Report Number : ICRR14279

IEG ICR Review

Independent Evaluation Group

1. Project Data:		**Date Posted :**	06/20/2014	
Country :	Malawi			
Project ID :	P103773		**Appraisal**	**Actual**
Project Name :	Business Environment Strengthening Technical Assistance (bestap)	**Project Costs (US$M):**	18.70	19.00
L/C Number:	CH293	**Loan/Credit (US$M):**	15.00	15.44
Sector Board :		**Cofinancing (US$M):**	3.70	3.58
Cofinanciers :	European Union	**Board Approval Date :**		05/24/2007
		Closing Date :	12/31/2012	12/29/2012
Sector(s):	Central government administration (58%); General industry and trade sector (25%); Law and justice (8%); Banking (5%); Micro- and SME finance (4%)			
Theme(s):	Micro; Small and Medium Enterprise support (25% - P); Regulation and competition policy (25% - P); Other financial and private sector development (24% - P); Export development and competitiveness (13% - S); Legal institutions for a market economy (13% - S)			

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2. Project Objectives and Components:

a. Objectives:

Original PDO

The Project Appraisal Document - PAD (page 8) states the project development objective (PDO) as “to support capacity development and investment climate reforms in order to accelerate economic growth .” The Financing Agreement (page 5) uses an identical wording.

Revised PDO

The Restructuring Paper - RP (pages 7 and 21) and the amended Financing Agreement (page 1) formulate the revised project development objective (PDO) as “to improve the ease of doing business processes in Malawi .” The ICR (page 4) incorrectly states that the PDO was changed to the following (the difference from the Restructuring Paper and the amended Financing Agreement is in italics): “to improve the ease of doing business processes in Malawi in order to increase foreign and domestic private sector investment in the economy .”

Proxy PDO

The ICR (page 18) used the following proxy PDO: “to improve Malawi’s investment climate, as measured by selected processes, and support the development of Micro, Small and Medium Enterprises (MSMEs). For the purposes of this project, investment climate reform comprises inter alia dealing with commercial disputes, improving the legislative framework, facilitating PPPs and PPD, and improving processes of firm registration, land registration, and business permits .”

This Review will use the PDOs included in the Financing Agreement (original and revised).

Associated Outcomes

The original project aimed at four outcomes:

a) improving the business environment, particularly registration of businesses,, a working commercial justice system and simplified business permits;

b) fostering dialogue and cooperation between the public and private sector through strengthening of public sector organizations supporting private sector development, fora for dialogue between private and public sector as well as enhancements to the institutional environment for public -private partnerships;

c) easing access to finance by MSMEs through a SME Investment Fund and a reorganization of select finance institutions; and

d) increasing MSME productivity through matching grants.

The restructured project removed the third outcome and kept the other three.

b.Were the project objectives/key associated outcome targets revised during implementation?

Yes

If yes, did the Board approve the revised objectives /key associated outcome targets?

Yes

Date of Board Approval: 11/15/2010

c. Components:

Original Components

- **Component 1: Strengthening Private Property Rights Institutions and Business Facilitation (Original Cost: US$ 4.25 million; Actual Cost : US$ 6.1 million).** This component supported activities that aimed to improve the regulatory environment in which the private sector operates, to strengthen the institutions that protect private property rights, and to allow speedy and low cost business facilitation. It included three sub-components: (i) streamlining the regulatory environment for businesses, including addressing the large legislative backlog of economic laws and introducing key new legislation; (ii) providing support for strengthening and expanding the capacity of the newly established Commercial Division of the High Court to relieve the large backlog of commercial cases in Malawi's court system and to strengthen contract enforcement; and (iii) enabling the business and land registries to improve their effectiveness in registering businesses and facilitating the registration and securitization of land -based assets.
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- **Component 2: Strengthening Private Sector Development Support Institutions and Services (Original Cost: US$ 4.6 million; Actual Cost : US$ 4.39 million)**.This component focused on building capacity of institutions that provide services to the private sector in order to improve the quality and volume of services delivered, and to strengthen institutions that provide policy direction on PSD. The proposed activities included (i) supporting the institutional capacity of the newly established Malawi Investment and Trade Canter, including setting up the legal and regulatory framework for a one -stop business licensing, investment and exporting promotion center; (ii) establishing an institutional framework for Public Private Partnerships; (iii) building capacity in the Department of Private Sector Development of the MITPSD, including hiring of a small team dedicated to working on Doing Business (DB) reforms; (iv) establishment of a public-private dialogue (PPD) secretariat in the Malawi Confederation of Chambers of Commerce and Industry (MCCCI) by funding two full time positions.
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- **Component 3: Promoting Access to Finance and Productivity Enhancement (Original Cost: US$ 4.60 million; Actual Cost : US$ 3.30 million)**.The objective of this component was to support the growth and development of micro and small enterprises, into a "missing middle", given few enterprises were located in between the many micro and informal sector businesses, and the larger multinationals and conglomerates. This component included (i) the establishment of a sustainable SME Investment Fund to increase access to finance for small-scale enterprises; (ii) the introduction of a matching grant scheme aimed at supporting business development services; and (iii) merger of two state-owned banks - the Malawi Rural Finance Company (MRFC) and the Malawi Savings Bank (MSB) to improve the service delivery of rural finance.

- Component 4: Capacity Building and Implementation Support (Original Cost: US$ 2.9 million; Actual Cost: US$ 5.21 million). This component aimed at supporting the establishment of a Project Implementation Unit (PIU). This included support for the staffing of the PIU and provision of operational costs and goods necessary for project implementation support. The PIU for the Privatization Commission (PC), which had been managing the WB-funded Privatization and Utility Reform Project (PURP), were assuming the PIU functions while the Ministry of Industry, Trade and Private Sector Development (MITPSD) built its capacity. The objective was to review Ministry's capacity after two years of implementation before deciding whether the project management functions could be mainstreamed into the MITPSD.

The original project design included unallocated funds for US$ 2.35 million.

Revised Components

Two of the four original components were changed. The restructuring of November 2010 concerned the creation of two sub-components under Component 1, and the cancellation of two sub-components of Component 3 (i.e., namely, the planned establishment of a sustainable SME Investment Fund and the merger of Malawi Rural Finance Company with the Malawi Savings Bank), due to the Government's decision to not pursue them.

- **Component 1: Strengthening Private Property Rights Institutions and Business Facilitation (Original Cost: US$ 4.25 million; Revised Cost: US$ 5.7 million; Actual Cost: US$ 6.1 million).** Two sub-components were added to this Component: (i) the upgrading of the Department of Immigration's capacity to deal with Business Residence Permits (BRP) and Temporary Employment Permits (TEP); and (ii) review and update of the Companies Act.
- **Component 3: Promoting Access to Finance and Productivity Enhancement (Original Cost: US$ 4.60 million; Revised Cost after restructuring: US$3.2 million; Actual Cost: US$ 3.30 million).** The objective of this component was to support the growth and development of micro and small enterprises, into a "missing middle", given few enterprises were located in between the many micro and informal sector businesses, and the larger multinationals and conglomerates. This component now included only the introduction of a matching grant scheme aimed at supporting business development services.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Cost

Financial project costs at appraisal were US$ 18.70 million. Actual costs at time of closing were US$ 19.00 million.

Financing

The project was funded through two grants, one from IDA (planned: US$15.00 million, actual: US$15.44 million), and one from the European Union (planned: US$3.70 million, actual: US$3.58 million).

Borrower Contribution

There was no borrower contribution.

Dates

Approved by the Bank's Board on May 24, 2007, the project became effective on October 10, 2007. The project had a slow start due to a changed and difficult external environment. A mid term review was carried out in October 2010, leading to a level 1 project restructuring in November 2010. The project closed on December 31, 2012 as originally scheduled.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

The original objective of the project was to support capacity development and investment climate reforms in order to accelerate economic growth. The revised objective was to improve the ease of doing business processes in Malawi.

Both objectives are:

- consistent with the Second Malawi Growth and Development Strategy (MGDS II) adopted in April 2012 and the subsequent Economic Recovery Plan launched in October 2012 after the new President took office. The ERP was introduced due to focus on fewer priorities of the new administration, that were perceived to be quick wins. The ERP refers specifically to broad reforms of the investment climate in its governance section (page 15): good governance "will also promote rule of law, human rights, and guarantee property and personal rights which attract private sector investment." In addition, several sector strategies (e.g., energy, tourism, and air transport) make reference to the need of improving each sector's investment climate.
- consistent with the latest Bank's Country Assistance Strategy - CAS (FY13 - FY16). In particular, under the Strategy's first theme (Promoting Sustainable, Diversified, and Inclusive Growth), the CAS includes a second area (Enabling a business environment that promotes competitiveness and enhances productivity) comprising outcome 1.2 (Improved ease of doing business, through better economic infrastructure, regional integration, and access to demand-responsive skills development) which is fully in line with the objectives of the project(see CAS page 26).
- sufficiently ambitious given country conditions, as Malawi is one of the poorest countries in Africa with poor capacity in the public sector and one of the least friendly business environments globally (as shown by the fact that Malawi ranked 171 out of 189 countries in the Doing Business 2014 report)

The relevance of both original and revised objectives is therefore rated as **substantial**.

b. Relevance of Design:

The design presented a convincing causal chain between inputs, outputs and outcomes. The actions the project supported were expected to improve the business environment, particularly from Malawian SMEs. While the PDO was vague and the indicators selected did not allow a proper measurement of progress and had to be revised during implementation, as discussed in Section 10 of this review, the project's theory of change seems sound.

The relevance of design was therefore **substantial**.

4. Achievement of Objectives (Efficacy):

Original PDO

The original objective of the project was to support capacity development and investment climate reforms in order to accelerate economic growth. The review rates the outcome for the original PDO as **modest.**

The cost to formally start a business (outcome indicator 1), as measured in successive editions of the Doing Business Indicators, fell from 215.7 percent of GNI per capita in 2007 to 83.7 percent in 2013, close to the project's target of 70 percent. While there are indications that the over 1,100 matching grants provided under the project had a positive effect on its beneficiaries, no formal impact assessment was carried out and results are based on an end-of-project customer satisfaction survey. There is no information on the turnover in firms accessing the business growth scheme - BUGS- that were supposed to grow 20 percent faster than the control group (outcome Indicator 2).

Revised PDO

The revised objective was to improve the ease of doing business processes in Malawi. The first outcome indicator was retained, while the second was dropped (and was not monitored). All other indicators remained substantially the same. This review rates the efficacy of the revised PDO as **substantial.**

The legislative backlog was supposed to be cleared by end of project. This indicator was *partially met*. The project supported the drafting of 24 core regulations and laws according to international standards to promote private sector investment; they were either enacted or before Parliament out of a backlog of 40 at project appraisal. The legislation included, inter alia, a bill on Public Private Partnerships, and the Business License Act, approved in May 2013. At the Ministry of Industry, Trade and Private Sector Development (MITPSD) there is now a core group of officials with solid competences for continuing the support to business environment reforms. The Public-Private Dialogue platform is operational but has had limited influence on policy making, due, in part, to the limited decision making powers of participants from the public sector side.

Time to settle commercial disputes reduced from 337 to less than 180 calendar days. This indicator was *met.* There is now an operating Commercial Division of the High Court helping to address disputes of commercial matters, and over 1,000 cases have been judged by the Commercial Court since 2007 with an average of 96 calendar days per case. This metric compares with 432 calendar days for the traditional Magistrate's Court in judging commercial disputes.

Time to start a business reduced from 37 to 10 calendar days. This was *not met* as the time needed to start a business increased to 40 calendar days by 2012, according to the Doing Business Indicators database.

The time needed to register property title was supposed to be reduced to 60 days: This was *partially met.* The days to register property have decreased from 118 in 2007 to 69 days in 2012 thanks to a fully functional IT system funded by the project used to register land.

Time to obtain license reduced from 185 to 30 days. This indicator was *not met.* There is no functioning One Stop Shop for business licenses where progress has been minimal. Business registration is also still done manually, notwithstanding substantial investments in IT systems and training funded by the project. The intermediate outcome indicator was not achieved.

5. Efficiency:

At appraisal, an economic analysis was conducted that showed an NPV of US$ 20 million and ERR of 49 percent. The ICR could not carry out a similar analysis ex post due to the fact that the original calculations were not available anymore and had not been sufficiently detailed in Annex 9 of the PAD. However, the ICR tried to do an alternative analysis for components 1 and 2 and found that the costs for IT systems for business and land registration were in line with other countries doing similar investments.

The cost of implementation and coordination was rather high: estimated at 15 percent of total costs at appraisal compared to 27 percent of all project expenses. Several implementation partners complained about inefficient management at stakeholder workshops. Particularly worrying is the fact that over 10 percent of implementation costs were spent on coordination meetings.

The efficiency of the project is therefore rated as **modest**.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	49%	100%
ICR estimate	No		

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The project helped in reducing the cost of starting a business (60 percent)) and in establishing a Commercial Division of the High Court, which contributed to reducing by 75 percent the time needed to judge a case.. The project supported also the enactment of core regulations and laws. Little progress was made on access to finance and there is not enough information on the impact on MSME productivity.

While the relevance of the project's objectives and design were substantial, its efficiency was rated modest. Project efficacy before restructuring was modest while efficacy after restructuring was rated substantial. The combination of these elements leads to an overall outcome rating of "moderately unsatisfactory" for the original PDO and "moderately satisfactory" for the revised PDO. The combined rating is **Moderately Unsatisfactor** y, due to a weighted average of 3.28 as disbursement before restructuring amounted to 72 percent of the total project cost.

a. Outcome Rating : Moderately Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

The risk to development outcome is rated **moderate**. The main achievements of the project (e.g., commercial court, simplified business start-up, strengthened public institutions working with the private sector) are institutional in nature and benefit from wide support in Malawi. Macroeconomic instability, whose likelihood is high, might reduce the impact of these improvements on investment and growth but is unlikely to reverse them.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The project addressed relevant development challenges, and the design was relatively simple, even though it included relatively large number of components. The project benefitted from substantial prior research carried out by the Bank including the Doing Business surveys, the 2006 Investment Climate Assessment, and Country Assistance Evaluation. However, its results framework included weak and incomplete indicators. In addition, the estimates of rate of return in the PAD cannot be replicated: there is no proper documentation or institutional memory on how they were reached that would have allowed an ex-post calculation. The cost benefit analysis and the presumed benefits mentioned in the PAD were not related to costs that could have been attributed to the problems that each sub-component was expected to address. Neither the PAD nor the ICR provided quantification of the costs associated to each problem identified in the PAD that would have been the basis for calculating costs and benefits.

Given such shortcomings, the Bank's performance on quality at entry is rated as **moderately unsatisfactory**.

Quality-at-Entry Rating:	Moderately Unsatisfactory

b. Quality of supervision:

The Bank spent substantial resources on supervision, with a total of 10 supervision missions. However, the Bank was unable to properly measure results, and revise the weak M&E framework, as the restructuring did not improve it and the ICR had to use a proxy PDO. In addition, the Bank team did not realize that the EU grant could fund only Component 1 until 2010. As other components had already used all of the IDA allocation assuming EU funding would be forthcoming, the end result was the inability to fund some activities, including one of the two sub-components introduced at restructuring. These problems are indicative of weaknesses in project supervision.

Given such shortcomings, the Bank's performance on quality of supervision is rated as **moderately unsatisfactory**.

Quality of Supervision Rating:	Moderately Unsatisfactory
Overall Bank Performance Rating:	Moderately Unsatisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The Government supported the project's activities at design and was keen to strengthen the investment climate in the country. However, the pace of reform slowed down over the last two years of the project's life, when it was observed, a substantial deterioration in key parts of the business environment.

Overall, Government performance is rated as **Moderately Unsatisfactory**.

Government Performance Rating	Moderately Unsatisfactory

b. Implementing Agency Performance:

Overall, the project was well managed, even if coordination among the ten implementing agencies could have been more effective and cost much less. A steering committee was established and functioned well over the life of the project, except for the last year when most of the funds had been committed and there was therefore little incentive to participate in the meetings. However, the efficiency of the implementing agency was low due to the high implementation costs.

Overall,the implementing agencies' performance is rated as **Moderately Satisfactory**.

Implementing Agency Performance Rating:	Moderately Satisfactory
Overall Borrower Performance Rating:	Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The original project design had a weak monitoring and evaluation framework as it could not measure either project results or impact. The PDO was too broad and the outcome indicators did not measure performance well. The project had several objectives but only one PDO indicator (i.e., cost to formally start a business as a % of income per capita) that could change without any variation in business registration costs and covered only a very limited aspect of the actions supported by the project. Another indicator (i.e., turnover in firms accessing the matching grant scheme grows 20% faster than control group) was difficult to measure.

The intermediate indicators on the business environment were taken from the Doing Business Indicators, but there was no indicator for the capacity building component of the project. No impact evaluation was included in the original project design.

b. M&E Implementation:

While the first PDO indicator and the business environment intermediate indicators were easy to measure as they were all included in the annual Doing Business surveys, there was no attempt during the life of the project to measure the impact of the matching grant scheme.

c. M&E Utilization:

Data gathered through the M&E framework were used to monitor progress. Not all expected project outcomes were well captured by these indicators, and the Bank used supervision missions and interviews to monitor progress.

M&E Quality Rating : Modest

11. Other Issues

a. Safeguards:

The project was classified as environmental category C. No safeguard policy was triggered and there was no environmental issue during project implementation (ICR, page 16).

b. Fiduciary Compliance:

According to the ICR, there was no significant fiduciary issue during the project's implementation. All audit reports were timely and unqualified. Procurement was generally satisfactory (ICR, page 16).

c. Unintended Impacts (positive or negative):

d. Other:

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Unsatisfactory	According to OPCS/IEG guidelines for restructured projects, the final outcome rating is determined according to the percentage of the credit that disbursed before and after project restructuring. The combined rating is **Moderately Unsatisfactor**y, due to a weighted average of 3.28 as disbursement before restructuring amounted to 72 percent of the total project cost. Efficiency is rated Modest.

Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Moderately Satisfactory	Moderately Unsatisfactory	Problem of weak results framework was not addressed even after restructuring.
Borrower Performance :	Moderately Satisfactory	Moderately Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

There are four main lessons that can be drawn from the experience of this project :

- **Projects with vague objectives and weak monitoring and evaluation frameworks are difficult to manage and provide limited operational learning** . Even when projects achieve important results, it is essential to understand why and how.
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- **Working with co-financiers requires attention to detail from the project design stage, and may delay or complicate implementation .** A co-financed project requires that funds are made available as planned as delays in disbursement by one co-financier can affect the performance of the project components funded by others. Such delays can be minimized if all key administrative details are worked out before implementation starts
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- **Coordinating many implementing agencies can be costly and inefficient and is not always necessar** y. Some Bank-funded projects have used private sector entities to manage private sector development activities, while others have distributed responsibilities and allowed autonomy in decision to each implementing agency.
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- **The design of private sector development projects can be enhanced by involving a wide range of private sector associations in project design and implementatio** n. The decision to work with one specific association rather than with a group of private sector associations can lead to a narrow base of support for the project.

14. Assessment Recommended? ● Yes ○ No

Why? Such an assessment would enable a revisiting of the ratings, and help determine the extent to which BUGS' achievements can be attributed to the project under review and provide broad lessons relevant to similar operations in the Bank.

15. Comments on Quality of ICR:

The ICR was candid and provided useful information to assess project performance . However, it did not provide a split evaluation as required under the IEG/OPCS Harmonized Guidelines for restructured projects involving change in project development objectives and/or outcome targets.

a.Quality of ICR Rating : Satisfactory