

## PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA2935

<b>Project Name</b>	Southern Africa Trade and Transport Facilitation Program - SOP2 (P145566)
<b>Region</b>	AFRICA
<b>Country</b>	Africa
<b>Sector(s)</b>	Rural and Inter-Urban Roads and Highways (60%), Public administration- Transportation (20%), General industry and trade sector (15%) , Public administration- Health (5%)
<b>Theme(s)</b>	Trade facilitation and market access (70%), Regional integration (25%), HIV/AIDS (5%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P145566
<b>Borrower(s)</b>	THE REPUBLIC OF MALAWI
<b>Implementing Agency</b>	Roads Authority
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	25-Feb-2015
<b>Date PID Approved/Disclosed</b>	27-Feb-2015
<b>Estimated Date of Appraisal Completion</b>	25-Feb-2015
<b>Estimated Date of Board Approval</b>	30-Apr-2015
<b>Decision</b>	

### I. Project Context

#### Country Context

Malawi has one of the lowest levels of per capita income in the world. Gross National Income per capita (Atlas Method) was US\$270 in 2013. With a population of 16.4 million (2013 World Development Indicators) and a land area of some 45,560 sq. miles, it is one of Africa's most densely populated countries (World Bank, 2013). Malawi is land-locked, has limited natural resources, is highly vulnerable to shocks, given its undiversified production and export structure, and is prone to droughts and floods, particularly in the southern part of the country. Despite improvements in food security nation-wide, the country is still experiencing frequent food shortages.

After experiencing a period of uneven growth, episodes of high inflation, high interest rates and unpredictable donor inflows in the early part of the decade, over the period 2006-2010, the economy of Malawi grew by nearly seven percent per annum, inflation remained between 6-8 percent per annum, and there was a relatively stable balance of payments with manageable current

account deficits. Agriculture remains the backbone of the economy, accounting for about 85 percent of employment, and about 80 percent of the country's foreign exchange, about 60 percent of which comes from tobacco alone. As a landlocked nation, Malawi's economy depends upon the effectiveness of international corridors for the import and export of its goods. Agricultural produce, primarily tobacco, is exported and fuel, fertilizers, processed food products and consumer goods are all imported. Following the elections in mid-2014, a new government has taken office and has articulated its priorities in these areas.

But despite the relatively strong economic performance over the last decade, poverty remains widespread and concentrated in rural areas. According to the Third Integrated Household Survey (IHS3 2010/11), the incidence of poverty as measured through the headcount index has declined only slightly from 52.4 percent (IHS2 2004/05) to 50.7 percent. The poverty levels for urban areas declined from 25.4 percent in 2005 to 17.3 percent in 2011, whereas it picked up slightly in rural areas from 55.9 percent to 56.6 percent during the same period. Income also remains unevenly distributed (the Gini-coefficient deteriorated from 0.39 in 2005 to 0.45 in 2010), reflecting inequities in access to assets, services and opportunities across the population. The proportions of poor and ultra-poor people were found to be highest in rural areas of the south and northern parts of the country. The main drivers of poverty were found to be limited access to education, production assets, shocks affecting agricultural productivity, and lack of diversification, and access to markets. Poverty is also being exacerbated by high population growth rate (about 3 percent), high population density and HIV/AIDS prevalence.

The country ranks 129 out of 144 countries in the Global Competitiveness Index (GCI), with the ranking of 136 for macroeconomic environment and 135 for infrastructure. The 2013 Doing Business report ranks Malawi 157 out of 185 economies, which is low in comparison with some of its Southern African Development Community (SADC) neighbors (10th out of 14 SADC countries). Enabling Malawi to benefit more fully from the large export and growth opportunities offered by the regional and global economy requires improving the business environment; reducing the infrastructure deficit, especially energy and water supply; facilitating trade and regional integration; making credit more available and affordable, especially to smallholders; and addressing the skills gap. While the new government has made commendable efforts to stabilize the economy, improving the business environment will depend on policy certainty and predictability, and the removal of legal and regulatory hurdles.

Governance and accountability problems remain an ongoing challenge. Following the major corruption scandal in 2013 (known as 'cashgate') which involved the hacking of the Government of Malawi's (GoM) integrated financial management information system (IFMIS), there has been an erosion of confidence in the accountability systems of the government. Following the scandal, many development partners had suspended budget support and the use of country financial management systems in aid-financed projects, until there was clear progress in the implementation of the recommendations of the independent audit. The new Government is currently prioritizing actions to ensure that the public financial management systems are strengthened and support from development partners is restored.

### **Sectoral and institutional Context**

Malawi's public road network covers 15,451 km of classified roads of which 4,312 km are paved (main, secondary, tertiary, district, and urban designated roads), the rest being unpaved and earth

surfaced (Roads Authority Data). The 2,809 of Malawi's main trunk roads form part of the SADC Regional Trunk Route Network with such corridors as the Dar es Salaam (part of North-South) corridor, Nacala corridor and Beira (Sena) corridor. The paved proportion of the 15,451 km classified network (4,038 km or 26 percent) is above the regional average of 20 percent. A road reclassification study carried out in 2006 identified a further 9,478 km of currently undesignated roads that serve rural communities (district and community roads), that are instrumental for rural access and connectivity with the higher level network. The GoM intends to classify these roads, bringing the total classified network to 25,000 km.

In terms of condition, the network is deteriorating: A 2011 road survey found 98 percent of the paved road network to be in good or fair condition, while the unpaved network condition declined from 83 percent in good and fair condition in 2007 to 63 percent in 2011. The proportion of roads in good/fair condition in 2014 is lower, with approximately 49 percent of the total road network being in a "good" or "fair" condition, and the proportion of roads in 'poor' condition increasing from 7 percent in 2011 to 17 percent. This reflects the premature deterioration on many sections due to inadequate maintenance, as the resources available are inadequate to maintain the network in a sustainable shape.

Institutional reforms in the road sector in 2006 led to the creation of the Roads Fund Administration (RFA) and Roads Authority (RA) to administer the collection and use of fuel levies and other eligible charges, for road maintenance respectively. The RA reports to the Ministry of Transport and Public Works (MoTPW) responsible for policy and strategy development, regulatory and legislative functions. Road passenger transport and road safety regulation is within the jurisdiction of Directorate of Road Traffic and Safety Services (DRTSS), formerly the Road Traffic Directorate (RTD) under the MoTPW. The RFA is responsible for GoM's annual road sector budget implementation and reports to the Ministry of Finance (MoF). The RFA currently receives revenue from the fuel levy and international transit fees to finance the maintenance and rehabilitation of public roads, along with related surveys and monitoring activities. Its income may also be supplemented by Government grants and loans and negotiations are underway to receive Parliamentary appropriations and a percentage of the road user charges. The allocation the RFA makes to the RA is covered by an annual financing agreement, which identifies the work program for the coming year and a budget for each component. However, the income of the RFA is insufficient to meet the routine and periodic maintenance needs of the network. This has posed a major challenge for the road sub-sector leading to reduced maintenance levels and accumulated contractual arrears. The RFA/RA and MoTPW are currently engaged in discussion with the Ministry of Finance to change the scale and structure of the fuel level to address this problem.

Rail transport is underutilized as a potentially lower cost alternative to road transport due to the poor condition of the infrastructure and shortages of rolling-stock. The construction of the new rail line through Malawi, following the PPP agreement between the governments of Malawi and Mozambique and the Brazilian mining company Vale, part of a US\$2 billion investment to connect the province of Tete, through Malawi, to a new coal terminal at Nacala port, offers a significant opportunity to stimulate development in both countries. This line runs west-east and could potentially serve the bottom half of the country, and Blantyre and Lilongwe. A feasibility study to examine the case to rehabilitate the branch to Lilongwe is ongoing, funded by the United Kingdom Department for International Development. However, the protection of the public interest in Malawi will require the establishment of an effective regulator.

The M1 road is a backbone of Malawi road network and provides an important link in the regional North-South Corridor, connecting the port of Dar es Salaam with the Malawi economic centers of Lilongwe and Blantyre as well as Mzuzu on the border with Mozambique. It supports regional trade and tourism with Mozambique in the south, Tanzania and Zambia to the west and north, and with the wider SADC region. The pavement condition along the 970 km of the NSC (M1) in Malawi between Songwe, Blantyre, Lilongwe and Mwanza is generally in good to fair condition, with some localized sections in worse condition. South of Lilongwe, a 159 km section benefitted from periodic maintenance with localized reconstruction, funded by the GoM and the European Union (EU).

The Roads Authority (RA) has identified the following three sections of the M1 road as their priorities for intervention: In order of decreasing priority, these are: (i) Karonga - Songwe (46 km), (ii) Kacheche - Chiweta (70km), and (iii) Mzimba Turn off - Mzuzu - Kacheche (147km). The Karonga – Songwe section is an important section of M1 that provides a shortest route for Zambia’s Eastern Province to the port of Dar for imports of agricultural inputs and export of agricultural produce, and carries 22 percent of Malawi’s foreign trade to the border point at Songwe. The road section also provides access for local communities engaged in intensive rice cultivation along the road, much of which is old in markets on the Tanzanian side of the border. The road section is currently in poor to fair condition, with considerable edge break, and some short sections of failed pavement.

## II. Proposed Development Objectives

**The Program Objective.** The program objective of the Southern Africa Trade and Transport Facilitation Program is to facilitate the movement of goods and people along the north-south corridor (NSC), whilst supporting improvement in the services for Human Immunodeficiency Virus/ Acquired Immunodeficiency Syndrome (HIV/AIDS) and road safety. This objective will be realized through a sequential improvement in the physical, institutional and social infrastructure in participating countries, and the strengthening of the management and monitoring on the corridor.

**The Project Objective.** The objective of the Southern Africa Trade and Transport Facilitation Program - Phase 2 of Series of Projects (SATTFP SOP2) is to facilitate the movement of goods and people along the North-South Corridor and at the key border crossings in Malawi, whilst supporting improvements in the services for Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS) and road safety.

## III. Project Description

### Component Name

Component 1: Improving the Road Infrastructure

### Comments (optional)

The first component comprises three sub-components to strengthen asset management and improve the condition of the road network: (a) Component 1(a): The Karonga - Songwe Section of the M1 Corridor. This sub-component will support the improvement of the 46 km Karonga – Songwe section of the M1 road; (b) Component 1(b): The Rural Roads Improvement along the Karonga - Songwe Section. This sub-component will support the improvement of approximately 40 km of priority rural feeder roads in the hinterland of the Karonga – Songwe section; (c) Component 1(c): Accident Blackspot Intervention. This sub-component will support the mitigation of priority accident blackspots on the north-south corridor.

**Component Name**

Component 2: Improving the Social Infrastructure

**Comments (optional)**

The second component comprises two sub-components to mitigate the social costs associated with increased transport volumes on key regional trading corridors: (a) Component 2 (a): Improving management of road safety. The first sub-component involves supporting the implementation of the recommendations of the draft results focused road safety strategy, which is now being prepared with support from the European Union; (b) Component 2 (b): Improving health services and emergency response. This sub-component will refurbish and extend priority level health facilities in trauma care, and provide technical assistance to develop the capacity of the staff in the local health facilities, in HIV/AIDS awareness, counseling and testing.

**Component Name**

Component 3: Improving Trade Facilitation

**Comments (optional)**

The objective of this component is to reduce the cost of cross border transport by modernizing, simplifying and harmonizing the trade and transit procedures and policies. This is expected to be realized by the following provisional list of sub-components: (a) feasibility study to assess options for establishing a National Single Window (NSW) facility; (b) feasibility study of the upgrading and modernization of border post facilities at Mwanza, Dedza and Muloza; and (c) upgrading and modernization of border post facilities at Songwe on the Tanzania border, and Dedza and Mwanza border posts on the Mozambique border, and the introduction of Integrated Border Management (IBM).

**Component Name**

Component 4: Institutional Strengthening and Implementation Assistance

**Comments (optional)**

This component will provide necessary project management, implementation assistance and capacity building to the RA, and strengthening of the institutional framework for transport. This complements the substantial ongoing program of technical assistance being provided by the EU in the sector.

**IV. Financing (in USD Million)**

Total Project Cost:	60.00	Total Bank Financing:	60.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			60.00
Total			60.00

**V. Implementation**

Phase 2 of the SATTf Program will be implemented by a dedicated team (Project Implementation Team, or PIT) of full-time employees of the RA supported by officials from the Treasury and RFA. The RA was established by an Act of Parliament No. 3 of 2006. Though it is an independent statutory company, the organization reports to the MoTPW. The PIT consists entirely of full-time employees of RA and comprises a project manager, a procurement specialist, financial management

specialist and project accountant. The RA will be the main implementing entity for the project activities, responsible for overall project management, formal reporting requirements, procurement, contract administration, safeguards, and work in combination with the RFA on the financial management, and the preparation and submission of disbursement requests. The PIT will draw on technical expertise both from in-house sources and from other relevant stakeholder bodies, including MRA for the border crossings and the NSW options study, Ministry of Industry and Trade (MIT) for the trade facilitation activities, DRTSS for the road safety improvements, Ministry of Health (MOH) for the health services and emergency response improvements, and MoTPW for the development of National Transport Masterplan. The responsibility for monitoring environmental and social aspects will lie with RA's Environmental Management Unit (EMU), who will support the project in the environmental and social safeguard issues and coordinate with the PIT to ensure compliance with national regulations and the Bank's Safeguard policies. The responsibilities of RFA will include, inter alia: (a) the management of the designated accounts; (b) financial management reporting of the overall project; (c) ensuring the execution of the audit of the project; and (d) preparation of quarterly financial reports.

The PIT will report to a Project Steering Committee (PSC) chaired by the MoTPW with representation from the MOH, DRTSS, MRA, and MIT. The PSC will be responsible for, inter alia, the review and validation of: (a) Annual Work Plans; (b) the Project's evaluation and supervision reports; and (c) the Project's financial management and accounting reports. The MoF confirmed these arrangements to the Bank by letter dated February 7, 2014. The RA identified the named employees in the PIT by e-mail on March 13, 2014.

## VI. Safeguard Policies (including public consultation)

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>
Environmental Assessment OP/BP 4.01	<b>x</b>	
Natural Habitats OP/BP 4.04		<b>x</b>
Forests OP/BP 4.36		<b>x</b>
Pest Management OP 4.09		<b>x</b>
Physical Cultural Resources OP/BP 4.11	<b>x</b>	
Indigenous Peoples OP/BP 4.10		<b>x</b>
Involuntary Resettlement OP/BP 4.12	<b>x</b>	
Safety of Dams OP/BP 4.37		<b>x</b>
Projects on International Waterways OP/BP 7.50		<b>x</b>
Projects in Disputed Areas OP/BP 7.60		<b>x</b>

**Comments (optional)**

## VII. Contact point

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