PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: PIDC2227

Project Name	Southern Africa Trade and Transport Facilitation Program - APL2 (P145566)
Region	AFRICA
Country	Africa
Sector(s)	Rural and Inter-Urban Roads and Highways (60%), Public administration-Transportation (20%), Public administration- Health (5%), Gen eral industry and trade sector (15%)
Theme(s)	Trade facilitation and market access (70%), Regional integration (25%), HIV/AIDS (5%)
Lending Instrument	Adaptable Program Loan
Project ID	P145566
Borrower(s)	THE REPUBLIC OF MALAWI
Implementing Agency	Roads Authority
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	11-Dec-2013
Date PID Approved/ Disclosed	17-Dec-2013
Estimated Date of Appraisal Completion	19-Sep-2014
Estimated Date of Board Approval	16-Dec-2014
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Malawi is a small, peaceful and democratic country, with one of the lowest levels of per capita income in the world. Gross National Income per capita (Atlas Method) was US$371 in 2011. With a population of 15.9 million (2012 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, 2012). Malawi is land-locked, has limited natural resources and is highly vulnerable toshocks, given its undiversified production and export structure, and is prone to droughts and floods. Despite improvements in food security nation-wide, the country is still experiencing frequent food shortages, especially in the southern part of the country. It is a landlocked agrarian economy, poorly integrated into the region, both in terms of trade and physical infrastructure. Its economy lacks diversification, with a high concentration in few primary commodities, which renders it vulnerable to weather and terms of trade shocks. The country is also highly donor dependent. 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 2006-2010, Malawi experienced steady growth, restoration of donor support and a stable macroeconomic environment. Over 2006-2010, the economy grew by nearly 7 percent p.a., inflation remained between 6-8 percent p.a. 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.

Malawi remains one of the least developed countries in the region, ranking 170th out of 187 countries, in the United Nations Human Development Index of 2013. Despite the strong economic performance mentioned above, poverty remains widespread and concentrated in rural areas. According to the recently published report of 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 the access to assets, services and opportunities across the population. Job creation, especially among the youth, is a major priority in Malawi. The country has a large informal sector, reflective of the prevalence of smallholder agriculture, with only about 10-12 percent of the active job seekers being engaged in formal employment. Low wages and low levels of labour productivity continue to characterize the country's labour market, with a large proportion of women engaged in the informal sector. According to the official figures, the country's unemployment rate is estimated at about 4-5 percent, but anecdotal evidence points to a growing problem of youth unemployment and underemployment, especially among farming communities. Nationally, youth employment is 84 percent (IHS3): labor force participation rate is 77 percent among youth aged 15-2 4, with 54 percent employed by private individuals, 31 percent in the private sector, and about 8 percent in the public sector. Despite recent achievements, Malawi continues to have one of the highest HIV prevalence rates in the world; 10.6 percent for adults aged 15-49 in 2010, only slightly less than in 2004, at 11.8 percent. In addition, Malawi has recently experienced a very difficult economic and political period, but the country has initiated major economic and political governance reforms since April 2012.

The business environment in Malawi remains challenging. 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 and is ranked low in comparison with some of its Southern African Development Community (SADC) neighbors (10th out of 14 SADC countries). Enabling Malawi to benefit mor e 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. Governance and accountability problems also need to be addressed. 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.

Sectoral and Institutional Context

A number of earlier studies including the 2004 DTIS, the World Bank Country Economic Memorandum (both 2004 and 2009), the Malawi Revenue Authority Time-Release Study (2006), and the recent study on Non-Tariff Measures all identify high trade costs as the key constraint to diversifying and expanding trade. Malawi is ranked in the bottom quartile of the World Bank Trading across Borders index and has declined over the past two years as the cost to import and export a container has increased. Producers in Malawi continue to face high trade costs in sourcing their inputs and in getting their products to the market. Delays at ports and border posts, unduly complex customs, regulatory requirements and non-tariff barriers along major routes all contribute to higher-than-necessary transport costs, constraining tighter integration into the regional/global economy. Although data on the condition of road infrastructure is encouraging (26 percent of the 15,451 km classified road network is paved, of which 98 percent was found to be in good or fair condition in a recent survey (Road Authority Data), 63 percent of the unpaved roads are in good or fair condition), expenditures are below what is required to maintain the network in a sustainable shape. In addition, the Government of Malawi intends to classify a further 9,500 km of district and community roads, bringing the total classified network to 25,000 km, significant investments are now needed to prevent future deterioration and to improve road safety. Road safety is a major problem in Malawi, In 2007, there were 839 fatalities on Malawian roads, with a vehicle fleet of 130,000, resulting in a rate of 64.53 fatalities per 10,000 registered vehicles, a rate some three times that of Botswana, 3-4 times that in South Africa and nine times that of Zimbabwe. The number of fatalities increased to 975 in 2011. This requires solutions on several fronts: development and implementation of a national strategic plan, strengthening the capacity of institutions, improving data collection and dissemination, implementing measures targeted at specific groups at risk such as children and incorporating safety into road designs and development. Rail transport is underutilized as a lower cost alternative to road freight due to the poor condition of the infrastructure and shortages of rolling-stock. Only through the consolidation of traffic from neighboring countries, with Malawi acting as a regional hub, can improvements to Malawi’s rail infrastructure be justified. Malawi’s location as a potential transit route for the increasing volume of minerals being produced regionally (particularly in Tete Province of Mozambique and in Zambia), offers opportunities to attract significant infrastructure investment. Close collaboration with neighboring countries offers the most effective, and in some cases the only, way to reduce these infrastructure gaps. In this regard, a dramatic improvement in the trade transport situation in the rail sector in Malawi is expected following a new PPP agreement between the governments of Malawi and Mozambique with the Brazilian mining giant Vale to construct a new line through Malawi, part of a US$2 billion investment in a railway line from the north-western province of Tete, through Malawi, to a new coal terminal at Nacala port.

In Malawi institutional reforms in the road sector have led to the creation of the Roads Fund Administration (RFA) and Roads Authority (RA). These bodies administer respectively the collection and use of fuel levies for road maintenance. Revenue is increasing, allowing a growing proportion of maintenance activities to be financed. RFA is responsible for the implementation of the Government's annual budget allocation to the road sub-sector. It reports to the Ministry of Finance (MoF). The Roads Fund raises revenue from the fuel levy, transit fees and various other minor sources, and uses this income to finance the maintenance and rehabilitation of public roads, along with related surveys and monitoring activities. RFA income may also be supplemented by Government grants and loans. The RFA has requested the Ministry of Finance to authorize increases in road user charges (fuel levies) but the scope is limited due to the present economic situation in

Malawi. RFA income has dropped as fuel sales have fallen during the current shortages in supply. The allocation the Roads Fund Administration 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.

Relationship to CAS

This World Bank Group Country Assistance Strategy (CAS) for Malawi, Number 74159, dated December 17, 2012 for the period FY13-FY16 is fully aligned with the Second Malawi Growth and Development Strategy (MGDS II) adopted in April 2012 and the subsequent Economic Recovery Plan launched in October 2012. The CAS responds to recent developments in the economic and governance context in Malawi, and prioritizes WBG support around three themes: (1) Promoting Sustainable, Diversified and Inclusive Growth; (2) Enhancing Human Capital and Reducing Vulnerabilities; and (3) Mainstreaming Governance for Enhanced Development Effectiveness. The three priority themes of the CAS have been structured around six results areas: Result Area 1: Structural and macroeconomic policies to restore internal and external balance. Result Area 2: A business environment that promotes competitiveness and enhances productivity. Result Area 3: Improved delivery of public services. Result Area 4: Lowering vulnerability and enhancing resilience. Result Area 5: Improving public sector management systems. Result Area 6: Strengthening social accountability for service provision. The SATTFP-APL2 will be contributing under Result Area 2 and is consistent with the objectives of Theme 1 - Improved ease of doing business, through better economic infrastructure, regional integration, and access to demand-responsive skills development. These will finally lead to diversified and inclusive growth.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The objective of the SATTFP APL 2 in Malawi is to facilitate the movement of goods and people along the North-South Corridor and at the key border crossings, whilst supporting improvements in the services for Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS) and road safety. This is expected to be realized by the following components:

Component 1: Improving the Road Infrastructure. The first component comprises two 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 Karonga-Songwe section of the M1 road. TMSA, through COMESA, are currently funding the design work for this section, with the likely intervention including a mix of periodic maintenance and localized reconstruction to complete rehabilitation. The provisional cost estimate for this component is US$ 20-25 million;
b. Component 1(b): Accident Blackspot Intervention. This sub-component will support the identification and mitigation of key accident blackspots on the road network. A grant was approved by the Global Road Safety Facility to procure consultants to undertake the assessment, and the selected consultants commenced their assignment in Malawi on November 11, 2013. The provisional cost estimate for these interventions is US$3 million.

Component 2: Improving the Social Infrastructure. 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

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supporting the implementation of the recommendations of the recently completed Corridor Road Safety Management Capacity Review. The study called for the identification and establishment of a cross-sectoral Lead Agency for Road Safety in Malawi and a results focused road safety strategy, which is now being established with support from the European Union. The component proposes to provide support to the design and implementation of pilot road safety projects in support of defined targets and the purchase and installation of accident analysis software. The provisional cost estimate for these interventions is US$2 million.

b) Component 2 (b): Improving health services and emergency response: This sub-component will refurbish and extend priority lower level health centers, both existing ones and establish new ones at the border crossings, and provide, and provide technical assistance to develop the capacity of the staff in the local health centers, in HIV/AIDS awareness, counseling and testing. It will also support the piloting of an emergency response service for road traffic accidents. The provisional cost estimate for these interventions is US$2 million.

Component 3: Improving Trade Facilitation. The objective of this component is to reduce the cross border transport cost by streamlining, modernizing, simplifying and harmonizing the trade and transit procedures and the policies increasing professionalism of economic operators. This is expected to be realized by the following provisional list of sub-components:

(i) The migration from Asycuda ++ to Asycuda World;
(ii) An assessment of the feasibility and design of a National Single Window;
(iii) The installation of a National Single Window facility;
(iv) An assessment of development options for the Malawi Bureau of Standards (MBS);
(v) An assessment of the feasibility of the upgrading and modernization of border post facilities and traffic control; and
(vi) the upgrading and modernization of border post facilities at Songwe. Dedza and Mwanza.

The provisional cost estimate for these interventions is US$17.5 million.

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Component 4: Institutional Strengthening and Implementation Assistance. The third component will provide necessary project management, implementation assistance and capacity building to the RA, and strengthening of the institutional framework for transport. The following activities will be included:

(i) the procurement of consultants to prepare a National Transport Policy and Strategy, including an action plan, to guide the sustainable development of the transport sector to 2030;
(ii) the procurement of qualified consulting engineers to assist RA in the preparation of designs and supervision of works to mitigate the accident blackspots;
(iii) the procurement of qualified consulting engineers to assist RA in the supervision of the implementation of civil works on the M1;
(iv) the procurement of qualified consulting engineers to assist RA and MRA in the preparation of designs and supervision of works at the border crossing interventions;
(v) the procurement of consultants to undertake a quality review of the processes of scheme identification, design, implementation, supervision and handover;
(vi) the procurement of consultants to operationally establish the road asset management system in the RA;
(vii) Support to the RA to assist the PIT in project implementation; and
(viii) Capacity building and training in the Ministry of Transport and Public Works.

The provisional cost estimate for these interventions is US$7.5 million.

Component 5: Improved corridor management and monitoring (US$2 million). The IDA regional grant will be used to support the continued strengthening of the DCC and the funding of its operating costs for a finite period, until a sustainable financing proposal has been introduced. The further progression of this component is predicated on the DCC being adjudged to have met the condition outlined in APL-1, that it has developed the fiduciary capacity through support from that operation, to receive this tranche in its own right.

Key Results (From PCN)

The following are provisionally expected to be the key results of APL-2:
(i) The resealing/rehabilitation of the Karonga - Songwe (47km) in Northern Malawi;
(ii) The reduction of accidents on the paved road network through critical black spots improvement;
(iii) The modernization of the physical infrastructure at three key border crossings - Songwe, Dedze and Mwanza, and the establishment of a National Single Window (NSW); and
(iv) The strengthening of some health services for HIV/AIDs and piloting of an emergency response.

III. Preliminary Description

Concept Description

The North-South Corridor (NSC) enters Malawi at Songwe on the border with Tanzania and provides a strategically important road connection for Malawi to the port of Dar-es-Salaam. In addition to offering an alternative to the ports in Mozambique, the corridor forms a key trading route with Kenya and Tanzania. The corridor runs south through Malawi, serving Lilongwe, the capital, and Blantyre where a large proportion of the country's commercial and industrial capacity is located. The southern section of the NSC extends west from Blantyre to the border with Mozambique at Mwanza and then to Beira, the port that is used for the majority of Malawi's overseas imports and exports, and to South Africa. The Nacala Corridor which connects Zambia and Malawi to the port of Nacala crosses the NSC in Malawi. A further branch of the NSC enters Mozambique at Dedza, providing a more direct route to Beira and South Africa for Lilongwe and the north of Malawi. Customs data from 2010 shows that 38 percent of Malawi's foreign trade passes through Mwanza, 26 percent through Dedza and 22 percent through Songwe.

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. Recent visual surveys have identified limited sections displaying signs of pavement failure, with much of the road in need of periodic maintenance in the short term. Edge-break is widespread and there is a lack of paved shoulders, posing a safety hazard at locations where there are significant movements of pedestrians and cyclists. South of Lilongwe, a 159 km section has recently benefitted from periodic maintenance with localized reconstruction, funded by the Government of Malawi (GoM) and the European Union (EU). The Roads Authority (RA) has identified three sections of the M1 road which are in poor condition for consideration for inclusion in the project. In order of decreasing priority, these are: (i) Karonga - Songwe (47km), (ii) Bwengu - Chiweta (60km), and (iii) Lilongwe - Kasungu (150km). The EIB are interested in financing the latter two sections.

Road transport along the main trading routes corridors has been identified as a major factor in the spread of Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS). Transport workers, their spouses, and sexual partners have long been identified as vulnerable groups at high risk of HIV/AIDS. This reflects that: (a) the former are often absent from home for prolonged periods, increasing the likelihood of unsafe sexual activity; (b) there is often a lack of knowledge among long-distance truck drivers in respect of risky and safe behavior; (c) there is often higher than average levels and frequency of alcohol consumption among this group, increasing the incidence of risky behavior; and (d) the increased mobility can itself facilitate HIV transmission from areas of high to low prevalence, nationally, and across borders.

Similarly, fatalities and injuries from road traffic crashes represent a significant and growing economic and social cost in Africa, particularly on the major trade corridors. Africa has one of the highest road traffic death rates in the world, with little difference in rates between those countries categorized as low-income (32.3 deaths per 100,000 head of population per year) and those categorized as middle-income (32.2 deaths per 100,000 head of population per year). In Malawi a study was undertaken by the National Road Safety Council in 2005 to create a baseline for road safety, but there has not been any detailed research since then and significant under-reporting is likely. The study identified the main causes of crashes along with age and type of road user involved. The study found 56 percent of crashes were caused by high speed, 32 percent by negligence, poor driving and fatigue and 12 percent by road, vehicle or weather factors. Pedestrians accounted for 73 percent of fatalities, with 20 percent being vehicle passengers and 7 percent vehicle drivers. One estimate of the overall cost of road traffic crashes to the national economy is that the social and economic costs amount to some Kwacha 12 billion (US34 million equivalent) annually, equivalent to 3 percent of GDP. There is currently no results-focused road safety strategy.

IV. Safeguard Policies that might apply

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

V. Financing (in USD Million)

Total Project Cost:	62.00	Total Bank Financing:	62.00
Financing Gap:	0.00		

Financing Source	**Amount**
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	60.00
IDA Grant	2.00
Total	62.00

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