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PROJECT PERFORMANCE ASSESSMENT REPORT

REPUBLIC OF MALAWI

**EMERGENCY DROUGHT RECOVERY PROJECT
(CREDIT NO. 3715-MAI & GRANT NO. H011 MAI)**

May 24, 2007

*Sector, Thematic and Global Evaluation Division
Independent Evaluation Group*

Currency Equivalents (annual averages)

Currency Unit = Malawi Kwacha (MK)

2002	US\$1.00	MK72.10
2003	US\$1.00	MK108.7
2004	US\$1.00	MK108.9
2005	US\$1.00	MK116.4
2006	US\$1.00	MK116.4

Abbreviations and Acronyms

ADMARC	Agricultural Development and Marketing Corporation
DFID	Department for International Development
DHS	Demographic and Healthy Survey
FAO	Food and Agriculture Organization
FEWSNET	Famine Early Warning System Network
FIMAG	Fiscal Management and Accelerating Growth Program
FRDP	Fiscal Restructuring & Deregulation Project
IDA	International Development Association
IEC	Information, Education and Communication
IHSP	Integrated Household Survey on Poverty
IMF	International Monetary Fund
MoAI	Ministry of Agriculture and Irrigation
MoFS	Ministry of Agriculture and Food Security
MASAF	Malawi Social Action Fund
MGDS	Malawi Growth and Development Strategy
MPRS	Malawi Poverty Reduction Strategy
MVAC	Malawi Vulnerability Assessment Committee
NSO	National Statistics Office
NFRA	National Food Reserve Agency
PRGF	Poverty Reduction and Growth Facility
NGO	Nongovernmental Organization
OVPC	Office of the Vice President and Cabinet
SADC	Southern Africa Development Cooperation
SFR	Strategic Food Reserve
SFFRFM	Small Farmer Fertilizer Revolving Fund of Malawi
SSP	Sponsored Subprojects
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
USP	Universal Starter Pack
VAM	Vulnerability Analysis and Mapping
WFP	World Food Program

Fiscal Year

Government: July-June

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IEGWB Mission: Enhancing development effectiveness through excellence and independence in evaluation.
About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses about 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, interview operational staff, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, Panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. IEGWB incorporates the comments as relevant. The completed PPAR is then sent to the borrower for review; the borrowers' comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

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Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing, toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

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Principal Ratings

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Satisfactory	Satisfactory	Satisfactory
Institutional Development Impact**	Substantial	Substantial	NR
Risk to Development Outcome	NR	NR	Significant
Sustainability***	Likely	Likely	NR
Bank Performance	Satisfactory	Satisfactory	Moderately Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Moderately Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.

**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.

***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Key Staff Responsible

<i>Project</i>	<i>Task Manager/Leader</i>	<i>Division Chief/ Sector Director</i>	<i>Country Director</i>
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Preface

This is an Enhanced Project Performance Assessment Report (PPAR) for the Malawi Emergency Drought Recovery Project (Credit No. 3715-MAI, Grant No. H011 MAI). Besides natural disasters such as droughts and floods, there are core sectoral issues that explain food crises in Malawi. To highlight these factors, the Assessment provides a review of the agricultural sector issues and strategy, and the Bank's assistance to the sector.

The Project was approved on November 5, 2002, and became effective on January 13, 2003. A combined credit of SDR 22 million (\$29 million) and a grant of SDR 15.9 million (\$21 million) was approved to support Malawi's effort to overcome the effects of the 2001/2002 natural disaster caused by floods and drought. The credit and grant were closed on schedule on November 30, 2004, with a cumulative disbursement of US\$53.7 million and a total project cost of \$55.2 million.

The PPAR findings are based on an IEG mission that visited Malawi in November 2006. Additional information came from an in-depth review of Malawi's agriculture sector to discern the structural causes of food crisis beyond the recurrent natural crises; project files, including the Implementation Completion Report (ICR); review of sector studies; the recent IEG Country Assistance Evaluation, Quality Assurance Group's Country Program Assessment, and IEG's evaluation of Bank assistance for natural disasters. Interviews were also held with officials of the Government of Malawi including representatives of the Ministry of Agriculture and Food Security (formerly the Ministry of Agriculture and Irrigation, the Implementing Agency) and other project implementing and relevant agencies; Malawi's development partners, including the UN, multilateral and bilateral donors, and NGOs; and the Bank's Regional Staff. The PPAR Mission visited the Southern Region and met with local government officials and community representatives who participated in the project.

In accordance with standard IEG procedures, a copy of the draft PPAR was sent to the Borrower for review and comments before it was finalized. The Borrower's comments are attached as Annex F.

Summary

In July 2002, the Government of Malawi approached IDA for an emergency assistance to assist in drought recovery and improve its emergency response management. The Bank responded quickly and positively with a \$50 million equivalent credit and grant.

In Malawi, episodes of food crisis are recurrent and are attributed to long standing policy and institutional failures exacerbated by frequent disasters including floods and droughts. Malawi has experienced six natural disasters since 1991/92. The EDRP was the third IDA-assisted emergency operation in Malawi.

Mismanagement of the strategic food reserve, disagreement with donors on the available domestic food supply, high maize prices, rising chronic food insecurity exacerbated by HIV and AIDS, and poor economic management, coupled with floods in 2001 followed by drought in 2002 triggered the 2001/02 food crisis.

The Project was primarily designed to provide a quick disbursing balance of payments support to finance high priority agricultural inputs and equipment. The Project also included a conditional cash transfer scheme to generate income to drought affected populations while creating and rehabilitating community assets and technical assistance to improve the Government's drought mitigation and emergency response.

The project was successfully implemented, and the credit/grant was fully disbursed in less than two years and closed on schedule. The private sector participation in the quick disbursing component was substantial. Nearly all the imports financed under the project were supplied by the private sector and marketed through private sector outlets. Despite initial delays, the conditional cash transfer for public works and the in-kind input (fertilizer and seeds) remuneration for assets, boosted incomes of, and provided critical inputs to, farm households. The various studies, pilot projects and training programs contributed to Malawi's ongoing effort to address chronic food insecurity.

IEG rates the project's overall outcome as **satisfactory**. The project objectives and design aimed at addressing the immediate effects of the drought and the measures to respond to long-term sectoral issues are relevant to the Bank's assistance and Government's development strategies. The Project has also achieved the stated development objectives with efficiency. While the Bank's and Borrower's performance on quality at entry and preparation were satisfactory, their overall performance is rated **moderately satisfactory** due to weak supervision, reporting and monitoring and evaluation on project implementation and on achievement of development objectives. The Borrower's delayed declaration of the food crisis exacerbated the crisis and the loss of lives.

The Risks to Development Outcomes are **significant**. The rating reflects Malawi's and the project beneficiary households' continued vulnerability to future drought episodes and resulting food crisis. There are encouraging signs of a shift towards somewhat reduced risk with respect to the way the Government responds. The Government's planned Agricultural Policy Framework and pilot risk management schemes are aimed at mapping a long-term

strategy for agriculture which will mitigate natural disaster shocks. These actions will take time to materialize and significantly avert drought related risks.

Malawi has a functioning Vulnerability Assessment Committee that monitors incidence of household food insecurity as a basis for public assistance and has established a valuable data base for emergency operations. The project did not establish a stand-alone Monitoring and Evaluation System except for the progress reporting from each implementing agency. While the Committee's data base was useful in monitoring food security indicators it lacked an evaluation mechanism. IEG rates the M&E System as **modest**.

Several valuable lessons, relevant to both the Borrower and the Bank emerge from the design and implementation of the EDRP.

- In disaster prone countries, regular monitoring and reporting of rainfall patterns, food balances (domestic consumption, production, imports including informal cross border trade), and crop prices is critical for timely mitigation and emergency response measures.
- Bank assistance should pay particular attention to food security issues in countries with chronic food insecurity and vulnerable to natural disasters. The Bank should also acknowledge in its Country Assistance Strategy that natural disasters in Malawi are recurrent risks to macro-economic stability and overall development. Notwithstanding the importance of favorable rainfall distribution during the crop growing season, sectoral and policy issues are also determinants of agricultural production. This is an urgent reminder for the need to address Malawi's core agricultural and food security issues.
- Reducing food insecurity requires inter alia broad-based sources of livelihood including non-farm incomes.
- Effective management of a strategic grain reserve requires the management of both in-kind and cash resources. Since Malawi is landlocked with weak logistical capacity, a minimum in-kind reserve coupled with disposable cash reserve equally accessible to private sector importers is imperative to respond to future emergencies.
- To address food insecurity a regional approach which promotes regional trade is needed. Malawi should continue to actively participate in the Southern Africa Development Cooperation (SADC) and the New Partnership for Africa's Development (NEPAD) which promote regional trade. Facilitating regional trade, including the growing informal cross border trade, is critical to food security.

Vinod Thomas
Director-General
Evaluation

1. Introduction and Sectoral Background

1.1 Malawi is a small, landlocked Sub-Saharan African country covering about 118,000 square kilometers with a population of about 12.6 million. Since independence in 1964, population growth rate has averaged 3 percent per annum but has recently dropped to about 2 percent due to the impact of the HIV AND AIDS pandemic and family planning programs. HIV AND AIDS has claimed the lives of about 5 percent of the total labor force and life expectancy has declined from 51 to 40 years. Malawi is one of the most densely populated countries in sub-Saharan Africa with about 115 people per square kilometer. Of the total area, 20 percent is covered by water and 45 percent is considered suitable for cultivation. Due to high population pressure on land, about 70 percent of the smallholder farmers, the main producers of food in Malawi, cultivate an average of less than a hectare of land.

1.2 Following three decades of one-party and one-man rule, the first elected government was inaugurated in 1994. Malawians voted for the current government in 2004, which has embarked on a series of economic reforms and launched a major anticorruption campaign.

Poverty Remains Unchecked

1.3 The United Nations Development Program (UNDP) Human Development Index ranks Malawi 166 out of 177 countries. In 2005, over 52.4 percent of the rural population lived below the poverty line. As many as 2.7 million Malawians (22 percent) live in dire poverty (ultra-poor)¹. Poverty is widespread and rising. Details on poverty profiles and strategies are given in Annex C. About 65 percent of the population consumes less than 1,500 calories per day, compared to the average recommended daily calorie requirements of 2,200 calories.

1.4 Malnutrition rates are persistently high even in good crop years and child mortality and morbidity have remained unchecked. Adult malnutrition has reached 25 percent which exacerbates the suffering of HIV AND AIDS affected population. Table 1 summarizes malnutrition related indicators.

Table 1. Selected Malnutrition Related Indicators, 2006

Wasting: 5.2%	Severe wasting: 1.6%
Underweight: 22%	Stunting: 47.8%
Child mortality rate (under 5): 133/1000 live births	
Infant mortality rate (under 1): 76/1000 live births	Maternal mortality rate: 984/100,000 live births

Source: WFP Malawi Newsletter, November 2006

1. Government of Malawi, Food and Nutrition Security Policy Monitoring and Evaluation System, 2006

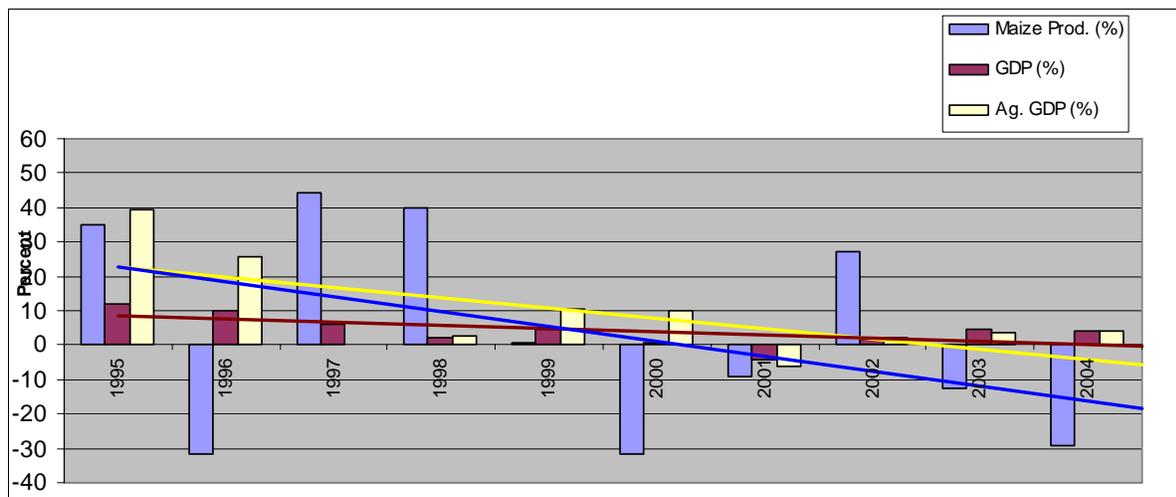
The Agriculture Sector

1.5 Agriculture is the mainstay of the Malawian economy. The sector contributes about 39 percent of the gross domestic product (GDP) and 87 percent of the total employment, supplies more than 65 percent of the manufacturing sector's raw materials, provides 64 percent of the total income of the rural people, and contributes more than 90 percent of the foreign exchange earnings. Rural people account for more than 85 percent of the population. The majority of the rural households are smallholder farmers who are mostly reliant on a single harvest of maize for consumption. There is chronic lack of access to seed, particularly improved varieties, and fertilizer. Other food crops are also grown in lesser quantities, including cassava, rice, sweet potato, millet sorghum, and Irish potato. Food security in Malawi is defined with reference to maize, which occupies about 70 percent of cultivable land in any growing season. Tobacco is Malawi's largest export cash crop, accounting for 51 percent of export earnings, followed by tea and sugar. Tobacco production has declined in recent years due to weather failures, and auction prices² have fallen, both of which have affected economic growth and smallholder farmers' disposable income.

Performance of the Economy and the Agriculture Sector

1.6 During the past 10 years, economic growth in general and agricultural growth in particular has been elusive. Malawi's real GDP growth during 1995–2005 (Figure 1) has been on a declining trend. Since 1998 the growth rate is far below the six percent per annum growth threshold to reduce poverty significantly, with real GDP growth falling to less than 2 percent between 2000 and 2002.

Figure 1. Annual Growth Rates – Maize, GDP and Agricultural GDP



1.7 In 1994 the government had introduced a far-reaching Agriculture Sector Strategy with several measures to improve opportunities for smallholders. The opening of burley tobacco production to smallholders, amendment of the Special Crops Act to encourage smallholders to cultivate cash crops, repeal of the Agricultural Produce and Livestock Act to liberalize the pricing and marketing of all agricultural produce (except maize), and the lifting

of export licensing requirements for beans and groundnuts and import licensing on seeds and fertilizers marked a new era for agriculture in Malawi. These reforms, together with favorable weather conditions, resulted in agricultural GDP growth of 40 percent and 26 percent in 1995 and 1996 respectively. Table 2 presents selected agricultural sector related data. The disappointing performance of maize production during 2000–04, points to the structural weaknesses and external shocks facing the sector. Annex D presents the Structure of, and Selected Issues in, the Agriculture Sector.

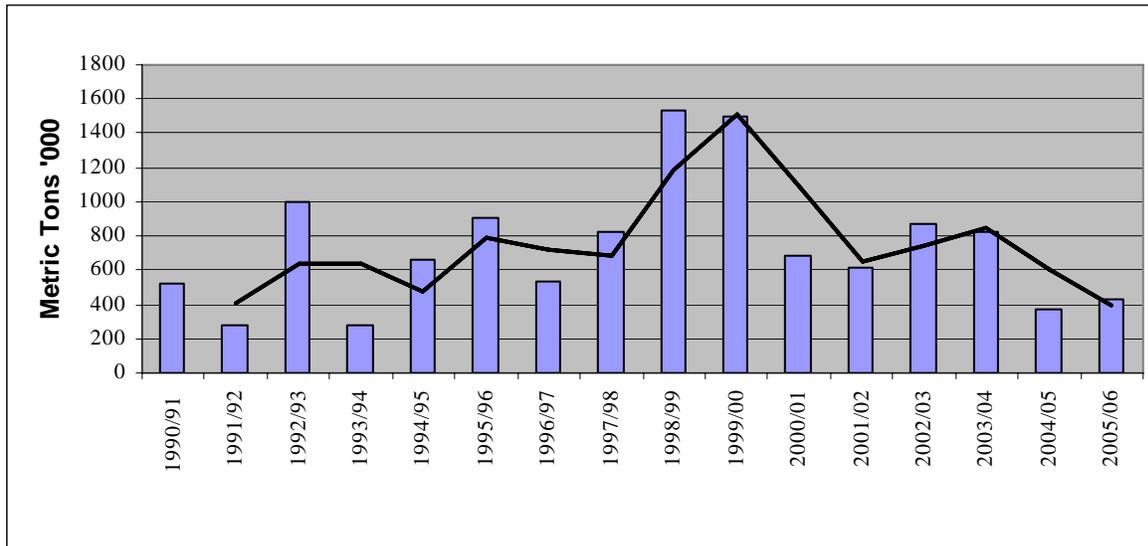
Table 2. Agriculture Sector Performance Indicators

<i>Indicators</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
Ag. GDP Growth (1994 factor cost)	39.6	25.5	0.1	2.7	10.3	10.1	-6.2	2.4	3.8	4.1
Ag. Share of GDP (%)	30	35	34	33	35	37	34	37	38	39
Total Exports (US\$ mill)	404	483	530	528	447	406	427	421	441	470
Tobacco	256	300	346	321	215	241	236	284	291	223
Tea, sugar, coffee	69	71	78	101	71	81	97	81	109	132
Total Imports (US\$ mill)	474	624	783	579	674	563	585	727	792	866
Maize ('000 MT)	235	83	55	325	31	9	166	417	26	98
Food Aid (000 MT)	NA	123	45	73	36	42	198	118	113	120
Fertilizers ('000 mt)	44	58	245	154	110	55	225	228	228	250

Source: NSO, IMF, government of Malawi, DfID, and FAOSTAT; and also note that for the 2005/06 food crisis, due to government and donor interventions, the shortfalls for the year was contained at 335,400 metric tons (Malawi Vulnerability Assessment Committee report and WFP, 2006)

1.8 Since 2001, the impact of erratic weather patterns has been compounded by high inflation and interest rates, making credit inaccessible to the poor, and it also caused uncertainty among businesses leading to low real GDP growth. In addition, a poor tobacco harvest (either in quality or quantity of output) with depressed market prices created downward pressure on the Malawi Kwacha. Tobacco harvest declined from 101.75 million kilograms in 2005 to 22.25 million kilograms in 2006. The value also dropped from \$233 million to \$50.71 million in 2006.

1.9 Over the past 10–15 years, Malawi has shifted from being a self-sufficient producer of maize in non-disaster years to being a regular net importer dependent on foreign assistance to achieve a national food balance. The Government has introduced various initiatives to boost agricultural production and alleviate poverty. These include market liberalization (1994), and agricultural production support programs such as the Universal Starter Pack (USP- 1998), and the Targeted Input Program (TIP-2002), which was replaced by Universal Input Subsidy Program (UISP-2005). An Agricultural Productivity Investment Program (APIP) was also launched in 1996 with EU-assistance to increase agricultural productivity among smallholder farmers through the provision of credit facilities. The program was closed in 2005 with limited results and a high default rate. Despite these and other initiatives, agricultural productivity remains low, poverty remains pervasive and food insecurity has escalated since the food crisis in 2001. Since 1998/99, hybrid maize production, promoted under the input subsidy programs, has exhibited a declining trend (Figure 2).

Figure 2. Hybrid Maize Production

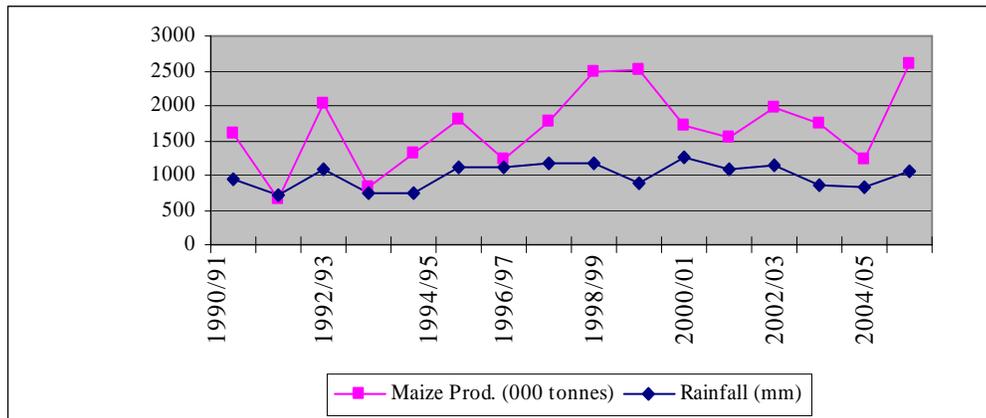
1.10 Despite the resumption of the universal input subsidy, low rainfall levels in the 2004/05 growing season reduced the harvest by about 50 percent from the previous season. The production shortfall resulted in 60 percent of farm families relying on food aid and subsidized food distribution. According to the Famine Early Warning System Network (FEWSNET), Malawi's food deficit was estimated at about 390,000 metric tons in the consumption/marketing season from April 1, 2005 to March 31, 2006. The total net informal cross-border imports during this period contributed significantly to Malawi's food security. However, due to uneven food distribution in the country, household food insecurity existed in many parts of the country.³ Annex E presents Malawi's evolving Agricultural Sector Strategy and a review of Bank assistance to the sector.

The 2001/02 Food Crisis

1.11 The UN classifies Malawi as both a least-developed and low-income food deficit country with high rates of poverty and household food insecurity. In addition, the rapidly growing HIV AND AIDS pandemic has affected the availability of active farm labor and has exacerbated household food insecurity. Malawi is vulnerable to recurrent natural disasters. Since 1997/98, the two severe food crisis seasons have been 2001/02 and 2004/2005 (Figure 3). According to an Action Aid report,⁴ lack of information contributed to the famine in the 2001/2002 crisis in several ways. Crucial information such as food availability—domestically produced, and imported formally and informally, was either “plain wrong,” concealed, ignored, or misused. These information constraints delayed both commercial and public distribution responses to the food shortage, and contributed to the process that saw the food shortage deteriorate into a famine, in which an estimated 500 people died of hunger and hunger-related diseases.

3. FEWSNET. (March 2006). Informal Cross-Border Trade Update April 2005 to March 2006. Informal Cross-Border Trade Monitoring System, Lilongwe, Malawi

4. Devereux, S. (2002). State of Disaster: Causes, Consequences and Policy Lessons from Malawi.

Figure 3. Maize Production and Rainfall

1.12 It was only after civil society and the media disseminated information about the severity of the crisis that the government acknowledged the problem and appealed for assistance, and stakeholders were prompted into action. On February 27, 2002, the President of Malawi declared a “State of Disaster,” and appealed for international assistance to respond to the crisis, stating “Malawi is facing a catastrophic situation with up to 78 percent of farm families (2.2 million people) being without food.” Malawi’s vulnerability to food crisis is attributed to policy and institutional as well as weather failures.

Strategic Grain Reserve Mismanagement—A Case of Policy and Institutional Failure

1.13 Prior to 1999, the Agricultural Development and Marketing Corporation (ADMARC) was mandated to manage domestic price support and the Strategic Grain Reserve (SGR). In 1999, the government agreed under the World Bank-assisted Fiscal Restructuring and Deregulation Program and an IMF Program to establish the National Food Reserve Agency (NFRA) as an independent, autonomous agency for disaster relief and to prepare ADMARC to phase out its price support program and to operate on commercial basis. Such an arrangement was also intended to encourage the participation of the private sector in grain trading and storage.

1.14 In 2000, Malawi had an exceptional maize harvest due to the Universal Starter Pack (USP) program and good rainfall. With the implementation of the USP, total maize production increased from about 1.6 million metric tons in 1998 to 2.5 million metric tons in 1999 and 2000. In August 2000 the NFRA had 175,000 metric tons in ADMARC-owned storage facilities.⁵ By August 2001 the official maize reserve at NFRA was emptied partly as a result of an apparent lack of clarity of responsibilities between ADMARC’s role in domestic grain marketing and NFRA’s responsibility for managing buffer stocks for relief.

5. As reported in the Fiscal Restructuring and Deregulation Project (FRDP II) of the World Bank.

In the absence of a clear agreement between ADMARC and NFRA, both were selling SGR maize, creating market distortions.⁶

1.15 The decision to sell the SGR maize followed an EU-supported study that had recommended the SGR be limited to between 30-60,000 tons. Instead, almost all of the reserve was sold, much of it to the local markets. It has also been alleged that the SGR-maize was sold to local traders, who stockpiled it and made windfall profits (Devereux 2002). A subsequent attempt by the government to cover the resulting food gap through imports proved extremely costly. Being a landlocked country, a series of transport and logistical problems caused fatal delays and an escalation of maize prices.

1.16 SGR grain losses in storage were also high. Audits of NFRA financial accounts since 2001 indicate a loss in storage that ranges from 3 percent of stock value in 2001 to 42 percent in 2003, and losses remained as high as 24 percent in 2004. These figures, especially from 2002-04, are significant given the average reserve of 60,000 metric tons per year. These large losses in storage were a direct consequence of mismanagement by the organization.

Disagreement between the government and its development partners

1.17 In 2002, government and donor relations were at their lowest point. Donor balance of payments support was suspended when the government exceeded its agreed spending limits, and following allegations of corruption and overall weak governance.⁷ When the government declared the crisis and requested food aid, the development partners disagreed with the assessment, and argued that the maize gap would be covered by local maize strategic reserves, roots and tubers, as well as formal and informal maize imports. But according to the Ministry of Agriculture, the evidence suggested that the reported growth in production of root crops was not reliable. An expansion in production of alternative crops could not compensate for a national shortfall in maize production. This is because alternative food crops—cassava, sweet potatoes, and rice—are not available in most rural households during February (the hungriest month—when farm households have depleted their previous year's production). Their harvest comes later in the year. Ironically, the cycle of availability of non-maize staple foods accentuates rather than offsets that of maize shortages in the hungry season.

1.18 Unreliable production estimates of cassava and sweet potato led to unrealistic assumptions about consumption. The World Bank (2003) noted that if the crop estimates had been correct, Malawi would have produced between 3,400 and 3,900 kilocalories per day per capita between 2000 and 2003. Data from the Integrated Household Survey indicate that average consumption is only 1,818 kilocalories per day. Since the disagreement between the government and its development partners continued for some time, and there were no grain reserves left, the government started purchasing 15,000 metric tons of maize per month.

6. These failings were noted in an audit report of May 2003. The auditors also concluded that NFRA made major losses through poor grain management and handling procedures, confused lines of authority, decision making and reporting (EU 2003).

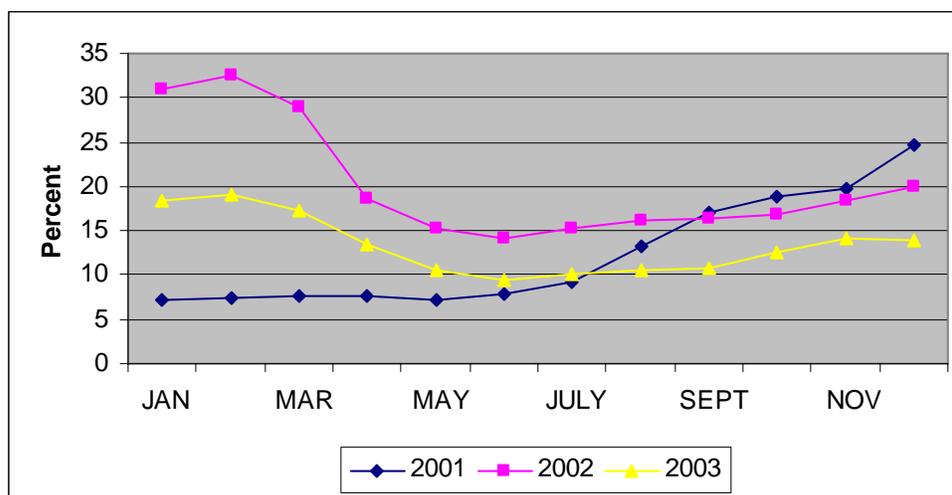
7. By November 2001, DIFID, EU, Denmark and USAID had suspended their aid programs. GOM had yet to comply with the agreed domestic borrowing and spending limits under the IMF US\$55 Poverty Reduction and Growth Facility.

After considerable delays due to cumbersome transport, payments, and procurement procedures, the NFRA received 94,000 metric tons by September 2002.

1.19 The international community subsequently came to the rescue and responded positively to the government's repeated appeal with cash and in-kind pledges. The EDRP was an integral part of the relief and recovery assistance. Following a meeting between the government and the international community, a Joint Emergency Food Aid Program (JEFAP) consortium was created to respond to the crisis. The World Food Program led the consortium and targeted, delivered, monitored, the funds used and the food aid distributed. At the height of the 2002/03 crisis, 3.2 million people throughout the country were being assisted through government, donor and NGO operations.

1.20 **Maize Prices.** ADMARC administers pan-territorial prices to purchase and sell maize. However, market prices are often significantly higher signaling supply scarcity. A rapid grain price increase is probably the most reliable indicator of an impending crisis. Figure 4 shows that grain prices increased sharply starting as early as July 2001. These skyrocketing food crop prices should have alerted the GOM and the donor community to the impending crisis, but the warning signs were overlooked. Maize prices peaked in the 2001/02 consumption season. The data also shows the seasonal pattern of retail prices. Retail prices generally rise as the season progresses and decline at the time of harvest. This pattern reflects the prevailing demand and supply conditions in the market.

Figure 4. Trends in nominal maize retail prices in selected markets



Source: (i) MoAFS Agro-Economic Survey database; (ii) NSO Quarterly Statistical Bulletins.

Food Insecurity Is Chronic

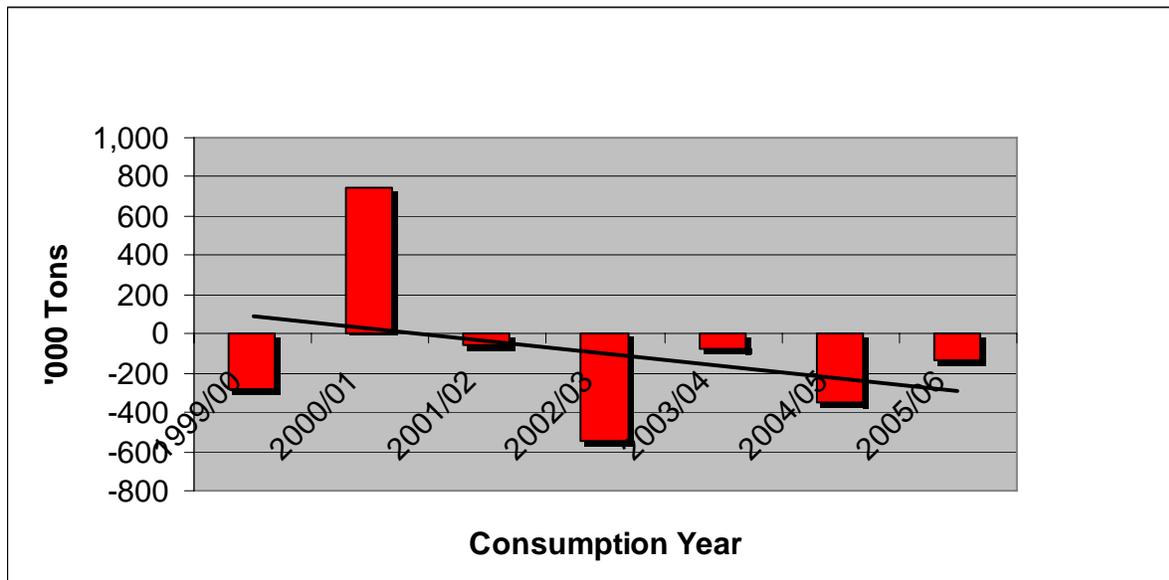
1.21 The MOAFS estimated that over 5 million people were at risk of being food insecure in 2005/06, the highest since 2002/03. Table 3 presents, annual population at risk since the 2002 crisis.

Table 3. Population at Risk of Food Insecurity 2002 to 2005/6

Year	Population at risk	% of Total population
2002-03	3,200,000	29%
2003-04	400,000	3%
2004-05	1,340,000	11%
2005-06	5,055,000	41%

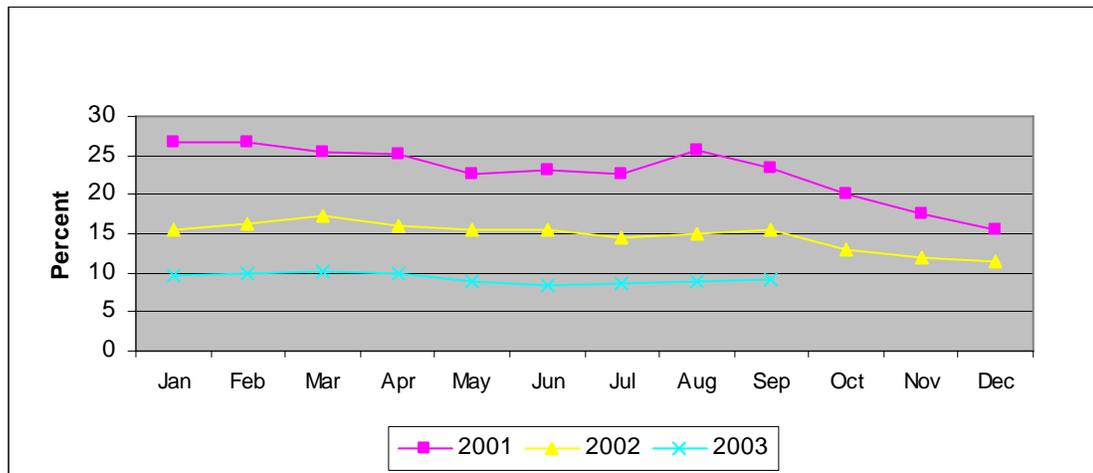
Source: Ministry of Agriculture and Food Security and WFP, 2006

1.22 Recent data show a worsening of locally produced food availability. The last year Malawi had surplus food production was 2000/01 when the USP was being implemented. After the termination of the USP, Malawi has never been able to produce enough staple food to feed itself. The trend shows a worsening of the food availability as the domestic food gap has been widening (Figure 6) and formal and informal imports and food aid have become critical to Malawi's food security.

Figure 6. Domestic Food Balance in Maize Equivalent

Source: Ministry of Agriculture and Food Security, Planning Department.

1.23 **Weak Economic Performance.** Malawi's high inflation (Figure 5) has resulted largely from poor public expenditure management. As a result of the previous government's failure to control expenditure, particularly since 2000, Malawi had accumulated a large domestic debt that threatened macroeconomic and financial stability, and servicing this debt crowded out other expenditures on social and economic services as well as investments, and fueled inflation and high interest rates.

Figure 5. Monthly Inflation Rates (2001-2003)

Source: NSO Quarterly Bulletins and Annual Economic Reports

1.24 Malawi's domestic borrowing was rising rapidly. In 2002, domestic debt⁸ had reached 25 percent of GDP while domestic interest rates had risen to 46 percent. Interest payments absorbed nearly 30 percent of government expenditure. As a result, provision of basic services and priority investments programs in agriculture and infrastructure received minimal resources. Foreign exchange reserves also fell sharply after August 2001. This was partly due to the use of foreign exchange to import maize, and partly as a result of the suspension of balance of payments support. In May 2002, Malawi failed to meet the agreed benchmarks (among others the reduction in domestic borrowing) for the release of \$47 million under the IMF's Poverty Reduction and Growth Facility (PRGF). Only one review of the PRGF was successfully completed in October 2003. The combination of financing through domestic credit expansion, and the running down of foreign reserves led to exchange rate depreciation and increased inflation, which had an adverse impact on investment and growth. The MK fell to MK108/US\$ (August 2003), compared with MK65/US\$ two years earlier at the start of the food crisis. Following a successful implementation of an austerity program in August 2005, Malawi reached the HIPC Completion Point and qualified for the Multilateral Debt Relief Initiative (MDRI), which would reduce its external debt from 229 percent of export earnings to 32 percent.

2. Project Objectives and Design

2.1 In July 2002, the Government of Malawi requested emergency assistance from IDA to address the food crisis.⁹ The Bank responded positively, and quickly assembled a mission to prepare and appraise the project in August. A \$50 million equivalent credit and grant (and an estimated government contribution of \$0.5 million) was approved in November 2002 and

8. The debt of over US\$75 million was due to be paid to commercial banks with about 46% interest rate

9. Although signs of famine started in mid 2001, the GOM did not declare an emergency until February 2002.

declared effective on January 13, 2003. The EDRP was the third IDA-assisted emergency operation in Malawi.¹⁰

2.2 The objectives of the project, as stated in the Memorandum of the President (MOP) were highly ambitious: (i) allow the government to maintain key commitments to its economic and investment priorities consistent with PRSP process while averting famine; (ii) help restore productive capability of the country; and (iii) support long-term disaster management. The objectives in the Development Credit Agreement (DCA) were prudent and focused on the emergency: (i) to improve the borrower's emergency response management; and (ii) to assist in recovery from drought. While the development objectives formulated in the MOP, aimed at addressing the long term issues by linking the project with the GOM's commitment under the PRSP process were desirable, the design of the project was largely aimed at meeting the emergency needs while supporting selected measures to address the long-term issues. This divergence poses a dilemma for assessing the achievement of the objectives. However, the Project outcomes are assessed based on the DCA's specification of the project objectives since these were more realistic and appropriate for an emergency operation.

Project Components

2.3 **Component 1: Quick Disbursing Assistance for Critical Imports (\$40 million or 80 percent of the credit/grant).** The project was primarily designed to provide quick-disbursing balance of payments support to finance critical imports from an agreed positive list of import requirements linked to the drought recovery efforts. As the Bank does not finance food items¹¹ the agreed positive list of imports consisted of (i) petroleum and fuel products; (ii) agricultural inputs—primarily fertilizers; (iii) agricultural and construction equipment and spare parts; (iv) livestock, animal products, and veterinary supplies; (v) school supplies, medical supplies and equipment. The agreed list was aimed at meeting the emergency goods and service requirements of selected sectors affected by the drought.

2.4 **Component 2: Income-Generating Public Works and Sponsored Subprojects (\$8 million or 16 percent of the credit/grant).** To enhance the purchasing power of drought-affected populations, the project included a series of small-scale public works including feeder roads, community afforestation, small water retention dams, and canal clearance. This component complemented the ongoing Bank-assisted Malawi Social Action Fund (MASAF-II). An added feature to this component was a program of social assistance for vulnerable households who would not benefit from the employment schemes due to old age or sickness, and a program to improve public awareness and participation through an Information, Education and Communication subcomponent. Although MASAF had its own operating principles and procedures, the requirement under the EDRP was to create temporary wage paying employment for a period of six months to generate household cash income.

10. In 1992 IDA provided a US\$120 million Credit followed by a supplementary Credit of US\$40 million in 1994. In 2005, the fourth Emergency Recovery Grant of US\$30 million was approved.

11. It was agreed that the GOM would use its own reserves to import maize and the proceeds from sale would be used for the emergency operation. In the 1992 drought recovery credit, the proceeds from the IDA had been used for food purchases.

2.5 Component 3: Technical Assistance and Studies (\$2 million or 4 percent of the credit/grant). This component was aimed at strengthening Malawi's capacity for future drought mitigation and management. The proceeds from the project were intended to: (i) support full public discussion and consideration of the causes of the present crisis and measures to prevent recurrence, including the work of the technical subcommittees of the Inter-Ministerial Task Force; (ii) support Malawi's participation in efforts by the Southern Africa Association for Development Cooperation (SADC) to craft a regional approach to prevention and management of crises;¹² (iii) diagnose the key problems with agricultural statistics and develop improved and reliable methods for annual crop estimates; (iv) finance regular meetings of a technical steering committee to monitor implementation of the present program; (v) put in place a mechanism for monitoring and evaluating the impact of the crisis and mitigation efforts; (vi) provide short-term support to strengthen the agricultural advisory services available to small farmers to develop drought-resistant farming systems, and to focus on ways of improving water and soil management, mitigating the impact of future disasters; and (vii) finance studies, *inter alia*, to develop a food security and nutrition strategy.

Retroactive Financing

2.6 Due to the emergency nature of the project and Malawi's mounting demand for foreign exchange, retroactive financing of \$10 million (20 percent of the credit/grant) was also approved. Payments made by the borrower from its reserves four months before signing the Credit and Grant Agreements were eligible for retroactive financing to be disbursed immediately after signing.

3. Implementation

3.1 Credit effectiveness was subject to the establishment and staffing of the Project Coordinating Unit (PCU) in the Ministry of Agriculture and Irrigation (MAI), later renamed the Ministry of Agriculture and Food Security (MoFS), designing and approving a project implementation manual, financial management, and project auditing arrangements. Timing was critical for the project. Although the credit was successfully negotiated on September 19, 2002, the Government did not meet the required conditions until January 13, 2003. This delay meant that, except for the Retroactive Financing, Malawi was unable to use the credit/grant proceeds to finance its priority agricultural inputs in time for the 2002/03 crop season, which started in November 2002.

3.2 Overall project coordination was assigned to the PCU. A National Steering Committee (NSC) was also established. It was chaired by the MoAI and consisted of the Secretariat of the MASAF, NGOs, and the Reserve Bank of Malawi responsible for receipt and release of credit/grant proceeds. The NSC met regularly and in February 2003 approved the Project Implementation Manual (PIM), the PCU's work plan and proposed budget. Although there was an unusually high turnover of Permanent Secretaries of MoAI during the

12. The Johannesburg World Summit was held in September 2002 in the midst of the food crisis in Southern Africa and there was an urgent call for regional collaboration.

period, this had minimal impact on the timely decision making and implementation of the project.

3.3 Following the use of the Retroactive Financing, the *Quick Disbursing Component* was expedited and by November 2003 nearly \$32 million, or 80 percent of the allocation, was committed and disbursed. Private sector importers obtained foreign exchange by depositing the equivalent in local currency in their private banks. Procurement of imported goods—petroleum, fertilizers, agricultural equipment, etc.—was in accordance with the commercial practices of private sector importers, which were acceptable to the Bank. Private sector importers accounted for nearly 99 percent of the total import bill under the project and only the Department of Animal Health and Industry used the balance to import veterinary drugs. The imported items were subsequently sold in the domestic market through private sector outlets. However, there was no provision in the project to trace the end use of the imported items, a common feature in balance of payments support.

3.4 Balance of payment support operations occasionally require the establishment of a special account to deposit the local currency proceeds from the sale of foreign exchange. The Malawi Kwacha proceeds from the sale of dollars for imports were deposited in the Reserve Bank of Malawi in a Government Budget Control Account. For EDRP, access to such proceeds would have financed additional income-generating public works under the MASAF program and other related expenditures in the agriculture sector. MAI made repeated attempts to access the account. However, as part of a package of measures to stabilize the economy and reduce its accumulated domestic debt, the Bank advised the RBM to use the proceeds, estimated at about MK5 billion, to retire government debt as agreed with the IMF. Since the use of the local currency proceeds was only mentioned in the MOP and the Technical Annex and was not reflected in the DCA, MAI's claim was not legally binding.

3.5 *The Public Works and Sponsored Subprojects Component* did not start until May 2003, nearly four months after effectiveness. This was the period when MASAF was finalizing the preparation of MASAF III. The appointment of project staff and putting in place the implementation arrangements in the District Assemblies took longer than expected. While the intention was to adopt the ongoing IDA-assisted MASAF II Project implementation framework for EDRP, the identification of subprojects and beneficiaries along with the contracting of the works, and the cash payments arrangements took some time to finalize. Moreover, the District Assemblies who were responsible for identifying the subprojects were fully engaged in implementing the ongoing MASAF II-financed projects and were delayed in submitting new subprojects due to capacity limitations. This component was intended to quickly create income for the drought-affected populations who had been under stress since mid 2001. The delayed start-up meant in some cases resorting to distress sales of meager household assets and entering into debt.¹³

3.6 MASAF, through the District Assemblies, subcontracted the public works to local contractors who were required to hire local residents. This modality introduced a parallel

13. The sale of assets during natural disasters is often cited in Malawi and elsewhere. However, actual surveys on such sales are not always readily available. Interviews with participating households during the PPAR Mission indicated that such distress sales of household goods have occurred.

mechanism to the ongoing MASAF project design which required beneficiary contributions in exchange for creating and improving community assets. Implementation picked-up in the second year following a slow start-up. To accelerate the implementation of the PWP, a member of a Consortium of NGOs managing the Sustaining Productive Livelihoods through Inputs for Assets (SPLIFA) program in Malawi was selected to implement a complementary public works program. The focus was on improving feeder roads and, unlike MASAF's PWP, the laborers were paid in kind—fertilizer and seeds. Another subproject was the Sponsored Subprojects (SSPs) which financed income-generating projects to benefit the disabled, orphans, HIV AND AIDS patients and the elderly who were not able to participate in the labor market. Several NGOs, engaged in similar ongoing activities were selected to implement the SSPs in all the 28 Districts.

3.7 ***The Technical Assistance and Studies Component*** was implemented throughout the duration of the credit and one major study, the Food Security and Nutrition Strategy was completed in July 2005, seven months after the credit was closed. The Strategy was later presented to a Committee of Permanent Secretaries for review. Following a series of consultations the Strategy was split into two parts, a Food Security Strategy and a Nutrition Strategy. The newly established Department of Nutrition, HIV, and AIDS in the Office of the President and Cabinet is responsible for the implementation of the Nutrition Strategy. The Food Security Strategy is a comprehensive document with a view to addressing policy (input and output subsidies), service delivery and institutional reforms (the role of ADMARC and the operation, financing and management of the National Food Reserve Agency).

3.8 Another key document identified for preparation under the technical assistance component was the completion of the National Disaster Management Plan, which was started in 1997. In January 2004, after a series of revisions and consultations with UNDP and the UN Office for Crisis and Humanitarian Affairs (OCHA), the Department of Poverty and Disaster Management Affairs in the Office of the Vice President and Cabinet finalized the Plan. The Plan has been discussed at an interministerial meeting and the Department is now preparing an Operational Manual. The Department has also contracted Bunda College, University of Malawi, to train District Assembly agriculture staff on drought mitigation and management.

3.9 In collaboration with the Food and Agriculture Organization (FAO), a pilot project to promote cassava production was also undertaken in eight Districts with a view to providing farm households with a drought-resistant crop. Another program which was successfully implemented under the project was the preparation of an Information Education and Communication (IEC) package to brief communities on the project, disseminate improved agricultural practices (such as the adoption of winter cropping) for water-stressed areas and drought-awareness packages for community training. Consultants were hired to prepare simple technical messages. The credit also financed a pilot program to promote the manufacturing of treadle pumps for irrigation. Imported pumps are used in Malawi but are very expensive. As a drought mitigation measure and to complement water harvesting, a technical study was conducted and training programs were imparted to small-scale private sector manufacturers.

3.10 A summary of Appraisal and Actual Project Cost Summary is presented in Table 4. Due to the appreciation of the SDR and depreciation of the Malawi Kwacha, the total project cost increased from \$50.5 million to \$55.2 million. This increase should not be viewed as a cost overrun since the project was able to finance additional imports and public works made possible by the appreciation of the SDR and the government's increased allocation to the emergency operation.

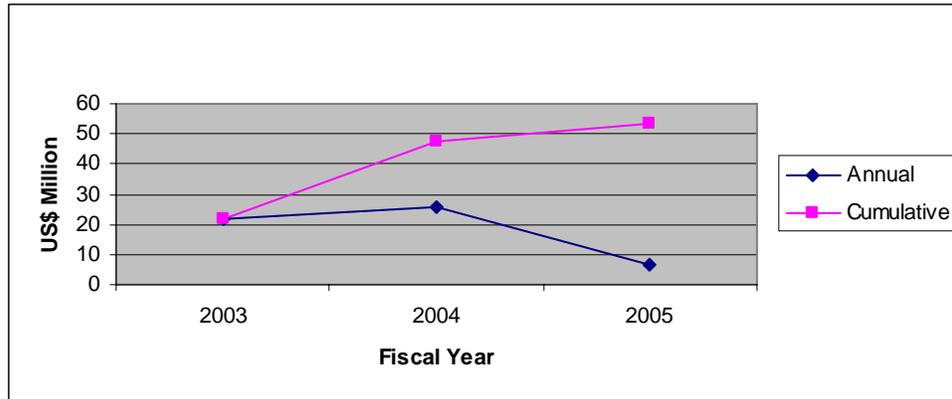
Table 4. Project Cost by Component (US\$ mill)

<i>Project Components</i>	<i>IDA Credit/Grant</i>		<i>Govern ment of Malawi</i>	<i>Total Project Cost</i>	<i>Total Project Cost</i>
	Appraisal	Actual	Actual	Appraisal	Actual
Quick Disbursing					
Fertilizer	7,025	9,946		7,025	9,946
Petroleum	7,028	7,237		7,028	7,237
Agricultural Equipment	6,024	6,048		6,024	6,048
School Supplies	4016	3,795		4016	3,795
Construction Equipment	4,016	4,177		4,016	4,177
Spare Parts	5,020	5,152		5,020	5,152
Livestock & Vaccines	2,008	2,100		2,008	2,100
Medical Supplies & Equip.	5,020	5,905		5,020	5,905
Sub-total	40,157	44,385		40,157	44,385
Public Works & SSP					
Sub-Projects	6,390	6,777	357	6,390	7134
SSPs	723	1,081	697	723	1778
Equipment	131	66	17	131	83
Training	622	132	-	622	132
Operating Costs	161	95	17	161	112
Sub-total	8,027	8,151	1,088	8,027	9239
TA & Studies					
Equipment & Vehicles	201	98	24		122
Consultancies	1,305	289	196		485
PIU	310	784	196		980
Sub-total	1,816	1,171	416		1587
Grand Total	50,000	53,707	1,504	50,500	55,211

3.11 Three separate Special Accounts were opened for the three project components allowing the implementing agencies ready access to resources and replenishment. To expedite implementation and timely availability of resources, the MASAF Special Account was raised from \$1 million to \$3 million. The project Disbursement Profile is presented in Figure 7. Despite having many features of a regular investment project, the disbursement rate under EDRP was relatively fast. Nearly 40 percent of the credit/grant was disbursed at the end of the first year. In June 2004, external consultants conducted an Independent Procurement Review of the Malawi portfolio, including EDRP. The review found the procurement arrangements and implementation satisfactory and recommended improved

record-keeping. The PPAR Mission also noted the lack of complete procurement documentation in Project Files. For example, it was not clear if the fertilizer and improved seeds locally procured for distribution under the Inputs for Assets program was awarded to suppliers who were financed under the Quick Disbursing Component.

Figure 7. Credit and Grant Disbursements



Source: Ministry of Agriculture and Food Security, Planning Department.

3.12 A mid-term review was carried out in December 2004 and recommended the recruitment of NGOs for the implementation of the SSPs and reallocations from the technical assistance component to the Quick Disbursing and Public Works components. Overall, the implementation of EDRP was uneventful. There were no major issues during the life of the Project and Bank Supervision Reports rated Project Development Objectives and Project Implementation Status Satisfactory and Highly Satisfactory respectively.

4. Outputs and Outcomes

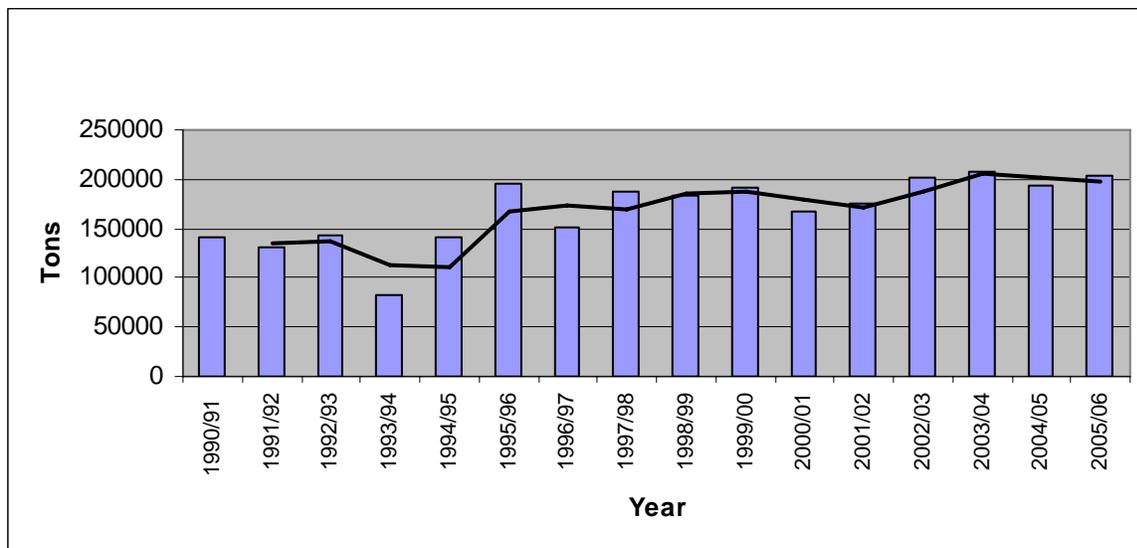
4.1 The Project Implementation Manual had listed a series of ambitious outcome indicators to monitor the implementation of the PRS commitments. One indicator was that the budget allocation for education and health in 2002/2003 would be maintained in real terms to the 2000/2001 budget level as agreed under the PRSP. Other ambitious targets, for maize production and price levels, and for morbidity and mortality, were also included. These indicators reflected the ambitious objectives stated in the Memorandum of the President but were neither monitored nor reported during implementation. The indicators in the DCA were more prudent and appropriate for an emergency operation. They were oriented more toward outputs rather than outcomes and included: the value of imports under the Quick Disbursing Component, the physical works completed and number of beneficiaries under the Public Works Component, and the contributions of the technical assistance and studies toward improving drought mitigation and management.

4.2 ***Supply of priority agricultural inputs augmented availability:*** The Quick Disbursing Component, which accounted for 80 percent of the credit/grant proceeds,

financed a list of priority imports and supplemented the government's efforts to alleviate the input shortages created due to scarcity of foreign exchange. The PPAR Mission was not able to gather actual quantities for each imported item. Except for the value of imports, indicative physical quantities of imports under this component were not presented in the MOP/Technical Annex or in the ICR. Based on the total value of imports under the project and the average total monthly import bill of Malawi of \$60 million, the total foreign exchange transfer contribution of the Quick Disbursing Component (\$44 million) is about 73 percent of one month's import bill. Considering that the total credit/grant of \$50 million was disbursed over two years, the project's impact in stabilizing the Malawi Kwacha, increasing the foreign exchange reserve¹⁴, easing inflation, and spurring GDP growth could not have been significant.

4.3 One of the key agricultural inputs procured under the project was fertilizer. Since 2001/02, fertilizer consumption had shown a modest increase, reaching a peak in 2003/04 until it declined again in 2004/05 (Figure 8), the last year of the Targeted Input Program which also coincided with a more severe drought episode.

Figure 8. Fertilizer Consumption



Source: Ministry of Agriculture and Food Security.

4.4 Imports of fertilizer under EDRP worth \$10 million accounted for about 12 percent of total annual fertilizer consumption. The annual average fertilizer consumption during the EDRP implementation period (2002/03-2004/05) was about 200,000 tons valued at about \$80 million. EDRP has contributed modestly to the supply of fertilizer for the 2003/04 maize growing season (November 2003-February 2004). After reaching 2 million tons in 2002/03, the third highest level since 1990/91, maize production declined by 15 percent in 2003/04 (when most of EDRP financed inputs were actually imported), and dropped another 30 percent in 2004/05 (Figure 3). Maize production rebounded dramatically in 2005/06

14. The ICR claims a marked foreign exchange impact.

reaching an all time high of 2.6 million tons. In view of the small quantity of fertilizer and other inputs procured under the project and marketed nationally, the link between the project's input contribution and national maize production in 2002-2004 cannot be substantial.

4.5 The project also contributed to the domestic transport cost of food imports by procuring petroleum. Imported food was sold at subsidized pan-territorial prices giving priority to severely drought affected areas such as the Southern and Central Regions. To attract students back to school and to increase household food consumption, the project also financed the operational cost¹⁵ of WFP's school feeding and take-home ration programs. WFP and the EU provided the food and the EDRP paid for the transport and other operational costs. An estimated 115,000 students benefited from this program in about 145 schools in 10 selected Districts and an additional 200,000 students received take home rations. Vulnerability Analysis and Mapping (an analytical tool adopted by WFP) was used to identify and target food-insecure beneficiaries. The project input was instrumental in reversing the primary school drop out rates, especially during the hungry season. The animal vaccines procured under the project helped arrest the spreading foot and mouth disease. The program was effective and saved the most valuable livelihood—livestock-- for rural households.

4.6 ***Wage and input payments, and assets created have boosted household incomes and improved livelihoods:*** The Public Works and Sponsored Subprojects Component injected liquidity, and created and rehabilitated physical assets, provided multisectoral training, and social assistance to the disabled, elderly, orphans and female-headed households. Table 5 presents the types of public works financed and the number of beneficiaries.

Table 5. Public Works and Sponsored Sub-Projects

<i>Sub-projects</i>	<i>Target</i>	<i>Actual</i>	<i>Achievement (%)</i>
Sponsored Sub-Projects(no) (Hammer Maize Mills)	75	171	228
SSP Beneficiaries (no)	60,000	171,400	286
PW Subprojects—MASAF (no)	330	335	102
PW Beneficiaries—MASAF (no) ¹⁶	132,000	134,000	102
Feeder Roads-NGOs(km)	1,300	1,500	115
FR Beneficiaries (no) ¹⁷	100,000	100,000	100
Total PPW & SSP Beneficiaries	292,000	405,000	138

4.7 With the installation of 171 hammer mills, over 170,000 individuals found a new source of income and neighboring farmers got access to milling facilities. One of the criteria

15. WFP food aid is based on the principle full cost recovery, i.e. donors providing food aid through WFP are also required to pay the full cost of delivery to the final beneficiaries. School feeding programs are no exceptions. It is not clear why the transport cost was not financed by the food aid provider.

16. Paid cash wages.

17. Paid in kind—fertilizer and maize seeds.

in the design of the public works program was to ensure that 60 percent of the subproject cost would pay for unskilled labor. Once the Local Governments identified villages to participate in the public works program, the selection of individuals for employment was left to the community. A total of 134,000 laborers were employed for an average of four hours a day for six months to ensure that they would be able to allocate the rest of their time to their farm activities. The daily wage rate of MK43¹⁸ was equivalent to 3 kgs. of maize for a total wage bill of about MK252 million. During the mission's visit to project Districts, households who benefited from public works employment indicated that they used their earnings to buy food and pay for clothing and education for their children. Under the NGO-managed public works (feeder roads), an estimated 100,000 beneficiaries received fertilizer and seeds as wage payments and met their input requirements for the 2004/05 production season. While these are commendable achievements, the delayed start-up of the public works and sponsored subprojects component also delayed the income that the affected population urgently needed. Anecdotal evidence indicates that during the interim period, the affected population had to rely on relief food distributions, borrowing from better-off acquaintances or by selling their meager household assets. The total number of beneficiaries under this component exceeded the appraisal estimate by 38 percent.

4.8 ***The various studies, institutional strengthening interventions and pilot projects have enhanced Malawi's emergency mitigation and management capacity.*** The Project has resulted in a number of outputs under the Technical Assistance and Studies Component. Nearly 20 studies, pilot projects, and training programs were completed during the two-year implementation period. Flexible management and allocation of resources for newly identified studies was instrumental in the success of this component.

4.9 Despite the delays in completing the Food Security and Nutrition Strategy (subsequently split between Food Security, and Nutrition and HIV AND AIDS strategies), and the Tobacco Sector Studies, these studies provided the basis for the formulation of sector strategies and policy formulations. The Food Security and Nutrition Strategy report is a high profile document that has become the principal document for the ongoing preparation of an Agricultural Policy Framework (APF). To address the long-term issues of food security, the timely completion of the APF is a long-awaited action. A series of food security monitoring and evaluation indicators have been developed which will be integrated into the overall performance indicators for the APF. The Department of Nutrition and HIV and AIDS has also completed an operational plan for implementation. The national campaign to improve nutrition standards in Malawi requires a shift from a maize-based diet to a mix of essential balanced products including, among others, cassava, a drought resistant plant. The EDRP's support to the pilot cassava project was highly successful and the FAO is assisting the government in disseminating the results to other parts of Malawi and will support the implementation of the Nutrition Strategy.

4.10 One of the issues identified under the Tobacco Sector Study was the need to improve the tobacco supply chain by reducing government levies. This was pursued under IDA's reform agenda for the Fiscal Management and Accelerated Growth Program Adjustment

18. In 2005, the wage rate under the conditional cash transfer employment program was MK200 per day.

Credit (FIMAG FY04). While the GOM has reduced some of the levies, the Government continues to interfere in the tobacco market.

4.11 The completion of a draft National Disaster Management and Plan in 2004 with EDRP assistance is a landmark achievement. The preparation started nearly 10 years ago and had undergone a series of protracted reviews. The Operational Manual will outline the respective responsibilities of public and private agencies, and NGOs. The Plan covers mitigation, preparedness, relief and recovery. These interventions require the participation of several agencies and the effectiveness of the Plan will depend on the convening power of the Department of Poverty and Disaster Management Affairs. The Department is rightly placed in the Office of the President and Cabinet which will enhance its authority to effectively coordinate the multisectoral activities.

4.12 Malawi's participation in the SADC Workshop on the "Regional Strategic Food Reserve" was an opportunity to debate the regional food security issues, including the role of Regional Strategic Reserves in meeting emergency needs. The outcome of the workshop was to establish a Regional Strategic Reserve Committee with a view to exchanging information on unfolding emergencies and how the regional markets could be tapped to meet country-specific emergencies. Toward this end, the needs for strengthening country-based early warning systems, including the timely release of reliable weather reports were agreed. In Malawi, there is a growing awareness that collective regional actions and policies influence a country's food security. A notable example is the contribution made to Malawi's food supply by informal cross-border maize trade.

4.13 Results of pilot projects, including production and storage technologies (winter maize, cassava, livestock, water harvesting) research are available for dissemination. Special refresher training programs for extension staff have equipped them with new skills. To promote the manufacturing of treadle pumps locally, a training program for small-scale entrepreneurs was organized successfully. Affordable irrigation pumps would expand small-scale irrigation schemes. Strengthening the National Statistics Office and the Department of Meteorology, and participation in Regional (SADC) meetings on drought management and mitigation strategies enhanced the availability of timely and reliable crop and weather data. Simple extension messages were developed and more than 20,000 copies were distributed to communities during the life of the project.

5. Ratings

5.1 The project's overall Outcome is rated **Satisfactory** on account of: i) relevance to the GOM strategy and the Bank's CAS for food security; ii) efficacy, by achieving the stated project development objectives; and iii) cost efficiency—comparable low cost per beneficiary and timely completion. While the PPAR mission recognizes that Malawi's food crisis is often associated with recurrent floods and drought, such episodes are equally a result of policy and institutional failures. Appropriately designed, targeted, and timely emergency operations could provide effective relief interventions especially when linked with follow-up long-term actions. Bank assistance to the agricultural sector only resumed in 2004 with the

approval of the Community Land Development Project and in 2006 with the launching of the Irrigation, Rural Livelihoods and Agricultural Development Project. These operations are appropriate, since they are intended to transfer assets to smallholders, provide technical and marketing services, and avail irrigation facilities to commercially oriented smallholders. Timely and successful implementation of these operations coupled with other complementary programs in infrastructure and credit would promote agriculture crop diversification and ease the heavy reliance on the dominant drought prone maize crop. The impact and wider coverage of such interventions would not be immediate.

5.2 The project objectives were *relevant* to the recently completed 2003 CAS, consistent with Pillars II, aimed at establishing a platform for sustainable growth, and Pillar III, focused on strengthening the safety net.¹⁹ The newly issued 2007 CAS, has a strong focus on agriculture and identifies food security as a priority objective while fully recognizing the risk of natural disasters, especially drought. EDRP is also relevant to Pillars I and III of the Malawi Growth and Development Strategy (MGDS), the successor to its Poverty Reduction Strategy, and its commitment to the MDGs. The project design was also relevant to the objectives of the project. At the peak of the food crisis, Malawi needed an urgent financing of priority inputs and food imports. The project responded appropriately by allocating 80 percent of the IDA Credit/Grant for a quick disbursing import financing. Similarly, the drought affected population lacked the purchasing power to meet their basic needs and the inclusion of conditional cash and transfer was equally appropriate. Finally, to strengthen Malawi's capacity to respond effectively to future food crisis, the technical assistance was designed suitably to fill the prevailing gaps.

5.3 Assessing the achievements of project objectives under a two-year drought emergency operation raises several questions. If the project is designed largely to assist the Government in balance of payments support, is the measure of success the utilization of the credit for the agreed positive import list? Or is the Government's capacity and performance to meet the foreign exchange requirements in a subsequent drought (2004/2005) the measure of success? Can such an operation address the causes of the food crisis which are rooted in a series of core sectoral and economy-wide issues which require long-term interventions? This assessment takes the view that the hybrid operation has long and short-term objectives with the latter being the predominant project objective.

5.4 Notwithstanding the apparent disconnect between the MOP and the DCA in formulating the project objectives, the *efficacy* of the project is assessed based on two shared objectives. The first objective was to improve the borrower's emergency response management capacity and is rated **substantial**. The principal achievements are: i) enhanced emergency assistance coordination capacity at central and local levels of government; ii) improved early warning with timely weather data dissemination; and iii) the application of the various study and pilot project results in efforts to address the long-term food security issues. The completion of various studies, implementation of pilot projects and provision of equipment and staff training, described in paras. 4.8–4.13 have enhanced the Government's long-term disaster mitigation and management capacity. The disaster management training program for the District Assembly staff has developed local skills to better coordinate future

19. In mid-2002, the Bank was in the midst of preparing the 2003 CAS.

disasters. The Government's improved management and coordination of the 2004/05 drought, (with effective donor in-kind and financial support) the worst since 2001/02, is testament to the sustainability of the achievements under EDRP. The Government is now better equipped with weather forecasting and has an effective Malawi Vulnerability Assessment Committee (MVAC) that issues credible early warning food security assessments. The IEC was also considered a very successful initiative. It was instrumental in mobilizing communities for the implementation of the public works component and disseminating results from the pilot projects. With continued improved economic management and performance, Malawi is in a better position in 2007 than in 2002 to respond quickly and effectively to future droughts.

5.5 The second objective was to assist in the recovery from drought and is rated **substantial**. EDRP, as an emergency operation has provided both relief and recovery assistance. Priority imports under the Quick Disbursing component which account for 80 percent of the credit/grant were delivered on time. The key design features of the two-year EDRP operation has contributed to the urgent needs of the affected population. Nearly 80 percent of the IDA credit/grant financed short-term expendable items such as farm inputs, petroleum, and medical and school supplies. In 2003 and 2004, these imports contributed to the overall agricultural production, livestock disease prevention, school attendance, and food distribution to the hungry. The incomes generated and the inputs provided referred to in paras. 4.6–4.7, albeit for a short-term, boosted the beneficiaries' capacity to cope with the food crisis. A notable shortcoming is the delayed start-up of the conditional cash transfer linked to community asset creation and rehabilitation. Since the food crisis started in 2001, the delay may have forced the affected population to resort to other coping mechanisms including entering into debt and possible sale of their important source of livelihood, livestock. Notwithstanding the delay in launching the public works, the project achieved its objectives with an extension period of six months. Without the project, those who participated in the conditional cash transfers would have continued to survive on one or maximum two meals a day, lost their remaining livelihoods, and school drop-outs would have increased. For those who received fertilizers as payments for participating in public works, they were able to resume food production. The improved feeder roads have also opened access to villages and facilitated the delivery of services including emergency needs. Although the project's objectives have been achieved, the drought affected population that benefited from the project is still vulnerable to natural disasters.

5.6 A key factor for the *efficacy* of the project objectives is that the institutional arrangement was anchored on ongoing government programs and assigned to implementing institutions with a proven track record and approved procedures. The Quick Disbursing Component relied on the private sector and the banking sector for imports; the Public Works and SSP Component was similar to the program designed to achieve the objectives pursued under the ongoing Malawi Social Action Fund and the NGO-led Sustaining Productive Livelihoods through Inputs for Assets program.

5.7 Although there was no explicit or implicit *efficiency* measure applied to the appraisal of the project, the PPAR mission has derived cost effectiveness indicators. The total expenditure under the Public Works and SSP Component is \$9.2 million to benefit 0.4 million food insecure people at an average cost of \$23 per beneficiary which compares

favorably with the stand alone Bank-assisted MASAF Projects. The cash for work public works subcomponent was also more efficient than the direct food aid program. Participants under the project were paid in cash and received an average of MK 1,880 for the duration of their employment equivalent to 125 kilograms of maize. The cash-for-work payment had an added forward linkage benefit. Additional purchasing power in a community suffering from loss of income creates demand for goods and services and promotes the revival of markets. Project beneficiaries used their cash incomes to purchase consumer goods and paid for farm inputs such as fertilizer and seeds. Since the objective of the public works subproject was to generate income for the drought-affected population while building and or rehabilitating assets, the PPAR mission concludes that the project design was cost-effective and was completed on time despite initial start-up delays. Another measure of project efficiency is the share of total operating cost to total project cost. EDRP's overhead is about 2 percent of total project cost which compares favorably with similar projects. Table 6 summarizes the Outcome Ratings

Table 6. Summary of Outcome Ratings.

Development Objectives	Relevance	Efficacy	Efficiency
Improve Borrower's emergency response management	Substantial	Substantial	Not Rated
Assist in recovery from drought	Substantial	Substantial	Not Rated
Overall Project Outcome: Satisfactory			

5.8 The Risks to Development Outcomes are **significant**. The rating reflects Malawi's vulnerability to future drought episodes and resulting food crisis, as occurred again in 2004/05. In 2005, the government faced another severe drought and required similar interventions and assistance for a much larger affected population. Timely government appeals to the international community, enhanced capacity to manage emergencies, and the strengthened early warning systems improved Malawi's response. In September 2005, the Bank approved a \$30 million grant to mitigate the impacts of the 2004/05 food crisis. Introduction of innovative methods of maize procurement from the South Africa Futures Exchange (SAFEX) and the piloting of the weather-based insurance for groundnut farmers are new risk reducing measures. However these measures are at pilot stages. The number of rural households exposed to food security risks in Malawi is still very high and recurrent droughts and floods trigger increased national food insecurity. Until the core agricultural sectoral issues are fully addressed, Malawi will remain exposed to natural disaster risks. With respect to the assets created or rehabilitated, the arrangement for the continued maintenance of the feeder roads is yet to be finalized. Maintenance of such improved dirt roads is the responsibility of the District Assemblies, which are expected to organize communities to provide free labor supported by technical advice and provision of simple tools. The feeder roads visited require minor works especially following the rainy season. Users around the water pump service areas have the primary responsibility for maintenance and make cash contributions to purchase spare parts. The maintenance arrangements for water pumps appear better organized than for the feeder roads.

5.9 The Bank's overall performance is rated **moderately satisfactory** weighing its performance both on quality at entry and supervision. With respect to Bank assistance to quality at entry, the Bank's performance is rated **satisfactory**. The Bank shared its international experience and focused the design largely on the financing of critical imports. The Bank's intervention also assisted in designing a component aimed at enhancing access to food and other necessities by creating wage paying employment while creating and rehabilitating physical assets. The Bank also paid attention to the need for strengthening resilience to future shocks. In July 2003, the Quality Assurance Group rated EDRP's Quality at Entry as satisfactory. Sector and country managers were closely involved in the design and later followed up on agreed actions with the borrower.

5.10 The Bank's project supervision was delegated to the Country Office with substantial support from headquarters, which facilitated regular interaction with the PCU and the implementing entities. During the two-year implementation period, the Bank carried out 4 review missions and has issued six Project Status Reports (PSRs) with a total staff input of 13 staff weeks per year compared with the Bank-wide average supervision coefficient of 12 staff weeks per year. Specialists from headquarters complemented Country Office staff skills. The Bank's intensive supervision of the operation assisted in the timely completion of the project.

5.11 However, a notable shortcoming in the Bank supervision was the quality of its reporting. Another area of Bank moderate performance is in the Project's monitoring and evaluation. While the Bank Team was effective in reviewing the design of the system, the follow-up on implementation and utilization was weak. The Supervision Missions, particularly the last two, were adequately staffed. Five out of the six Project Status Reports and the accompanying documents merely reported on the value of imports (without presenting information on, for example, the quantity and type of fertilizer delivered) and the number of subprojects and studies completed. Although the Task Teams routinely visited the project Districts, they did not document what the project assistance meant for the households they visited and thereby shed light on the achievement of objectives and indicators. Only the last status report presented a table on performance indicators showing GDP and agriculture growth rates, number of public works subprojects completed and their beneficiaries. Attempting to link the project outputs with the reported growth rates of the economy and the agriculture sector is heroic. The Bank's performance in the quality of supervision is rated **moderately satisfactory**.

5.12 Although the Bank's overall country economic surveillance and engagement is not the subject of this assessment, the PPAR Mission also questions whether the Bank could have been more proactive in the then unfolding food crisis. The government declared a food crisis in February 2002 after a series of NGO and religious organizations had earlier reported the widespread famine and related deaths. To be sure, the Bank responded with speed once the Government sent a request for assistance in July 2002. However, an earlier Bank engagement would have gained more time for the project to finance the critical agricultural inputs in time for the 2002/03 season and the income-generation component would have started much earlier and perhaps averted the distress sale of household assets and premature harvesting of maize. Another issue that needs to be flagged is the near absence of the Bank from direct support to the sector following the EDRP operation until FY04 when the

Community-Based Rural Land Development Project was approved. The Bank's analysis of the causes of the food crisis correctly pointed to core structural and policy issues resulting in poor performance. While the Bank was engaged in addressing institutional issues with respect to the role of ADMARC, tobacco marketing and land issues under the FIMAG, the absence of direct investment assistance to the sector and the "ad hoc policy dialogue" linked with other macro policy reform agenda was inadequate.²⁰ During this period, the GOM was constantly changing its input subsidy policy and there is little evidence of Bank dialogue with the GOM on such an important issue.

5.13 The overall **Borrower's performance is rated moderately satisfactory based on the combined rating of the Government's and implementing agencies performances.** Why did the Government wait until July 2002 to approach the Bank for assistance, nearly a year after firm indications of food crisis began to appear? Unfortunately the then Country Manager and Task Manager are both deceased and there is no record on the depth and extent of dialogue between the government and the Bank prior to July 2002. The government was obviously reluctant to declare a state of humanitarian emergency until the mounting international pressure and media publicity of the human tragedy was widely publicized. Moreover, the continued mismanagement of the economy, including the unauthorized sale of the entire strategic reserve following the inaccurate assessment of expected bumper harvest of cassava and other root crops, resulted in the slow response of donors to the government's initial appeal. Therefore, up to the period leading to the preparation of the EDRP, the government's performance in managing the looming crisis is widely acknowledged as unsatisfactory. Although these events predate the project, they are closely linked to the subsequent developments that led to the involvement of the Bank in emergency assistance.

5.14 Notwithstanding the Government's poor handling of the early stages of the food crisis, the Government's letter of August 2002 to the Bank clearly set its overall drought mitigation and management plan and embraced the need for both short and long-term interventions and policy reforms. It provided a broad evaluation and estimate of the likely negative impact of the food crisis. By mid 2002, humanitarian food assistance was arriving, and the government and the private sector had started maize imports. In anticipation of IMF and World Bank financial assistance the Government had also rationed its limited foreign exchange reserve for importation of priority inputs especially for agriculture. These actions demonstrate the government's strong commitment to the overall emergency assistance. An important feature of the project was the wide consultation organized with various focus groups on the origin of the food crisis, its implications and the role of the public and private sectors, NGOs, and communities in combating the crisis. These public discussions were financed under the project and were greatly appreciated by all parties and contributed to confidence building. Overall, the Government's performance is rated **satisfactory**.

5.15 The Project Steering Committee, consisting of implementing agencies and other key ministries and departments, met regularly and provided strong support to the PCU and the implementing agencies. When differences arose among the participating agencies these were amicably resolved. One such case was the proposal to recruit an NGO to help implement the Input for Asset program to assist MASAF and ensure timely completion. MASAF was not

21. The 2005 Malawi Country Assistance Evaluation has raised this concern strongly.

pleased with the proposal but later accepted the Steering Committee's decision and the DCA was amended to include an NGO. This was a good management decision and expedited project completion. While the PCU compiled the project progress reports from the implementing agencies and regularly submitted Quarterly Progress Report to the Bank and the Steering Committee, the breadth and depth of the reports were inadequate. For example, the reports did not include: beneficiary household data; the quantity of the inputs imported under the Quick Disbursing Loan; the distribution of the input to end users; and food security and nutrition status indicators. These data were extremely important for management decision making and evaluating the outcomes of the project. The Borrower also took an unduly long time to finalize the food security strategy and the Disaster Mitigation Plan and Operational Manual. The implementing agencies performance is rated **moderately satisfactory**.

5.16 The project did not formulate a **monitoring and evaluation system** although there was provision to design a project specific M&E system. The experience with Bank-assisted projects shows that after project start-up it often takes a minimum of two years to design a functional M&E system for a traditional project, and then collect and analyze baseline data. For a short-duration emergency operation, an appropriate M&E design should have been based on a set of case studies contracted to experienced researchers to supplement well designed progress reports. Case studies would have provided valuable lessons on the implementation, output, and outcome of the project. In view of the scale of the emergency and the implications for health, mortality, nutrition, food security, agricultural production, income, and employment, the Government's decision to establish the Malawi Vulnerability Assessment Committee (MVAC) was appropriate. The MVAC became the authoritative source for identifying the food insecure and determining the assistance needed, and served as a guide for government and external assistance. This annual exercise employs a team of specialists who collect and analyze data based on sample surveys. The MVAC works closely with the WFP's Vulnerability Analysis and Mapping Team. The annual reports are recognized as credible and the MVAC's annual report serves as an umbrella food security monitoring report. What is lacking in the MVAC's reports is the evaluation of drought recovery interventions. Due to this lacuna, the M&E of the project is rated as **modest** with respect to all three M& E elements, design, implementation and utilization.

6. Lessons

6.1 Notwithstanding the Bank's 1995 Operational Policy 8.50 which states that Emergency Recovery Loans are "...inadequate instruments for recurrent disasters such as floods and slow-onset disasters such as droughts," the EDRP was effective in providing balance of payments support as well as in income generation and financing high priority technical assistance. Malawi is vulnerable to natural disaster shocks, including drought and floods that have resulted in recurrent food crises. In the past 15 years, Malawi has had six devastating droughts and floods. To mitigate the recurrent food crises, Malawi has to address the core policy and institutional issues facing the agricultural sector and restore macroeconomic stability to foster broad-based growth. In August 2006, Malawi reached the HIPC Completion point paving the way for substantial debt reduction. The dividend from

debt relief can be used for high priority investments aimed at poverty reduction and promoting food security. The forthcoming Agriculture Policy Framework is a promising action-oriented strategy document that is expected to serve as a road map for attaining food security in Malawi. Maintaining macro-economic stability coupled with addressing the long-term policy and institutional issues would combat the effects of recurrent natural disasters. Lessons from the pilot ex-ante risk management instruments—such as weather-based insurance and entering futures commodity markets should be carefully reviewed with the view to integrating the successful methods in the Malawi's Drought Mitigation Strategy.

6.2 Several valuable lessons, relevant to both the Government and the Bank emerge from the design and implementation of the EDRP.

- ***In disaster prone countries, regular monitoring and reporting of rainfall patterns, food balances (domestic consumption, production, imports including informal cross border trade), and crop prices is critical for timely mitigation and emergency response measures:*** If the government had appealed for international assistance when there were adequate signs of a pending food crisis in 2001, the human and financial costs could have been reduced. This also raises the role of the Bank in Country Offices. One rationale for a Bank presence in client countries is to be “a heartbeat away” from unraveling developments in the country. In disaster-prone countries like Malawi, the Bank should liaise closely with relevant Government institutions and organizations like the FAO, WFP and bilaterals to monitor food production, imports, domestic food requirements, crop prices and rainfall data. IDA has provided four emergency credits to Malawi since 1992 and may consider establishing a formal information exchange on emerging food crises with relevant organizations in Malawi.
- ***Bank assistance should pay particular attention to food security issues in countries with chronic food insecurity and vulnerable to natural disasters:*** Malawi is vulnerable to recurrent natural disasters that exacerbate household food insecurity and trigger macroeconomic imbalances. Notwithstanding the importance of a favorable rainfall distribution during the crop growing season, sectoral and policy issues are also determinants of agricultural production. Based on various sector strategy and policy documents, the government is formulating an Agricultural Policy Framework. This urgent task needs to be completed with a view to mapping a long-term commitment to address the core issues of food insecurity. The Bank should be engaged actively with the Government and other aid agencies and share relevant international practices. The Bank should also acknowledge in CAS' that natural disasters in Malawi are recurrent risks to macro-economic stability and overall development.
- ***Reducing food insecurity requires inter alia attention to broad-based sources of livelihood including non-farm incomes.*** Poverty is pervasive in Malawi. In poor households, non-farm income contributes significantly to the total household disposable income. Income from agriculture is volatile and households rely on temporary employment in neighboring estate farms, urban centers, and even in neighboring countries. One of the major challenges for Malawi is to ease the pressure on overpopulated and over cultivated land and promote conservation farming

practices and small-scale irrigation that will raise productivity, and support other sources of livelihood such as non-farm rural income.

- ***Effective management of a strategic grain reserve requires the management of both in-kind and cash resources:*** One of the triggers of the food shortage in 2002 was the mismanagement of the Strategic Grain Reserve. The government has since entrusted the buying and selling authority of the Strategic Grain Reserve to an autonomous body comprising representatives of the government, private sector, and bilateral aid agencies. This is a move in the right direction. However, Malawi should also continue to use the futures market by keeping aside cash to complement the minimum physical reserve. Promoting private sector participation in grain trading and imports along with access to credit and foreign exchange would facilitate timely responses to food shortages.
- ***To address food insecurity a regional approach which promotes regional trade is needed:*** The Southern African states belong to SADC and share many common development challenges—food insecurity, HIV and AIDS, weak Governance, and recurrent natural disasters. In order to meet their individual food security objectives, the member states frequently put trade barriers in place, despite their commitment to free trade agreed under the Common Market for East and Southern Africa (COMESA). However, given the porous borders especially of land locked countries like Malawi, Zambia and Zimbabwe, affected populations are benefiting from the growth of informal cross border trade especially in food. The human toll of the recurrent food crisis in Malawi would have been much higher had it not been for cross border mobility of labor and goods. The New Partnership for Africa’s Development–supported framework for promoting food security, one of the Pillars of the Comprehensive Africa Agricultural Development Program, is a suitable forum to pursue the regional approach to food security.

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Annex A. Basic Data Sheet

Emergency Drought Recovery Project (Credit 3715-MAI)

Key Project Data *(amounts in US\$ million)*

	<i>Appraisal estimate</i>	<i>Actual or current estimate</i>	<i>Actual as % of appraisal estimate</i>
IDA Loan	50.0	53.70	107
Government	0.51	1.51	296
Total project cost	50.51	55.21	109

Cumulative Estimated and Actual Disbursements *(US\$ million)*

	FY03	FY04	FY05
Appraisal estimate	17.1	48.8	50.0
Actual	21.8	47.2	53.7
Actual as % of estimate	127	97	107

Project Dates

	<i>Original</i>	<i>Actual</i>
Departure of Appraisal Mission		08/01/2002
Appraisal		08/05/2002
Board approval		11/05/2002
Effectiveness	01/13/2003	01/13/2003
Mid-Term Review	11/30/2003	12/18/2003
Closing date	11/30/2004	11/30/2004

Staff Inputs *(staff weeks)*

Stage of Project Cycle	<i>N° Staff weeks</i>	<i>US\$('000)</i>
Identification/Preparation	5	45
Appraisal/Negotiations	30	270
Supervision	26	217
Completion	15	60
Total	76	592

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Specializations represented</i>	<i>Performance rating</i>	
				Implementation status	Development objectives
Identification/ Preparation	8/1/2001	9	Sector Manager, Lead Operations Advisor, Economist, Engineer, Food/Nutrition Expert, Safety Nets Experts (2), Ag. Research/Extension, Lawyer	HS	HS
Appraisal/ Negotiation	9/30/2002	8	Sector Manager, Task Team Leader, Economists, Social Scientist, Transport Engineer	HS	HS
Supervision 1	5/06/2003	3	Economists (2), Financial Management Specialist,	HS	HS
Supervision 2	12/18/2003	2	Task Team Leader, Team Member/Co Task Team Leader	HS	HS
Supervision 3	6/29/2004	4	Economist, Services Specialist, Procurement Specialist, Financial Management Specialist	S	HS
Supervision 4	12/15/2004	5	Economist, Services Specialist, Procurement Specialist, Financial Management Specialist, Lead Advisor	S	HS
ICR	05/28/2004	5	Task Team Leader, Senior Financial Management Specialist, Senior Agricultural Specialist, Procurement Specialist, Consultant	S	HS

Performance Rating: S: Satisfactory; HS: Highly Satisfactory

Annex B: People and Agencies met

1. Mr. Lameck Mithi, Acting Executive Director, Malawi Social Action Fund
2. Dr. Mary Shawa, PS for Nutrition and HIV AND AIDS
3. Mr. Patrick Kabambe, PS, Ministry of Agriculture and Food Security
4. Dr. Charles Matabwa, Chief Executive, ADMARC
5. Mrs. Lilian N'goma, PS for Disaster Preparedness, GOM
6. Mr. Blessings Mwale, Deputy Head of Program (Food Security), WFP
7. Mr. Emmanuel Bulukutu, Director, Planning and Development, Chiradzulu District
8. Mr. Chris Giannakis, Managing Director, Farmers' World
9. Ms. Mulle Chikoko, DfID
10. Mr. Brian Mtonya, Managing Consultant, The Alliance Group
11. Mr. Andrew Kumbatira, Executive Director, Malawi Economic Justice Network
12. Mr. Duncan Warren, DG Manager, National Small Farmers Assoc. of Malawi
13. Mr. Brian Mtonya, National Action Group (NGO)
14. Mr. Saukila, National Food Reserve Agency, GOM
15. Mr. Thomas Baunsgaard, IMF Representative
16. Dr. Juan Ortiz, Deputy Representative and Program Coordinator, UNICEF
17. Mr. Vincent, Agriculturalist, FAO
18. Mr. Domenico Scalpelli, Country Director, WFP
19. Mr. Francis M'buka, Former Bank Staff
20. Ms. Cicily Bryant, Director, CARE International
21. Ms. Dominique Blariaux, Programme Manager, EU
22. Mr. Steven Carr, Former Bank Staff
23. Graduate Students at Bunda College
24. Dr. Charles Mataya, Principal, Polytechnic College
25. Ms. Karen Brooks, Sector Manager, Sustainable Development, Africa Region,
26. Mr. Constantine Chikosi, Acting Country Manager, WB,CO
27. Mr. Hardwick Tchale, Agricultural Economist, WB, CO
28. Mr. Frank Byamugisha, Operations Adviser, WB
29. Mr. Tijan Sallah, Lead Operations Officer, WB.
30. Mr. Antonio Nucifora, Sr. Economist, WB.

Annex C. Poverty Profiles and Strategies

The Poor—Who, Why, and Where

1. About 56 percent of the rural population and 25 percent of the urban live below the poverty line. Regional and gender variations in the incidence of poverty do not appear to be significant. The incidence of poverty in Southern Region is 68 percent compared to 63 percent in the Central Region and 63 percent in the Northern Region. Poor households in Malawi tend to be larger than the non-poor households and have a higher number of women and children. Female-headed households account for about 30 percent of all the households and they are more likely to be poor than the male-headed households.
2. Income distribution is highly unequal in Malawi. The *Gini* coefficient for income is 0.88 for urban areas and 0.72 for rural areas and the *Gini* coefficient for expenditure is 0.57 for urban areas and 0.44 for rural areas. The 2005 IHS figures indicate that there has been no significant progress in reducing poverty over the past 10 years. If the current trend continues, Malawi is unlikely to achieve the Millennium Development Goals (MDGs) and Malawi Poverty Reduction and Strategy Paper (MPRSP) target of halving extreme poverty by 2015.
3. A recent African Development Bank (2005) report concluded that poverty in Malawi is the result of several constraints: (i) rapid environmental degradation and limited access to land; (ii) low levels of education, poor health status, HIV and AIDS, lack of off-farm employment, persistent high population growth, gender inequality; and (iii) limited access to credit. All of these factors are exacerbated by weak institutional capacity, a distorted policy environment, a weak incentive structure, and low levels of economic infrastructure and social capital. Moreover, many rural households who live in absolute poverty are vulnerable to external shocks and are chronically food insecure. The landless rural population, HIV and AIDS orphans, female-headed households, and the elderly are the most vulnerable segment of the population.

Household Coping Strategies

4. The recent Integrated Household Surveys reported that the majority of households own very few assets, implying that there is little to sell during a crisis. Where poverty is deep, there is virtually no scope for normal coping mechanisms that promote resilience. Therefore, a food insecure household will attempt to cope by reducing food consumption—cutting the number of meals a day from three to either two or one. The wealthier households sell assets and livestock while the poorer households rely on “piece-work” or *ganyu*¹ labor. The reliance on *ganyu* labor also deepens poverty as household labor is diverted from the family’s own plot at critical planting and weeding seasons. In times of crisis, the supply of potential *ganyu* labor exceeds demand and depresses wage rates and exacerbates poverty.
5. A joint report by the government of Malawi and the United Nations has shown that coping strategies during a food crisis include consuming maize bran (usually fed to

1. *Ganyu* labor is when a household member works off-farm on a casual temporary basis, usually for a plate of maize grain or maize flour including bran.

livestock), rationing food, and going without food for several days. Other strategies involve selling their few remaining assets and early distress harvest (green maize). Among rural households, increased student drop out or absenteeism is common because children are too hungry (or malnourished) to attend school or have to help parents to find food.

Government Poverty Reduction Strategies

6. In the 1970s, Malawi experienced relatively better economic growth than in the recent past, but that growth was mainly attributable to estate and large-scale agriculture and did not benefit the poor. In the 1980s, Structural Adjustment Programs (SAPs) achieved relative economic stability, but that was not translated into broad-based economic growth, due to lack of national ownership and poverty focus. In the 1990s, there were periods of equitable growth driven by the smallholder agricultural sector, but this growth was not sustained due to external shocks and frequent policy reversals.

7. In 2002, the Malawi Poverty Reduction Strategy Paper (MPRSP) was formulated to combat severe poverty. The home-grown pro-poor strategy aimed at producing sustainable economic growth and empowering the poor. The strategy had four pillars. Two of these pillars were: Pillar I - Sustainable Pro-poor Economic Growth, and Pillar III – Improving the Quality of Life for the Most Vulnerable.

8. Regarding the implementation and achievements of MPRSP, the Government Annual Progress Reports (2002/03, 2003/04 and 2004/05) and the World Bank and IMF in their MPRSP-Progress Report and the 2003/04 Joint Staff Assessment (JSA) have concluded that nearly all the macroeconomic targets, including those for pro-poor expenditures, were not achieved. Malawi failed to meet the crop production targets for maize and key cash crops, and the planned irrigation developments were 50 percent below the PRSP target. The IMF-World Bank JSA further noted that virtually no progress was made in implementing the MPRSP due to weak fiscal mismanagement that led to a reduced level of budgetary resources. In light of these shortcomings and lessons learned from implementing the MPRSP and to reflect the Government's 2020 Vision document and the commitment to the Millennium Development Goals (MDGs), the new Malawi Growth and Development Strategy (MGDS) document covering the period 2006-2011 has been launched. The MGDS has been formulated with a wide participatory approach, which reinforces ownership and accountability. Since the rural space harbors the majority of the poor, the MGDS has accorded high priority to the development of the agriculture sector and the attainment of food security as critical to poverty reduction.

Annex D. Structure of and Selected Issues in Agriculture

STRUCTURE OF AGRICULTURE SECTOR

1. The agricultural sector in Malawi is traditionally dualistic, comprising smallholder and estate subsectors. The two subsectors have been delineated by different legal and institutional rules regarding crop production, marketing arrangements, pricing, and land tenure. The smallholder subsector is the largest in Malawi's agrarian economy. The subsector comprises the majority of the rural population working on small land holdings mostly under customary land tenure system.
2. The rapid increase in population has resulted in reduced landholding per farm family. It is estimated that 1.8 million smallholder farm families cultivate 1.8 million hectares of land, and approximately 72 percent cultivate an average of less than 1.0 hectare. The subsector is mainly subsistence, producing food crops and cash crops such as groundnuts and burley tobacco.
3. The estate subsector accounts for about 10 percent of the total land area, which is mainly under freehold or leasehold tenure. The main cash crops grown by the estate subsector are tobacco, tea, and sugarcane (20 percent each). Overall, the estate subsector generates 80 percent of the country's foreign exchange earnings. According to the Ministry of Agriculture and Food Security, however, the smallholder tobacco growers have increased in number in the past decade due to structural changes in the tobacco production subsectors. The smallholders now produce about 70 percent of this cash crop, dominated by burley tobacco, while the estates have become less viable and unable to compete with the smallholder farmers as world tobacco prices have been sharply declining. It is also reported that as many as 40-45 percent of estates are believed to have left the sector in the past decade (Annual Economic Report, 2005).
4. The total potential irrigable land in Malawi is estimated at about 400,000 hectares of which the estate and smallholders irrigate 29,000 ha and an additional 62,000 ha is irrigated on wetlands. About 75 percent of the total irrigated area is controlled by the estate sector growing industrial crops. Smallholder irrigated agriculture is limited mainly due to lack of access to credit facilities. Table 1 presents the distribution of irrigated areas in Malawi.

Table 1: Irrigated Areas

<i>Type</i>	<i>Area (Ha)</i>
Estate	19,000
Smallholders	10,000
Traditional Wetland Irrigation	62,000
Total Potential Irrigable Area	400,000

Source: Department of Irrigation, Government of Malawi.

5. With less than 10 percent of the irrigable land developed, there is a vast potential to develop the irrigated agriculture and promote high value crops, double cropping, ease the land pressure, and subsequently mitigate food crises due to recurrent drought. Despite the transfer of the Irrigation Department to the Ministry of Irrigation and Water Development,

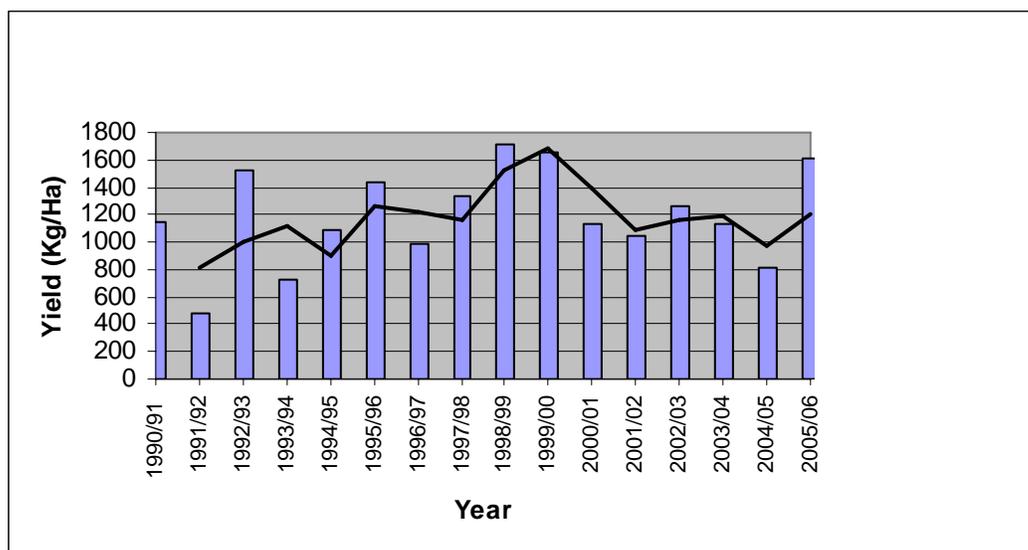
the Ministry of Agriculture and Food Security continues to promote irrigation development. In the 2006, the government has started implementation of a \$50 million World Bank-assisted irrigation-based agricultural productivity enhancement project. The project would rehabilitate existing government-owned irrigation schemes and develop new irrigation perimeters on a total area of about 2,800 ha with a view to transferring management to water user associations, including the provision of demand-driven advisory services.

Selected Issues

6. The agriculture sector faces policy, institutional, technical and resource constraints. Exogenous risks such as droughts and floods are also inherent to agriculture in Malawi. Various reforms that have been implemented in the past have produced mixed results. The overall weak performance of the sector in the last five years has been compounded by the recurrent droughts. Programs designed to enhance agricultural productivity anchored on fertilizer and seed subsidies and provision of technical services have not been successful and are not fiscally sustainable.

7. **Maize Yields are Low:** Malawi is one of the highest per capita consumer of maize in Africa with about 69 percent of caloric intake per day coming from the crop. Food security analysis for the country has been carried out with reference to this crop. However, investments in research and extension to improve maize yields have been limited and ineffective. As a result, maize yields (Figure 1) have been declining since 1989/99. A number of factors or constraints are associated with this trend.

Fig. 1: Maize Yields



8. Low application of improved technologies, notably fertilizer and hybrid seed, and weak provision of technical services are the leading yield determinants. Due to rising population pressure, soil fertility is declining and land degradation is expanding. Limited access to credit by the majority of smallholder farmers, poor road infrastructure and the recurrent droughts also explain the low maize yields in Malawi. The GOM's principal policy instrument to boost agricultural development in general and maize production in particular has been input subsidies--fertilizer and seeds, and ADMARC's intervention in maize

markets. The fiscal impact of these programs has been substantial. Since 1998, the Government has experimented with three input subsidy programs with mixed results. While the USP was credited with the bumper crops of 1999/2000, maize yields since 2001 have been declining despite the continued input subsidy programs. The unpredictability and frequent changes of GOM support programs have not been conducive to long-term investment decisions. Attempts to reform ADMARC to operate without budget support and provide effective market outlets to smallholder maize producers have been protracted.

9. **Resources for Agriculture are Inadequate:** Annual expenditures for the agricultural sector have stagnated at less than 10 percent of the total government budget for the past 5 years. The 2006 Public Sector Investment Program (PSIP) document shows that from the overall government development program expenditure (MK56 billion), the Ministry of Agriculture has been allocated only 7.3 percent, outpaced by National Roads Authority (18.4 percent), National AIDS Commission (17.5 percent), Ministry of Education (9.8 percent), and Ministry of Health (8.6 percent). The budget share of the Ministry of Agriculture is much lower when compared to the contribution of the sector to the country's economy. The ministry accords high priority to smallholder farmers and vulnerable groups in rural areas when distributing its limited budget among many competing demands. For the past 15 years, most of the allocated budget was not used for agricultural development programs, but rather, for administration and subsidies. Often field offices are not well equipped and because of limited transport facilities are unable to provide services to farmers.

10. Expenditure on administration and extension has stagnated while that for research has declined (Table 2). In 2000, Malawi's development partners had jointly recommended that the government shift expenditures from administration (which also includes subsidies, food reserve, and overheads) to extension and research, which are the priority mandates of the ministry. This situation is compounded by the ever-rising administrative costs of such programs at the expense of other priority programs. The decline of research was due to the closure in 1999 of the World Bank-assisted Agriculture Services Project (ASP) that was the major source of funding for research activities under the development budget.

Table 2: Budget Expenditure Trends across Program for Agriculture sector (%)

<i>Program</i>	<i>1996/ 97</i>	<i>1997/ 98</i>	<i>1998/ 99</i>	<i>1999/ 00</i>	<i>2000/ 01</i>	<i>2001/ 02</i>	<i>2002/ 03</i>	<i>2003/ 04</i>	<i>2004/ 05</i>	<i>2005/ 06</i>
Administration	12	13	68	64	68	65	19	40	45	40
Crop Production	0	0	4	2	3	4	30	12	24	47
Animal production	10	11	7	10	7	6	10	8	5	10
Extension Management	68	67	8	3	8	12	14	12	8	-
Research Services	8	8	11	7	7	7	9	5	2	2
Land Resources	2	2	2	7	2	3	3	4	2	-
Irrigation	0	0	3	4	3	3	14	13	6	-
Food Security	0	0	0	0	0	0	0	7	8	-

Source: Computed from Public Expenditure Review (Government of Malawi, 2000-06); and Approved Budget Estimates (various; 1995/96 to 2006/07)

11. For the past 10 years, the flow of funds to the sector has been unstable, largely due to erratic and low levels of aid inflows. According to the Malawi Justice Network, out of the expected MK16 billion of donor support in 2002/03, only 56 percent was disbursed because

the government did not comply with agreed loan covenants and because of slow project implementation.

Private Sector Input Providers Get Mixed Signals

12. Despite efforts to improve the enabling environment for private sector development, the business climate is generally not conducive to vibrant private sector investment. The private sector in Malawi has been hampered by a number of constraints, including macroeconomic instability, high transport costs, high interest rates, and limited lending facilities. The tax regime imposes a significant burden on a narrow formal private sector and undermines the incentives for entrepreneurship. Malawi is largely uncompetitive in the regional market, with limited transport infrastructure—including poor access to ports, limited air links and rail capacity, and poor roads. Utilities, including electricity, water, and communications, are unreliable and expensive. The HIV AND AIDS pandemic has had a major impact on private sector development, through losses of skilled technical and managerial staff.¹

13. Mistrust in the private sector's ability to deliver critical services in the agriculture sector limits the expansion of private sector participation in key service deliveries. Maize, tobacco, fertilizer, and sugar account for over \$200 million in market value, but only fertilizer has been partially characterized by a competitive private sector presence. The fertilizer market was liberalized over 10 years ago. Since then a healthy competitive private sector has developed in the import, local production, and distribution of fertilizer. Various reports indicate that the competition has brought about lower prices and more retail outlets in rural areas and fertilizer consumption has increased from an average of 125,000 tons (1991-93) to an average of 200,000 metric tons (2002-04).

14. The private sector is very cautious to commit long-term investments due to government's protracted intervention in the maize market. Sugar is characterized by a monopoly from Illovo and there is an oligopoly in the tobacco auction market, where there are only two main players (in the local and world markets).

1. Africa Development Bank recent assessment (2005)

Annex E. Toward an Agricultural Sector Strategy

1. **Policy Papers Abound**—The government has numerous agricultural development and natural resource management policies and strategies related to technology development and transfer, and capacity development to increase agriculture production and productivity. The majority of government efforts have been to support capacity of the smallholder farmers to produce enough for their own consumption and for export market. However, these strategy and policy announcements are short on action due to lack of political commitment and weak institutional capacity.
2. **Strategic Agenda**—In 2005, the Malawi Strategic Agenda for Economic Development and Food Security identified the following key sectoral and cross sectoral issues: inadequate institutional capacity; weak intra- and intersectoral linkages; poor infrastructure (road network, communication facilities, microfinance institutions, markets); poor access to agricultural inputs, low application rate of improved technologies, and land degradation, including the expanding cultivation of marginal lands.²³
3. **The New Agricultural Policy Framework**—In 2006 the Ministry of Agriculture and Food Security (MOAFS) proposed an Agricultural Policy Framework to synthesize and consolidate 45 existing policy documents developed during the past several years by sectoral ministries. MOFAS is taking the lead in harmonizing the existing agriculture policy documents into one action-oriented agriculture policy framework and will remove any overlaps or contradictions and establish synergies. An inter-ministerial working group has identified and endorsed several policy areas at macro, sector, or subsector levels affecting the agriculture sector. The agriculture policy framework draws heavily on the food and nutrition policy paper and is being framed along the same lines as the MGDS,²⁴ *Malawi and the MDGs*,²⁵ and *Vision 2020*.²⁶
4. The New Agricultural Policy objective is to promote and facilitate agricultural productivity to ensure food security, increased incomes and creation of employment opportunities. The objectives and strategies are organized around four main themes or aspects of food security: sustainable food availability, access to food, utilization, and stability in food and nutrition availability and access. Food availability refers to food

23. Ministry of Agriculture (June 2005): A new Agricultural Policy: A Strategic Agenda for addressing Economic Development and Food Security in Malawi.

24. MoEPD (January 2006): Specific Objective Malawi Growth and Development Strategy

25. MoEPD: Specific Objectives Malawi and the Millennium Development Goals: Challenges and Achievements

26. MoEPD: Specific Objective Malawi Vision 2020

that is sufficient in appropriate quantities and qualities supplied through domestic production and/or imports (including food aid).²⁷ Furthermore, the policy specifies the factors determining food availability including: (i) available food stocks of the Malawi six food groups at farm level, commercial, and government stocks; (ii) the volume and stability of production (subsistence and market oriented); and (iii) food imports (commercial and food aid). To achieve the objectives of the Agricultural Policy Framework, a set of Implementation Pillars have been identified that will be monitored by a Steering Committee, with adequate coordination mechanisms at district and national levels.

5. The Policy would promote sustainable management and use of natural resources, adaptive research and effective extension delivery system, promotion of value-addition, agribusiness and irrigation development. The specific food security strategies would include: (i) building community-based capacity in food processing and nutrition education; (ii) empowering communities through diversified income-generating activities; (iii) supporting water harvesting technologies to increase off-season crop production; (iv) developing an effective farmer/extension/research linkage; (v) developing food-processing technologies to expand on agro-based industry and household food availability; (vi) attaining sustainable household and national food security and improve nutritional status of the population; (vii) conserving the natural resource base; (viii) generating and disseminating appropriate and demand-driven technologies; (ix) providing agricultural information systems to stakeholders; and (x) providing quality control services on agricultural produce.

6. **Partnership:** The government and its development partners have learned from the 2001/02 food crisis that proper consultation and coordination of activities are critical to timely and effective program formulation and implementation. The joint work to consolidate the 45 strategy and policy documents into a single action oriented document is an exemplary partnership. A number of Malawi's development partners, including the World Bank, have played an important role in the formulation of the Agricultural Policy Framework. Discussions are also under way on a possible Sector-Wide Approach Program (SWAP), investments, nonlending support, cofinancing, and/or parallel interventions to achieve the MGDS.

7. The MGDS has been used as a model to strengthen partnership to ensure alignment and harmonization of donor programs. The Bank's proposed activities have benefited from close strategic coordination with development partners (EU, Global Fund for HIV AND AIDS, UNICEF, EC, DfID, and GTZ) through the development of the MGDS. Some key strong partnership features include agricultural and food security, private sector development, infrastructure development, health, response to HIV AND AIDS, governance, and public sector management. The Bank will also continue to support strong policy implementation with development credits and will support the Common Approach for Budget Support (CABS) to further integrate policy dialogue with key partners.

The World Bank Assistance

27. Ministry of Agriculture and Food Security (2005)

8. The Bank is Malawi's leading development partner and collaborates with other aid agencies in assisting the government to formulate: (i) the Malawi Development and Growth Strategy; (ii) debt sustainability and Highly Indebted Poor Countries (HIPC) debt relief; (iii) fiscal planning and public expenditure reform; (iv) civil service and wage reform; and (v) emergency assistance. The 1998 CAS program was scattered across a number of expected outcomes that diluted the Bank's ability to adjust to weak implementation capacity of the strategies. Learning from the previous CAS, the Bank's 2003 CAS was not only aligned to the goals and priorities of the government's MPRS of 2002, but also designed to address the economic mismanagement and to prepare for the changes in the political environment.²⁸ The 2003 Country Assistance Strategy (CAS) had three pillars: (i) strengthen economic management and accountability; (ii) establish a platform for long-term sustainable growth; and (iii) improve service delivery and strengthen safety nets. The 2003 CAS focused on poverty reduction activities aligned with the MPRS goals and objectives. According to the World Bank's Malawi CAS Completion report (2006), the 2003 CAS was designed as a transitional program to help the government move from a relatively reactive and disjointed development program that was already overstressing capacities, to a more proactive, focused, and integrated program that would address key constraints to growth and poverty reduction and urgent development issues in Malawi. On agriculture, the 2003 CAS outcome sought to improve agricultural productivity and revenue for both cash crops (tobacco) and consumption crops through access to input and output markets, as well as land markets for the smallholder farmers.

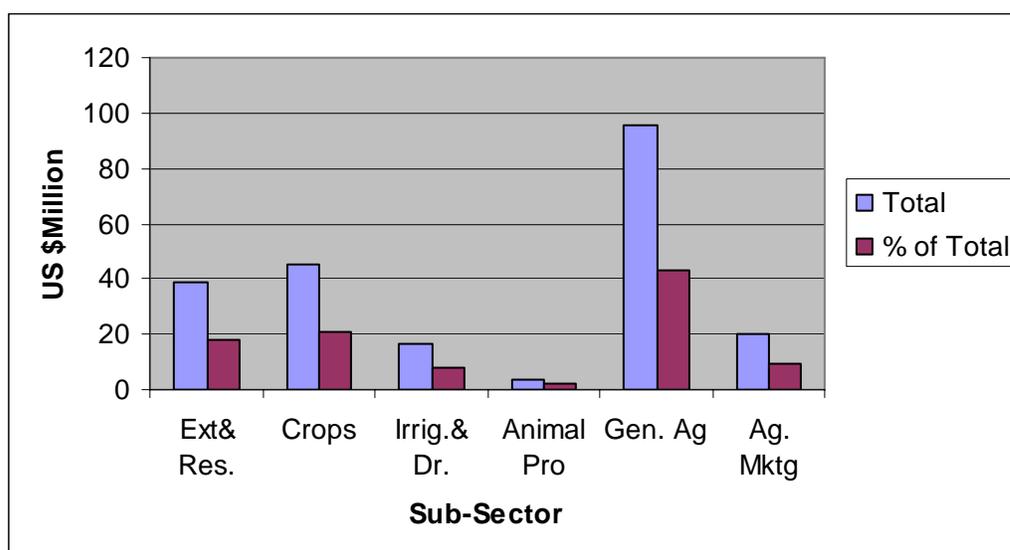
9. Despite the alignment of the 2003 CAS to the MPRS goals and objectives, as well as financial and policy formulation supports from the Bank, agricultural production and productivity continue to decline, causing food shortages and most social indicators show worsening conditions in the country. For example, chronic malnutrition (44 percent of pre-school children are stunted—low height for age), maternal and child mortality rates and life expectancy continue to deteriorate.

10. The Bank-assisted agricultural sector projects that were approved in the 1990s have been closed with unsatisfactory and moderately satisfactory results. Figure 1 presents the Bank's agricultural lending by subsector. An IEG review of May 1998 had also concluded that only 8 of 17 IDA agricultural projects (47 percent) were satisfactorily completed. Five other operations that were closed in the late 1990s and early 2000 were also rated unsatisfactory. The 2005 Country Program Assessment rated the quality of the Bank's portfolio marginally satisfactory and the 2006 IEG Country Assistance Evaluation rated the Bank's overall assistance to the rural/agricultural sector as unsatisfactory. Except for the two active projects (Community-Based Rural Land Development (FY04, \$27million) and Irrigation Rural Livelihoods and Agriculture Development (FY06, \$40 million), the Bank had virtually withdrawn from direct lending to this important sector after the closure of

28. World Bank IEG Country Assistance Evaluation, 2006.

the Agricultural Services Project in 2001. The failures or unsatisfactory results of most agricultural projects since 1998 could be attributed to a number of factors. The Government, donors and the Bank collectively did not address the implementation constraints adequately. The Government recognizes its limited human capital and implementation capacity. Direct policy dialogue with the secotral ministry has been characterized as "ad hoc". The policy reform agenda pursued for the agriculture sector has been in the context of an economy-wide adjustment lending without resource additionality for the sector's priority expenditures. Weak sectoral donor coordination has also resulted in a plethora of scattered projects with minimal impact on achieving the core sectoral objectives.

Fig. 1: Allocation of Bank Lending (1990-2006)



11. In 2004, the Bank prepared an Agricultural Policy Options paper that identified four priority agricultural issues to be included under FIMAG's reform agenda: (i) reforming the Ministry of Agriculture; (ii) land management; (iii) food security, markets, and ADMARC; and (iv) reforming the tobacco levies at all levels. These issues were inputs to the design of FIMAG program. The final design included a reform package for ADMARC, the tobacco sector, and land use, but did not include the reform of the Ministry of Agriculture. Progress is slow and uneven on these selected key issues.

12. On decentralizing the Ministry of Agriculture and Food Security, there is some progress at the district level that budgetary allocation from the government is directly transferred to the district assemblies, but, this lacks a functional management system. The decentralized activities are not functioning properly because of limited human resource capacities and budget constraints or unavailability of adequate finances from the central government. A common financing issue is when extension staff is assigned to field offices but lack an operating budget to provide services in farmers' fields.

13. To enhance efficient utilization of agricultural land, the government in consultation with stakeholders developed a new land policy which was approved by the parliament in 2002. Due to the sensitivity of land issues in Malawi, progress in implementing the new market-oriented policy is slow. The voluntary selling of land is limited as most estates or those who are willing to sell find the offered prices low. In addition, the coverage of land taxation issue is not comprehensive with respect to tax incidence. While most households in Malawi have an income less than US\$1 per day, tax collection from this segment of the population seems unlikely. The prospects for land consolidation and deterring land fragmentation are also bleak. Cooperatives are gradually emerging and may help to create viable land sizes for efficient use of available technologies such as irrigation systems and adoption of improved farming systems. The Bank-assisted FIMAG program and the Community Rural Land Development Projects are facilitating the implementation of selected aspects of land management reforms.

14. One issue that has defied repeated attempts to reform is the role of public and private sectors in agricultural marketing and trade which are critical to Malawi's food security objective. ADMARC has been on the reform agenda for several years. The Bank has been supporting the agreed reform package under FIMAG. However, while some progress has been made in redefining and reconstituting the role of ADMARC, the second and last tranche under FIMAG has been disbursed with a waiver on a pending action related to the reform of ADMARC.

15. Reforming tobacco levies at all levels in the supply chain was also a focus under FIMAG. In spite of various proposals to cut institutional levies in the last four years, the tobacco industry is facing various difficulties such as low production levels, poor qualities of tobacco and declining prices at auction floors. The smallholder tobacco farmers receive low prices which hardly cover production costs. Key challenges in the small holder tobacco subsector include improved marketing channels, enhancing production quality tobacco and reviewing the direct and indirect levies.

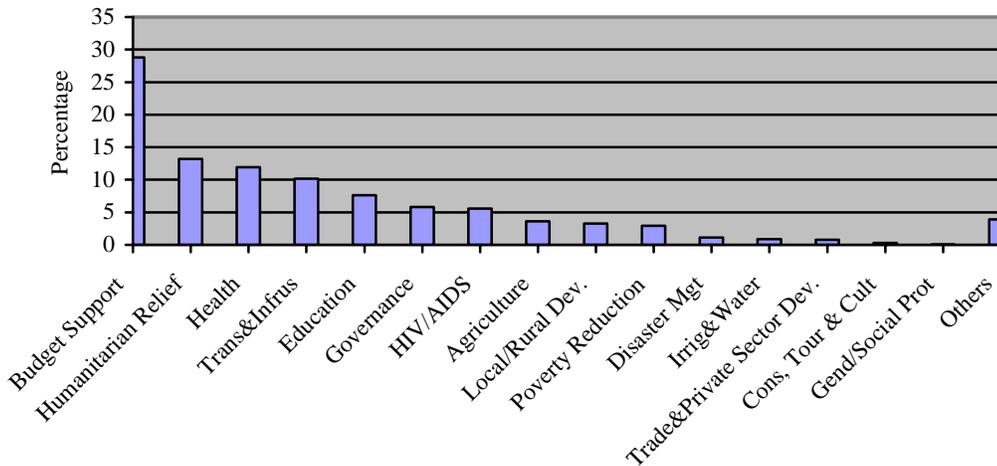
16. A challenge for the government is to mobilize long-term external assistance for the new Agricultural Policy Framework, which combines actions on policy and institutional reforms while investing in proven high-priority sectoral programs. The Bank has also assisted the GOM to launch a pilot Weather-Based Insurance scheme covering groundnut farmers and to access the South Africa Futures Exchange (SAFEX) for maize purchases as ex-ante risk management measures. The results from these innovative pilots will help Malawi in designing a combination of ex-ante and ex-post drought mitigation measures.

DISTRIBUTION OF EXTERNAL ASSISTANCE

17. In 2005/06, budget support and humanitarian aid accounted for nearly 40 percent of external assistance (Figure 2). The World Bank's Emergency Recovery Grant (2005/06) is included as humanitarian support. DfID, the World Bank, the EU,

and Norway are the major contributors to budget support. Agriculture and irrigation and water supply are receiving little funding from donors in spite of the government’s effort to reduce dependency on rain-fed agriculture.

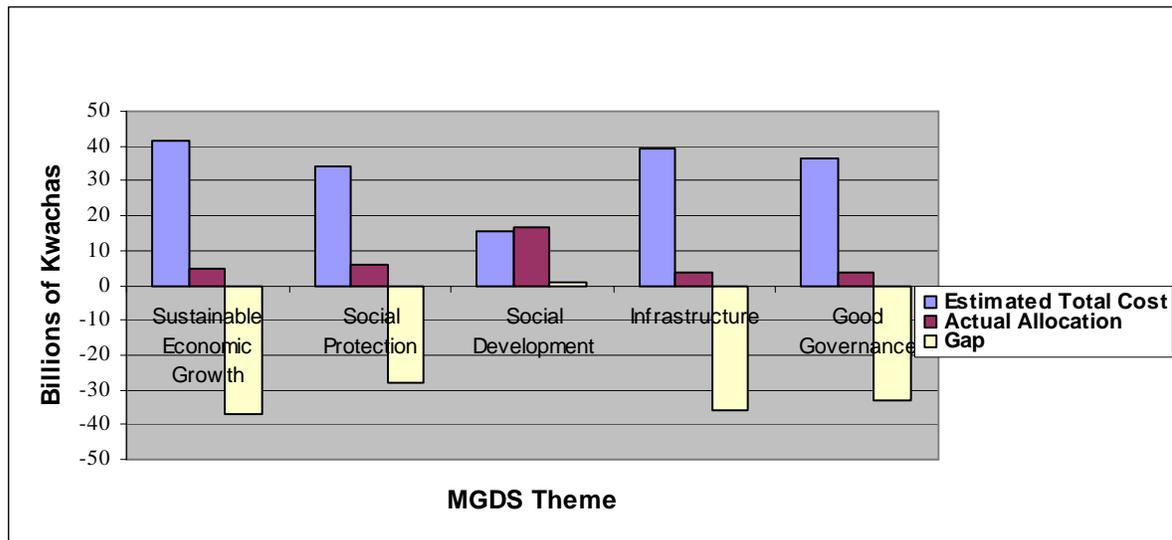
Fig 2: Proportion of Assistance by Sector- 2005/06



Source: Ministry of Finance (2006)

18. The sectoral distribution of external assistance has implications for Malawi’s commitment to achieve the MDG under which agricultural development is considered a high priority. Figure 3 shows the total cost of MDG activities, amount of external assistance disbursed in 2005/06, and the gap that exists for the MGDS’ activities for poverty reduction.

Fig. 3 Estimated Total Cost, Actual Aid Disbursed and Funding Gap (2005/06)



Source: Ministry of Finance and Ministry of Economic Planning and Development

19. The required volume of funding to fully implement the MGDS is currently estimated at MK311 billion, and the external resources disbursed hitherto amount to about MK 52 billion, implying a significant financial gap which could hinder the achievement of the MGDS. According to the 2006/07 Summary of Extra-Budgetary Support to Malawi, some 31 percent of external assistance is outside the budget, as their finances are not administered by government ministries, clearly representing a significant volume of support being not aligned to the government investment program. Some of these expenditures may narrow the financing gap for the MGDS priority programs but also risk of being misaligned.

20. The Bank's agricultural assistance to the MGDS under the draft 2007 CAS calls for "Improved smallholder agricultural productivity and integration into agro-processing." This is related to the MGDS goal of "Medium term economic growth through small-scale agricultural and agro-processing and food security." The planned lending includes: (i) Agricultural and Food Security Program (FY08), which will support agricultural development programs comprising irrigation, market development and weather risk mitigation; (ii) Food Security/Rural Development Credit (FY10), which will support expanded agricultural and food security programs; and (iii) National Water Development II (FY07), which will help to improve water resources management including irrigation. The two ongoing and planned rural-based operations are expected to achieve increased smallholder agricultural production and productivity.

21. Notwithstanding the overall unsatisfactory outcomes of the Bank's assistance to agriculture, the Bank is determined to reengage in the sector. It has strengthened its Country Office capacity through staff recruitment and the 2007 CAS would be a suitable vehicle to address the core sectoral issues. Toward this end, the Bank recognizes that Malawi is vulnerable to natural disaster risks—most notably the recurrence of droughts—and measures to minimize these risks would be central to the success of Bank assistance.

Annex F. Borrower Comments

"James
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05/11/2007 10:05 AM

To <Paklilu@worldbank.org>
cc <Abarbu@worldbank.org>, "Ambrose Mzoma"
<ahmzoma@yahoo.co.uk>
Subject Malawi - Emergency Drought Recovery Project Draft
Project Performance Assessment Report

Dear Mr Aklilu,

I would like to comment on paragraph 4.11 on page 19 of the report.

The National Disaster Management Plan has not yet been completed and approved. The document is still in draft form. Funds from the EDRP were used to undertake consultations on the plan which resulted in the draft National Disaster Management Plan. As the Department of Poverty and Disaster Management Affairs was working on finalising the plan, it received comments from stakeholders. Some indicated that the department should have started with developing a Policy before the Plan. Others pointed out that the document in its current format could not be called a plan because, amongst others, it had a lot of background information. This resulted in the department putting the process of finalising the document on hold.

Early this month, during a meeting of the National Disaster Preparedness and Relief Committee, members informed the department to finalise the plan because a lot of effort went into it already. They pointed out that after a Disaster Risk Management Policy is developed the necessary additions would be made to the plan. This decision was made because they realised that it would take a long time to develop the policy. The Department will, therefore, be working to finalise the plan with the involvement of other stakeholders.

I thought I should inform you this because paragraph 4.11 gives the impression that the Plan was completed.

Best Regards

James Chiusiwa
for: Secretary and Commissioner for Poverty and Disaster Management Affairs