	5,653	0.18
	Lending	1,497	916	1,406	738	809	460	800	1,428	1,572	836	10,462	0.33
	Project Supervision	1,558	1,671	1,672	1,573	1,837	1,219	1,037	1,086	1,209	1,606	14,468	0.45
	Other	65	80	126	61	211	177	139	261	112	246	1,478	0.05
	Total	3,311	3,240	3,649	2,739	3,388	2,351	2,781	3,373	3,730	3,499	32,060	1.00
Africa	ESW	17,869	16,343	21,961	22,383	28,880	19,692	30,844	32,614	36,161	36,035	262,782	0.23
	Lending	32,060	26,767	27,575	23,605	29,014	25,460	30,934	31,086	43,548	38,291	308,338	0.27
	Project Supervision	35,903	35,752	36,084	32,610	36,756	30,571	36,329	39,779	42,193	49,765	375,744	0.33
	Other	5,338	6,627	7,213	5,731	16,649	18,378	23,725	26,280	30,193	34,930	175,064	0.16
	Total	91,170	85,489	92,833	84,329	111,299	94,101	121,832	129,759	152,094	159,022	1,121,927	1.00

Source: World Bank. BW RM Tables 4.0 and 4.1 as of November 10, 2005

Annex Table 7: Malawi- Senior Management CY1996-2006

Year	*Vice-President*	*Div. Chief/ Country Director*	*Resident Representative*
1996	Callisto Madavo	Barbara Kafka	Arif Zulfiqar
1997	Callisto Madavo	Barbara Kafka	Arif Zulfiqar
1998	Callisto Madavo	Barbara Kafka	Robert Liebenthal
1999	Callisto Madavo	Barbara Kafka	Robert Liebenthal
2000	Callisto Madavo	Darius Mans	Robert Liebenthal
2001	Callisto Madavo	Darius Mans	Dunstan M Wai
2002	Callisto Madavo	Darius Mans	Dunstan M Wai
2003	Callisto Madavo	Hartwig Schafer	Dunstan M Wai
2004	Gobind Nankani	Hartwig Schafer	Dunstan M Wai
2005	Gobind Nankani	Hartwig Schafer	--
2006	Gobind Nankani	Michael Baxter	Timothy R. Gilbo

Source: WB Directories 1996-2005.

Annex Table 8: Malawi - Millenium Development Goals

	Malawi Country Profile			
	1990	*1995*	*2001*	*2002*
1 Eradicate extreme poverty and hunger	*2015 target = halve 1990 $1 a day poverty and malnutrition rates*			
Population below $1 a day (%)	..	..	..	..
Poverty gap at $1 a day (%)	..	..	..	..
Percentage share of income or consumption held by poorest 20%	..	4.9	..	..
Prevalence of child malnutrition (% of children under 5)	27.6	29.9	25.4	..
Population below minimum level of dietary energy consumption (%)	49	39	33	..
2 Achieve universal primary education	*2015 target = net enrollment to 100*			
Net primary enrollment ratio (% of relevant age group)	49.7	99	..	..
Percentage of cohort reaching grade 5 (%)	64.5	34.2	..	..
Youth literacy rate (% ages 15-24)	63.2	67.3	71.8	72.5
3 Promote gender equality	*2005 target = education ratio to 100*			
Ratio of girls to boys in primary and secondary education (%)	81.1	88.4	..	..
Ratio of young literate females to males (% ages 15-24)	67.6	71.4	76	76.7
Share of women employed in the nonagricultural sector (%)	10.5	11.3	12.2	..
Proportion of seats held by women in national parliament (%)	..	6	..	..
4 Reduce child mortality	*2015 target = reduce 1990 under 5 mortality by two-thirds*			
Under 5 mortality rate (per 1,000)	241	216	188	182
Infant mortality rate (per 1,000 live births)	146	133	117	113
Immunization, measles (% of children under 12 months)	81	90	82	69
5 Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1,800.00	..
Births attended by skilled health staff (% of total)	54.8	..	55.6	..
6 Combat HIV/AIDS, malaria and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*			
Prevalence of HIV, female (% ages 15-24)	..	..	14.9	..
Contraceptive prevalence rate (% of women ages 15-49)	13	22	30.6	..
Number of children orphaned by HIV/AIDS	..	..	470.0 thousand	..
Incidence of tuberculosis (per 100,000 people)	..	..	432	431.3
Tuberculosis cases detected under DOTS (%)	..	39	40	36.3
7 Ensure environmental sustainability	*2015 target = various (see notes)*			
Forest area (% of total land area)	35.2	..	27.6	..
Nationally protected areas (% of total land area)	..	11.3	11.3	11.3
GDP per unit of energy use (PPP $ per kg oil equivalent)	..	..	..	..
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	..
Access to an improved water source (% of population)	49	..	57	..
Access to improved sanitation (% of population)	73	..	76	..
Access to secure tenure (% of population)	..	..	..	..
8 Develop a Global Partnership for Development	*2015 target = various (see notes)*			
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	3.1	3.7	10.6	15.2
Personal computers (per 1,000 people)	..	..	1.3	1.3
General indicators				
Population	8.5 million	9.2 million	10.5 million	10.7 million
Gross national income ($)	1.7 billion	1.6 billion	1.6 billion	1.7 billion
GNI per capita ($)	200	170	160	160
Adult literacy rate (% of people ages 15 and over)	51.8	55.9	61	61.8
Total fertility rate (births per woman)	7	6.6	6.3	6.1
Life expectancy at birth (years)	44.6	41.9	38.8	37.5
Aid (% of GNI)	27.4	31.5	24.4	20.2
External debt (% of GNI)	84.8	162.4	157.4	156.2
Investment (% of GDP)	23	17	1	12.4
Trade (% of GDP)	57.2	76.7	68.3	68.3

Source: *World Development Indicators database, April 2004*

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

*** Some data may differ from those in the text due to updating of the World Bank's Central Database

Annex B. List of Persons and Organizations Met

GOVERNMENT OF MALAWI

Ms. Dorothy M. Banda	Director, Budget Dept., Ministry of Finance
Hon. J. Banda	Minister, Child Welfare and Community Services, Ministry of Gender
Mr. Wilson T. Banda	General Manager, Reserve Bank of Malawi
Mr. Z. Chikhosi	Former Director, Budget Department, Ministry of Finance
Mr. P. Chipeta	Director, Community Development Programme
Hon. Goodall Gondwe	Minister of Finance
Dr. S. Hau	Principal Secretary, Ministry of Education
Mr. Patrick Kabambe	Acting Principal Secretary, Ministry of Finance
Mr. Patrick Kachimera	Sec. for Private Sector Dev., Ministry of Trade, Malawi
Mr. S. Kakhobwe	Executive Director, Malawi Social Action Fund
Mr. M. Kajumi	Monitoring and Evaluation Officer, Malawi Social Action Fund (MASAF)
Mr. B. Kalanda	Director of Monitoring and Learning, MASAF
Mr. N. Kalanje	Director of Planning, Ministry of Health
Ms. Pilira Kalombola	Investment Promotion Executive, Malawi Investment Promotion Agency
Mr. H. B. Kalongonda	Auditor General
Hon. Ms. Kainja Kaluluma	Minister, Ministry of Education
Mr. E.E. Kamanga	Deputy Secretary, Public Enterprise Reform and Monitoring Unit, Ministry of Finance
Mr. J. Kambalametore,	Project Director, EDMU, Ministry of Education
Mr. R. A. Kampanje	Accountant General
Ms. C. Kamwendo	Director of Community Enterprise Development
Mr. Patrick Kamwendo	Principal Secretary, Ministry of Economic Planning and Development
Mr. A. Kautaka	Principal Economist, Safety Nets Unit, Ministry of Economic Planning and Development
Dr. Milton Kutengule	Secretary to the Treasury, Ministry of Finance
Ms. Alice Makhambera	Project Manager, FIMTAP
Hon. Justin Malewezi	Member of Parliament, Former Minister of Finance and Vice President

Mr. C. Mandala	Director of Research and Training, MASAF
Mr. Harrison Mandindi	Acting Director of Trade, Ministry of Trade and Private Sector Development
Mr. B.S.M. Mangulama	Director, Office of Public Procurement
Mr. B. Matemvu	Zone Operations Manager, Lilongwe Zone, MASAF
Mr. Joseph Matope	Principal Secretary, Office of the President and Cabinet
Mr. Steve Mchenga	Director of Internal Audit, MASAF
Ms. A. Mchiela	Principal Secretary
Mr. Joseph Mhango	Deputy Director, Office of Public Procurement
Mr. R. Milanzi	Financial Controller, Lilongwe Water Board
Mr. L. Mithi	Director of Finance , MASAF
Ms. C. Moleni	Deputy Director, CERT, Chancellor College
Dr. B. Mwale	Executive Director, National AIDS Commission
Mr. K. Mwale	Director of Planning
Ms. F. Nankhoma-Mbawa	(ex) Director of Economic Development Planning
Mr. Elias Ngalande-Banda	Former Principal Secretary, Finance, and Governor, Reserve Bank of Malawi
Mr. B. Nkhoma	Projects Engineer, Lilongwe Water Board
Mr. C. Nkwazi	Head of Planning, Monitoring and Evaluation, National AIDS Commission
Hon. Dr. Hetherwick Ntaba	Minister, Ministry of Health
Mr. Herbert Nyirenda	Director, Public Enterprise Reform and Monitoring Unit, Ministry of Finance
Mr. C. Nyirongo, Deputy	Chief Economist, Ministry of Economic Planning and Development
Mr. Clement Phangaphanga	Principal Industrial Development Officer, Ministry of Trade and Private Sector Development
Mr.Maziko Sauti-Phiri	Executive Director, Privatization Commission
Dr. W. Sangala	Principal Secretary
Mr. McCallum Sibande	Acting Director, Dept. of Debt and Aid, Min. of Finance
Mr. Zinopa Soko	Former Director of Aid Coordination, Ministry of Finance
Mr. Shadreck Ulema	Economist, Privatization Commission
Dr. M. Shawa	Principal Secretary for Nutrition & HIV/AIDS, Office of the President and the Cabinet

NGOS/PRIVATE SECTOR

Mr. J. Chabwera	Financial Controller, Banja la Mtsogolo
Mr. W. Jiyani	Programme Director, Banja la Mtsogolo
Mr. R. Chapota	HIV/AIDS Project Manager, CARE International
Mr. S. Kalonge	Food Security Coordinator, CARE International

Mr. F. Lwanda	Learning and Design Unit Manager, CARE International
Ms. S. Vossenberg	A-LIFH Initiative, CARE International
Mr. N. Tembo	Education Project Manager, CARE International
Ms. J. Marealle-Ulimwengo	Acting Country Director, CARE International
Mr. F. Gondwe	Deputy Executive Director, Christian Health Association of Malawi
Mr. L. Nsapato	Coordinator, Civil Society Coalition for Quality Basic Education
Mr. Chancellor Kaferapanjira	Director, Chamber of Commerce and Industry
Mr. Saadwick Mtonakulta	Economist, Chamber of Commerce and Industry
Mr. Molius Mangaawuma	Corporate Banking Division, Stanbic Bank
Mr. Inglis Nyamilandu	Corporate Banking Division, Stanbic Bank
Mr. V. Kamanga	Programs Manager, Malawi Network of Persons Living with HIV/AIDS (MANET)
Mr. Jason Agar	National Action Group
Mr. John McGrath	National Action Group
Mr. H. Kumwenda	Director (by telephone), Private Schools Association of Malawi

DONOR AGENCIES

Mr. McPherson Jere	Education Specialist, CIDA
Mr. Peter Kilick	Aid Liaison Officer, CIDA
Mr. Mambulu	Water Advisor, CIDA
Ms. A. de Cleene	HIV/AIDS Adviser, DfID
Ms. J. Kemp	Health Adviser, DfID
Mr. Rob Rudy	DfID
Mr. Roger Wilson	Country Director, DfID
Mr. Andrew Tench	Team Leader, Capacity Building Program, European Union
Ms. Isabel Cuevas	Public Affairs and Governance Adviser, European Union
Mr. Wiepke van der Goot	Head of Delegation, European Union
Ms. Milika Kalyati	Economist, European Union
Mr. George Luanda	European Union
Mr. Hendricks Phiri	Economist, European Union
Dr. Gabriele Bohringer	Country Director, GTZ
Dr. Michael Tawanda	Health Specialist, NORAD
Ms. Daphne Casey	Deputy Resident Representative, UNDP
Mr. A. Fayoyin	Head, Communications, UNICEF
Mr. B. Gatawa	Head, Basic Education, UNICEF
Ms. E. Hughes	Head, Early Child Care and Support to Families Affected by HIV/AIDS, UNICEF
Mr. S. Mathur	Head, Water and Environmental Sanitation, UNICEF

Ms. E. Quaye	Acting Representative, UNICEF
Dr. E. Some	Head of Health Section, UNICEF
Dr. T. LeBlanc	Education Officer, USAID
Ms. Mary Lewellen	Acting Country Director, USAID
Mr. B. Mvalo	Education Officer, USAID
Mr. M. Nyirongo	Health Team Leader, USAID
Mr. R. Sosola	Project Management Assistant, USAID

WORLD BANK AND IMF

Mr. F. Agueh	Human Development, QAG
Mr. Emmanuel Akpa	PREM Sector Manager, AFR
Mr. Kofi Awanyo	Senior Procurement Specialist, Malawi Resident Mission
Mr. Thomas Baunsgaard	Resident Representative for Malawi, IMF
Ms. Kathleen Beegle	Senior Research Economist
Mr. Stephen Carr	Former World Bank Agricultural Economist
Mr. Constantine Chikosi	Portfolio Manager, Private Sector Development
Mr. Alfred Chirwa	Senior Health Specialist, Malawi Resident Mission
Mr. Sudhir Chitale	Lead Economist for Malawi
Mr. Ram Chopra	Team Leader, QAG Country Program Assessment
Mr. R. Govindaraj	TTL HIV/AIDS, SMU
Mr. Stanley Hiwa	Senior Agricultural Economist, Malawi Resident Mission
Ms. Barbara Kafka	Former Malawi Country Director
Ms. C. Kimes	Former TTL HIV/AIDS, SMU
Mr. Xavier Legrain	Team Member, QAG Country Program Assessment
Mr. M. Lenneiye	TTL MASAF, SMU
Mr. Robert Liebenthal	Former Country Manager
Mr. M. Mambo	Education Specialist, Country Office
Mr. Darius Mans	Former Country Director
Mr. F. M'buka	Senior Agricultural Services Specialist (responsible for MASAF), Country Office
Mr. N. Mugwagwa	Former TTL MASAF, SMU
Ms. Helga Muller	Sector Manager
Mr. D. Mutumbuka	Sector Manager, SMU
Mr. S. Nelleman	Former TTL Education, SMU
Mr. Khwima Nthara	Economist, Country Office
Mr. Antonio Nucifora	Country Economist
Mr. O. Picazo	TTL Health Nutrition and Population, SMU
Ms. Patricia Palale	Public Sector Management Specialist

Mr. R. Roche	TTL Water and Sanitation, SMU
Ms. Christiane Roehler	FAD, IMF
Mr. Hartwig Schafer	Country Director
Mr. Gaiv Tata	Former Task Team Leader for PURP
Mr. Gene Tidrick	Former Lead Economist, AFR
Ms. Elizabeth White	Senior Results Management Specialist
Dr. Ross Worthington	Senior Public Sector Management Specialist

Annex C. Guide to IEGWB's Country Assistance Evaluation Methodology

1. This methodological note describes the key elements of IEGWB's country assistance evaluation (CAE) methodology.[1]

CAEs rate the outcomes of Bank assistance programs, not the Clients' overall development progress

2. A Bank assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the Client's development objectives. If a Bank assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a Client's development by donors, stakeholders, and the government itself. In CAEs, IEGWB rates only the outcome of the Bank's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CAEs confirms that Bank program outcomes sometimes diverge significantly from the Client's overall development progress. CAEs have identified Bank assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak Bank program; and,
- satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same

4. By the same token, an unsatisfactory Bank assistance program outcome does not always mean that Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the Bank; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

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[1] In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

5. IEGWB measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy, the design and supervision of the Bank's lending interventions, the scope, quality and follow-up of diagnostic work and other AAA activities, the consistency of the Bank's lending with its non-lending work and with its safeguard policies, and the Bank's partnership activities.

Rating Assistance Program Outcome

6. In rating the outcome (expected development impact) of an assistance program, IEGWB gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the Bank do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEGWB's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CAE evaluates the relevance of the objective, the relevance of the Bank's strategy toward meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the Bank's program achieved a particular Bank objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the Bank's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the Bank, other donors, the government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

9. IEGWB utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory:	The assistance program achieved at least acceptable progress toward all major relevant objectives, <u>and</u> had best practice development impact on one or more of them. No major shortcomings were identified**.**
Satisfactory:	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified**.**
Moderately Satisfactory:	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
Moderately Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Unsatisfactory:	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
Highly Unsatisfactory:	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;
- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building NGO capacity; and,
- the level of social and environmental capital.

11. **Sustainability** can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and,
- resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

Annex D. Management Action Record

Major Monitorable IEGWB Recommendations Requiring a Response	*Management Response*
***Lending Operations and Fiscal Management*.** The new government is now attempting to reverse a ten-year record of fiscal mismanagement and lack of accountability. The Bank support for this reform effort is justified, but *future adjustment lending needs to be based on concrete actions taken, not on action plans. Lending operations, adjustment loans in particular, need to be more focused and scaled to fit implementation capacity. Priority should be given to such areas as strengthening of budget implementation, better public expenditure management, and enhanced fiscal discipline.*	We agree with the recommendations in general, which are also consistent with the upcoming CAS CR. The Bank is focusing and re-orienting its assistance to support GoM's effort in strengthening its public expenditure management, and Government has recently improved its budget implementation performance and fiscal discipline.
Sector Priorities. In terms of sector priorities in the next strategy, and its successors, the Bank needs to focus on:	The Bank is working with other Development Partners (DPs) in aligning its strategy (and thus focal areas) to the upcoming Malawi Growth and Development Strategy (MGDS). Thus the Bank's involvement in specific areas will hinge on the Government's priorities and other DPs activities.
• *Agriculture*: helping the government develop better policies to address agriculture productivity, food security, in particular management of strategic grain reserves, strengthening sector institutions, and improving rural finance. The Bank also needs to revisit the balance between adjustment and investment lending.	The Bank has, in recent years, been involved in agriculture sector and policy discussions, and will further strengthen its support in this area.
• *Education*: increasing student achievement through improvements in educational quality. • *Health*: increased priority tackling high maternal mortality, high and persistent child malnutrition, and declining immunization. On the input side, addressing the staffing crisis, ensuring more adequate drugs and supplies, and maintaining health facilities are prime concerns.	The Bank is active in both health and education sectors in Malawi, and is part of a SWAp for the health sector. However, future involvement in these sectors will be guided by on-going discussions and priorities of other DPs (based on MGDS), particularly in health sector. Whatever the outcome, The Bank will remain engaged in these sectors through analytic work and policy dialogue.
***Economic and Sector Work*.** The Bank needs to continue with its high quality analytical work, but also needs to improve consultations with key stakeholders, disseminate it more widely, and improve integration with sector strategies and project design. Priorities are in poverty, agriculture, private sector development and governance.	We agree with the recommendation to strengthen dissemination and consultation processes of our analytic work, and on-going (and new) ESWs adhere to these principles. We have taken stock of ESWs, including those done by other stakeholders, and have identified knowledge gaps. ESWs in poverty and private sector are in the pipeline.
***Donor Coordination, Country Office and Task Management*.** The Bank needs to allocate additional efforts to working with other donors. The Bank also needs to enhance the Country Office and reduce turnover in task managers.	We have made serious efforts to strengthen collaboration with DPs, especially during the preparation of the upcoming CAS, in line with the Harmonization Initiative; however, some of the CAE recommendations do not seem to take adequate consideration of other DPs' engagement in Malawi. We agree that there is a need to enhance the Country Office and maintain continuity of TTLs.

Attachment 1: Comments from the Government

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MINISTRY OF FINANCE

Ref. No. C/EAD/6/3/5/1/6 10th April,2006

Mr. Kyle Peters,
Senior Manager,
Country Evaluation and Regional Relations,
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Dear Mr. Peters,

THE WORLD BANK IN MALAWI : 1996-2005 COUNTRY ASSISTANCE EVALUATION

I acknowledge with thanks receipt of the above-mentioned evaluation report of the Bank activities in Malawi for the period 1996 to 2005. Our observations on the report are discussed in the subsequent paragraphs.

It has been observed that overall, the Bank activities in Malawi have had limited success in achieving the ultimate program objectives set out in the Bank's strategies. GDP growth since 2000 has averaged only 1.5 percent per annum below the rate of population growth. Poverty incidence has remained unchanged estimated at 54 percent in 1998 and at 53 percent in 2005. Therefore, the overall outcome of the Bank assistance program is rated unsatisfactory.

Our observation is that the report does not consistently adhere to the review period in reporting some findings. For example, it is indicated that GDP growth averaged only 1.5 percent per annum since 2000. The base year should have been 1996 to give a full picture. In addition, it is reported that agriculture growth has been erratic since 2000. It would also be much more useful if the report had included trends from 1996, the base year. This inconsistency of review period has invariably led to mixed conclusions.

It is reported that despite reforms supported by the Bank, it has been noted that governance issues, especially corruption, remain a growing concern. The report does not highlight the new government's efforts to combat corruption through its zero-tolerance policy on corruption through the Anti-Corruption Bureau (ACB).

While the report recognizes that fiscal discipline could not be established prior to FY05, the recent improvements in fiscal and financial management have not been adequately acknowledged. In fact, it should be noted that fiscal discipline was restored beginning July,2004 (FY04/05).

It has been reported that agriculture growth has been low and variable, and productivity has declined due to weak and unreliable delivery of agricultural services and the changing input policies. This statement is limited in that it does not recognize the impact of other factors such as droughts, land availability and its quality and market prices as causes to low agricultural productivity. It also does not recognize that changes in input policies have improved productivity in most years and have not caused low productivity.

The evaluation report does not recognize the efforts of other donors. It is obvious that national aggregate figures such as GDP, agricultural productivity cannot only be attributed to the World Bank assistance alone. The efforts of other donors need to be recognized alongside the extent to which the Bank assistance has contributed to the movements in national variables.

The report highlights the absence of adequate government commitment to reforms. It should also be noted that slow progress in implementation of reforms is contributed by unrealistic design of some of these reform packages. Adequate studies and consultations among stakeholders can assist in this regard.

The finding that some supervision missions mis-inform the Bank on the implementation progress ratings of some projects in Malawi is a matter of great concern to us. You cannot have two sets of missions from the World Bank with different conclusions on the same project. There is need for the Bank to do adequate research on this to establish what the real problem is and avoid recurrence of this in future.

Otherwise, the evaluation report has brought out useful information, lessons and recommendations for efficiently and effectively utilizing the Bank's resources in future.

Yours sincerely,

R.P. Mwadiwa
SECRETARY TO THE TREASURY

Attachment 2: Chairman's Summary

COMMITTEE ON DEVELOPMENT EFFECTIVENESS

(Meeting of April 26, 2006)

1. The Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on April 26, 2006 to discuss the Malawi Country Assistance Evaluation, prepared by the Independent Evaluation Group (IEG).

2. Background. The CAE for Malawi provides an assessment of World Bank assistance to the country during the period FY96-05. The evaluation notes that following a promising start after the first multi-party elections in 1994, Malawi's performance has deteriorated from 1997 onwards. IEG rated the overall outcomes of the Bank's assistance program in Malawi as unsatisfactory, noting that despite limited success on health and education, the Bank's activities did not achieve the program objectives of macroeconomic stability, public sector reform, broad-based labor-intensive growth and social development. The evaluation stated that while the Bank's assistance program objectives in the country were relevant and consistent with those of the government, its strategies overestimated the government's capacity and commitment to reform. In addition, the evaluation noted that the Bank's interventions were not sufficiently selective and focused.

3. The primary lessons from the evaluation are: (i) limited impact of adjustment lending under conditions of fiscal mismanagement and weak government commitment to reform; and (ii) importance of addressing agriculture and rural economy issues directly, and not relying on multi-sector adjustment loans. Looking forward, the CAE recommended: (a) lending to be based on actions taken, not action plans; (b) prioritizing public expenditure management; (c) focusing on agricultural productivity and food security; (d) continuous support for education, health and social safety nets; (e) enhancing collaboration with other donors; and (f) improving the work of the Country Office, including reduction in task managers' turnover.

4. Management concurred with most of the conclusions and recommendations of the CAE, but also noted improvements in recent portfolio performance, as well as budget implementation and fiscal discipline. The Malawi authorities commented that the evaluation did not properly acknowledge recent improvements in financial management, government's efforts in combating corruption and efforts of other donors. The Government also expressed concerns about the unrealistic program design and quality of supervision reporting.

5. Main Conclusions and Next Steps. The Subcommittee welcomed the CAE and broadly agreed with its findings and recommendations. Members stressed that lessons coming out of the IEG assessment need to be reflected in the upcoming country assistance strategy and

urged the next Bank program be more focused on key sectors where the Bank has a comparative advantage – agriculture, infrastructure and public financial management.

The following points were raised:

6. Results and lessons learned. Several speakers noted that many issues identified in the evaluation–Bank's programs being thinly spread across sectors, etc. - were of recurring nature from one country assistance strategy cycle to another. In their view, those questions could have been partly addressed through more effective use of recommendations of previous assessments. A member underlined that outcomes of the Bank's assistance to Malawi might be indicative of some systemic program design issues of the Bank's interventions in an extremely poor country like Malawi, such as excessive emphasis on structural and fiscal adjustment at the expense of targeted sectoral investments. In this regard, several members urged developing more specific goals for the upcoming country assistance strategy, focusing on sectors and areas where the Bank has a comparative advantage: infrastructure financing, agriculture, financial sector, aid coordination and community-based operations. Management replied that the next country assistance strategy, coming out of extensive consultations with the authorities and civil society and the country's own PRSP, will take important inputs from the CAE and other evaluations and will have a sharper sectoral focus. A member welcomed that this management response seemed to develop the IEG message of Bank focus and desirably took it further than the IEG had sketched. Another member urged continuous efforts to strengthen country's statistical capacity. Management noted that Malawi has become a WBI focus country, which will help facilitate capacity building work.

7. Exogenous shocks. Several speakers wished the evaluation had made more specific reference to the severe drought, its impact on the country and the Bank's role – especially in light of the recent CODE discussion of IEG's assessment of the Bank's work on natural disasters. They stressed that an exogenous shock of that magnitude in a very poor country must have had a significant impact on program outcomes, which should have been reflected in the evaluation. IEG replied that the issues of natural disasters and food security have been indirectly addressed in the evaluation through its discussion of relevant internal governance arrangements and the inefficiency of parastatal structures. Management noted that high incidence of HIV/AIDS is another negative factor having a major impact on public sector efficiency that deserved more attention.

8. Public sector reform. A member noted that the evaluation's assessment of public sector reform needs to take into account recent positive developments, especially in the financial sector. IEG replied that despite some positive developments, the financial sector remains very small and lacks competition. Another member noted the country's weak and inefficient systems for public expenditure management and budget control and suggested introducing an Integrated Financial Management Information Management System (IFMIS) that has been successfully applied in other regions. IEG clarified that initial efforts to install an IFMIS began in 1995 and continued throughout the review period, albeit with little result. IEG noted that eventually an IFMIS has been implemented in Malawi in November 2005. Management added that adopting an IFMIS is one of the HIPC triggers for Malawi.

9. Private sector development. A member felt that an assessment of outcomes of the Bank's objective of broad based labor intensive growth would be incomplete without an

analysis of growth of the informal sector, following implementation of measures aimed at liberalizing domestic product and trade-related markets. Another member asked whether the results of Doing Business report can be translated into actionable targets for improving the regulatory environment. Management replied that while drawing an action plan for private sector development it will also look at other reports and performance indicators, especially the Country Policy and Institutional Assessment (CPIA).

10. Agriculture and rural development. A member noted that the evaluation would have benefited from addressing in more detail the issue of fiscal constraints for financing rural infrastructure, agricultural research and extension services. Looking forward, several members stressed that agriculture and rural development stand out as priority sectors for the country's development, where the Bank should concentrate its efforts.

11. Debt and aid. A member noted Malawi's high dependence on aid and asked whether the country's absorptive capacity has reached its limits. IEG replied that while there is a clear link between aid effectiveness and absorptive capacity in general, multiple other factors and country-specific circumstances often make it very difficult to make a precise judgment as to whether a country is receiving too much or too little aid. Management clarified that while absorptive capacity is a serious concern, the country's extreme poverty makes a case for a very strong role for the donors in years to come. At the same time management stressed that despite overall weak capacity, the basic systems for debt management are in place and running. Several members noted with concern that IDA contributed to the bulk of the country's external debt with little positive outcomes, and added that the IEG report would have benefited from discussing the impact of HIPC initiative and Multilateral Debt Relief Initiative (MDRI) in drawing relevant lessons.

12. Donor coordination. Several members were concerned about inadequate coordination of donors' efforts in Malawi, and asked whether there is a scope for improvement and whether the Bank is ready to assume more assertively a leadership role in this regard. Management replied that the main factor hampering donor coordination was the lack of leadership and initiative from the government side.

13. Bank operations. A member noted with concern operational weaknesses, identified in IEG's evaluation – inadequate country ownership, overly ambitious design and poor implementation of projects, insufficient linkage of economic and sector studies with lending operations – and asked whether they were stipulated by systemic failures, i.e. inadequate staff incentive system, high staff turnover rates, lack of accountability. Management noted that the country office is presently in the process of re-evaluating staff requirements which will also address issues pertaining to staffing and incentives.

14. IFC activities. Several members noted a virtual absence of IFC activities in Malawi, which is attributed in the CAE to a poor business climate, and stressed the importance of IFC's engagement in frontier countries and difficult situations. Management replied that IFC has recently increased its staff in the sub-region, which might raise the level of its activity, but added that Malawi's extremely poor basic business climate conditions remain the major reason for lack of IFC investments.

Pietro Veglio, Chairman

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