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AFRICAN DEVELOPMENT
BANK GROUP

MALAWI

INTERIM COUNTRY STRATEGY PAPER (ICSP)

2011-2012

MARCH, 2011

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CURRENCY EQUIVALENTS

(End-February, 2010)

UA	1.00	=	MWK	235.54
UA	1.00	=	US\$	1.56
US\$	1.00	=	MWK	150.80

FISCAL YEAR

1 July to 30 June

ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
AEO	African Economic Outlook
CABS	Common Approach to Budget Support
CEM	Country Economic Memorandum
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
DAS	Development Assistance Strategy
DB	Doing Business
DFID	Department For International Development
DPP	Democratic Progressive Party
ECF	Extended Credit Facility
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
ESCOM	Electricity Supply Corporation of Malawi
ESF	Exogenous Shocks Facility
FDI	Foreign Direct Investment
FISP	Farm Input Subsidy Program
FY	Fiscal Year
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GPRSG	Governance and Poverty Reduction Support Grant
GoM	Government of Malawi
HDI	Human Development Index
HIPC	Highly Indebted Poor Countries Initiative
IFMIS	Integrated Financial Management Information System
MCC	Millennium Challenge Corporation
MCP	Malawi Congress Party
MGDS	Malawi Growth and Development Strategy
MIM	Malawi Institute of Management
MRA	Malawi Revenue Authority
NSO	National Statistics Office
PAF	Performance Assessment Framework
PBA	Performance Based Allocation
PEFA	Public Economic and Financial Accountability
PFEM	Public Finance and Economic Management
PRGF	Poverty Reduction Growth Facility
RBCSP	Results Based Country Strategy Paper
RBM	Reserve Bank of Malawi
SADC	Southern Africa Development Community
SMEs	Small and Medium Enterprises
TEVET	Technical, Entrepreneurial and Vocational Education and Training
UDF	United Democratic Front

I INTRODUCTION

1.1 The Bank's Interim Country Strategy Paper (ICSP) for Malawi for the years 2011-2012 succeeds the 2005-2010 Results Based Country Strategy Paper (RBCSP). Preparation of an interim strategy was agreed following dialogue with the Government of Malawi (GoM) on the timeframe for the preparation of the second Malawi Growth and Development Strategy (MGDS.II), expected for 2012. This will allow the Bank to effectively align its next strategy from 2013 onwards to the country's new poverty reduction strategy.

1.2 Despite its challenging socio-economic environment, Malawi has achieved encouraging results over the past five years: maintaining strong economic growth rates, improving food security and sustaining moderate consumer prices. The major challenge for Malawi is to diversify its landlocked agro-based economy and spur private sector growth, which until now remains sluggish. In this strategy, the Bank positions itself to use the on-going interventions in irrigation and transport infrastructure and the proposed lending and non-lending programs to help Malawi address these challenges. Informed by lessons from the 2005-2010 RBCSP, and findings from recent economic and sector work¹ on Malawi, the strategy complements efforts by other development partners while laying the groundwork for the forthcoming full Bank Strategy.

¹ Skills for private sector development (2009)- ESW conducted by MWFO, CEM (2009), Education and Employment in Malawi (2010), AfDB working paper.

II COUNTRY CONTEXT AND PROSPECTS

2.1 *Political, Economic and Social Context*

Political Context

2.1.1 The political landscape has changed since the 2009 elections. President Mutharika and the Democratic Progressive Party (DPP) have a majority government, ending a politically tenuous period from 2005. The Malawi Congress Party (MCP) and the United Democratic Front (UDF), the two main opposition parties, now command less than a third of the seats in parliament. The high voter turnout and full participation from the opposition gave credibility to the president's second term, which runs up to 2014.

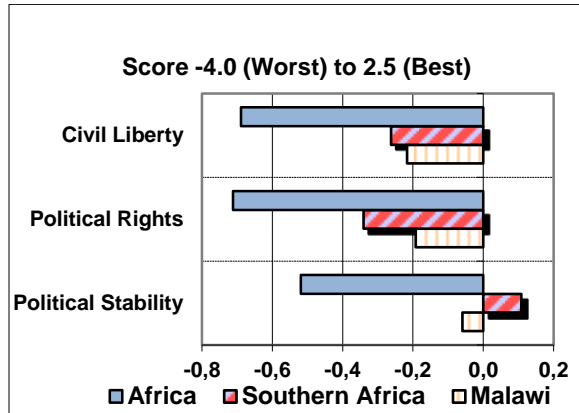
2.1.2 Recently, the political environment has taken a negative turn. In particular, the amendment of Section 46 of the Penal Code in January 2011, which gives power to the Minister of Information to ban any publication 'deemed not in the interest of the public', has raised concerns regarding the government's commitment to freedom of expression. Failure by government to hold local government elections last held in 2000, has further exacerbated these concerns.² The weakening political governance has led to some bilateral donors withholding aid³, which could accelerate domestic borrowing

² The local elections should be held every five years according to the Malawi constitution. The rescheduled date of April 2011 from November 2011 is unlikely to be met as the Malawi Electoral Commission remains suspended on allegation of fraud.

³ The Germany government in February, 2011 announced a reduction in budget support disbursements.

and impact on the government's economic program.

FIGURE 1: POLITICAL CONTEXT



Source: AfDB Statistics using data from WEF 2010

2.1.3 The country lags behind most other countries in Southern Africa on political stability (Figure1). The retrogressive political developments threaten to erode the gains in civil liberty and political rights where Malawi performs better than most of its peers on the continent. Freedom House in 2010 rated Malawi as partly free, ranking the country's media freedom at 118 out of 196 countries.

Economic Context

2.1.4 Landlocked and endowed with fewer known mineral deposits than its three larger neighbors (Tanzania, Zambia and Mozambique- Annex 7), Malawi's main economic activity is agriculture. It employs about 80% of the labor force, 70% of whom are smallholder farmers⁴. Smallholder agriculture is predominantly subsistence and rain-fed. Lake Malawi and other water

bodies that cover 1/5 of the country's 118 000 km² land area (Annex 7), remain heavily underutilized for irrigation. Only 19% of potential agriculture land is irrigated. With low irrigation and one rainfall season, agricultural production is seasonal, which causes widespread underemployment.

2.1.5 A series of government policies implemented over the past 15 years have led to significant gains in smallholder production. In particular, GoM's repeal in 1994 of the Special Crops Act of 1972 allowed smallholder farmers to start cultivating export crops such as burley tobacco, sugar and cotton. This agricultural liberalization combined with a scaled up Fertilizer Input Subsidy Program (FISP) introduced in 2005 helped increase the share of smallholder agriculture from -1.5% of GDP in 2004 to 14% of GDP in 2008. The sustained increase in agricultural production presents a window of opportunity to facilitate economic diversification by improving access to domestic and regional markets and supporting small and medium scale agro processing.

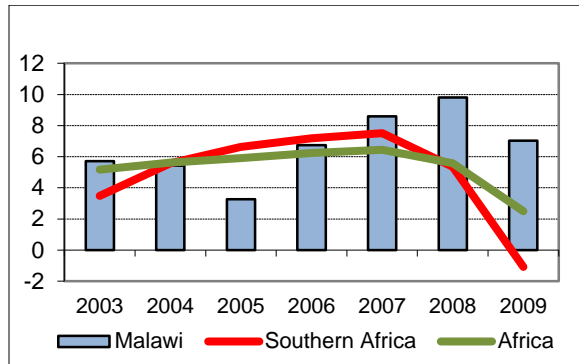
Growth and Growth Drivers

2.1.6 Malawi's GDP at 2000 constant prices was estimated at US\$2.7 billion in 2009 (Annex 2). Growth has been robust with the country sustaining real GDP growth rates of above 7.0% since 2006, reaching 9.8% in 2008 (Figure 2). It has since moderated to around 7.0% in 2009 and 2010. Benefiting from favorable weather conditions, the FISP, HIPC debt relief and an improved macroeconomic policy environment, the country's growth rate has

⁴ Agriculture in Malawi has two distinct sub-sectors: large-scale commercial farming known as estate agriculture, and the small-scale subsistence agriculture on customary land.

been well beyond the government's target set in the MGDS. The global economic slowdown found Malawi on a strong footing. This, coupled with a bumper harvest and the start of uranium exports in 2009, helped the country weather the crisis.

FIGURE 2: REAL GDP GROWTH (%)



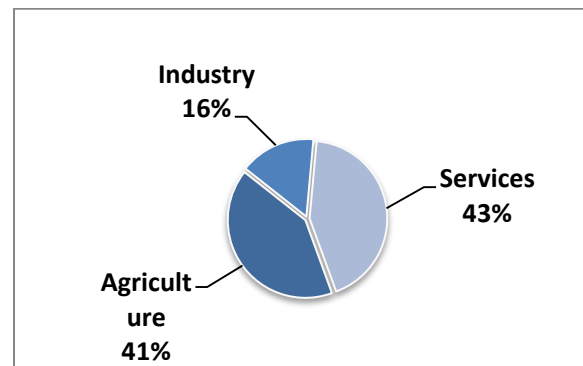
Source: AfDB Statistics Department, 2010

2.1.7 The **primary sector** accounts for 41% of GDP (Figure 3) and between 2007 and 2009 grew by an average of 12.5%. Dry spells affected agricultural growth in 2010, which stood at 1.3%. Tobacco is dominant in the sector, contributing to over 13% of GDP and 60% of total export earnings. Growth in recent years has been driven by improved agricultural productivity as a result of the FISP as well as expansion in area under cultivation for key non-maize crops. The share of other crops other than maize, in total smallholder production, increased from less than 30% in 1994 to over 50% in 2009⁵. Potatoes and cassava now account for over 40% of the value of total smallholder output up from 15% in 1994.

⁵ This data should be treated with caution as some observers feel agriculture data is weak in Malawi.

2.1.8 Estimated at 16% of GDP in 2009, **the secondary sector** grew at an average of 6.9% between 2007 and 2009. In 2010 the sector grew by 21.3%. The expansion came from mining and construction sectors where growth is estimated to have risen from an average of 7.9% for both sectors between 2007 and 2009 to 19.9% and 52.3% in 2010 respectively. Electricity gas and water posted an average growth rate of 4.7% between 2007 and 2009. In 2010 the utilities sector grew by 6.7%. Despite the growth, the utilities sector's performance remains poor, resulting in a slowdown in manufacturing growth from an annual average of 7.1% between 2007 and 2009 to 6.2% in 2010.

FIGURE 3: GDP BY SECTOR (2009)



Source: AfDB Statistics Department, 2010

2.1.9 Representing 43% of GDP, the **tertiary sector** posted an average growth rate of 8.9% between 2007 and 2009. In 2010 it is estimated to have grown by 11.6% benefiting from a buoyant wholesale and retail trade and transport sectors. The largest contribution to the country's services sector has come from information and communication, with the expansion in

mobile telephone services and radio services. Annual growth in this subsector averaged 22.3% between 2007 and 2009. In 2010 it is estimated to have grown by 19.4%.

2.1.10 The country's medium term prospects look positive with projections up to 2014 showing the annual growth rate remaining within the 6.5% trend. The strong agricultural growth is expected to level off as productivity gains due to expansion of area under cultivation fall. The services sector and expected expansion in mining will therefore be an important anchor to economic growth. The broad direction of policy will remain market orientation. However, structural reforms that will allow improvements in the availability of energy and foreign exchange will be key to maintaining the economy on the current growth path.

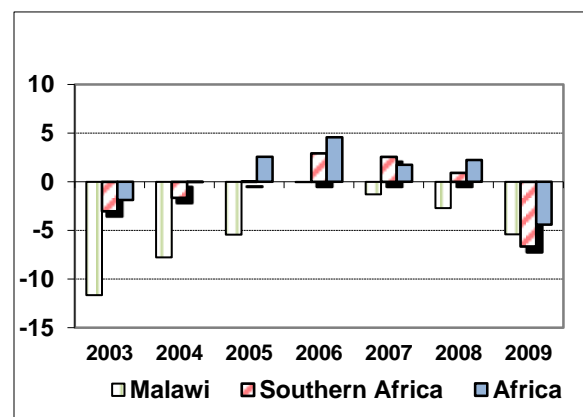
Macroeconomic Management

2.1.11 The monetary and fiscal policy framework pursued since 2003 has been generally prudent. However, an improved fiscal balance in 2006 (Figure 4) gradually declined to -5.4% of GDP in 2009 as the rate of resource mobilisation contracted and failed to keep pace with the rise in government spending. As a proportion of GDP, total expenditure and net lending rose from 31.2% in 2006 to 35.2% in 2009 while revenue and grants declined from 31.2% to 29.8% (Annex 2) during the period. High global fuel and fertiliser prices and an increase in public investment spending explain the rise in government spending. Public investments, which were only 5% of

GDP in 2002 rose to 14% in 2009⁶. The other part is explained by the FISP, whose cost rose from 2.6% of GDP in 2005/06 to 6.0% in 2008/09⁷.

2.1.12 A preliminary assessment of the 2009/10 budget estimated at MWK256.8 billion shows a positive balance of 0.1% of GDP following a decline in expenditures by 4.1% of GDP and an increase in revenues by 3.2% of GDP. Government is keen to reduce domestic borrowing so as to crowd in private sector and create fiscal space for pro-poor spending. Net domestic debt improved from 16.4% of GDP in 2004 to 11.8% in 2007 but increased to 20.3% of GDP in 2009 (Annex 2) due to delays in budget support disbursements. Domestic credit to the private sector has started improving, rising from 7.6% of GDP in 2005 to 13.5% in 2009. A pegged exchange rate combined with improved food availability, helped moderate headline inflation from 15.5% in 2005 to 8.5% in 2009.

FIGURE 4: FISCAL BALANCE (% GDP)



Source: AfDB Statistics Department, AEO 2010

⁶ Compare to a slow increase from 10.6% to 12.2% during the period for private investment

⁷ In 2008/09 government incurred a 2% of GDP extra budgetary spending on the FISP.

2.1.13 The current account deficit at 8.1% of GDP in 2009 has increased from 2.5% in 2005 (Annex 2). Between 2007 and 2009 imports averaged 42% of GDP while exports averaged only 22%. Foreign reserves at an average of 1 month of import cover during the period were low and volatile. The fixed exchange rate regime⁸ pursued between 2006 and 2009 made foreign exchange scarce reflected in foreign exchange market queuing and premiums. This forced government to resort to foreign exchange rationing and current account restrictions.

2.1.14 The country's risk of debt distress is moderate. The Net Present Value of Debt to GDP stands at 26.1%⁹ in 2009 (Annex 2). Government's post-HIPC efforts aim at maintaining sustainable debt. The Government has since issued borrowing guidelines (2007) and prepared a debt policy (2009). While Malawi's aid per capita at US\$61.5 in 2009 is higher than the average for Southern Africa, the country's performance on attracting FDIs has been dismal. As a proportion of GDP, FDIs averaged 2.3% between 1999 and 2009, lower than the Sub Sahara average for low income countries at 3.0% of GDP. The 2010-2012 IMF monitored program under the Extended Credit Facility (ECF) aims to help address external sector bottlenecks to reinforce the country's competitiveness. The first review in December 2010 found the program on track.

⁸ The official nominal exchange rate had been pegged against the US dollar at the rate of about 141MWK:1US\$ from 2006 to November 2009. Although the Malawi Kwacha was devalued by 8% in October 2010, the IMF estimates that the Real Effective Exchange Rate remains overvalued by between 10 and 20%.

⁹ Against the threshold of 40 of GDP for medium policy countries

Governance

2.1.15 Ranked at 22 on the Ibrahim Governance index in 2008/09 from 23 in 2007/08, Malawi is in the top half among African countries. Apart from the Rule of Law, where the country's performance has slightly regressed, there is a positive trajectory on the scores for all three indicators (Table 1) though from a low base.

TABLE 1: GOVERNANCE INDICATORS: SCORE OF -3.0 (WORST) AND 2.5 (BEST)

Indicators	2008	2009
Government Effectiveness	-0.58	-0.52
Voice and Accountability	-0.24	-0.22
Corruption Perception	-0.54	-0.47
Rule of Law	-0.18	-0.19

Source: AfDB Statistics, data from WEF, 2010

2.1.16 Under the Public Finance and Economic Management (PFEM) Action Plan adopted in 2006, GoM started using the Integrated Financial Management and Information System (IFMIS). The system has helped control the build-up of domestic arrears and facilitated quick preparation of financial statements. The government reports notable improvements in payroll management efficiency with the Human Resource Information Management System (HRIMS) adopted in 2006. On corruption the country launched a national anti-corruption strategy in 2009 that aims to establish a National Integrity System (NIS) that would champion anti-corruption reforms and promote ethical culture in the country. On the Transparency International Corruption Perception Index, the country is ranked 85 out of 178 countries in 2010 from

89 in 2009 showing some general confidence in the fight against corruption.

2.1.17 The 2008 Public Expenditure and Financial Accountability (PEFA) assessment report shows an improvement in national budget out-turn from C+ to A. On public audit, GoM has also progressed towards clearing the backlog of reports from 5 in 2008 to 1 at end-June 2010 and extending coverage to local assemblies. The public procurement system is considered largely acceptable with most donors including the World Bank using it. A framework for managing public procurement is provided for under the Public Procurement Act of 2003 with the Directorate of Public Procurement providing oversight.

Business Environment & Competitiveness

Business Environment

2.1.18 Malawi is ranked 19 out of 51 African economies in 'Doing Business (DB) 2011'¹⁰ report, showing that a lot still needs to be done to improve the business environment (Table 2). Starting a business remains a tedious and costly process requiring 10 procedures at a cost of 108.4% of income per capita compared to an average of 8.4 procedures and 92.1% of income per capita for Southern Africa. Dealing with licences is particularly difficult as it takes 268 days at a cost of 1,316.7% of per capita income to get a permit.

TABLE 2: MALAWI- DOING BUSINESS 2009 & 2010 RANK

Item	2009 Rank	2010 Rank	Status - Improvement (▼)
Ease of Doing Business	19	19	►
Starting a business	23	27	▲
Dealing with licenses	42	48	▲
Registering property	17	10	▼
Getting credit	10	17	▲
Protecting investors	14	14	►
Paying taxes	4	4	►
Trading across borders	46	46	►
Enforcing contracts	31	23	▼
Closing a business	26	25	▼

Source: AfDB Statistics, 2010 data from DB 2011

2.1.19 The costly business environment and the difficulties encountered in getting credit help explain why most businesses in Malawi remain small and informal (Box 1). Reforms have generally been slow. Legislation for the establishment of a Public Private Partnership framework and a one stop trade centre are yet to be passed. There has been some progress on the financial sector with the passing of legislation in 2010 for the establishment of Credit Reference Bureau and approval of the financial sector development strategy.

2.1.20 In an effort to improve tax mobilisation, the Malawi Revenue Authority has created a Large Tax Payers Unit and developed an on-line self-assessment system to improve efficiency. As a result, Malawi ranks 4th among 51 African economies on the 'paying taxes indicator' in DB 2011 report. At an average of 16.6% of GDP between 2005 and 2009, tax revenue performance is within the Sub Saharan

¹⁰ Note that most African countries are the bottom of the global DB ranking. Overall Malawi is ranked 133 out of 183 economies.

average. However, more reforms are needed particularly to reduce the country's overdependence on trade tax revenues, which in 2009 accounted for approximately 42% of total tax revenue. Government is currently reviewing the tax code of 1971 that should facilitate further reforms.

BOX 1: THE SME SECTOR IN MALAWI

Malawi's private sector is characterized by a 'missing middle' with very few Small and Medium Enterprises (SMEs) between the numerous micro and few large enterprises. The SME sector is dominated by commerce and trade enterprises (44%), manufacturing (30%), crop production (17%), and services (9) with the majority of enterprises being agriculture-related. An SME policy and strategy is under preparation. Nonetheless the government's cooperative development policy has helped establish effective SMEs associations helping develop successful value chains, particularly in the agriculture and natural resources sector. At the lower end there are village groups manufacturing fruit juice and honey and at the higher end there is value addition in smallholder coffee, sugar, tea and timber for domestic and export markets.

2.1.21 A rank of 125 among 139 economies puts Malawi in the bottom 10% in the 2010/11 Global Competitiveness Index (GCI). While some progress has been made in improving the effectiveness of the institutions (rank 52/139), the country's macroeconomic environment (rank 135/139) and state of infrastructure (rank 131/139) exhibit a significant degree of fragility compared to other countries (Table 3). Furthermore reforms are needed to improve higher education and training, technological readiness and the market size so as to enhance efficiency and competitiveness.

TABLE 3: MALAWI- GLOBAL COMPETITIVENESS RANK 2010-2011

Malawi	Rank (139)
Overall	125
Basic Requirements	129
1st Pillar : Institutions	52
2nd Pillar : Infrastructure	131
3rd Pillar : Macroeconomic Environment	135
4th Pillar : Health & Primary Education	125
Efficiency Enhancers	110
5th Pillar : Higher education and training	120
6th Pillar : Goods Market efficiency	85
7th Pillar : Labor Market efficiency	50
8th Pillar : Financial Market development	50
9th Pillar : Technological readiness	121
10th Pillar : Market size	127
Innovation Enhancers	31
11th Pillar : Business sophistication	89
12th Pillar : Innovation	29

Source: WEF, 2011

Regional Integration and Trade

2.1.22 Malawi's geographical location and the structural features of the economy require greater regional economic integration to enhance trade and development. In 'Doing Business 2011' the country is ranked 46 among 51 African economies on the trading across borders indicator, showing significant benefits are yet to accrue from the country's dual membership to the two regional groupings: the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). The country is yet to sign up to the Economic Partnership Agreements (EPA) with the EU arguing it does not adequately address its interests. The country however continues to participate in the EPA negotiations while benefiting from preferential trade access to the EU market through the Everything But Arms Initiative.

2.1.23 Government is committed to making Malawi land linked through the Nacala Road Corridor development program to its main trade port of Nacala in Mozambique. The corridor is expected to increase and facilitate trade with Zambia and Mozambique. The country also sees the development of the Shire-Zambezi water way linking Malawi to the port of Beira in Mozambique as an opportunity to facilitate trade as this route is half the 600km distance to the port of Nacala from the Malawi border. Work on the construction of an in-land port in Nsanje in Malawi has already started although progress will depend on buy-in from Mozambique. A study is underway funded by the Bank and NEPAD to determine feasibility of the route.

Social Context

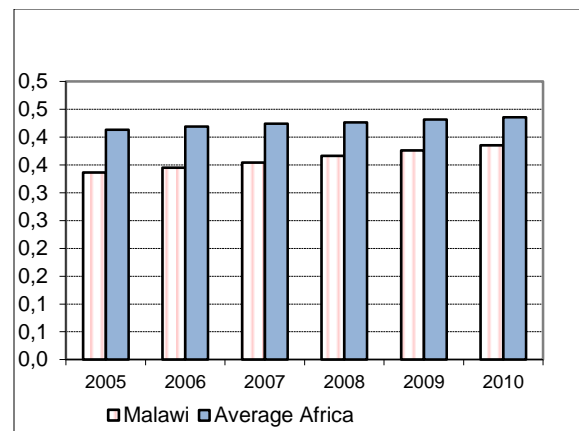
Poverty

2.1.24 With GNI per capita of US\$290 in 2008 (Annex 3) poverty remains widespread in Malawi. The incidence of poverty is high among rural households with 43% classified as poor compared to 14% for urban households. The Southern Region where literacy rates are low (66%)¹¹ and landlessness is high has more poor people (52%). Poverty is also common among female and child headed households. Since most farming households rely on rain fed production, any fall in agricultural output due to adverse weather easily pushes farmers into poverty. If Malawi is to achieve the MDG goal on halving poverty, the poverty headcount in 2015 could reach 27%. Based on current trends, the government's

farm input subsidy for poor farmers could help achieve the target in the absence of exogenous shocks.

2.1.25 The country is on track to meeting the MDG on child mortality and has managed to reverse the trend on HIV/AIDS. However, Malawi is off track on three MDGs namely universal primary education, maternal health and gender equality and women empowerment. Net primary school enrollment rate in 2008 stood at 91%. Maternal mortality remains high at 807 per 100 000 in 2008 from 984 in 2005 (Annex 4). An HDI value of 0.385 in 2010 (Figure 5) gives Malawi a rank of 153 among 169 countries. This represents a 49% improvement in human development since 1980. The Gini coefficient of 39 in 2010 from 50 in 1997 shows improvement in income distribution.

FIGURE 5: HUMAN DEVELOPMENT INDEX



Source: AfDB Statistics, UNDP data 2010

¹¹ Compared to national average of (70%)

Social Inclusion

2.1.26 Malawi does not have a universal social safety net. Nonetheless the country uses the FISP (Box 2) as a safety net instrument to protect the poor and vulnerable groups¹².

BOX 2: THE FARM INPUT SUBSIDY PROGRAM (FISP)

1. Malawi has won international recognition for its implementation of the FSIP introduced in 2005. The program aims to address liquidity constraints of poor small-scale farmers to enhance their productivity for improved household food security and incomes. Farming households receive vouchers for 100kg of fertilizer, 2 kg of hybrid maize seed or 4 kg of open pollinated maize seed. Others receive legume seed. The number of households receiving fertilizer coupons has averaged 1.7million since the program's introduction. The use of input subsidies in Malawi started during droughts of the 1980s and 1990s. Between 1998/99 and 2004/05, the government subsidized input distribution under the Starter Pack programme. The main difference is that the size of the fertilizer allocation has now increased and the private sector is used in redeeming coupons.

2. While rainfall has been generally favorable, the record levels of maize production over recent years can be attributed to the widespread use of improved maize seed and fertilizer made possible by the FISP. The success of the program has led to its institutionalizing as a regular investment to achieve national food self-sufficiency. Government estimates that smallholder maize output has increased from 1.3million tones in 2004/05 to 3.66million tones in 2009/10 while smallholder household food security has increased from 66% in 2004/05 to 99% in 2009/10. Lea and Hanmer (2009), however, estimate that the maize yields may be over estimated by up to 20%. While questions remain about maize yield data, other indicators still show improved productivity. According to the 2007 MVAC data, only 500,000 households experienced shortfalls in maize access in 2008/09 compared to 4.5 million households in 2005/06.

¹² Government also has free primary education and health care services, which suffer from quality challenges.

2.1.27 The country further uses the minimum wage policy to protect those in vulnerable employment. However the minimum wage is very low. The monthly minimum wage at US\$24 for urban and US\$19 for rural in 2009 are lower than for Mozambique at US\$89 and US\$55 for manufacturing and farming respectively¹³. For Malawi this translates to daily rates of US\$0.92 for urban and US\$0.75 for rural which are less than a dollar per day, showing the majority of unskilled employees are living in poverty in Malawi.

Gender Equality

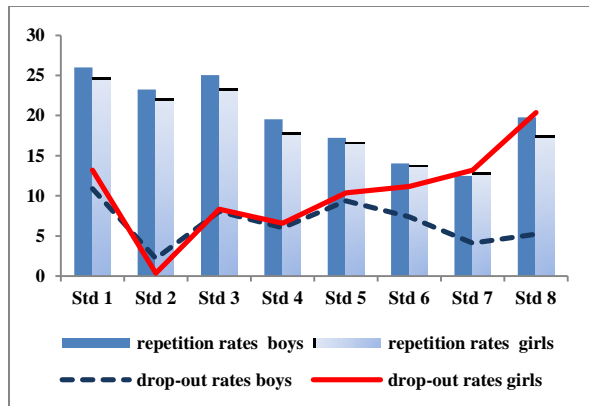
2.1.28 Prevention of gender-based violence and protection of women's rights is enshrined under law passed in 2007. However, progress on gender equality has been slow. While the Gender Development Index at 0.490 in 2007 is slightly higher than the average for Africa (0.433) (Annex 3), it remains poor. Women constitute only 15% of the formal wage non agriculture sector employees and 21% of the Members of Parliament¹⁴. Key gender disparities in the labor market disappear with the attainment of higher education;¹⁵ however, the survival rate for girls in primary education is low. The dropout rate for girls rises sharply from about 10% in standard 5 to 20% in standard 8 (Figure 6). Poverty, illiteracy of the head of households, lack of appropriate school facilities for adolescent girls and cultural factors explain the high drop-out rate.

¹³ Duverall and Mussa (2010).

¹⁴ Against the SADC average of 30%.

¹⁵ Castel et al (2009) Education and Employment in Malawi - ADB, working paper #110.

FIGURE 6: PRIMARY SCHOOL DROP-OUT AND REPETITION RATES (%) 2008



Source: GoM, 2009

Environment and Climate Change

2.1.29 Malawi's commitment to protecting the environment and mitigating climate change is articulated in the MGDS and the National Environmental Action Plan (2003). However deforestation linked to unsustainable use of biomass fuel and traditional agricultural land use practices is eroding the country's progress. Biomass fuel use is widespread as only 7% of households have access to grid-supplied electricity. In rural areas where 85% of the population lives, access to electricity is less than 1%.

2.1.30 There is currently no research that has quantified the potential impact of climate change on Malawi. Nevertheless adverse changes in weather patterns associated with climate change such as droughts and floods have increased in frequency and magnitude. These changes ultimately have an impact on 80% of Malawian households that rely on agriculture, 95% of Malawi's energy generated from hydropower and over 360,000 households that rely on fishing.

GoM in 2006 adopted the National Adaptation Programs of Action (NAPA) aimed at identifying and addressing immediate adaptation needs caused by climate change and extreme weather.

2.2 Strategic Options

2.2.1 Country Strategic Framework

2.2.1.1 Malawi's vision is to achieve middle income status by 2020. Through the MGDS the country articulates a medium term strategic framework (2006-2011) for achieving that goal. Its underlying objective is to *"transform Malawi from a predominantly importing country to a manufacturing and exporting economy"* so as to create wealth and reduce poverty. Recognizing the challenges facing the country, the MGDS sets out to achieve this goal within the broad framework of five thematic areas (i) Sustainable Economic Growth (ii) Social Development (iii) Infrastructure Development (iv) Social Protection and (v) Good Governance. The country is currently preparing a successor to the MGDS scheduled for approval in 2012. The MGDS.II is unlikely to depart from Malawi's focus on an export oriented growth model. However there could be realignment of the pillars as government seeks to sharpen its strategic focus.

2.2.2 Key Challenges and Weaknesses

2.2.2.1 *Narrow export base:* Malawi's diversification index of 2.7 in 2008 is very low compared to an index of 69.34 for the highest in Africa. Reliance on rain-fed tobacco production and its dominance in the country's primary exports makes the

economy vulnerable to weather and terms of trade shocks. The need to diversify has become even more urgent in light of recent Canadian legislation and WHO guidelines for the Framework Convention on Tobacco Control approved in November 2010, which bans tobacco additives. These will affect burley tobacco that needs additives to make it less bitter. Malawi is the largest world producer of burley tobacco.

2.2.2.2 Poor infrastructure: Underdeveloped and poorly maintained infrastructure hinders access to internal and external markets and increases the cost of business operations in Malawi. In foreign trade, transport costs are particularly high. They account for an average of 56% of the total cost of imports and 30% of the total cost of exports. Among the four ports used by Malawi (Table 4), Nacala is the cheapest, but is also the most unreliable due to poor road and rail infrastructure and port inefficiency. The Port of Durban on the other hand is highly reliable. However, the long distance by road makes the use of this route for the country's mostly bulky exports less cost effective.

TABLE 4: REGIONAL CONNECTIVITY

Reliability \ Cost	Low	Medium	High
Low	Nacala Port		
Medium		Beira Port	
High		Dar-es-Salam Port	Durban Port

Source: World Bank 2009, CEM

2.2.2.3 The capacity of the aged Nkula and Tedzani hydro power generation plants is

failing to keep pace with increasing demand. As a result power outages have become frequent. The Electricity Supply Corporation of Malawi (ESCOM), GoM's sole electricity company, has a total installed capacity of 302MW (95% hydro). Only 265MW is available against a demand of 295MW. Demand is growing rapidly and is projected to reach 478MW by 2015. A World Bank Enterprise Surveys conducted in 2009 showed that lost sales due to power outages in Malawi were 17%, the third highest among 118 countries included. Energy constraints are already affecting investments and economic growth. The Kayerekera uranium mine is operating using diesel power generators as ESCOM could not guarantee power supply.

2.2.2.4 ICT infrastructure is equally poor. In the 2010-2011 Global Competitiveness Index, Malawi ranks 136 on mobile internet subscription, 131 on internet bandwidth, 126 on internet access in schools and 123 on fixed telephone lines among 139 economies.

2.2.2.5 Poor business environment: The country's rigid regulatory framework and the high costs of doing business are barriers to private investment. These barriers force many domestic businesses to remain small and informal creating a missing middle in between few large scale and numerous micro enterprises. Weak value chain integration, poor business infrastructure and weak delivery capacity further constrain growth of the SME sector in the country. The difficulties in doing business are also affecting domestic manufacturing. Imports have doubled over the last five years in nominal dollar terms. This should have

triggered a strong response from import substitution industries since high costs of importing into landlocked Malawi provide a natural protection. The slow growth in domestic manufacturing suggests the poor business environment may be a contributing factor.

2.2.2.6 Weak Financial Sector: The financial sector is small, lacks depth and is not inclusive. 55% of Malawians have no access to financial services. While the financial sector indicators show a well-capitalized and profitable banking system with low non-performing loans, the spreads remain high. The average commercial bank lending rate is between 17.75% and 23.75%. Savings deposit rate are between 0.75% and 2.75%. The stock exchange remains small with a single licensed broker and 15 listed companies.

2.2.2.7 Lack of Skilled Labor: High returns to higher education show the country is facing skilled labor shortage¹⁶. Within regular wage employment, secondary and university education are associated with a 123% and 234% wage premiums respectively relative to illiteracy. On tertiary education enrollment rate, the country is ranked last (139th) in the 2010/11 Global Competitiveness Index. At 51 and 35/100 000 inhabitants the enrollment for higher education and TEVET respectively are much lower than regional averages of 337 and 551 respectively¹⁷. The country has only four publicly-owned TEVET colleges and two public universities. Six private universities have been established since

1998. Enrolment stood at 9,082 in 2008, of which only 3,118 were females. According to the private sector in Malawi, the quality of university graduates is good but the problem lies with the system's ability to meet the demand for specific skills such as engineers, scientists and technicians. On the other hand both the supply and quality of TEVET graduates are perceived as a problem¹⁸. If Malawi is to move up the value chain it will need a labor force with relevant skills particularly in agribusiness, science and technology and ICT to take up business opportunities in agro processing and provide technical expertise to the domestic industries. The authorities have since 2009 announced a five year plan to construct five universities across the country.

2.2.2.8 Low agricultural technology adoption: Beyond the government's FSIP outreach, use of improved seed varieties, fertilizers, irrigation and improved farm implements is limited among smallholder farmers. The majority of smallholder farmers still use handheld hoes with only about 5% using irrigation¹⁹. The low technology uptake compounds the land scarcity problem. At 132.4 persons/km² in 2010 (Annex 3), the high population density is already creating pressure on agricultural land. 58% of smallholders own less than a hectare of land while 11% are near landless. Further improvement to agricultural productivity, therefore, lies in accelerating technology adoption among smallholder farmers.

¹⁶ Castel et al (2009) Education and Employment in Malawi ADB Working Paper #110- Phiri and Munthali (2009) Skills for Private Sector Development in Malawi ADB ESW.

¹⁷ Malawi Country Status Report 2009: 337 is average for SADC and 551 is average for South Africa, Mauritius, Botswana, Zambia, Madagascar, Mozambique Lesotho and Malawi.

¹⁸ Skills for private sector development (2009)- ESW conducted by MWFO.

¹⁹ World Bank (2009) estimate that 95% of farming households do not use irrigation.

2.2.2.9 Vulnerabilities in the macroeconomic environment: Although growth has been robust in recent years, there are still questions about the sustainability of Malawi's growth model. The country has struggled to sustain a positive fiscal balance while the current account balance has been widening. Foreign reserves remain low and volatile. Although the inflation rate has moderated, it still remains high. At 14.7% of GDP in 2009, Gross National Savings remain weak, while lending interest rate spreads remain high.

BOX 3: SUMMARY OF KEY CHALLENGES AND WEAKNESSES

- Narrow export base
- Poor infrastructure
- Poor business environment
- Lack of skilled labor
- Weak financial sector,
- Low agricultural technology adoption
- Vulnerabilities in the macroeconomic environment

Strengths and Opportunities

2.2.2.10 Expansion of regional trade: Trade within the SADC region currently accounts for about 60% of Malawi's imports and 31% of the country's exports. 66% of the country's total exports to the sub-region are non-traditional commodities²⁰. The sub-regional market, therefore, presents Malawi with an opportunity for increased trade and export diversification. SADC and COMESA, along with the East African Community (EAC) of Kenya, Uganda and

Tanzania, have agreed to harmonize their tariffs and other trade regulations under the Tripartite Agreement, thus further enhancing the export diversification opportunities for Malawi.

2.2.2.11 Improved agricultural output and crop diversification: Agricultural yields have increased. Although maize continues to dominate food production and consumption²¹, production increases have expanded to other crops including root crops, sugarcane, cotton and coffee. Milk production between 1994 and 2007 rose from about 8,000 to about 18,000 liters/day²². This presents an opportunity for agro-processing targeting bio-fuel, textile and dairy industries. The country's two ethanol companies supplying the domestic and East African market face shortage of molasses yet demand has been rising.

2.2.2.12 Abundant Water: Lake Malawi and other water bodies cover 20.6% of the country. The proposed Green Belt Initiative to be developed along the lake and the Shire Valley could exploit this potential to the full with adequate feasibility studies. The Lake, which is the third largest in Africa, also provides an opportunity for the development of water transport that still remains low. Transport development on Lake Malawi will also help strengthen integration to Mozambique and Tanzania. Tourism currently contributes less than 1% to Malawi's GDP. Improving transport to amenities along the lake and the quality of hospitality services should improve tourism.

²⁰ Non-traditional exports include cereals, apparel, oil seed, cotton, rubber, printed books, heavy machinery, and wood.

²¹ Maize occupies 50% of smallholder cropped area and accounts for 90% of cereal calories in Malawi.

²² About 60% of dairy products are still imported, showing there is room for further expansion.

2.2.2.13 Expanding mining sector: The Kayerekera Uranium mine with an estimated 3.9 Mt of contained uranium oxide and a life span of 10 years is expected to contribute up to 10% of GDP and 25% of exports at its peak. Government owns a 15% stake in Paladin uranium mining company. The civil society has led dialogue on the dangers of uranium mining and facilitated Paladin's investment in primary and secondary education and potable water for the surrounding communities. Globe Metals of Australia have found commercially viable quantities of niobium and tantalum in Central Malawi where work is scheduled to start in 2013. Coal production should increase with government plans to establish a 300MW coal-fired electricity generation plant. It is estimated that Malawi has 20 billion tons of coal deposits. Mining will, therefore, be an important source of revenue, growth and employment for the country.

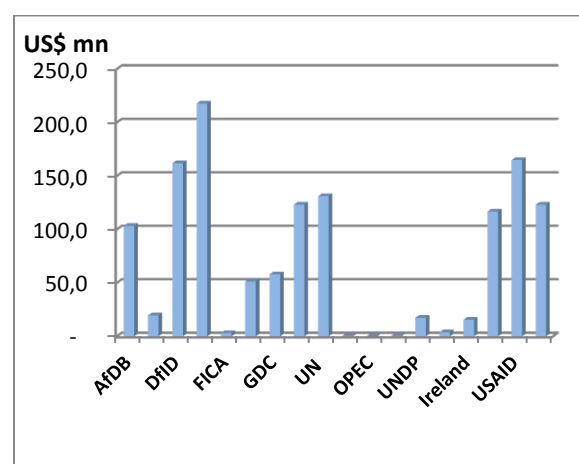
2.3 *Developments in Aid Coordination and Bank Group Positioning*

Aid Coordination

2.3.1 The Public Finance Management Act of 2003 gives the mandate for coordinating both bilateral and multilateral aid to the Ministry of Finance. The Ministry of Development Planning and Cooperation (MDPC) coordinates aid activities as they relate to the MGDS, the Public Sector Investment Program (PSIP). Government data shows that actual ODA disbursements to Malawi received between 2007/08 FY up to first quarter of 2009/10 FY amounted to US\$1.3 billion. Based on volume of disbursements during this period (Figure 7),

the EU was the largest donor with US\$217.7 million followed by USAID (US\$164.9 million) and DFID (US\$161.8 million). The Bank Group was the eighth with US\$103.3 million. The government uses the Development Assistance Strategy (DAS) as an instrument for aid coordination in line with the 2005 Paris Declaration agenda. In this context, GoM has expressed preference for budget support aid modality for its quick disbursing, flexibility in resource allocation and use of country systems.

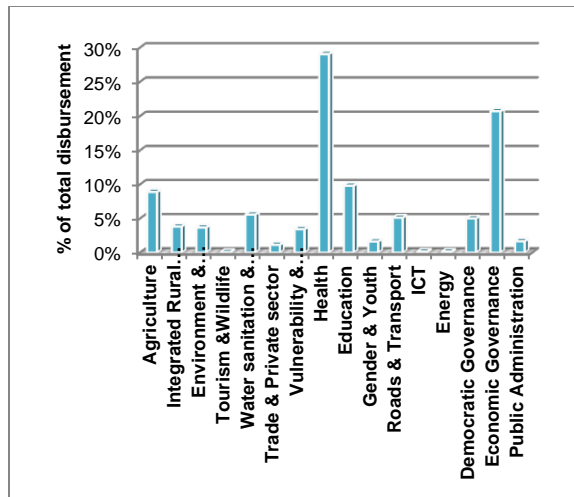
FIGURE 7: ODA DISBURSEMENTS BY DONOR FY2007/08 -FY2009/10Q1



Source: GoM Annual aid reports for 2007/08, 2008/09 and 2009/10Q1

2.3.2 The number of budget support donors has since increased from three in 2005/2006 FY to six in 2009/10 FY. The six organized under the Common Approach to Budget Support (CABS) Group include the Bank Group DFID, EU, Germany, Norway and the World Bank. Direct budget support is estimated at 7% of the 2010/11 FY budget. The EU, with US\$32 million, is the largest donor. The Performance Assessment Framework (PAF) carrying an agreed set of indicators that are reviewed annually provides the main basis for monitoring government performance.

FIGURE 8: ODA DISBURSEMENTS BY SECTOR 2007/08FY -2009/10FYQ1



Source: GoM Annual aid reports for 2007/08, 2008/09 and 2009/10Q1

2.3.3 Between 2007/08 and the first quarter of 2009/10 FY, the health sector received the largest ODA with 29% of disbursements, followed by economic governance (21%), education (10%) and agriculture (9%) (Figure 8). Trade and private sector development, energy, environment, transport and gender received disbursements of less than 5% of the total.

2.3.4 *Social sector:* Based on disbursements during the period, the Global Fund with support to HIV/AIDS is the largest source of funding for the health sector followed by USAID who is supporting provision of Essential Health Package. DFID is a lead partner in the education sector. Between 2010 and 2013 it plans to construct 3,000 primary education classrooms through basket funding.

2.3.5 *Infrastructure:* The EU is a lead partner in transport and agriculture. In transport, the EU under the 10th EDF is financing domestic road infrastructure

maintenance and supporting the development of multimodal transport framework. In agriculture the EU is supporting Farm Income Diversification. In the energy sector the US Government under the Millennium Challenge Corporation will provide US\$350.6 million from 2011 for rehabilitation works. The GoM has in the meantime requested the Bank to consider supporting some hydro power feasibility studies. The World Bank is a lead partner in water and sanitation where it focuses on urban water supply.

2.3.6 *Private sector:* The World Bank leads on private sector development. It is supporting improvements to the business regulatory framework by financing a review of 40 priority economic laws. The Government has expressed the need for further support that should focus on the development of the missing middle (SME sector).

2.3.7 In this strategy the Bank will be more selective focusing on sectors where the country faces challenges but have low attention from other development partners. To leverage ADF XII resources, the Bank will seek co-financing with EU on the transport sector and World Bank and UNDP on the private sector. The Bank should continue supporting the budget as it creates the needed space for country dialogue and provides the framework for monitoring policy reforms in the business environment and public finance management.

2.3.8 With respect to a Joint Assistance Strategy (JAS) in Malawi as anticipated at mid-term of the 2005-2010 RBCSP there has been lack of progress. This is because

the current Development Assistance Strategy of the government does not envisage one. An opportunity to engage government on the JAS will arise during the review of the DAS in 2012.

2.3.9 China and India are key emerging partners. China is currently providing US\$190 million in grants and concessional loans for infrastructure development with India providing US\$180 million in lines of credit mostly for irrigation. FDI from China has risen from US\$ 0.96 million in 2006 to US\$11.25 million by 2009 with over 55% invested in manufacturing. In 2009, the total bilateral trade volume between the two countries reached US\$82 million from US\$44 million in 2007.

Bank Group Positioning

2.3.10 Malawi's portfolio consists of 11 on-going operations with a total commitment of UA176 million. The social sector with 33% has the largest share followed by transport (22%), agriculture (21%) and water and sanitation (17%). Budget support has a 7% share. The Nacala Road Development Corridor (Phase I-III) under the transport sector is a multinational operation involving Malawi, Zambia and Mozambique.

Portfolio Performance

2.3.11 The 2010 Country Portfolio Performance Review (CPPR) showed that performance had marginally improved. Overall rating increased to 2.3 in 2010 from 2.0 in 2006. GoM's compliance with conditions preceding effectiveness recorded the most improvement in rating from 1.8 in 2006 to 2.7 in 2010. The country's

disbursement ratio of 18.6% in 2010 compared to 28% average for the Bank in 2009 reflects a young portfolio (3.4 years Annex 5). The proportion of projects at risk (9%) in 2010 was lower than the Bank average (37%) in 2009 as aged projects exited the Malawi portfolio. Some key challenges included poor quality at entry, lack of results monitoring and poor contract management.

2.3.12 To improve performance, new operations shall be preceded by detailed feasibility studies and economic and sector work to improve quality at entry. Baselines and targets shall be clearly defined in the results framework, which should be used as a point of reference during supervision and monitoring. The Bank is engaging the government to consider blacklisting non-performing contractors to help improve contract management.

Lessons Learnt from the 2005-2010 RBCSP

2.3.13 The completion report for the CSP prepared in 2010 showed that the focus and instruments used were largely appropriate. On infrastructure, access to safe drinking water in Bank supported districts increased from an average of 37.5% to 88.5%. Support to smallholder maize and sugarcane irrigation increased productivity from 1ton/ha to 3.5tons/ha and 80tons/ha to 130tons/ha respectively. On human capacity development, 55 community day secondary schools were rehabilitated and 1,552 science teachers were trained helping increase pass rates from 38 percent to 44%. Thirteen Basic Emergency Obstetric Care facilities were constructed to help improve maternal

mortality. On private sector development the Bank's support focused on rural based micro and small enterprises. The Bank used the budget support instrument to support Malawi's poverty reduction strategy and enhance policy dialogue.

2.3.14 Benefiting from country presence since 2007, the Bank's visibility and quality of dialogue has improved. The country office facilitated the Bank's support to the 2008 housing and population census and the co-financing with AusAid on the National Water Development Program. On operations average procurement processing time declined from 9 months to 5 months while disbursement objections by the Bank has fallen to zero. However, the CSP's results framework exhibited some weaknesses. A number of indicators did not have baselines and targets. In addition, lack of feasibility studies and economic and sector work to inform new operations affected quality at entry. This has been improved in the current ICSP.

III BANK GROUP STRATEGY IN MALAWI

3.1 *Rationale for Bank Group Intervention*

3.1.1 The ICSP for Malawi is framed within the strategic direction of the MGDS (2006-2011) and the Bank's Medium Term Strategy (2008-2012). In line with the GoM's export oriented development objective, the Bank seeks to help Malawi address the identified development challenges and make progress towards the Millennium Development Goals (MDGs) by

focusing on the following two mutually reinforcing pillars:

3.1.2 Pillar I: Improving Infrastructure

The main objective of this pillar will be to help remove infrastructural bottlenecks that hinder Malawi's competitiveness. The proposed operational focus complements the Bank's on-going smallholder irrigation projects for maize, sugarcane and horticulture approved in 2007 and 2009. The projects are supporting improvements in agricultural yields and export crop diversification. During the ICSP the focus will be to help the country open access to regional markets by reducing transport costs and improving its competitiveness in trade.

3.1.3 The Bank under pillar I will support the third phase of the Nacala Road Development Program. The first phase was between Malawi and Mozambique, the second phase was between Mozambique and Zambia and the third phase will be between Malawi and Zambia. The program aims at improving Malawi's access to the ports in Mozambique so as to reduce the cost of transportation, strengthen economic linkages to markets in Mozambique and Zambia and facilitate trade among the three countries through establishment of one stop border posts.

3.1.4 Pillar II: Accelerating Private Sector Development²³

The main objective of this pillar will be to help create an enabling environment for business growth and innovation. Under this pillar the Bank will build on recent gains in agricultural

²³ This is in line with the MGDS theme of Sustainable Economic Growth and the Bank's focus on Private Sector Development.

production and crop diversification to support the SME sector. The focus will be on building the ‘missing middle’ in the private sector by supporting value chain integration, improving business infrastructure, and improving access to finance. In this context, university and TEVET education systems will need support to build their capacity to provide the labour market with value addition skills, entrepreneurship capacity and productive efficiency.

3.1.5 In line with recommendations of the economic and sector work that the Bank conducted in 2009, the Government requested the Bank to support private sector development by focusing on three key areas: (i) Capacity building in value addition and product differentiation for SMEs to be financed from the public sector window (ii) Through the private sector window providing a line of credit to a commercial bank that will target SME financing, particularly those involved in agro-processing and (iii) Support the development of infrastructure for higher education and TEVET to help provide skilled labour in the country in general and facilitate productive efficiency, innovation entrepreneurship in the private sector.

3.1.6 The Bank will use the budget support operation (the Governance and Poverty Reduction Support Grant III- GPRSG.III) as a policy instrument to support pillar II objectives and monitor progress in PFM and macroeconomic environment. The GPRSG.III design shall include small scale business environment indicators. The GPRSG.III will also include a PFM capacity

building element as agreed with government.

3.2 Deliverables and Targets

3.2.1 The ICSP will be financed with resources from the first two years of the ADF XII cycle. Efforts will continue to source co-financing opportunities to leverage ADF resources. Trust Funds will be used to finance analytical work in cooperation with other development partners.

The Bank’s Indicative Lending Program

3.2.2 The lending program in Table 5 shows the Bank’s operational focus during the ICSP.

TABLE 5: INDICATIVE LENDING PROGRAM (2011-2012)

Pillar/Operation	Amount (UAmn)	Sector	Window
<i>Pillar I: Improving Infrastructure</i>			
<u>2012</u> Nacala Road Development Phase III	33	Transport	Regional and Public Sector
<i>Pillar II: Accelerating Private Sector Development</i>			
<u>2011</u> Support to SME development (i) Capacity Building (ii) Line of Credit	10 TBD	Private	Public & Private Sector
<u>2011</u> Governance and Poverty Reduction Support Grant (GPRSG.III)	30	Multi	Public Sector
<u>2012</u> Support to Higher Education	26	Social	Public Sector

Bank's Indicative Non Lending Program

3.2.3 The ICSP's indicative non lending program (Table 6) will aim to inform the on-going country dialogue and lay groundwork for the preparation of the Bank Group country strategy from 2013.

TABLE 6: INDICATIVE NON-LENDING PROGRAM (2011-2012)

Operation	Amount (UAmn)	Source	Sector
<u>2011</u> Feasibility Study for Shire-Zambezi Water Way	3.6	African Water Facility	Transport
<u>2011</u> Regional Comparative Fertilizer Subsidy Study	1.2	Trust Funds	Agriculture
<u>2012</u> Shire Irrigation Feasibility Study	0.5	African Water Facility	Agriculture
<u>2012</u> Hydropower feasibility study	3.0	ADF XII	Energy

3.2.4 The ICSP has been informed by lessons from the RBCSP Completion Report, the 2010 CPPR and economic and sector work on Malawi that recommended a deepened focus on transport infrastructure and private sector development. Consensus on the thrust of the ICSP, the two pillars and operational focus was reached after wide

consultation with GoM officials, development partners, the private sector and civil society. As an interim strategy it builds on on-going Bank operations while laying the groundwork for a full strategy.

3.3 ICSP Monitoring and Evaluation

3.3.1 The ICSP results framework has been based on government's results frameworks (the MGDS and the PAF). Monitoring of the results will therefore use existing country systems as provided under the sector working groups. The National Statistical System Strategic Plan 2008-2012, however, highlights capacity challenges to collect and store data and a lack of mechanism to coordinate and harmonize statistical management in the country. The Bank will use the on-going statistical capacity building support to Malawi to strengthen government's capacity²⁴.

3.3.2 In 2012, the Bank will undertake a completion report of the ICSP to learn lessons which will inform the full CSP.

3.4 Country Dialogue Issues

3.4.1 *Sustainability of the FISP:* The program has helped Malawi increase smallholder agricultural productivity, food security and household incomes. The benefits from the FISP are clear when the costs of the subsidies are compared with the price of imported maize. Due to the high costs of transport from South Africa, import

²⁴ The Bank has provided direct statistical capacity building support to Malawi since 2005. The initial support of \$170,000 began under the framework of the ICP-Africa and was earmarked for institutional capacity assistance in national accounts and price statistics. Under the Multinational Statistical Capacity Building (SCB) Program 2009-2010, the Bank Group has allocated \$471,410 to support economic and social statistics. This amount is expected to be increased in Phase III of the SCB (2011-2013) as the activities will also increase.

parity prices are commonly US\$100 to US\$150 above domestic retail prices. However, at an average of 60% of the agriculture budget, the program is a fiscal strain and crowds out other important areas like research, extension and livestock development. The number of beneficiaries has also remained roughly constant at 1.6 million households. GoM's Medium Term Action Plan does not address the key problems of better targeting, beneficiary graduation mechanism, scaling up private sector participation and exit options. The proposed fertilizer subsidy study should inform country dialogue and offer sustainability options to government.

3.4.2 Expanding mining opportunities: Malawi needs to put in place a legal framework for the extractive industries and become EITI Compliant to ensure greater transparency and accountability in the use of resources.

3.4.3 Portfolio performance: The Portfolio Improvement Plan (Annex 6) will provide the framework of engagement with government. The focus will be on results monitoring and measurement.

3.5 Potential Risks and Mitigation Measures

3.5.1 Adverse weather: Drought and floods constitute the biggest risks for the country's economy. In 2009, agricultural production fell by between 18-30% as a result of local dry spells. The Bank will reinforce its on-going intervention in irrigation. Should there be a food crisis the Bank will engage the government in cooperation with other development partners

to ensure efficiency in distribution of food from the National Food Reserve Agency and facilitate food aid.

3.5.2 An overvalued exchange rate policy: This is a risk to the country's capacity to accumulate foreign reserves and improve competitiveness. This has an impact on macroeconomic stability, investment growth and economic diversification. The Bank will use the CABS framework to monitor developments and encourage the GoM to move towards a more flexible exchange rate policy.

IV CONCLUSION AND RECOMMENDATION

4.1 The GoM's development priorities outlined in the MGDS are helping the country make progress towards the MDGs. While commitment remains high, infrastructure bottlenecks and a poor business environment hinders diversification and limits growth. The Bank's support as proposed under the ICSP will help Malawi consolidate the gains made this far and catalyze economic diversification for accelerated poverty reduction. The ICSP covers the MGDS transition period of 2011 to 2012 to allow better alignment of the next Bank strategy to the MGDS.II. This will respond to the GoM's request that all development partners align their strategies to the country's forthcoming strategy.

4.2 The Board is invited to consider and approve the ICSP for Malawi, which focuses on two pillars (i) Improving Infrastructure and (ii) Accelerating Private Sector Development.

ANNEX 1: MALAWI ICSP RESULTS FRAMEWORK 2011-2012				
COUNTRY DEVELOPMENT GOALS (MGDS)	CONSTRAINTS TO ACHIEVEMENT OF COUNTRY DEVELOPMENT GOALS	FINAL OUTCOMES (Expected by 2012)	FINAL OUTPUTS (Expected by end of ICSP period in 2012)	AfDB INTERVENTIONS (New and On-going)
PILLAR I: IMPROVING INFRASTRUCTURE				
<i>AGRICULTURE</i>				
Reduce vulnerability to weather shocks and improve agricultural productivity	Low irrigation technology development and adoption	Land under irrigation increases from 19% in 2010 to 20% in 2012	800 Ha of maize under irrigation 1,200 Ha of smallholder sugarcane under irrigation	<u>On-going</u> Smallholder Crop Production and Marketing Project Agriculture Infrastructure Services Project (AISP), designed to support GoM's Green Belt Program under the Agriculture SWAp
<i>TRANSPORT</i>				
Reduce transport cost and increase cross border and export trade	Poor road transport network Lack of progress on developing a multi-modal transport network Poor transport infrastructure linking the country to countries in the region and to the ports	% of road network in good condition increases from 33% in 2009 to 34% in 2012 Transport cost as a % of imports declines from 56% in 2010 to 55.5% in 2012 Transport cost as a % of exports declines from 30% in 2010 to 29.5% in 2012	45 km of road network rehabilitated 10 km of the Lilongwe By-Pass constructed under the Nacala Road project Phase.I Multinational Nacala Road Project Phase.III approved to start development of 152km road section in Malawi and establishment of two 1 stop border posts at Chiponde between Malawi and Mozambique and at Chipata between Malawi and Zambia	<u>On-going</u> Zomba-Blantyre Road Rehabilitation Project Multinational Nacala Road Project Phase I-Lilongwe By-Pass <u>Pipeline</u> Multinational Nacala Road Project Phase III The Nacala Project involves Malawi Zambia and Mozambique

II

			GoM starts implementing Multimodal transport network development plan from the 2010 consultancy report	
WATER				
Increase access to safe drinking water and reduce incidences of water-borne diseases	Poor and inadequate water infrastructure Lack of capacity and regulatory authority to effectively manage water resources	Access to safe drinking water within 500m distance increased from 75% in 2010 to 77% in 2012 Access to improved sanitation increases from 56% in 2010 to 57% in 2012 The Malawi Water and Energy Regulatory Authority is established and operational	70 Gravity Fed System (GFS) and 19,700 Point Water System (PWS) rehabilitated. 26 new GFS and 13,000 new PWS constructed Sanitation and hygiene facilities constructed for 2,600 schools and 1,700 health centers and market places	<u>On-going</u> National Water Development Program II (NWDP)
PILLAR II: ACCELERATING PRIVATE SECTOR DEVELOPMENT				
BUSINESS DEVELOPMENT				
Deepen domestic financial intermediation and increase access to finance	Lack of access to finance particularly for SMEs Lack of database on credit information Shortage of foreign exchange	Credit to private sector increases from 13.5 % of GDP in 2009 to 14.5% in 2012	Lines of credit extended to NBS and FMB The Credit Reference Bureau is fully operational The Malawi Kwacha exchange rate is more flexible	<u>Pipeline</u> Lines of Credit to Opportunity International Bank of Malawi for credit to SMEs GPRSG.III
Improve regulation and reduce the cost of doing business for business growth and job creation	Slow policy and legal reform to improve the ease of doing business Lack of business regulatory capacity Poor value addition capacity for SMEs	Reduce documents required to start a business from 10 in 2010 to 8 in 2012 Reduce documents required to import or export from 10 in 2010 to 8 in 2012	The Merger of MIPA and MEPC is finalized fully operational At least 200 business enterprises have access to Local assembly business advisory services by 2012	On-going Local Economic Development GPRSG.II <u>Pipeline</u> AfDB and UNDP Capacity

III

		<p>The Competition Commission is fully operational</p> <p>SMEs have developed value addition capacity</p> <p>Improve access to energy for businesses</p>	<p>The Kapichira II power station is operational by 2012</p>	<p>Building Project for Industry and SME development (2011) to complement on-going World Bank and EU Project that support improvement to policy and legal framework for business development</p> <p>GPRSG.III</p>
<i>HIGHER EDUCATION FOR SKILLS DEVELOPMENT</i>				
<p>Broaden the skills base to facilitate innovation and competitiveness</p>	<p>Low access to TEVET and higher education</p> <p>Poor infrastructure for higher education</p>	<p>Enrollment rate for university education increases from 51/100,000 in 2010 to 52/100,000 in 2012</p> <p>Ratio of female to male in tertiary education improves from 51 in 2007 to 52 in 2012</p> <p>Enrollment rate for TEVET increases from 34/100,000 in 2010 to 34.5/100,000 in 2012</p> <p>Secondary school net enrollment increases from 13.1% in 2010 to 14% in 2012</p> <p>Female progression to secondary school increases from 75% in 2010 to 76% in 2012</p>	<p>The Higher Education Science and Technology is approved to support university and TEVET infrastructure development</p> <p>80 secondary school class rooms constructed to supply candidates for university and TEVET education.</p>	<p><u>Pipeline</u> Support to Higher Education Science and Technology Project GPRSG.II</p> <p><u>On-going</u> Education V project: Support to Community Day Secondary School</p> <p>GPRSG.III</p>

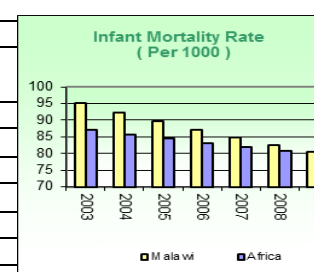
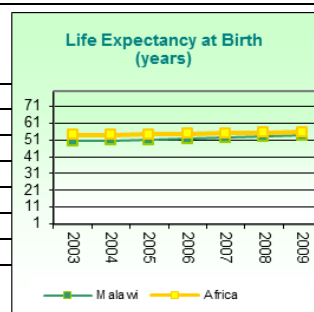
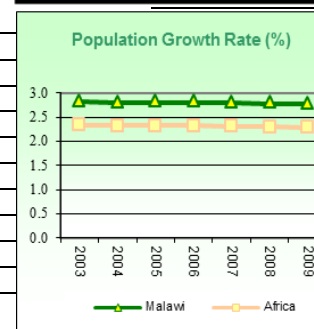
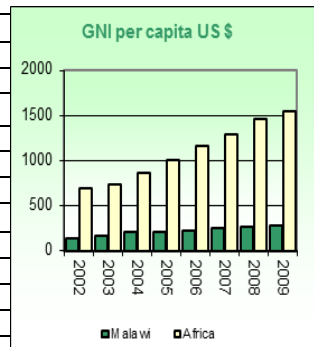
ANNEX 2: MALAWI: SELECTED MACROECONOMIC INDICATORS

Indicators	Unit	2000	2004	2005	2006	2007	2008	2009
National Accounts								
GNI at Current Prices	Million US \$	1,749	2,822	2,865	3,156	3,547	4,107	...
GNI per Capita	US\$	150	220	220	230	250	290	...
GDP at Current Prices	Million US \$	1,743.5	2,625.1	2,755.0	3,163.7	3,585.9	4,272.6	3 333.1
GDP at 2000 Constant prices	Million US \$	1,743.5	1,894.1	1,956.0	2,088.0	2,267.6	2,489.8	2 664.9
Real GDP Growth Rate	%	0.8	5.4	3.3	6.8	8.6	9.8	7.0
Real per Capita GDP Growth Rate	%	-2.4	2.6	0.5	3.8	5.7	6.8	4.1
Gross Domestic Investment	% GDP	13.6	18.2	22.7	21.8	25.3	24.0	20.9
Public Investment	% GDP	10.0	9.1	7.2	7.7	14.3	8.5	8.0
Private Investment	% GDP	3.5	9.1	15.5	14.2	11.1	15.5	12.9
Gross National Savings	% GDP	8.3	10.9	10.9	14.7	23.7	16.3	14.7
Prices and Money								
Inflation (CPI)	%	29.6	11.4	15.5	13.9	7.9	8.7	8.5
Exchange Rate (Annual Average)	local currency/US\$	59.5	108.9	118.4	136.0	140.0	140.5	141.7
Monetary Growth (M2)	%	45.5	29.7	16.2	16.4	36.6	62.6	23.8
Money and Quasi Money as % of GDP	%	17.8	16.2	16.6	14.6	17.1	23.3	36.6
Government Finance								
Total Revenue and Grants	% GDP	24.1	34.7	37.5	31.2	31.7	30.1	29.8
Total Expenditure and Net Lending	% GDP	29.7	42.5	42.9	31.2	33.0	32.8	35.2
Overall Deficit (-) / Surplus (+)	% GDP	-5.6	-7.8	-5.4	0.0	-1.3	-2.7	-5.4
External Sector								
Exports Volume Growth (Goods)	%	-6.6	1.8	0.6	3.7	19.4	-7.5	26.3
Imports Volume Growth (Goods)	%	-21.3	13.9	21.7	1.6	-5.0	-1.1	5.5
Terms of Trade Growth	%	-9.5	8.7	-0.7	-2.5	-3.0	21.7	-13.8
Current Account Balance	Million US \$	-91.5	-455.9	-664.4	-203.0	-91.2	-289.3	-269.6
Current Account Balance	% GDP	-5.3	-17.4	-24.1	-6.4	-2.5	-6.8	-8.1
External Reserves	months of imports	3.4	1.0	1.1	0.8	1.1	1.0	0.8
Debt and Financial Flows								
Debt Service	% exports	19.9	19.0	18.5	14.3	2.0	1.3	2.0
External Debt	% GDP	153.4	112.6	107.8	14.3	14.4	16.0	26.1
Net Total Financial Flows	Million US \$	431.1	509.2	572.1	706.3	724.3	923.6	...
Net Official Development Assistance	Million US \$	446.2	503.5	573.3	698.2	742.1	912.7	...
Net Foreign Direct Investment	Million US \$	39.6	107.7	52.3	72.2	92.1	170	60.4

Source : AfDB Statistics Department; December 2010

ANNEX 3 : MALAWI: COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Malawi	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km²)		118	30 323	80 976	54 658
Total Population (millions)	2010	15.7	1,031.5	5,629	1,069
Urban Population (% of Total)	2010	19.8	40.0	44.8	77.7
Population Density (per Km²)	2010	132.4	3.4	66.6	23.1
GNI per Capita (US \$)	2009	280	1 550	2 780	39 688
Labor Force Participation - Total (%)	2010	41.7	39.5	45.6	54.6
Labor Force Participation - Female (%)	2010	49.8	41.4	39.8	43.3
Gender -Related Development Index Value	2007	0.490	0.433	0.694	0.911
Human Dev Index (Rank among 169 countries)	2010	153	n.a	n.a	n.a.
Popl. Living Below \$ 1 a Day (% of Population)	2004	73.9	42.3	25.0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2010	2.8	2.3	1.3	0.7
Population Growth Rate - Urban (%)	2010	5.4	3.3	2.4	1.0
Population < 15 years (%)	2010	45.9	40.3	29.2	17.7
Population >= 65 years (%)	2010	3.5	3.8	6.0	15.3
Dependency Ratio (%)	2010	96.2	77.6	52.8	49.0
Sex Ratio (per 100 female)	2010	98.9	99.5	93.5	94.8
Female Pop 15-49 years (% of total population)	2010	22.5	24.4	53.3	47.2
Life Expectancy at Birth - Total (years)	2010	54.6	56.0	66.9	79.8
Life Expectancy at Birth - Female (years)	2010	52.8	57.1	68.9	82.7
Crude Birth Rate (per 1,000)	2010	39.2	34.2	21.5	12.0
Crude Death Rate (per 1,000)	2010	11.4	12.6	8.2	8.3
Infant Mortality Rate (per 1,000)	2010	78.4	78.6	49.9	5.8
Child Mortality Rate (per 1,000)	2010	110.8	127.2	51.4	6.3
Total Fertility Rate (per woman)	2010	5.4	4.4	2.7	1.8
Maternal Mortality Rate (per 100,000)	2008	510.0	530.2	440.0	10.0
Women Using Contraception (%)	2006	41.7	...	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2004	2.1	42.9	78.0	287.0
Nurses (per 100,000 people)*	2004	56.3	116.6	98.0	782.0
Births attended by Trained Health Personl (%)	2006	53.6	52.7	63.4	99.3
Access to Safe Water (% of Population)	2008	80.0	64.9	84.0	99.6
Access to Health Services (% of Population)	2005	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	56.0	41.0	54.6	99.8
% of Adults (aged 15-49) Living with HIV/AIDS	2007	11.9	4.6	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2007	346.0	315.2	161.9	14.1
Child Immunization Against Tuberculosis (%)	2009	95.0	81.8	89.0	99.0
Child Immunization Against Measles (%)	2009	92.0	81.0	81.7	92.6
Underweight Children (% of under 5 years)	2004	22.0	30.9	27.0	0.1
Daily Calorie Supply per Capita	2007	2 172	2 462	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	8.9	2.4	4.0	6.9
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	119.3	102.8	106.8	101.5
Primary School - Female	2009	121.1	99.0	104.6	101.2
Secondary School - Total	2009	29.5	35.0	62.3	100.3
Secondary School - Female	2009	27.6	30.6	60.7	100.0
Primary School Female Teaching Staff (% of Total)	2005	...	38.1	...	...
Adult literacy Rate - Total (%)	2008	72.8	64.8	81.0	...
Adult literacy Rate - Female (%)	2008	65.8	55.9	75.6	...
Percentage of GDP Spent on Education	2003	4.2	4.6	...	5.4
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2008	37.2	7.8	9.9	11.6
Annual Rate of Deforestation (%)	2005	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005	...	10.9	...	...
Per Capita CO2 Emissions (metric tons)	2008	0.1	1.2	1.9	12.3



Source: AfDB Statistics Department database; World Bank Development Indicators; UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports. Note : n.a. : Not Applicable ; ... : Data Not Available. December, 2010

ANNEX 4: MALAWI PROGRESS IN MDGs INDICATORS

	1990	1995	2000	2005	2008
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	72	71	72	72	72
Employment to population ratio, ages 15-24, total (%)	48	46	48	49	49
GDP per person employed (constant 1990 PPP \$)	1,158	1,213	1,317	1,314	1,546
Income share held by lowest 20%	..	..	5	7	..
Malnutrition prevalence, weight for age (% of children under 5)	24	..	22	18	16
Poverty gap at \$1.25 a day (PPP) (%)	..	..	46	32	..
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	..	..	83	74	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	71	..	85
Literacy rate, youth male (% of males ages 15-24)	..	..	82	..	87
Persistence to last grade of primary, total (% of cohort)	..	..	39	36	36
Primary completion rate, total (% of relevant age group)	28	52	65	55	54
Total enrollment, primary (% net)	..	..	99	91	91
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	10	6	8	14	13
Ratio of female to male primary enrollment (%)	87	91	96	103	103
Ratio of female to male secondary enrollment (%)	57	68	75	81	85
Ratio of female to male tertiary enrollment (%)	34	40	38	55	51
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	10.5	11.3	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	81	90	73	82	88
Mortality rate, infant (per 1,000 live births)	129	116	99	82	71
Mortality rate, under-5 (per 1,000)	218	195	164	134	115
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	161	147	133
Births attended by skilled health staff (% of total)	55	..	56	54	54
Contraceptive prevalence (% of women ages 15-49)	13	22	31	41	41
Maternal mortality ratio (modeled estimate, per 100,000 live births)	910	830	770	620	510
Pregnant women receiving prenatal care (%)	90	..	94	92	92
Unmet need for contraception (% of married women ages 15-49)	36	..	30	28	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	27	25	25
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	9	9	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	28	32	..
Incidence of tuberculosis (per 100,000 people)	260	390	420	390	320
Prevalence of HIV, female (% ages 15-24)	..	..	..	8.4	8.4
Prevalence of HIV, male (% ages 15-24)	..	..	..	2.4	2.4
Prevalence of HIV, total (% of population ages 15-49)	2.1	12.1	13.5	12.3	11.9

VII

Tuberculosis case detection rate (all forms)	51	48	47	48	50
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP \$ of GDP)	0	0	0	0	0
CO2 emissions (metric tons per capita)	0	0	0	0	0
Forest area (% of land area)	41.4	39.7	37.9	36.2	35.5
Improved sanitation facilities (% of population with access)	42	47	50	54	56
Improved water source (% of population with access)	40	51	63	74	80
Marine protected areas (% of total surface area)	..	..	..	..	0
Terrestrial protected areas (% of total surface area)	..	..	..	..	16
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US\$)	53	43	38	42	61
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	28	24	25	18	1
Internet users (per 100 people)	0.0	0.0	0.1	0.4	2.1
Mobile cellular subscriptions (per 100 people)	0	0	0	3	12
Telephone lines (per 100 people)	0	0	0	1	1
Other					
Fertility rate, total (births per woman)	7	7	6	6	6
GNI per capita, Atlas method (current US\$)	180	160	150	210	260
GNI, Atlas method (current US\$) (billions)	1.7	1.6	1.7	2.9	3.9
Gross capital formation (% of GDP)	23.0	17.4	13.6	23.4	26.5
Life expectancy at birth, total (years)	49	52	51	51	53
Literacy rate, adult total (% of people ages 15 and above)	..	..	64	..	73
Population, total (billions)	0.0	0.0	0.0	0.0	0.0
Trade (% of GDP)	57.2	78.5	60.9	63.7	48.1

Source: World Development Indicators (2010)

ANNEX 5: 2010 CPPR: COUNTRY PORTFOLIO IMPROVEMENT PLAN

Main Issues	Actions Required	Responsible	Timeframe
Quality at Entry			
Stakeholders participation	Ensure government teams include the right skills mix during project preparation, appraisal, and negotiation	GoM (MoF)	Ongoing
	Involve the Ministry of Development Planning and Cooperation (MoDPC) in project negotiation	GoM (MoF/MoDP&C/Sector Ministries)	Ongoing
	Ensure the Government team is given sufficient time to review draft project appraisal reports before negotiation (at least two weeks)	Bank (MWFO)	Ongoing
Project preparation	Ensure Bank's project identification, preparation, appraisal and negotiation teams have adequate skills mix	Bank (MWFO and Sector Departments)	Ongoing
	Develop a three year rolling project pipeline	Bank (MWFO)	Ongoing
	Ensure executing agencies/line ministries meet projects' effectiveness conditions timely	GoM (MoF)	Ongoing
	Projects designs are preceded by detailed feasibility studies	Bank (MWFO/Sector Departments) /GoM (MoF/Sector Ministries)	Ongoing
	Design of future projects should target large number of beneficiaries within narrow geographical areas for cost effectiveness and visible impacts	Bank (MWFO/Sector Departments) /GoM (MoF/Sector Ministries)	Ongoing
	Ensure lessons learned from closed projects are incorporated in new projects and put in place a verification mechanism	Bank (MWFO/Sector Departments)/ MoF/EAs	For each new operations
Delays in undertaking mid-term reviews	Conduct mid-term review at mid term of a project and review constraints	Bank (MWFO and Sector Departments)	Ongoing
Fiduciary Management			
Procurement			
Contract management	Enforce conditions of contracts	GoM (ODPP/EAs)	Ongoing
	Firms which constantly perform inadequately should be blacklisted	GoM (ODPP/EAs)	Ongoing
	Establish a mechanism to restrict the number of contracts a contractor is given in at a time	GoM (ODPP)	Ongoing
	Introduce more regular procurement audits	Bank	Once a year
Procurement capacity constraints	Continue to organizing regular training courses for procurement staff of project on Bank's procurement rules and procedures as well as contract management to all relevant staff and contractors	Bank (MWFO)/GoM (EAs)	Ongoing
Incorporation of appropriate procurement methods	Projects to consider appropriate and realistic procurement methods in accordance the needs of each project	Bank (MWFO/Sector Departments)/ EAs	Ongoing
Delays in issuance of no-objections	MWFO to have authority to give no objection based on threshold to be reflected in the Delegation of Authority Matrix	Bank (MWFO)	Ongoing

	More use of post evaluation method of procurement especially for procurement less than UA100,000	Bank (ORPF-Operations Procurement and Fiduciary Department)	Ongoing
Financial Management			
FM capacity constraints	Government to work out some incentive mechanism to recruit and retain qualified financial management specialists in EAs	GoM	June 2011
	Continue to conduct disbursement training on the Bank's disbursement rules and procedures in collaboration with EADI	Bank (MWFO)	Ongoing
	MWFO to recruit Financial Management Specialist	Bank (MWFO)	June 2011
Audits			
Delays of audit reports	All audit contracts to include penalty clauses on late delivery of audit reports by private auditors	GoM (EAs)	Ongoing
	Procure audit firms timely on multi year contract	GoM (EAs)	Ongoing
	Enforce/invoke audit requirements as agreed with Government in the Loan/ Grant Agreements	Bank (MWFO)	Ongoing
	Submit all the outstanding audit reports	GoM (EAs)	December 2010
Monitoring , Evaluation and Reporting			
M&E framework and reporting	Ensure baseline and annual targets data are established within the first year of a project where this is not available	Bank (MWFO and Sector Departments) and GoM (EAs)	Ongoing
	Improve the formulation of projects' results framework to better the quality of indicators, baseline and targets	Bank (MWFO and Sector Departments) and GoM (EAs)	Ongoing
	Reporting should be based on results framework including on gender disaggregated data	GoM (EAs)	Quarterly
	Continue conducting regular Results Based M&E Workshop	Bank (MWFO)	Ongoing
	Include relevant CSIs in the project results framework (for projects approved after 1 January 2008)	Bank (MWFO and Sector Departments)/ GoM (EAs)	Before the end of 2010
	Supervision missions' checklist should include environmental and social management activities and projects' quarterly reports should report on progress	Bank (MWFO and Sector Departments)/ GoM (EAs)	Ongoing
	Ensure Bank's supervision missions have adequate skills mix and are conducted timely.	Bank (MWFO)	Ongoing
Implementation Capacity			
Weak implementation capacity	Continue to conduct regular meeting between the Bank and EAs to follow up on project implementation issues	Bank (MWFO)/GoM (MOF, Sector Ministries and EAs)	Quarterly
	Ensure Project Steering Committees are functional for all projects	GoM (EAs/MoF)	Ongoing
	Undertake the planned phasing out of all PIUs by the end of 2011 in phased manner on a case by case basis.	GoM	Ongoing

ANNEX 6: COMPARATIVE KEY PERFORMANCE INDICATORS

	Performance Indicators	Evolution			Internal Comparison		External Comparison	
		Malawi 2006	Malawi 2008	Malawi 2010	Malawi 2010	2009 APPR	Malawi 2010	WB Malawi 2010
Implementation & Impact	Age (years)	3.2	5.7	3.2	3.2	3.4	3.2	3.5
	Disbursement rate (%)	30.9	39.2	43.5	43.5	n/a	43.5	21
	Disbursement Ratio (%)	-	22.5	18.6	18.6	28.0	18.6	n/a
	Average portfolio size (UA million)	9.1	10.9	16	16	24.8	16	26.5
	Overall Portfolio Rating (Rating 0-3)	2.0	2.2	2.3	2.3	n/a	2.3	n/a
	Commitment-At-Risk-CAR (%)	-	39	4	4	37	4	49
	Project-At-Risk-PAR (%)	47.0	50	9	9	37	9	22
	Problem Projects - PP (% of on-going projects)	13.0	0	9	9	6	9	11
	Ageing projects more than 8 years (%)	-	36	9	9	13	9	0
	Investment Operations < UA 10 m (% of projects)	-	36	9	9	n/a	9	0
	Regional Operations (% of on-going projects)	-	0	9	9	15	9	18
Harmonization & Alignment	Use of parallel PIUs (#)	-	8	3	3	n/a	3	6
	Use of Program Based Approaches (#)	-	2	5	5	n/a	5	2
	Coordinated analytical work (#)	-	4	1	1	n/a	1	2
	No of co-financed projects (#)		2	5	5	n/a	5	4

ANNEX 7: MAP OF MALAWI

