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PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 10 MILLION
(US\$ 15 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MALAWI

FOR A

BUSINESS ENVIRONMENT STRENGTHENING TECHNICAL ASSISTANCE

PROJECT (BESTAP)

April 27, 2007

Finance and Private Sector Development
Private Sector Unit
Africa Region

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CURRENCY EQUIVALENTS

US\$1 = MK

MK1 = US\$

FISCAL YEAR: January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome	MOF	Ministry of Finance
BDS	Business Development Services	MOJ	Ministry of Justice
BESTAP	Business Environment Strengthening Technical Assistance	MSB	Malawi Savings Bank
BUGS	Business Growth Scheme	MPRS	Malawi Poverty Reduction Strategy
CAE	Country Assistance Evaluation	MRFC	Malawi Rural Finance Company
CAS	Country Assistance Strategy	MSME	Micro Small Medium Enterprises
CMU	Country Management Unit	MW	Malawi
DPL	Development Policy Lending	NAG	National Action Group
DTIS	Diagnostic Trade Integration Study	NICO	National Insurance Company
EC	European Commission	ODPP	Office of the Director of Public Procurement
GAC	Governance and Anticorruption Report	OPC	Office of the President and Cabinet
GDP	Gross Domestic Product	PIC	Project Information Centre
GoM	Government of Malawi	PID	Project Information Document
GNI	Gross National Income	PCN	Project Concept Note
GTZ	German Technical Cooperation	PIP	Portfolio Improvement Plan
HIPC	Highly Indebted Poor Countries	PIU	Project Implementation Unit
HIV	Human Immunodeficiency Virus	PIM	Project Operational Manual
IBRD	International Bank for Reconstruction and Development	PPPs	Public Private Partnerships
ICA	Investment Climate Assessment	PSD	Private Sector Development
ICB	International Competitive Bidding	QAG	Quality Assurance Group
IDA	International Development Association	RBM	Reserve Bank of Malawi
IF	Integrated Framework	RGD	Registrar General's Department
IFC	International Finance Corporation	RVP	Regional Vice President
IMF	International Monetary Fund	SBD	Standard Bidding Documents
ISDS	Integrated Safeguards Data Sheet	SME	Small and Medium Enterprise
JCPR	Joint Country Program Review	TFP	Total Factor Productivity
JITAP	Joint Integration Technical Assistance Program	UNDP	United Nations Development Program
MAP	Multi-sectoral Aids Project	UNIDO	United Nations Industrial Development Organization
MASAF	Malawi Social Action Fund	USAID	United States Agency for International Development
MCA	Millennium Challenge Account	WB	World Bank
M&E	Monitoring and Evaluation	WTO	World Trade Organization
MCCCI	Malawi Confederation of Chambers of Commerce and Industry	PEP Africa	Private Enterprise Partnership - Africa
MEPD	Ministry of Economic Planning and Development	PPIAF	Public Private Infrastructure Advisory Facility
MEGS	Malawi Economic Growth Strategy	PRC	Project Review Committee
MGDS	Malawi Growth and Development Strategy	PSD	Private Sector Development
MGS	Matching Grant Scheme	PIU	Project Implementation Unit
MITC	Malawi Investment and Trade Centre	PC	Privatization Commission
MITPSD	Ministry of Industry, Trade and Private Sector Development		

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MALAWI
BUSINESS ENVIRONMENT STRENGTHENING
TECHNICAL ASSISTANCE (BESTAP)

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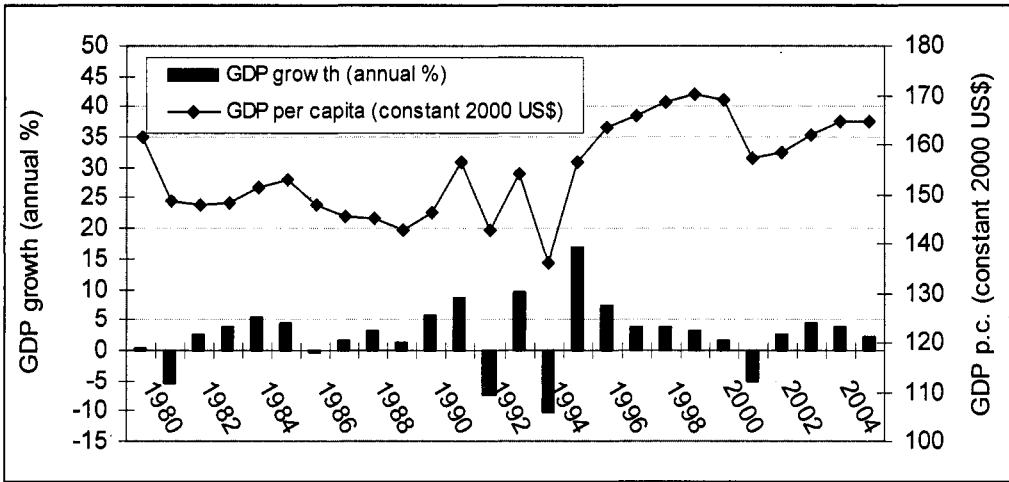
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A. STRATEGIC CONTEXT AND RATIONALE

1. Country and Sector Issues

1. Malawi is a small, landlocked country in the south-eastern corner of Africa with a population of approximately 12 million. GDP per capita was just US\$167 in 2004, or approximately US\$640 in terms of purchasing power parity. Based on this figure, Malawi remains one of the ten poorest countries in the world. There is a clear need for rapid and sustainable economic growth, and although 2004 saw an improved performance with economic growth reaching 4.6 percent, recurrent drought and food insecurity in 2005 pushed back growth to just 2.1 percent¹. Forecast growth of 8.4 percent in 2006 represents a strong recovery element from 2005². It is estimated that 5 to 6 percent real economic growth would be required to have any impact on poverty given current population growth rates³. Such rates have only rarely been achieved, and never in a consistent manner.

Figure 1: GDP growth and changes in GDP per capita in Malawi, 1980-2005



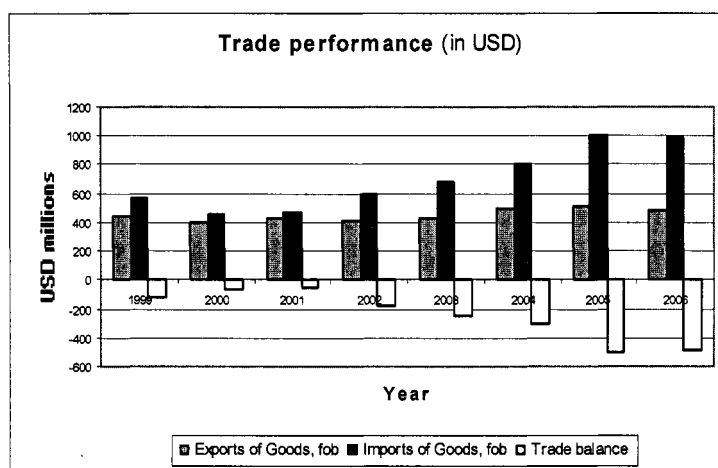
Source: Investment Climate Assessment, 2006

2. The underlying causes of Malawi’s low economic growth are well known: both investment and productivity growth are very weak. Net fixed investment at just 8.1 percent of GDP⁴ is half the average for Sub-Saharan Africa and less than a quarter of that recorded in neighboring Mozambique. Net fixed investment in the private sector is close to zero according to International Monetary Fund (IMF) estimates. Growth in labor force productivity is also virtually zero. Malawi currently invests double the Dollar value of capital to yield an equivalent increase in output compared to the average in Sub-Saharan Africa⁵. It is no surprise that as activity in Malawi’s private sector has stagnated and wider economic performance has faltered, so have efforts to reduce poverty on a meaningful scale.

¹ IMF (2006) *World Economic Outlook*, September, Washington, DC: International Monetary Fund.
² *ibid*
³ World Bank (2004) *Malawi Country Economic Memorandum – Policies for Accelerating Growth, Poverty Reduction and Economic Management 1*, Africa Region Report No.25293-MAI, Washington, DC: The World Bank.
⁴ World Bank (2005) *World Development Indicators*, Washington, DC: The World Bank.
⁵ UNIDO (2004) *Industrial Development Report 2004 - Industrialization, Environment and the Millennium Development Goals in Sub-Saharan Africa*, Vienna: United Nations Industrial Development Organization.

3. Given the small size of the economy and with only limited domestic demand, it is essential that local firms are able to export in order to gain critical mass and grow. However, over recent years, Malawi's trade performance has consistently fallen below expectations with large Dollar deficits essentially being financed by aid inflows. Export performance has remained essentially flat over the last seven years. Sustained export growth in real terms has not been achieved as when the performance of one sector has improved, the performance in other sectors has worsened. Large current account deficits mean that the Malawi Kwacha is under constant threat of devaluation. Figure 2 shows Malawi's negative trade balance which has been steadily increasing in recent years.

Figure 2: Exports, imports and trade balance, 1999-2006



Source: Ministry of Industry, Trade and Private Sector Development, 2006

The structure of the private sector in Malawi

4. Malawi's trade structure is also unbalanced with the country continuing to maintain a dangerous dependence on tobacco exports for foreign exchange. In 2006, the share of tobacco in exports was 55.5 percent, down marginally from 61.4 percent in 1999. On the other hand, textiles and garments have increased their share of exports from 3.8 to 7.6 percent, sugar from 5.2 to 9.6 percent and tea from 8.8 to 9.9 percent, over the same period. Thus, while there appears to be an encouraging, if fragile, trend towards export diversification, tobacco continues to dominate.

5. This dependency makes Malawi uniquely vulnerable to shocks in the tobacco industry. Tea and sugar grown on estates make up the number two and three positions in order of export performance. While tea and sugar have grown in relative importance this has largely been at the expense of more minor cash crops such as coffee, pulses and cotton. Textiles and garments have become increasingly important as a source of non-agricultural exports and as a source of urban employment. However, the future of the sector is in jeopardy with the expiry of the World Trade Organization (WTO) Agreement on Textiles and Clothing and doubts surrounding the future of the other main market, South Africa - given uncertainty over the lifespan of the MMTZ-SACU arrangement⁶.

⁶ An asymmetric trade agreement between the Malawi, Mozambique, Tanzania and Zambia on the one hand, and the countries of the Southern Africa Customs Union - of which South Africa is the main destination market.

6. Malawi's private sector is characterized by a "missing middle", with too few businesses in-between the large multinationals, and the many micro enterprises. The manufacturing sector is small and accounts for just 11 percent of GDP, down from a high of 32 percent in 1992. The private sector is also inward looking as only 14 percent of manufactured output is exported⁷.

7. While there are constraints and distortions limiting demand internationally (notably agricultural subsidies, technical barriers to trade and sanitary and phytosanitary requirements in developed country markets), the evidence would suggest, given Malawi's relatively poor trade performance compared to other commodity dependent developing countries, that it is supply-side constraints rather than a lack of demand in the markets in which Malawi participates which are the primary constraint to export expansion. In fact Malawi enjoys moderate current account surpluses with the United States and European Union, but has massive deficits with neighboring countries, most notably South Africa, Zimbabwe and Mozambique⁸.

8. As a landlocked country, Malawi faces additional challenges that need to be overcome in sending its products to international markets. This is an additional, but not insurmountable obstacle. Malawi's comparatively high domestic transportation costs imply that the high cost of transport frequently cited by exporting firms is not entirely due to the distance to its major ports.

Key constraints to private sector development

9. The constraints to private sector development in Malawi are well-known, due in part to the large amount of analytical and diagnostic work that has been carried out in recent years. In particular the Investment Climate Assessment of 2006 based on a detailed survey of 300 enterprises, and the annual publication of Doing Business survey indicators has helped to focus the reform efforts of the Malawi Government.

10. ***The poor regulatory environment for business impedes investment and constrains private sector development.*** Firms in Malawi face numerous hurdles in terms of red tape, regulations and requirements in carrying out every-day business activities. Many of the key laws which govern private sector activity are out of date and in need of wholesale revision. Limited legislative capacity and the low priority attached to reforming the business environment in the past mean that there is a large backlog of legislative change that has yet to be implemented. In addition, gaps have been revealed in the legal framework – for example, the absence of an enabling law for creating credit reference bureaus reduces the scope for private sector initiatives in improving access to finance.

11. Overall Malawi is ranked 110 out of 175 countries on the *Doing Business* indicators. While such qualitative surveys only give an indication of the overall enabling environment for business, it is clear that the private sector in Malawi suffers from a heavy regulatory burden. Malawi's performance compared to neighboring countries in Sub-Saharan Africa is actually quite good; however the country needs to be well above regional averages in order to offset the disadvantages of being landlocked.

⁷ RPED (2006) *Malawi Investment Climate Assessment*, Africa Private Sector Group, Washington, DC: The World Bank.

⁸ Malawi Government (2005) *The National Export Strategy: Key Issues and Possible Response*, Lilongwe: Ministry of Trade and Private Sector Development.

12. ***The economy is characterized by weak contract enforcement and limited access to commercial justice.*** Criminal and political cases tend to absorb most of the capacity and receive higher priority in Malawi's judicial system, resulting in a large backlog of commercial cases. In addition, the judiciary is ill-equipped to deal with the more complex cases, particularly involving liquidation. According to the *Doing Business* indicators, the average recovery rate after insolvency is just 13.2 cents on the Dollar. Similarly it takes an average of 377 days to enforce a contract and costs an average 136.5 percent of the debt to claim payment⁹. With an average enforcement cost greater than 100 percent of the debt, it is not surprising that few enterprises resort to the courts. The net effect is a general reluctance within the private sector to extend credit facilities or enter into contract arrangements to all but the most trusted of clients. Although arbitration and mediation of commercial disputes are provided for in law, the institutional framework for accessing these services does not exist. If these alternative dispute settlement mechanisms were working well, contract enforcement and access to commercial justice would be much improved in Malawi.

13. ***Low capacity in property rights institutions prevents the private sector from unlocking the value of fixed capital.*** The process for registering the ownership of land in Malawi is based on two parallel systems: deeds and titles. Entirely centralized and manual systems, together with excessively bureaucratic procedures make the transfer of private property a slow process. According to the *Doing Business* indicators, it takes an average of 118 days to fully secure rights to property¹⁰. This acts as a deterrent to foreign investment where land is required, and makes it difficult for businesses to use private property as security for borrowing. This also limits the scope for securing land-based assets and their use as collateral to improve access to finance.

14. Similarly, the process of registering a company or business name is subject to a single centralized and manual system that is based in one location and is both slow and costly for the private sector. The *Doing Business* indicators show that it takes an average of 135 percent of GDP to start a business¹¹. This contributes to barriers to entry and to costs of formalization that impede the growth of a vibrant SME sector.

15. ***A cumbersome business licensing regime imposes unnecessary costs on the private sector.*** A complex web of overlapping licenses and permits, many of which serve only a very marginal regulatory function, govern the environment in which enterprises operate. This creates obstacles to the process of market development by raising the costs of business entry and growth and creates barriers to transition from the subsistence and very small scale economy to the modern more productive sector. Excessive licensing requirements also create opportunities for rent seeking behavior among bureaucrats, to the obvious cost of the private sector. Many entrepreneurs in Malawi remain trapped in the informal private sector due to the high costs of formalization, partially associated with licensing requirements. Such firms, therefore, are unable to grow and benefit from economies of scale or access the additional benefits of formalization such as bank finance and business development services.

16. ***Inadequate infrastructure services undermine the competitiveness of goods and services produced in Malawi.*** Years of underinvestment and poor state management of the key power,

⁹ Doing Business database (2006)

¹⁰ *ibid*

¹¹ *ibid*

water and telecommunications utilities has resulted in high costs, unreliability of service and poor outreach. This is a major contributing factor to low firm level competitiveness in Malawi's private sector and hence, to the country's inability to take full advantage of available export trade opportunities.

17. The poor state of transport infrastructure, not least in transit countries en route to major ports, contributes to the high costs of production. A more adequate infrastructure platform would make Malawi's economy more competitive. Yet, the public resources available (even when donor resources are taken into account) are not enough to close this "infrastructure deficit."

18. ***Weak policy analysis, formulation and implementation create uncertainty in the private sector.*** Dialogue between the public and private sectors in Malawi has historically been very weak and characterized by distrust, and occasional hostility. Limited consultation and partnership with the private sector has tended to result in poorly informed public sector decision-making that often fails to foresee the impact of decisions on the private sector. A general lack of mutual accountability between the public and private sectors has also resulted in very weak policy implementation and, therefore, disappointing results.

19. ***Low cost advantages are eroded by the limited availability of skilled workers and the low productivity of labor.*** Evidence from the recently completed *Investment Climate Assessment* suggests that Malawi possesses a comparative advantage in the region in terms of low-cost labor. However when considering total factor productivity, that is taking into account the relative costs and returns to both labor and capital together, Malawi's cost advantage evaporates.

20. ***Limited access to finance is the leading constraint to private sector investment.*** The Reserve Bank of Malawi's base rate was reduced from 25 to 20 percent in November 2006. This is a welcome step in terms of reducing the cost of finance to the private sector, especially given that base rates were as high as 45 percent in 2004. Previous Government budget overspending and a reliance on domestic borrowing resulted in severe crowding out of private sector lending in the banking system. More recently, year on year inflation dropped to single digits (9.2 percent) in February, 2007 for the first time in four years.

21. The lack of a national identification system makes it difficult for credit providers to assess client credit-worthiness and identify whether loans have already been secured against assets, thus resulting in an excessively cautious approach to small business lending.

2. Rationale for Bank Involvement

22. The *Investment Climate Assessment* and *Doing Business* reports have identified a wide range of constraints on the growth of the private sector in Malawi. In response, the Government's Private Sector Development (PSD) program seeks to address most of these constraints through a combination of different projects and programs. BESTAP is only one such ***project*** and represents a "bite size" chunk of Malawi's broader and longer-term PSD ***program***. Within the International Development Association (IDA) portfolio for Malawi and the Country Assistance Strategy (CAS) other projects are addressing infrastructure, health, education and skills development. Other donor-funded projects (Annex 2) as well as the Government's own Public Sector Investment Program (PSIP) are also contributing to the broader PSD program (see Annex 2). This project will contribute to reducing the cost of doing business, improving service

delivery to the private sector and providing targeted support to small and medium enterprises. This goal will be achieved by reducing the regulatory burden and costs of doing business; improving access to finance for Small and Medium Enterprises (SMEs); strengthening support for technical and business management skills thereby improving productivity and competitiveness at the firm level. This project does not seek to address all the constraints on private sector growth in Malawi. BESTAP is already seeking the positive leveraging effects of the Development Policy Lending (DPL) instrument to get more traction in some key policy reforms such as business licensing and strengthening contract enforcement in Malawi.

23. The Government of Malawi has finalized a new national development strategy, the Malawi Growth and Development Strategy (MGDS) which was discussed by the World Bank and International Monetary Fund (IMF) in September, 2006. The MGDS merges the previous social sectors focus of the Malawi Poverty Reduction Strategy (MPRS)¹² with the productive sectors focus of the Malawi Economic Growth Strategy (MEGS)¹³. The MGDS recognizes that poverty reduction is achieved through economic growth. Fundamentally, the MGDS is a private sector led growth strategy which recognizes the private sector as the “engine of economic growth.” The strategy aims to achieve the Presidential vision of transforming Malawi from being a predominantly consuming and importing country, to one which produces and exports.

24. Malawi’s recent attainment of irrevocable debt relief under the Highly Indebted Poor Countries (HIPC) initiative signifies the return to macro-economic stability that has been championed by the current administration. Despite poor rains and a major food security crisis in 2005-2006, Malawi has managed to maintain budgetary and fiscal discipline, and see improved exchange rate stability and relative reductions in inflation and interest rates. Such macro management has regained the confidence of the international community, demonstrated by the resumption of budget support by bilateral donors; a new IMF Poverty Reduction and Growth Facility (PRGF); and through debt relief. A stable macroeconomic environment is a pre-requisite for sustainable private sector development, and Malawi’s strong progress in regaining macro stability means that the Government is increasingly looking to a “second generation” of reforms in the domestic business environment which will seek to stimulate private sector investment and employment creation.

25. The 2006 Malawi *Investment Climate Assessment* (ICA) provides an up-to-date picture of Malawi’s private sector and an effective base line assessment prior to the launch of private sector reforms. Results from the ICA show that Malawi’s manufacturing sector is small (accounting for just 11 percent of GDP) and inward oriented (only 14 percent of manufacturing output is exported). Malawi’s low cost labor advantages are eroded by poor productivity resulting from poor infrastructure, unreliable utilities and difficulties in accessing affordable finance.

26. The ICA findings confirm the results of previous studies including the 2004 Diagnostic Trade Integration Study (DTIS), which found that many firms are constrained by the small domestic market. The evidence is increasingly showing that the binding constraints to improved trade performance in Malawi lie on the supply side of the economy. Expansion by Malawi’s domestic private sector into regional markets is essential for the country to diversify away from its vulnerable reliance on exports of tobacco, sugar and tea. With the structure of the private sector being a few large firms at the top, many small ones at the bottom and a “missing” middle,

¹² Launched in 2001, the MPRS notionally expired in 2005, hence the need for a new national development plan.

¹³ Developed in 2004 in order to strengthen Pillar One (Sustainable Economic Growth) of the MPRS.

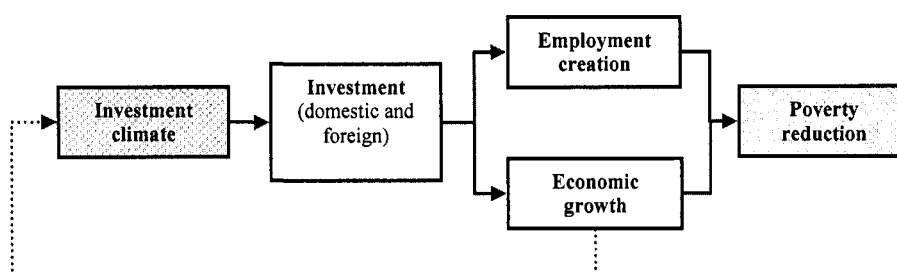
a key policy challenge in Malawi is therefore to encourage the large number of small enterprises (many in the informal sector) to grow into the middle space by reducing the costs of formalization and of doing business.

27. In response to the challenges facing the economy outlined above, the Government – through the Ministry of Industry, Trade and Private Sector Development (MITPSD) - is leading a PSD reform program that will seek to put private sector development at the heart of Government service delivery. The Government’s PSD program draws upon the Bank’s ICA and Doing Business surveys as its analytical foundations and as the basis for monitoring the progress of reforms in key areas affecting Malawi’s business environment.

3. Higher Level Objectives to which the Project Contributes

28. Poverty in Malawi is both widespread and severe with results from the most recent household living standards survey completed in 2005 estimating that 52.4 percent of households are considered poor, and of these 22.4 percent of households are considered ultra poor¹⁴. The principal goal of the MGDS is to achieve 6 percent economic growth - the minimum necessary to have a meaningful impact on poverty levels in Malawi. For this growth to be achieved, it is essential that the private sector invests and creates jobs (see Figure 3).

Figure 3: Investment Climate Reforms and Poverty Reduction



29. The Bank program under the new CAS, is fully aligned with the country’s MGDS and focuses its support in four key strategic areas: (i) improving smallholder agricultural productivity and integration into agro-processing; (ii) putting in place a foundation for longer term economic growth through improved infrastructure and investment climate; (iii) reducing vulnerability at the household level, especially from HIV/AIDS and malnutrition; and (iv) sustaining improvements in fiscal discipline, budget execution, and accountability of the civil service. Each of the CAS outcomes is explicitly linked to MGDS goals. - employment and income generation; fighting HIV/AIDS; improving human development; decentralization and strengthened public service delivery, and improved Monitoring and Evaluation (M&E). Improvements in these areas are to be pursued against a backdrop of continued macroeconomic stability and the promotion of good governance. In the area of employment and income generation the Bank’s assistance is comprised of mutually-supportive actions intended to create a minimum infrastructure platform for private sector-led growth: (i) creation of an enabling environment for PSD; (ii) alleviation of infrastructure bottlenecks for growth; (iii) exploitation of growth potential in the rural economy;

¹⁴ Malawi Government (2005) *Integrated Household Survey*, Zomba: National Statistical Office.

(iv) provision of appropriate education and training for economic growth; and (v) ensuring the improvement and sustainable use of natural resources.

30. The BESTAP project is an integral part of the CAS and contributes to achieving Malawi's development strategy by addressing the constraints to PSD related to the business environment, inadequate enterprise skills and institutional support to PSD. The project complements the ongoing efforts led by the Bank and other donors (see Annex 2). The International Finance Corporation (IFC) has had minimal activity in Malawi in recent years due to the uncertain macroeconomic environment. However, following recent improvements in the investment climate, the IFC is now actively looking for new opportunities in Malawi, and is working closely with the Bank on technical assistance opportunities that are complementary to their investment operations.

31. Other donors welcome the Bank's involvement and assistance in addressing important gaps in PSD. Because of the Bank's expertise in areas such as improving business environment and increasing access to finance they view the World Bank's participation as crucial for the program's success. Bank support will focus on areas where: a) the Bank has a comparative advantage; b) it leverages private sector as well as other donors' participation; c) it supports the emergence of a broad-based entrepreneurship culture; and d) public sector institutions can be transformed to enhance private sector and SME growth.

32. World Bank participation in the project will enable the Government to draw from best practices developed in other regions in a wide variety of fields. For instance, the project will support the introduction of innovative approaches to enhance enterprise creation and competitiveness through support to private-public partnerships, dialogue, and enhancement of firm level competitiveness through a matching grant scheme that will support enterprise skills development. An added advantage of the World Bank's involvement is the cross sector and agency experience it can draw upon, both within Southern Africa and from other regions.

B. PROJECT DESCRIPTION

1. Lending instrument

33. The project will be supported by a grant in the amount of US\$15 million equivalent from International Development Association (IDA) resources and a grant of \$3.7 million equivalent in co-financing from the European Commission for a total of \$18.7 million equivalent. The US\$15 million IDA funding will be all on grant terms. The project will provide the necessary financing for change management in key public sector institutions that already have an established source of recurrent funding. The activities have been identified through extensive economic sector work, policy dialogue with the Government, as well as through consultations with a wide range of stakeholders (including the private sector, civil society and donors). They are aimed at achieving higher levels of competitiveness and growth. The project will be implemented over five years.

2. Project Development Objective and Key Indicators

34. The objective of the Project is to support capacity development and investment climate reforms in order to accelerate economic growth. One of the medium term outcomes in Malawi's

CAS is an improved climate for private business. This project is one instrument by which the Bank seeks to achieve this outcome. This will be done by reducing the regulatory burden and costs of doing business; improving service delivery to the private sector; access to finance for SMEs; and by strengthening support for technical and business management skills, thereby improving productivity and competitiveness at the firm level.

35. The key performance indicators which will measure the project outcomes and the intermediate outcome indicators are in Annex 3. These indicators have been developed jointly with the beneficiary/implementing agencies and have been integrated into the project's monitoring and evaluation system. They will be reviewed at mid-term, and revised if necessary.

3. Project Components

36. The project supports the achievement of the Government's strategy of facilitating private sector led economic growth through four mutually reinforcing components (A detailed project description is given in Annex 4):

- a) *Component One:* Strengthening private property rights institutions and business facilitation;
- b) *Component Two:* Strengthening private sector development support institutions and services;
- c) *Component Three:* Promoting access to finance and productivity enhancement
- d) *Component Four:* Capacity building and implementation support

Component One: Strengthening Private Property Rights Institutions and Business Facilitation
(Total: US\$4.3 million, of which IDA 80%; EC 20%).

37. This component will support activities which aim to improve the regulatory environment in which the private sector operates, to strengthen the institutions that protect private property rights and allow speedy and low cost business facilitation. It has the following three sub-components:

Sub-component A: Streamlining the Regulatory Environment for Business (Total: US\$1.1million). The sub-component will address the large legislative backlog of economic laws, many of which require wholesale revision, that inhibit private sector development in Malawi. This sub-component will also support the introduction of key new legislation. Activities to be funded will include: (i) hiring of a short term consultant to prioritize the economic laws in need of revision based on a cost-benefit analysis of the impact of revising any given Act; (ii) hiring two legal draftspersons in the Ministry of Justice who will be dedicated to working on the drafting of legislation that has a demonstrable impact on the costs of doing business; (iii) short term training courses in legal drafting for the staff of the legal drafting section and IT systems development to strengthen the legislative drafting capacity of the Ministry of Justice; and (iv) sensitization workshops to engage key stakeholders in the legislative reform program including parliamentary committees, civil society and the private sector.

Sub-component B: Improving Access to Commercial Justice (Total: US\$1.3 million). This sub-component will provide support for strengthening and expanding the capacity of the newly established Commercial Division of the High Court to relieve the current large backlog of

commercial cases in Malawi's court system and to strengthen contract enforcement. Delays of up to 24 months in the resolution of commercial disputes have been highlighted as a major impediment to doing business in Malawi. This sub-component will fund: (i) a short term consultant to carry out a diagnostic of the IT systems requirements and specification; (ii) procurement and installation of information systems for efficient court management and Alternative Dispute Resolution services (ADR); (iii) hiring of a short term consultant to conduct a systematic capacity assessment for training of Judges, Registrars and Staff; (iv) short term courses and attachments for Malawian commercial court judges, registrars and ADR administrators in other countries with similar legal systems; and (v) advisory services provided by foreign commercial court judges/ ADR administrators on court management systems, transference of skills and international best practices. The World Bank Institute (WBI), is already involved in training activities under this sub-component, and will continue to be involved through project implementation.

38. *Sub-component C: Improving Business (US\$0.85 million) and Land Registration Services - (Total US\$1.85 million).* This sub-component will enable the business and land registries to improve their effectiveness in establishing businesses and facilitating the registration and securitization of land-based assets. Institutional assessments for these agencies were undertaken as part of the Doing Business Survey. The following activities will be supported by the project: (i) systems diagnosis and specification; and (ii) information technology investment in the Registrar General's department (for registering a company and business name) and in the Lands Registry (for registering and transferring immovable property titles) (iii) computerization of procedures and data processing and archiving, and streamlining of documentation and procedures; (iv) restructuring of the registries' operations and procedures and (v) staff training and workshops. Computerization of the current manual business registry systems will significantly reduce the time taken to start a business and will encourage the migration of informal firms to the formal private sector. Similarly, computerization of the Lands Registry will reduce the time taken to register and transfer land titles, and simplifying procedures for using land as collateral. The project will also support installation of a facility for remote on-line access, registration of companies and property titles, using streamlined procedures.

Component Two: Strengthening Private Sector Development Support Institutions and Services (Total: US\$4.6. million, of which IDA 80%; EC 20%).

39. This component will build capacity in institutions that provide essential 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 private sector development issues.

Sub-component A: Establishing a One-Stop-Shop Investment and Trade Centre. (Total: US\$0.9 million). The sub-component will provide support to the newly established Malawi Investment and Trade Centre. Activities to be supported under this sub-component include: (i) setting up the legal and regulatory framework for a one-stop business licensing, investment and exporting promotion centre through effective devolution of licensing authority; (ii) short-term consultant to assist with business process re-engineering and restructuring of its internal operations to achieve gains in operational efficiencies; (iii) hiring a consultant to conduct an IT systems needs assessment for this new agency; (iv) support procurement of IT systems with capability for investor tracking, on-line license applications and M&E for tracking improvements in operational efficiencies; and (v) staff training in relevant short term courses, use of the new IT

system and sensitization/policy dialogue workshops. This sub-component will involve Private Enterprise Partnership for Africa (PEP) and Foreign Investment Advisory Services (FIAS), who will undertake the necessary institutional assessment and continue to be involved during project implementation.

Sub-component B: Establishing an Institutional Framework for Public Private Partnerships: (Total: US\$1.8 million). Activities to be funded under this sub-component include: (i) workshops and consultants support of establishing the legal and institutional framework for facilitating private investment in infrastructure and services, through Public Private Partnerships (PPPs); and (ii) consultant fees for the consultants providing technical assistance to a small PPP Unit in the Ministry of Finance. Given that only limited resources are available in the public sector and from donors for infrastructure development; this activity will seek to maximize the flow of private investment into the infrastructure sectors. A Public Private Infrastructure Advisory Facility (PPIAF) funded consultancy, which included an institutional assessment, has conducted extensive stakeholder consultations on the design of an appropriate legal and institutional framework for PPPs in Malawi. This sub-component will support implementation of the agreed recommendations.

Sub-component C: Strengthening the Department of Private Sector Development (Total: US\$1.0 million). This sub-component will aim to build capacity in the Department of Private Sector Development, within the Ministry of Industry, Trade and Private Sector Development. This sub-component will fund: (i) hiring of two private sector development specialists in the Department of Private Sector Development who will be dedicated to working on *Doing Business* reforms; (ii) IT systems development to strengthen the capacity of the Department; (iii) training courses and attachments for staff of the Department to strengthen their policy analysis capabilities; and (iv) sensitization workshops to engage key stakeholders in the private sector development reform program including parliamentary committees, civil society and the private sector. The Bank's ICA and *Doing Business* surveys have been the analytical foundations for the Government's medium-to-long term PSD reform program and at the same time confirmed the Government's serious capacity inadequacies to anchor and oversee the reform program. This sub-component responds to the Government's request for support in building its capacity to maintain these reforms over the medium-to-long term.

Sub-component D: Supporting a Sustainable Framework for Public-Private Dialogue (Total: US\$0.9 million). This sub-component will support the following activities: (i) 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 for five years; (ii) a number of short term consultancies to support restructuring and business process re-engineering for MCCCI's operations and procedures; (iii) a diagnostic of IT needs and specification, and the procurement and installation of this system; and (iv) staff training and workshops. Effective PPD is essential in Malawi to ensure shared ownership and understanding on the respective roles and responsibilities of the public and private sectors. It is accepted that implementation of the previous MPRSP and MEGS was not as strong as it could have been. Deeper Government engagement with the private sector on policy formulation and implementation, with mutual accountability on agreed actions would lead to more effective implementation and better results. This component will be implemented with support from the IFC and drawing from the Bank's experience with Presidential Investor Councils.

Component Three: Promoting Access to Finance and Productivity Enhancement (Total: US\$4.6 million, of which IDA 80%; EC 20%).

40. Malawi's private sector is characterized by a "missing middle", with comparatively few enterprises located in between the many micro and informal sector businesses, and the larger multinationals and conglomerates. The objective of this component is to support the growth and development of micro and small enterprises, into this middle market.

41. *Sub-component A: Establishment of a Sustainable SME Investment Fund (Total: US\$0.6 million).* This sub-component will support the following activities: (i) technical and advisory services in support of an existing Ministry of Finance initiative to establish either an SME investment fund or loan guarantee fund, in support of better access to finance for small-scale businesses. To ensure effective governance, the fund will be managed by the private sector and Government's contribution will be capped with the majority of funding coming from the domestic and external private sector.

42. *Sub-component B: Establishment and Operation of a Business Growth Scheme (Total: US\$3.2 million).* This sub-component will strengthen capacity of private firms, mostly indigenous owned SMEs, as well as their representative organizations through provision of financial and technical assistance to build the capacity and international competitiveness of private business and professional/ business associations. The Business Growth Scheme (BUGS) will be independently managed in order to ensure effective provision of direct assistance to individual private firms, covering 50 percent of the cost of service fees and of invoiced travel costs on a reimbursement basis. It will also provide cost-sharing grant assistance to representative business and professional associations to build their capacity to better serve their members. The firm itself will cover the remaining 50 percent of the cost. BUGS HIV/AIDS grants will support expenditures by firms in contracting outside specialist to conduct on-site voluntary HIV counseling and/or testing at the firm's premises. These grants are intended to complement support being provided to firm-level HIV/AIDS activities under other existing schemes. Specifically, this sub-component will fund (i) fees for three professional staff of the BUGS Unit (the BUGS Program Manager and two Advisors); (ii) office equipment and a vehicle; (iii) 50 percent share of eligible training and other business development services; and (iv) a launch workshop and operating costs for the BUGS Unit. Purchases of any specialized service considered by the BUGS Unit likely to make a significant contribution to addressing the key weaknesses or gaps identified in the firm diagnostic will be eligible for grant support. Examples of services likely to be used include market research, product design, product quality improvement, selection of production machinery, factory layout, training of production and other staff, design of advertising materials, selection of advertising media, selection of local and foreign distributors or agents.

43. *Sub-component C: Merger of Malawi Rural Finance Company (MRFC) and the Malawi Savings Bank (MSB) into a viable Financial Institution (Total: US\$0.8 million).* Access to credit is one of the top constraints to private sector led growth in Malawi, especially in rural areas. Currently the two state-owned banks - the Malawi Rural Finance Company (MRFC) and the Malawi Savings Bank (MSB) - are not meeting performance targets, particularly financial sustainability and service standards targets. Working with the Reserve Bank of Malawi, the project will fund: (i) consultancies to update a feasibility/option study on how the merger can

best be achieved; and (ii) technical assistance and advisory services to implement agreed merger/restructuring of MRFC and MSB.

Component Four: Capacity Building and Implementation Support (Total: US\$2.9 million, of which IDA 80%; EC 20%).

44. This component will fund the following activities: (i) provision of a procurement specialist, financial management specialist, M&E specialist, project manager and support staff; and (ii) operational costs and goods necessary for project implementation support. The Project Implementation Unit (PIU) for the Privatization Commission (PC), which has been managing the Privatization and Utility Reform Project, will assume the above functions - while MITPSD builds its capacity. There will be a review of MITPSD's capacity after two years of implementation to determine whether such project management functions can be mainstreamed into MITPSD.

4. Lessons Learned and Reflected in the Project Design

45. This project has been designed drawing upon the World Bank Group's experience in Sub-Saharan Africa and other regions and has benefited from the inputs of various World Bank Group specialized teams, and from the utilization of a strong in-country design team. Specifically the project draws upon the large amount of analytical work carried out by the World Bank Group and the Government of Malawi in recent years, including the 2004 DTIS, the 2006 ICA, the annual Doing Business surveys, the 2006 Malawi Country Assistance Evaluation (CAE), the 2006 Governance and Anticorruption Report (GAC), and the Portfolio Improvement Plan (PIP) prepared by the Country Management Unit jointly with the Quality Assurance Group (QAG). Lessons have also been learned from the experiences of other donor projects supporting the sector and from the experiences of MCCCCI and National Action Group (NAG) in facilitating public-private dialogue in Malawi.

46. The project design reflects the following key lessons learned:

(i) **Building strong public-private dialogue and buy-in.** The importance of building an effective private-public dialogue is a key area in the Africa Region's private sector strategy as experience has demonstrated the difficulties in implementing change without ownership by the public and private sector. The project design draws on this lesson and makes the private-public interface a central feature of the project. To ensure that there is ownership and a buy-in of the project and its measures by the Government and the private sector, the project team has carried out extensive consultations during project preparation, including the establishment of six working groups comprised of public and private sector members, as well as workshops and seminars on capacity building, commercial courts, SME development and licensing reforms. To continue this partnership the project provides support to institutionalize public-private sector dialogue. Also, the team coordinated with the donor community during project preparation to minimize overlapping and duplication, and to benefit from synergies where possible. The team will continue these close relationships during project implementation. An important element to successful private public dialogue is the ability of the private sector to debate, research and present issues to the public sector. The private sector's ability to articulate clear positions supports the Government in developing a focused growth strategy. The project has included

capacity building for the private sector representative organizations to enable them to develop clear policy positions and solutions.

(ii) ***Simplicity of design.*** Given the limited implementation capacity in Malawi, ensuring that the design of the project is simple and with clear actions, objectives and expected results is essential. A significant recent trend in the Malawi portfolio has been the need to restructure a number of projects in order to simplify their design and to retrofit stronger M&E frameworks. The need to simplify projects is prompted by the pervasive weak capacity to implement projects in the country. In relation to this project, the project team has attempted to incorporate simple designs and implementation arrangements, and adequate M&E systems. The project team has selected priority interventions (from a large number of potential interventions) based on a careful assessment of the likelihood of successful implementation and achieving demonstrable improvements in Malawi's business enabling environment.

(iii) ***Ownership.*** The objectives of the project will include implementation of a series of policy, legal and administrative reforms. Such reforms can only be achieved if there is significant commitment to the objectives of the project, and most importantly a belief in, and appreciation of the importance of this project that is both broad and deep across Malawi's public sector. The fact that this project was conceived as a technical and financial support measure to an existing Government of Malawi reform program on private sector development helps to ensure that national ownership remains strong. While appetite for reform across Government is not even, the project has strong champions at the political and technical levels in key Government agencies. Experience shows that institutional reforms can succeed when there is committed leadership and where Bank programs work closely with champions of reform in Government, and in collaboration with a broad range of stakeholders.

(iv) ***Implementation Arrangements.*** A major challenge with regard to this project has been choosing an implementation structure which balances the need to get results with the need to build capacity in the public sector. The well known low capacity in the Ministry of Industry, Trade and Private Sector Development has led the Government to rule out the Ministry itself from leading the implementation of project activities. Instead, such implementation has been devolved to beneficiary agencies themselves in the majority of cases, and to the private sector in some instances. The PIU's role will be limited to core functions such as financial management, procurement and M&E, which will be undertaken in consultation with counterparts in the beneficiary agencies. The PIU, which has been managing the Privatization and Utility Reform Project, will assume these core functions - while MITPSD builds its capacity. There will be a review of MITPSD's capacity after two years of implementation to determine whether such functions can be transferred to MITPSD.

47. A related question was the implementation period for the project. Four projects in the Malawi portfolio have requested, and have been granted, extensions of closing date. This suggests some underestimation of implementation challenges at the project design stage. The BESTAP project team has opted to go for a five year (rather than four year) project. This is to recognize that the significant reforms expected under the project, together with the low implementing capacity in Malawi, mean that more rather than less time will be required to complete the program.

(v) **Cost sharing/matching grant.** Experience suggests that Matching Grant Schemes (MGS) are most effective when they are demand driven, with cost sharing to ensure adequate ownership and willingness to pay; based on a realistic business development plan, reimbursement basis, no productive activity is excluded and first-come, first-serve. Grants will be provided in tandem with pro-active promotion, and with free hand-holding “technical assistance” to firms. It is important to note that while these matching grants will go to private firms, the products developed and the demonstration effects of success will help to facilitate sustainability (i.e., private firms willing to fully pay 100 percent of the cost for business development services (BDS)).

(vi) **Private management of matching grant scheme.** Experience indicates that what works best is a combination of local professionals together with international specialists. The local professionals bring to the task knowledge and appreciation of local culture and languages, market realities, and business practices. The international specialist(s) bring to the task international best practice in operating these programs, plus appreciation of the market realities facing exporters when selling to distant industrialized countries.

5. Alternatives Considered and Reasons for Rejection

48. Several alternatives were considered during project design. First, consideration was given to focusing the project on specific sectors such as agri-business, tourism or manufacturing, but this approach was rejected because of the limited success of narrowly-defined projects in Malawi and other countries, and because a broader focus gives greater flexibility in responding to market opportunities. Focusing on one specific area of intervention, and making interventions more sequential, was also considered. However, it was decided that a combined set of interventions would generate greater impact. The distinct and complementary nature of the interventions included in the project generates important benefits that are mutually reinforcing. Consideration was also given to providing technical assistance through the budget support program. The Development Policy Lending (DPL) will leverage and complement the highly specialized nature of assistance being provided by this project. There is a need in Malawi to build private sector capacity and enhance learning experiences, which demands a flexible program focused on opportunities, independent of the budget cycle, and of public sector management. In addition, the limited success of programs which are funded and managed by the public sector led the team to adopt an approach where the private sector manages the program as much as possible, ensuring greater private sector participation and ownership.

49. The project team also considered leaving support of the PSD program to other donors. This was rejected because there are only a limited number of other donors operating in Malawi, and none has a significant PSD program or a dedicated PSD advisor/department. While all donor country programs should now be aligned with the MGDS, it is not yet clear whether any other donors have the willingness or capacity to implement anything more than *ad hoc* support to private sector development activities.

50. The World Bank has significant comparative advantage in private sector development interventions and this is widely accepted and recognized by the Government and by other donors. With an in-country PSD team, and with a strong technical and diagnostic background based on successful implementation of the ICA and *Doing Business* surveys, the most appropriate intervention was the design of a new project in support of the Government’s own

PSD program. The European Commission has agreed to enter a co-financing arrangement with the World Bank in support of this project.

C. IMPLEMENTATION

1. Partnership Arrangements

51. Private sector development activities are under-funded in Malawi and have historically suffered from changing priorities and “focal areas” among donors. However, recent improvements in macro-economic management, together with Government-led efforts to prioritize growth as the best means of achieving sustainable poverty reduction, mean that supporting private sector development is being seen as increasingly important within the donor community. The first Malawi Joint Country Program Review (DFID, EC, GTZ, Norway, World Bank) carried out in February 2006 found that donor support to private sector development has tended to be erratic and unfocused, with significant overlaps and gaps. Poor Government leadership in the past, and a limited focus on the role of the private sector in driving growth, have compounded this problem. The MGDS - a private sector-led growth strategy - provides a new opportunity to rationalize donor support around a clear nationally-owned development plan.

52. Key donors participated in the design process of this project, including the European Commission (EC), UK Department of International Development (DFID) and United States Agency for International Development (USAID). The EC has agreed to co-finance the project. The EC has asked the Bank to manage their financial contribution to the project on their behalf under a trust fund arrangement. As a preparatory step during the diagnosis of a private sector reform agenda, MITPSD coordinated the work of public-private technical working groups on reducing the costs of doing business in five areas¹⁵. Strong private sector representation in these groups, which were each chaired by the private sector, ensured that a business facilitation reform agenda, which this project will build upon, was agreed upon with strong public-private partnership. The process of preparing this project also benefited from the active participation of the National Action Group Secretariat, MCCCI, and from members of the Integrated Framework Steering Committee.

2. Institutional and Implementation arrangements

53. The project will be overseen by a Private Sector Development Steering Committee (PSC) which is already in existence and has guided the conceptualization and development of the project from the beginning. This committee is currently chaired by the Minister of Industry, Trade and Private Sector Development, and has significant private sector representation as well as representation from other government departments. Membership of the PSC will be restructured to include all the project beneficiaries and will be as follows; MITPSD, MoJ, Commercial Division of the High Court, Registrar General’s Department, Ministry of Lands, Malawi Investment and Trade Centre, MoF, MCCCI, Reserve Bank of Malawi and Ministry of Economic Planning and Development. Furthermore, the PSC will now be chaired by the Principal Secretary for Industry, Trade and Private Sector Development, reflecting the PSCs more technical role. The PSC will meet every six months.

¹⁵ Getting credit, trading across borders, paying taxes, dealing with licences, and closing a business.

54. In addition, there will be a Project Review Committee (PRC) which will; (i) provide technical and operational guidance for the project; (ii) review and approve quarterly progress reports prepared by the Project Manager; and (iii) proactively address any technical and implementation problems affecting project progress. The PRC will comprise of Project Manager, BUGS Program Manager, and Director of Private Sector Development. The PRC will be meeting on a quarterly basis or when the need arises.

55. An existing PIU will provide core functions – financial management, procurement and monitoring and evaluation for the project. While the PIU will be responsible for these core project management functions, the actual implementation responsibility for the various components will be with designated persons within the beneficiary agencies. These designated persons will then be working closely with the PIU on a day-to-day basis, and be submitting regular reports to the PIU, who will consolidate these reports for reporting to the Project Steering Committee and to IDA. Details of the specific institutions involved in implementation are contained in Annex 6.

56. The implementation arrangements were selected based on the need to ensure effective execution of the core project management functions, balanced with ensuring ownership by and capacity building for the beneficiaries of the various project components. The option of using the existing PIU was chosen after consultations with Operations Advisers and the Government. By having implementation responsibility in the hands of designated persons in the beneficiary agencies, it is expected that this will result in more ownership of the project at the local level, and in sustainable results at the end of the project.

57. The major capacity constraints that need to be addressed are project management skills, particularly knowledge of World Bank financial, procurement and monitoring and evaluation procedures. These are necessary to ensure effective project implementation. This constraint will be addressed by use of the existing PIU where such skills already exist, and by building the capacity of staff in MITPSD at the same time.

58. The PIU staff has experience in managing Bank-funded projects. Systems have been established and a dedicated Financial Management Specialist in the PIU will support the implementation and maintenance of centralized financial management, internal controls, disbursements and financial reporting procedures for the project as a whole. This arrangement is further strengthened by devolving implementation authority to the component executing agencies. The existing PIU comprises five professional and five support staff. The professional staff includes: (a) Project Manager (b) Financial Management Specialist (c) Accountant (d) Assistant Procurement Specialist (who also does M&E) (e) Procurement Specialist (PS). Support staff includes: (a) Secretary (b) Program assistant (c) Registry / Procurement Clerk (d) Driver and (e) Office Assistant.

Component Executing Agencies

59. Management and implementation of individual project subcomponents will be entrusted to the following agencies which have been agreed with the Government of Malawi:

- a. MITPSD and MoJ for reducing the regulatory burden on private business;
- b. MITPSD/ MoF for streamlining business licensing reforms;

- c. Registrar General's Department for streamlining registration reforms;
- d. Lands Commissioner for improving land title transfer and registration;
- e. Registrar of the High Court for the Commercial Courts;
- f. MCCCCI for Public-Private Dialogue;
- g. MoF for Public Private Partnerships;
- h. Reserve Bank of Malawi and MoF for restructuring MRFC and MSB and improving access to finance; and
- i. MITPSD and a competitively recruited BUGS Program Manager.

60. Focal points from the executing agencies (see paragraph 162) will be formally designated by responsible Principal Secretaries, Registrar General and CEO of MCCCCI, and will be responsible to the Project Manager for the effective implementation of project activities in their agency/ Ministry. Focal points will be responsible for day-to-day implementation of the activities under respective subcomponents; programming of annual plans and budgets; monitoring, public relations and reporting. They will manage all the technical aspects (with assistance from long term advisors where applicable); they will prepare all terms of reference and manage the supervision of consultants. They will be responsible for preparing all reports required under the project for the respective project components.

61. The Project Implementation Manual is ready. A mid-term review will take place in November 2009 with the objective of assessing progress to date, and if necessary re-directing the project by integrating additional lessons learned and realities on the ground.

Institutional Arrangements and Capacity Building

62. The capacity of implementing agencies will be enhanced through provision of information management systems and online services delivery. The design of the systems will be based on a participatory approach using up-to-date and user-friendly application technology allowing each technical implementing agency as well the PC to participate interactively in the production, analysis and exchange of data and information, both generated within the project cycle and from the day-to-day operation of the executing agencies. This will foster a greater ownership and accountability for project implementation results and outcomes.

63. The system will improve data harmonization and minimize duplication, as well as strengthen the capacity of the company registry, business licensing authorities and MITC. The system will enable these agencies to respond to the Government's need for information and data; improve management of these agencies; compare its business environment with international standards; and attract potential investors. The capacity of the implementing agencies will be strengthened by the provision of technology equipment; and of training on data collection, content management, information updates and basic system troubleshooting and maintenance. The M&E specialist within the PC will provide technical support to implementing agencies designated focal points, as well as coaching and mentoring on data collection, management and reporting.

Supervision Missions

64. The Bank's supervision missions will include representatives of the EU (co-financiers) and will be as regular as possible considering the nature of the project. The supervision mission's

objectives will include ensuring that strong financial management systems are maintained for the project throughout its life. A review will be carried out regularly to ensure that expenditures incurred by the project remain eligible for IDA funding. A mid-term review will be conducted with the objective of assessing progress to date and if necessary to re-direct the project by integrating additional lessons learned and realities on the ground. Frequency of supervision missions proposed is one every six months (includes special procurement supervision for post-review/audits).

3. Monitoring and Evaluation Outcomes/Results

65. The M&E system will be based on the agreed Results Framework and monitoring arrangements (see Annex 3). The PIU will be responsible for conducting M&E activities. Baseline data collection for all the agreed indicators will be initiated by the PIU in partnership and collaboration with the designated focal point in each implementing agencies during the project start up phase for each agreed performance indicator, where applicable. The designated focal points of the implementing agencies will be responsible for the data collection and reporting of their respective component and subcomponent.

66. Data collection and reporting on the regulatory environment for business subcomponent will be the responsibility of the MITPSD focal point. This will enable the MITPSD to develop sound policy analysis. For the Commercial Courts subcomponent, the designated focal point will be responsible for collecting data and reporting on improving access to commercial justice, the enforcement of contracts and insolvency with respect to time and procedures for settling commercial disputes. The project will support the provision of an information technology platform, computer equipment and network installation for an efficient and effective court and case management.

67. For the business and land registration subcomponent, the Registrar General and Lands Commissioners' Offices will be responsible for collecting data and reporting that focuses on time, procedures and costs of registering a company, business name and the time, procedures and costs of registering and transferring immovable property titles. The project will support the provision of an information systems platform to computerize both business registration and licensing, and land registration processes through online registration. The project will also support computer equipment and network installation for the Registrar General's Department and the Lands Registry.

68. The Malawi Investment and Trade Center (MITC) will be responsible for data collection under the one-stop shop subcomponent for investment, exporting and business licensing. Data collection, management and reporting will initially focus on permits and license issuance to assess the quality of service delivery. The MITC will work in collaboration with the business licensing and registration department, and Lands Registry for data harmonization and consistency. The project will support establishment of an online business licensing platform and capacity building to improve service delivery to the private sector. The MITC also will work closely with the Doing Business Unit responsible for collecting, managing and reporting data and information on Doing Business indicators.

69. For promoting access to finance and enhancing productivity of SMEs, the Manager of SME finance subcomponent will be responsible for data collection and reporting on small-scale business start-ups and services to beneficiary SMEs on financial products such as loans, equity,

quasi equity and guarantees. The BUGS Program Manager will be responsible for data collection, management and reporting on the number of SMEs accessing the scheme and the impact on their productivity level. Overall, the PC will be responsible for consolidating and preparing all periodic fiduciary and M&E reporting including impact and output indicators to IDA as well as the annual project audit. In addition the PC will submit to the IDA an Implementation Progress Status Report quarterly.

4. Sustainability

70. The project is supporting the Government's vision of that Malawi should become a "producing rather than consuming country, one which exports rather than imports." This vision is enshrined in the MGDS, around which all development assistance is now being aligned. Trade and private sector development issues have not generally been accorded a high priority in previous Government policy under the MPRS, and recent donor support to Malawi has tended to focus more on social sector development and the improvement of social outcomes, rather than tackling the underlying causes of poverty in Malawi - namely economic under-performance.

71. The MGDS places clear responsibility for achievement of social outcomes and poverty reduction on raising the rate of economic growth. The PSD Reform Program was launched as a Government initiative, with full national ownership. The program was initially conceived without donor assistance, and the Bank was invited to provide technical and financial support to implement the strategy and reform program. As PSD is cross-cutting and reaches across all areas of national policy, a prerequisite to achieving the MGDS goals of economic growth and private sector development has to be the effective mainstreaming of PSD issues across the public sector in Malawi and this is also a key issue for ensuring the sustained impact of this project.

72. Many of the constraints to PSD do not require large expenditures, merely the diagnosis of policy, legal and administrative reforms, and technical support in implementing such changes. Therefore the cost of such actions is quite low, while the impact can be high. The Government of Malawi is committed itself to improving Malawi's performance as assessed by the annual Doing Business surveys. Similarly, while many aspects of reducing the cost of doing business can be tackled with low-cost actions, others require resources well beyond the scope of this project. As a landlocked country Malawi's private sector suffers from very high transport costs for both exports and imports. Critical to the sustainability of the project is further investment in infrastructure, not just in transportation but also in power, telecommunications and the water supply. The ongoing privatization program, and the facilitation of public-private partnerships as envisaged under this project will play an important role in addressing these infrastructure constraints, but additional public and private investment will be required to achieve real change.

73. Another critical factor to sustainability is achieving a change in attitude of key public service agencies and their staff, which are now being increasingly viewed as service providers rather than civil service gatekeepers. While the project can support Government in the diagnosis and implementation of economic and policy reforms, in the end it is on-the-ground implementation of such policies that has the greatest impact on the private sector. Equally, while the project can channel supplemental resources to key institutions that serve the private sector, attitudes will remain a critical factor in determining how effectively such additional resources are deployed. In light of the above, a major cross-cutting emphasis of the project will be on changing the mindset and attitudes of the public sector.

5. Critical Risks and Possible Controversial Aspects

74. The overall risk rating of this project has been assessed as medium. Improvements in macroeconomic management and public sector governance are the foundation of an improved private sector enabling environment, but a number of institutional risks remain.

Risk	Risk mitigation measures	Risk rating with mitigation
<p>Sustainability Risk. A change in Government would be a risk if it resulted in a departure from current thinking on the role of the private sector in driving economic growth.</p>	This risk is mitigated by ensuring that ownership and understanding of the program is both broad and deep throughout the civil service, and therefore able to withstand changes in political leadership.	M
<p>Macro-economic / loss of Fiscal Discipline Risk. Macro stability is a pre-requisite for sustainable private sector development. Hence ensuring that Malawi's achievements in this regard are maintained is essential to the success of the program.</p>	Credibility of the current Government is closely linked to the maintenance of macro stability and an important element of the program will be mainstreaming PSD issues across Government and society, especially the importance of low and stable interest rates and inflation for private sector investment.	M
<p>Staff turn-over in Government. Staff attrition in Government, not least as a result of Malawi's HIV/AIDS epidemic, is a constant challenge for building and maintaining capacity.</p>	In order to address this challenge, staff at all levels, across departments within MITPSD and other key institutions were involved early during project design, appraisal and implementation.	M
<p>Governance/ Financial Management Risk. Funds may not be used efficiently, or for the exclusive purposes intended. Internal audit functions and procurement procedures may be weak, thus jeopardizing project expected outcomes.</p>	The use of financial management and procurement staff from the terminating Privatization and Utility Reform Project and regular supervision mission will ensure efficient financial management from the outset.	M
Overall risk rating		M

6. Grant Conditions and Covenants

75. **Disbursement Condition:** No disbursement will be made in respect of the BUGS Program until the Government has recruited under terms of reference, and with qualifications and experience that are satisfactory to the Association, a manager and one business adviser for the BUGS Unit. There are no outstanding *conditions for effectiveness*.

76. **Legal covenants:** Covenants included in the financing agreement are the following: (i) submission of audited financial statements within six months after the year end; (ii) submission of un-audited interim financial statements within 45 days after each calendar quarter, to cover such calendar quarter; (iii) submission of a quarterly project report and any other information as required by IDA; (iv) publication of the bill relating to the establishment of MITC by December 31, 2007; (v) publication of the bill relating to the legal and institutional framework for public-private partnerships by March 31, 2008; and (vi) establishment of the public-private sector dialogue secretariat by October 31, 2007.

D. APPRAISAL SUMMARY

1. Economic and Financial Analyses

77. The project cost-benefit analysis of the BESTAP indicates that the project will generate a net present value estimated at about US\$20.33 million corresponding to an economic rate of return of 49.44 percent. The project is expected to have a positive impact on employment as a result of acceleration of output growth in the supported sectors where a minimum of 2,500 jobs are expected to be created by supported SMEs.

78. The project will also have a positive impact on the Government's fiscal position. It is estimated that the activities associated with the project will generate more than US\$3.5 million during the project cycle from incremental taxes paid by employees and corporate income taxes. The informal sector will also benefit from the project to an extent which cannot be quantified.

2. Technical

79. The project draws heavily on the results of the ICA that demonstrated the need to integrate policy reforms initiatives and improve the business environment with technical and financial support to nurture the private sector and assist in its repositioning to a market-led economy. The project aims to improve business environment through reducing the costs of doing business, improving the legal framework for firms' entry, exit and operations. The project aims to bring new technology and management know-how to private firms. The matching grant component is expected to provide an important impetus for skills and technological upgrading within private firms. Finally, modernization of the legal framework for private business and Technical Assistance (TA) to develop a Credit Guarantee Scheme aims at increasing the availability of and access to finance for SMEs.

3. Fiduciary

80. The PIU established under the Privatization and Utility Reform Project (PURP) will implement and coordinate the BESTAP. This PIU has been coordinating the multi component PURP and supports activities in various entities of the Government across various ministries. The PIU has been in charge of preparing the consolidated procurement plan, providing advice on implementation and coordinating the reporting on procurement implementation and carrying out internal quality assurance systems for procurement in all the project component implementing agencies. The project component implementing agencies for the proposed BESTAP include the

following: (i) The Ministry of Justice, (ii) The Commercial Division of the High Court (iii) Registrar General's Department (v) Lands Registry (vi) MITC (vii) MoF/ PC (viii) MITPSD (viii) MCCI (ix) Secretary to the Treasury (x) Directorate of Private Sector Development (xi) Reserve Bank of Malawi.

81. The PIU comprises five professional and five support staff. It has acquired sufficient experience in implementing the Bank-funded PURP and would have a comparative advantage to implement the proposed BESTAP. It has also supported the preparation of the BESTAP as funds from the PURP have been used to carry out the BESTAP preparation activities. The staff of the PIU includes a Procurement Specialist who will support the implementation and maintenance of the procurement plan for the project.

82. The PIU financial management staff has experience in managing Bank-funded projects. Systems have been established and a dedicated Financial Management Specialist in the PIU will support the implementation and maintenance of centralized financial management, internal controls, disbursements and financial reporting procedures for the project as a whole. This arrangement is further strengthened by separating and devolving implementation authority and budgets to the component executing agencies.

4. Social

83. There are no social issues triggered by this project. A number of project components are expected to lead to favorable social outcomes, including employment generation and poverty reduction. Key stakeholders from both the public and private sector have been consulted throughout project design and involved in the project design through participation in several workshops and other consultative mechanisms such as technical working groups. Project implementation arrangements builds on a public private partnership which has begun to be developed.

5. Environment

84. The project is a category C and no environmental assessment is required. However, since the project intends to strengthen the private sector, including SMEs, the capacity building support will include environmental training at appropriate institutional levels, with a focus on environmental and social screening of projects which will be implemented at some point in the future. The aim would be to build this capacity now. BESTAP will draw on the Infrastructure Services Project in Malawi, in this regard.

6. Safeguard policies

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

7. Policy Exceptions and Readiness

85. The project does not require any exception from Bank policies. Assessments and preparation of fiduciary arrangements, staff and consultant selection, monitoring and evaluation systems and implementation and procurement plans meet the regional criteria for readiness of implementation. The PIU staff are already in place and will provide core functions such as financial management, procurement and monitoring and evaluation for the project. Terms of reference and job descriptions for other staff/ consultants to be recruited under the project are ready. An M&E system has been agreed for every subcomponent and put in place, with established baseline data, agreed performance indicators and an agreed data collection methodology. A manual of procedures for financial management, procurement and safeguards has been prepared in addition to an organizational assessment and a procurement plan. A work program, reflecting realistic financing and implementation capacity has been finalized in addition to a Letter of Sector Policy. An approved Integrated Safeguards Data Sheet (ISDS) and safeguard documents were disclosed prior to appraisal. Co-financing arrangements with the co-financing partner, the EU, have been made.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

Annex 1: Country and Sector or Program Background¹⁶

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

Background

86. Malawi has a small economy, with a GDP of US\$1.8 billion. It has a population of 11 million, making it one of the poorest African countries with an income per capita of US\$160. While the last decade was characterized by high growth volatility, the current decade started with a modest growth rate of 1.2 percent on average. Although it has since increased to some extent, the current and projected rate of growth over the 2004-2008 period remains below the 6 percent needed to seriously tackle poverty in Malawi.

87. With its highly fertile land, Malawi's economy is based largely on agriculture, which accounts for more than 80 percent of its export earnings, contributes 38 percent of gross domestic product (GDP), and supports 85 percent of the population. Manufacturing is small, accounting for only 11 percent of GDP, and inward-oriented as only 14 percent of manufacturing is exported. The manufacturing sector comprises mainly agro-processing of tobacco, tea, and sugar. The industrial sector has been declining for over a decade, with its contribution to GDP falling from 32 percent in 1992 to 15 percent in 2003. Industry is oligopolistic, dominated by a few large companies engaged in production of tea, tobacco marketing, sugar, and consumer products. The private sector is also characterised by a "missing middle" with comparatively few enterprises in between the larger multinationals, and the many micro and informal sector enterprises.

88. Recently, the Government of Malawi has demonstrated a strong political commitment to improve growth prospects by tacking the basic determinants of the investment climate. The new president elected in May 2004 quickly re-established relations with the IMF and has committed the Government to financial discipline while satisfying social demands, especially with regard to agriculture and food security. At the same time the current administration has put forward the development of the private sector as the centre of its plan for economic growth.

89. Although the Government of Malawi has initiated an economic reform agenda, it faces challenges on several fronts: a rapidly growing population, a high HIV/AIDS infection rate (approximately 15 percent), limited natural resources, high levels of inequality caused by years of an elitist development strategy, and the corrosive effects of recurring droughts, poor resource management, and environmental degradation.

¹⁶ This sections draws upon the 2006 Investment Climate Assessment of Malawi, as well as other recent analytical studies on private sector development in Malawi.

Table 1: Selected National Indicators – Malawi and Surrounding Countries, 2004

Series	Malawi	Kenya	Moz	Tanzania	RSA	Zambia	Zimbabwe
GNI per capita, (current US\$)	160	480	270	320	3,630	400	620
GNI per capita, PPP (current international \$)	631	1,130	1,168	671	10,964	890	2,041
Aid per capita (current US\$)	37.8	19	63.2	46.4	13.6	94.2	14.4
Foreign direct investment, net inflows (% of GDP)	0.9	0.3	4	2.3	0.3	6.2	1.3
Lending interest rate (%)	36.8	12.5	22.1	13.9	11.3	30.7	278.9
Real interest rate (%)	22.7	5.2	8.4	9.5	5.1	8.7	-15.8
Gross savings (% of GDP)	-7.7	13.6	6.2	8.5	14.4	12.5	3.1
Exports of goods and services (% of GDP)	26.5	26.2	30	18.6	26.6	19.8	36.1
Manufactures exports (% of merchandise exports)	16.4	21.1	...	20.2	57.6	10	28.5
Manufacturing, value added (% of GDP)	11.4	11.1	13.3	7.4	20	12.1	13.6
Mobile phone subscribers (per 1,000 people)	17.6	76.1	36.4	43.6	428.5	26.1	30.7
Personal computers (per 1,000 people)	1.6	13.2	5.8	7.4	82.2	9.8	77.3
Price basket for Internet (US\$ per month)	62	45.7	50.8	117	33.3	32.6	23.3
Urban population (% of total)	16.7	40.5	36.8	36.5	57.4	36.2	35.4

Source: World Development Indicators 2006

Overview of Malawi's Investment Climate Constraints

90. The 2006 ICA presents evidence that Malawi has a lower cost of labor than other comparator countries in the region. However, despite this low wage competitive advantage, Malawi's manufacturing sector remains small and inward oriented. This is due to the fact that although labor costs are low, Malawian firms show a low Total Factor Productivity (an indicator that takes into account both labor and capital).

91. Malawi's low competitiveness translates into its weak exporting sector. Most Malawian exporters continue to export primary products, with tea, sugar, and semi-processed tobacco remaining the biggest exports. Tobacco accounts for 55 percent of total exports. This makes Malawi's economy particularly vulnerable to sector specific shocks.

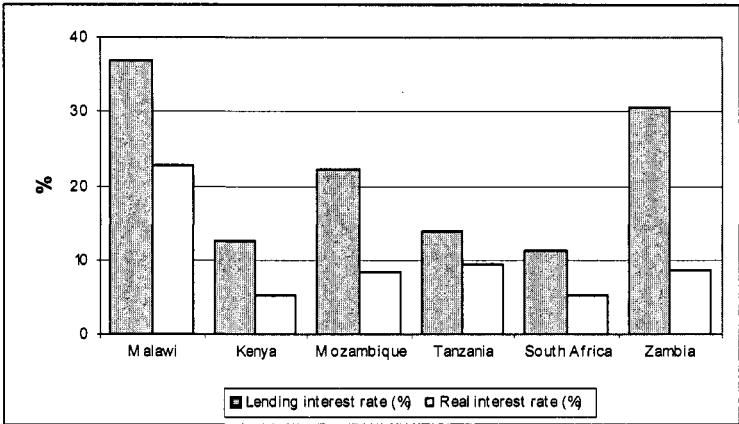
92. Characteristics of the business environment in Malawi could explain the low productivity of Malawi's firms. The design of the BESTAP draws upon an ICA that evaluates constraints to investment climate growth based on entrepreneurs' perceptions, objective data, and impact on productivity. The survey of 306 Malawian firms pointed out to the following four top constraints: macro-instability, finance (access to and cost of), electricity, and availability of skilled workers.

93. **Macro-Instability:** Over 70 percent of managers indicated that macro-economic instability is a primary constraint to doing business. Inflation, exchange rate instability, and high interest rates have improved somewhat over the last few years, but persist as significant obstacles for entrepreneurs. Real interest rates at 23 percent in 2004 constitute not only a high cost for firms that want to expand, but also an obstacle to obtain finance in the first place.

94. **Finance:** Over 60 percent of managers perceive access to and cost of finance as a major obstacle for their firm. The objective data confirms this perception by showing that although 70 percent of firms have some form of access to banking only 30 percent of firms have access to long-term financing.

95. **Electricity:** Over 50 percent of managers surveyed perceive electricity as a major business constraint. Around 10 percent of sales are lost by Malawian firms due to power outages, a much higher percentage than in comparator countries. Firms without a generator lose as much as 20 percent of sales to power outages. Generators cost on average 0.5 percent of firm sales, a cost only half of firms can afford. Firms with a generator are 60 percent more productive than those without.

Figure 4: Lending and real interest rates, selected countries, 2004



Source: World Development Indicators 2006

96. **Availability of Skilled Workers:** Another key constraint for Malawian firms is lack of skilled labor. Unlike many other comparator countries, the main limitation in labor is not regulations but the availability of skills. The objective data shows that only 50 percent of firms can afford to offer training, and that firms who do offer formal training are 60 percent more productive and increase worker remuneration by 20-30 percent.

97. Two additional problems also appear as sizable constraints in Malawi, although not as much as the above mentioned bottlenecks:

98. **Crime:** The Malawian firms lose 4 percent of sales to crime. This loss is double the average value in Sub-Saharan Africa. Half of the loss is used for security measures, and the other half is lost to the theft itself.

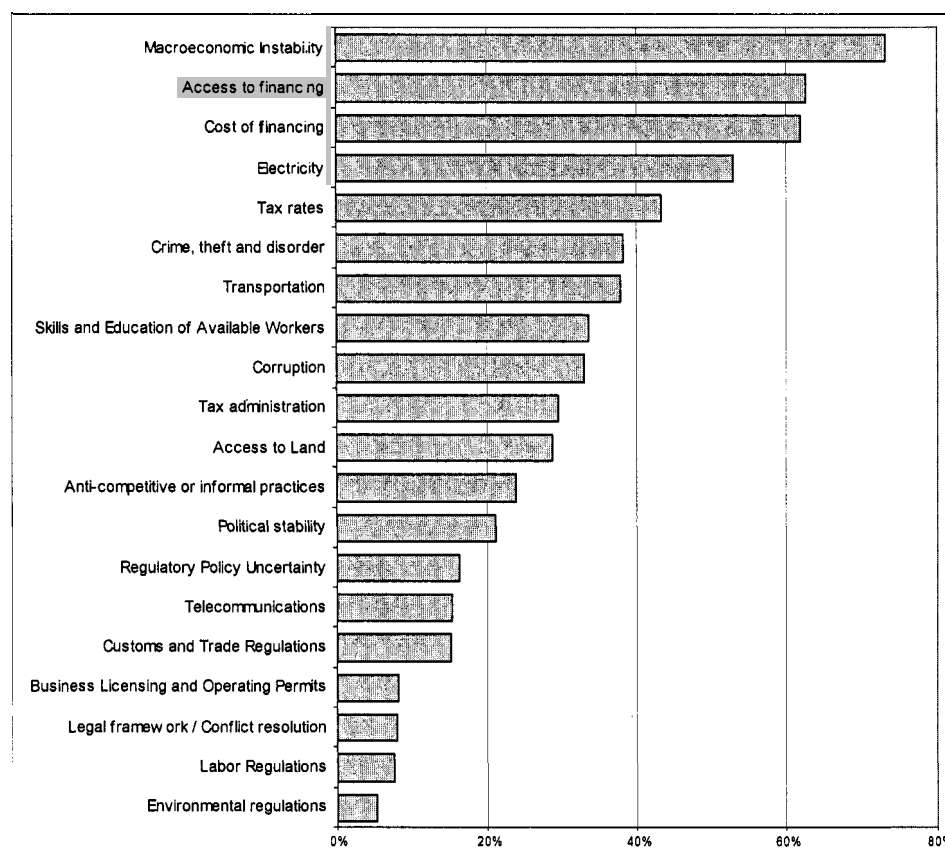
99. **Corruption:** Malawian firms pay about 2 percent of sales to public officials to “get things done”. They also pay 4-5 percent of the value of a contract when dealing with public procurement.

100. Blocking entry to new and more efficient firms can also hamper productivity improvements. According to the ICA, not only finance but also regulation presents barriers to entry in Malawi. Although the Doing Business indicators show that the processes to start a business in Malawi are relatively easy, the cost and the time remain much more cumbersome. The cost to register a new business in Malawi is 139.6 percent of income per capita, creating a significant barrier to entrepreneurship for a great portion of the population. Similarly the average time to start a business is 35 days in Malawi. This is the same time as in Zambia and Tanzania, but still much

higher than top performers. At the same time, the Doing Business indicators confirm that Malawi performs worse than other Sub-Saharan African countries in access to credit.

101. The Malawi ICA began with an analysis of the major obstacles to the operations and growth of business as perceived by Malawian entrepreneurs. Figure 5 ranks 20 potential business obstacles as identified by 306 establishments surveyed in Malawi.

Figure 5: Percentage of Malawian firms perceiving obstacles to be “major” or “very severe” to operations and growth



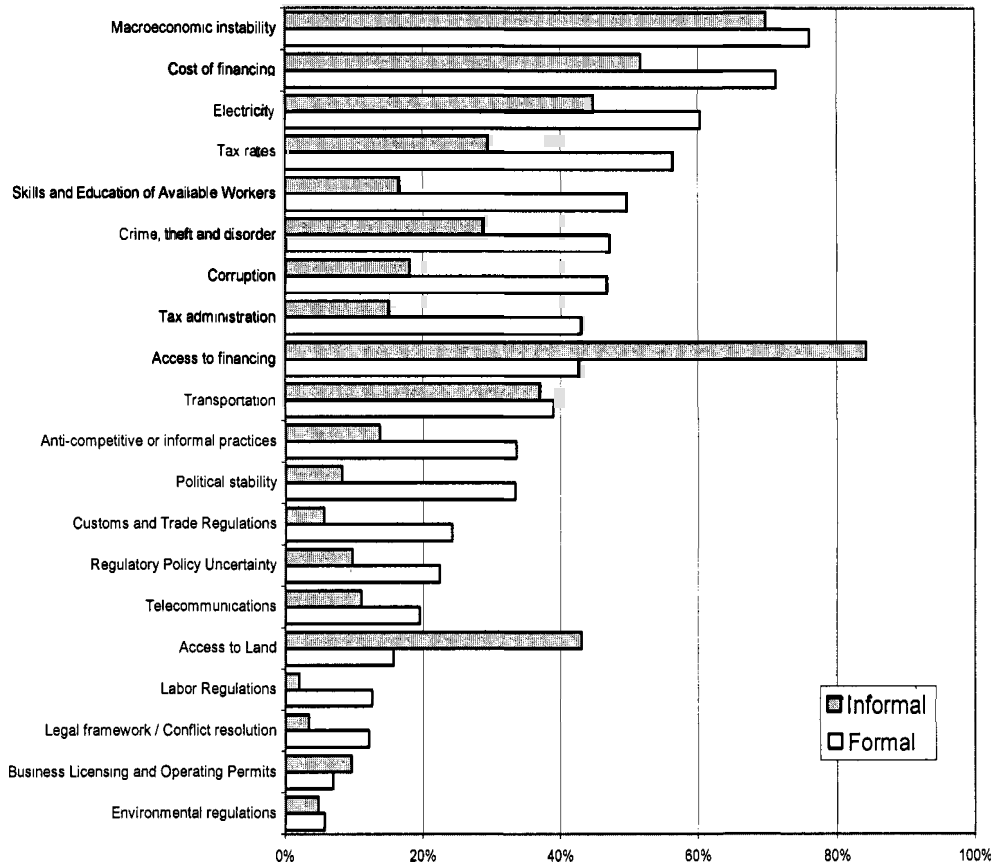
Source: Malawi Investment Climate Assessment 2006

102. At least one-third of the managers surveyed identified the following constraints as “major” or “severe” obstacles to their businesses: macroeconomic stability, finance (both access and cost), physical infrastructure (electricity more than transportation), taxes (rates more than administration), crime/corruption, and human capital.

Formal v. Informal Firms

103. The perception of binding obstacles is not always the same between formal and informal enterprises. Figure 6 compares the ranking of the investment climate bottlenecks for 160 formal and 146 informal entrepreneurs surveyed in Malawi. Both formal and informal firms rank macro economic instability, finance, and electricity among the top impediments to their businesses.

Figure 6: Percentage of Malawian firms perceiving obstacles to be “major” or “very severe” to operations and growth, formal vs. informal sector



Source: Malawi Investment Climate Assessment 2006

104. Informal managers, however, are more likely than formal managers to regard access to finance and access to land as constraints on their businesses. Eighty-five percent of informal firms, in fact, rate access to finance as a top impediment, while 43 percent of informal businesses consider access to land to be a binding constraint. Lack of collateral are the principal reasons why access to finance is considered the biggest obstacle by informal entrepreneurs. Limited access to land, cost of land, as well as the length of time required to buy land are the main reasons why informal managers also view access to land as a top impediment.

105. Not surprisingly, formal enterprises are more likely than informal ones to complain about tax rates and tax administration. Formal firms tend to contribute more to the tax base and bear most of the burden that the fiscal administration imposes upon enterprises. According to the survey, formal enterprises report to the tax authorities on average 70 percent of their sales, while informal firms report only 16 percent of their sales. The lower likelihood of complaint of informal enterprises, therefore, might also reflect a lower level of compliance by those firms with the tax system. Finally, skills and education of the workforce, as well as crime and corruption, are more likely to affect formal enterprises than informal ones.

Productivity

106. The results of the Malawi ICA indicate that the poor investment climate has a significant impact on enterprise performance. In particular, the electricity problem and crime issues have a severe impact on enterprise productivity, for those firms that cannot afford their own generators or those that have to spend a high percentage of their budgets on security. It also shows the Government's attempts to diversify the export base through past policies that attempted to steer firms out of primary product exports have had limited success. Most exporters in the sample continue to export primary products, mainly tea, sugar, and semi-processed tobacco. Few firms in the sample export standardized garments. Their productivity is no higher than that of enterprises catering to the local market. Cross-country comparisons indicate that Malawi's advantages lie in its very low labor costs, relative to its labor productivity.

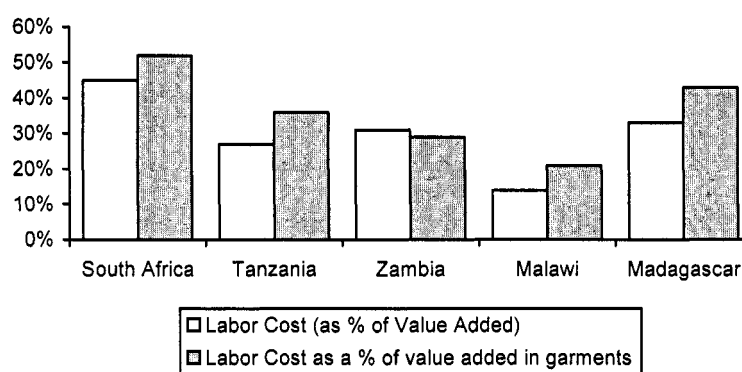
107. However, these advantages are offset by a very low capital base, aged capital stock, and its poor performance. Total factor productivity (TFP) of firms in Malawi is higher than that of firms in Madagascar, similar to that of firms in Tanzania and Zambia, but much lower than that of firms in South Africa.

Table 2: Monthly median compensation, Malawi and regional competitors

Worker Category	Malawi	Zambia	Tanzania	South Africa	Kenya	Uganda	Madagascar
Managers	349.0	357.7	217.3	2,086.9	376.3	139.1	168.9
Professionals	257.1	360.0	186.2	1,670.9	138.4	78.3	109.9
Skilled	78.1	83.1	82.8	554.7	87.2	43.1	53.3
Unskilled	32.1	42.5	57.0	292.5	114.9	44.5	33.6

Source: Various Investment Climate Surveys

Figure 7: Labour costs lower in Malawi (% of value-added) than countries in Sub-Saharan Africa.



Source: Investment Climate Assessments, 2002-2005

108. All values in Figure 7 above are medians for enterprises with available data. Value added is calculated by subtracting intermediate inputs and energy costs from manufacturing sales. Values are converted to US\$ using average exchange rates from *World Development Indicators*. Labor cost is the total cost of wages and salaries and allowances, bonuses, and other benefits for both production and administrative staff.

109. On a TFP basis, enterprises in Malawi perform only better than enterprises in Madagascar, with 25 percent higher efficiency; productivity is similar to enterprises in Tanzania and Zambia and much lower than enterprises in South Africa. Enterprises in South Africa have 95 percent higher efficiency compared to those in Malawi, after holding other enterprise characteristics constant.

Table 3: Selected indicators from Investment Climate Assessments

Bureaucracy	Malawi	Region	All countries
Senior management time spent in dealing with requirements of government regulation (%)	5.8	9	6.3
Consistency/predictability of officials' interpretations of regulations affecting the firm	60.3	54.0	49.7

Corruption	Malawi	Region	All countries
Unofficial payments for typical firm to get things done (% of sales)	1.2	1.3	1.1
Firms expected to give gifts in meetings with tax inspectors (%)	15.3	15.8	31.0
Value of gift expected to secure government contract (% of contract)	0.7	3.3	2.1

Courts	Malawi	Region	All countries
Confidence level in the judiciary system (%)	69.8	60.3	59.1

Crime	Malawi	Region	All countries
Security costs (% of sales)	1.7	1.2	1.4
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	1.5	1.2	0.8

Finance	Malawi	Region	All countries
Internal finance for investment (%)	60.8	66.1	61.9
Bank finance for investment (%)	22.8	20.0	17.7
Informal finance for investment (%)	4.0	2.6	4.4
Supplier credit financing (%)	5.9	6.7	7.3
Value of collateral needed for a loan (% of the loan amount)	90.3	138.1	141.4
Loans requiring collateral (%)	73.9	81.9	80.6

Informality	Malawi	Region	All countries
Sales amount reported by a typical firm for tax purposes (%)	69.7	78.6	83.2

Infrastructure	Malawi	Region	All countries
Delay in obtaining an electrical connection (days)	84.4	52.6	26.6

Number of electrical outages (days)	63.2	50.5	21.7
Value lost due to electrical outages (% of sales)	55.5	8.8	4.3
Number of water supply failures (days)	21.3	30.1	12.0
Delay in obtaining a mainline telephone connection (days)	74.6	70.1	35.9
Firms using the Web in interaction with clients/suppliers (%)	23.3	29.3	46.4

Jobs	Malawi	Region	All countries
Firms offering formal training (%)	51.6	39.9	41.8
Permanent skilled workers receiving training (%)	19.3	21.9	26.9
Employment growth over the last 3 years (%)	21.2	16.7	15.0

Trade	Malawi	Region	All countries
Average time to clear direct exports through customs (days)	3.46	4.33	4.08
Longest time to clear direct exports through customs (days)	7.77	8.38	7.52
Average time to claim imports from customs (days)	5.35	7.98	6.38
Longest time to claim imports from customs (days)	15.75	16.4	12.76

Source: Various Investment Climate Assessments

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

110. A few donors are involved in PSD activities in Malawi. The majority of these are trade and agriculture related or they focus on a few specific areas such as economic governance, microfinance and public private dialogue. The World Bank is regarded as the lead agency in the area of private sector development. BESTAP will be complimentary to the support currently being provided by the other donors and will be co-financed by IDA and the EC. Below is a summary of related donor supported projects in Malawi:

No.	Project	Rating	Status	Project Purpose
BANK FINANCED				
1.	Privatization and Utilities Reform Project (PURP)	S	Closing December 31, 2007	<ul style="list-style-type: none"> ▪ To support Government efforts to enhance efficiency of utility infrastructure sectors and improve the business environment
2.	Regional Trade Facilitation	S	Closing June 30, 2007	<ul style="list-style-type: none"> ▪ To promote trade by providing export credit guarantee in Malawi
3.	Irrigation and Rural Livelihoods Agricultural Project	S	Closing June 30, 2012	<ul style="list-style-type: none"> ▪ To increase income and food security for about 196,550 poor rural households using small-scale irrigation development as a mechanism for drought mitigation ▪ To enhance farmers' access markets.
4.	Development Policy Lending		Closing June 12, 2009	<ul style="list-style-type: none"> • To provide budget support to Government for policy and institutional reforms required to implement the MGDS (under preparation).
OTHER DONORS				
1.	EC		2004-2009	<ul style="list-style-type: none"> ▪ To improve the institutional capacity in trade policy ▪ To enhanced Food Security through Trade ▪ To promote and support the participation of the Non State Actors in the Economic Partnership process
2.	UNDP		2003-2007	<ul style="list-style-type: none"> ▪ To build capacity for MITPSD and other National Stakeholders for trade integration ▪ To integrate African countries into the Multilateral Trading System
3.	USAID		2004-2008	<ul style="list-style-type: none"> ▪ To provide support for Agriculturally Linked Enterprises ▪ To enhance household revenue from participation in community-based natural resource management (CBNRM) ▪ To expand access to capital by SMEs

Annex 3: Results Framework and Monitoring

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

PDO	Project Outcome Indicators	Use of Project Outcome Information
The objective of the Project is to support capacity development and investment climate reforms in order to accelerate economic growth.	<ol style="list-style-type: none"> 1. Cost to formally start a business is reduced from 134.7% to 70 % of GNI per capita by end of project. 2. Turnover in firms accessing BUGS grows 20% faster than control group. 	Evaluate project success; assess relative effectiveness of various components to inform future Government policy formulation and programs

Intermediate Outcomes	Intermediate Outcome Indicators	Use of Intermediate Outcome Information
Component One: Property rights institutions and business facilitation <ol style="list-style-type: none"> 1. <i>Business environment regulatory procedures streamlined</i> 2. <i>Commercial court division of HC established and operational</i> 3. <i>Registrar general procedures streamlined and simplified.</i> 4. <i>Land registry procedures streamlined and simplified</i> 	<ol style="list-style-type: none"> 1.1. Legislative backlog of laws impacting cost of doing business reduced from 40 to 22 bills by mid term review and cleared by end of project 1.2. Time to settle commercial disputes reduced from 337 to less than 180 calendar days by end of project. 1.3. Time to formally start a business reduced from 37 to 10 calendar days by end of project. 1.4. Time to register property title reduced from 118 to less than 60 calendar days by end of project. 	Measure the efficiency of the regulatory reform enforcement and determine if changes are necessary; feed lessons into the remaining of the program; trigger additional funding from other donors, if required for adequate capacity to implement the business environment reforms.
Component 2: Private sector development agencies <ol style="list-style-type: none"> 1. <i>One-stop-shop business licensing established and operational at the MITC.</i> 	<ol style="list-style-type: none"> 2.1. Time to obtain necessary licenses and permits reduced from 185 calendar days to 30 by end of project. 	Measure the efficiency of the capacity of the agencies to deliver on time quality services to the private sector
Component 3: Access to finance and productivity of SMEs <ol style="list-style-type: none"> 1. <i>SME fund established and operational</i> 2. <i>SME Matching Grant Scheme operational</i> 	<ol style="list-style-type: none"> 3.1. Number of SME business start-ups accessing the fund increased from 0 to 200 by end of project 3.2. Turnover in firms accessing BUGS grows 20% faster than control group. 	The results will measure the viability of rural micro finance institution and scheme to improved SMEs access to finance

MALAWI: Business Environment Strengthening Technical Assistance (BESTAP) – M & E Framework

	Baseline	Target Values					Data Collection and Reporting			Responsibility for Data Collection
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments		
Project Outcome Indicators										
Cost to formally start a business is reduced from 134.7% of GNI per capita to 70% by end of project	134.7%	100%	90%	80%	70%	Annual	Reserve Bank of Malawi Reports	PIU		
Turnover in firms accessing BUGS grows 20% faster than control group.	0%		20%		20%	Annual	SME Survey	PIU		
Intermediate Outcome Indicators										
Component 1: Improving economic governance, property rights institutions and business facilitation										
1. Business environment regulatory procedures streamlined										
Legislative backlog of laws impacting cost of doing business reduced from 40 to 22 Bills by mid term review and cleared by end of project	40	34	22	10	0	Annual	MoJ Report	MOJ PIU		
2. Commercial Division of the High Court established and operational										
Time to settle commercial disputes reduced from 337 to less than 180 calendar days by end of project.	337 calendar days	250	220	200	180	Annual	Doing Business Surveys	WB/IFC		
3. Business registration procedures streamlined and simplified.										
Time to formally start	37 days	25	20	15	10	Annual		WB/IFC		

	Baseline	Target Values					Data Collection and Reporting			Responsibility for Data Collection
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments		
a business reduced from 37 to 10 calendar days by end of project.							Annual	Doing Business Surveys		
4. Land registry procedures streamlined and simplified										
Time to register real property reduced from 118 to 60 calendar days by end of project.	118 days		100	80	70	60	Annual	Doing Business Surveys	WB/IFC	
Component 2 - Strengthening private sector development policy and services										
1. A one-stop-shop business licensing at the MITC to deliver services to the private sector established and operational										
Time to obtain licenses and permits reduced from 185 to 30 calendar days by end of project.	185 days		90	70	50	30	Annual	Doing Business Surveys	WB/IFC	
Component Three - Promoting Access to finance and enhancing productivity of SMEs										
1. SME fund established and operational										
Number of SME start-ups accessing the fund increased from 0 to 200 by end of project	0		50	150	180	200	Annual	SME Survey	PIU	
2. SME Matching Grant Scheme operational										
Turnover in firms accessing BUGS grows 20% faster than control group.	0%			20%		20%	Annual	SME Survey	PIU	

Annex 4: Detailed Project Description

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

111. The project supports the achievement of the Government's strategy of facilitating private sector led economic growth through four mutually reinforcing components: (a) strengthening private property rights institutions and business facilitation; (b) strengthening private sector development support institutions and services; (c) promoting access to finance and productivity; and (d) capacity building and implementation support. The expected outcomes for the project include a reduction in the costs of doing business (measured by the annual *Doing Business* surveys), productivity growth among targeted SMEs, and increased private sector investment as a share of GDP. A detailed description of outcomes, results indicators and targets is included in Annex 3.

Component One: Strengthening Private Property Rights Institutions and Business Facilitation (Total US\$4.3 million of which IDA 80%; EC 20%)

112. This component aims to improve the regulatory environment in which the private sector operates, to strengthen the institutions that protect property rights and allow speedy and low cost business facilitation in Malawi.

113. The prioritization of issues under this component draws from diagnostic work carried out by the Government of Malawi in 2006-2007 linked to the annual *Doing Business* surveys produced by the World Bank and IFC. In May 2006, the Government launched a series of technical working groups with public/private participation to diagnose and prioritize interventions that would have a demonstrable impact on the cost of doing business. The five initial technical working groups were focused on the *Doing Business* indicators where Malawi's performance was considered to comparatively weak, and therefore offering the greatest scope for improvement¹⁷. Government is already making progress implementing a number of "quick wins" where administrative and procedural changes can ease the cost of doing business, without need for additional resources. Other priority actions do have resource requirements and the BESTAP Project aims to support these areas under this component of the project.

114. ***Streamlining the Regulatory Environment for Business.*** The private sector enabling environment in Malawi is characterized by a large legislative backlog of economic laws, many of which require wholesale revision. This activity will aim to address this backlog. An initial diagnostic study will be carried out to prioritize economic laws for revision based on a cost-benefit analysis of the direct impact on the private sector of revising any given Act. Laws which have been highlighted as in need of revision include the following:

- Industrial development laws: Investment Promotion Act, Export Processing Zones Act, Business Licensing Act.
- Commercial and trade related laws: Export Incentives Act, Companies Act, Taxation Act, Customs and Excise Act, Protected Flag, Emblems and Names Act, Private Security Companies Bill, Anti-Counterfeit and Misrepresentation Bill, Merchandise Marks Act, Malawi Bureau of Standards Act.

¹⁷ Getting credit, trading across borders, dealing with licences, paying taxes and closing a business.

- Employment related laws: Labor Relations Act, Employment Act, and Immigration Act.
- Ownership related laws: Land Act, Land Acquisition Act, Registered Land Act, Conveyancing Act, Stamp Duties Act.
- Agricultural commodities laws: Cotton Bill, Maize Act, Tobacco Act.
- Financial services related laws: Insurance Act, Pension Funds Bill, Pensions Bill, Microfinance Bill, Securities and Payments Bills.
- Security related laws: Police Bill, National Identity Cards Bill, Road Traffic Act,

115. The project will support the Ministry of Justice through the provision of two draftspersons dedicated to working on the drafting of legislation that has a demonstrable impact on the costs of doing business. These draftspersons will work within the structure of the Ministry of Justice, but with the understanding that they will work exclusively on laws that have an impact on private sector development. Recognizing the need for longer term sustainability beyond the lifetime of the project, capacity building on legislative drafting and staff attachments for regular draftspersons within the Ministry of Justice will also be provided.

116. A large backlog of Bills has built up in recent years in Malawi due to the lack of a Government majority in parliament, thus making it difficult for the executive branch of Government to see new legislation passed. Similarly parliament has also struggled with aspects of the more technical and specialized Bills, particularly those related to financial services. In order to mitigate the risk that parliament will be unable to pass laws that have been drafted under the project, the project will support a stakeholder outreach program that will include civil society, private sector and parliamentary committees to promote dialogue on the proposed reforms.

117. ***Improving Access to Commercial Justice.*** The lack of dedicated commercial courts has been highlighted as a major impediment to doing business in Malawi. In the current system, the hearing of commercial cases is given low priority compared to the higher profile criminal and political cases. This has a direct impact on the private sector by limiting access to speedy and cost-effective commercial justice. In addition, the effective lack of legal redress available to business means that banks are more cautious in lending to the private sector, given concerns that collateral cannot be enforced in the event of default. Similarly firms are reluctant to extend trade credit given the risk that contracts cannot be enforced. The net effect is to discourage longer term investment in the private sector.

118. This activity will support existing Government of Malawi efforts to establish a Commercial Division in the High Court. Specialized judges have already been appointed to the Commercial Division and the Judiciary is poised to begin operations. This will have a major impact in terms of improving access to commercial justice, and improve mechanisms for the protection of property rights, the enforcement of contracts and the procedures for insolvency.

119. Project support will include the provision of information systems and soft infrastructure to provide for an efficient and effective court and case management system. The project will also deliver an institutional capacity building and linkages program including study tours and attachments of judges and registrars to commercial courts in the region with a similar legal system.

120. The project will also support the Commercial Division of the High Court in its efforts to raise awareness within the private sector on the procedures for bringing an action in the commercial courts.

121. ***Improving Business Registration and Land Registration Services.*** Currently Malawi's business environment scores poorly on the *Doing Business* indicators which measure the time and cost of starting a business and registering real property. The Registrar General's Department (RGD) plays an essential role in the establishment of corporate businesses and as a source of information to support business development. However, the RGD could be much more effective in discharging its responsibilities with improvements in the legislative framework, its internal procedures and documentation. The major shortcomings identified include: (i) the lengthy (relative to good international practice) period for completion of company registration; (ii) the inaccurate manually-maintained register; (iii) inaccessibility of registry data to the private sector and other public sector authorities; (iv) inefficient rules and procedures, which do not reflect best international practice; and (v) lack of integration of business-related registries, which are held separately by different Government institutions.

122. In the area of company registration reform, the objective of this subcomponent would be to enable the Company Registry to improve the effectiveness of its role in the establishment of businesses and as an information resource for the public and private sectors. The expected outcome of the project is to introduce a modern and efficient Company Registry which will consolidate all business-related registration in one institution, to significantly reduce the time required for registration and lower the costs to businesses below that of its regional competitors, and to enable businesses and the public to obtain company information in an efficient manner. The subcomponent will support the consolidation of business registration processes, which are currently shared by the Registry located in the Ministry of Justice, MITPSD's Registry and the Registry of Deeds in the Ministry of Lands, within a single Business Registry.

123. The project will provide for systems diagnosis, specification and information technology investment and user training in the Registrar General's department (for registering a company and business name) and in the Lands Registry (for registering and transferring immovable property titles). Computerization of the current manual business registry systems will significantly reduce the time taken to start a business and will encourage the migration of informal firms to the formal private sector. Similarly, computerization of the Lands Registry will reduce the time taken to register and transfer land titles, as well as simplifying the procedures for using land as loan collateral. The project will provide for the development of an on-line business registration system to widen access to business registration with streamlined procedures.

Component Two: Strengthening Private Sector Development Support Institutions and Services *(Total US\$4.6 million of which IDA 80%; EC 20%).*

124. The objective of this component is to build capacity in institutions that provide essential services to the private sector in order to improve the level of service delivered, and to strengthen institutions that provide policy direction on private sector development issues.

125. *Establishing a One-Stop Shop Investment and Trade Centre.* The 2007 Investment and Export Promotion Bill provides for the merger of the Malawi Investment Promotion Agency and the Malawi Export Promotion Council to create the Malawi Investment and Trade Center. This merger provides an excellent opportunity for a fundamental review of how best to promote new private investment within Malawi, both by locals and by outsiders. The review of virtually all laws of relevance to new private investment, being carried out within another sub-component of this project, also provide an excellent opportunity to establish a new basis for regulating both new and existing investments, based on international best practice.

126. At the same time, the Government of Malawi has made it clear that it wishes to undertake a major overhaul of the present complex system of business permits, trade licenses, industrial licenses and industrial incentives, which face potential new investors into Malawi. The government is anxious to improve the poor ranking of Malawi, within the Doing Business survey, when it comes to setting up a new investment. The Government has made an important start by commissioning a major study on reforming business licensing. This study¹⁸ proposes an important first step in the reform process, namely collapsing eight existing trade licenses into one.

127. This sub-component will support this fundamental review of the system of licenses, permits, etc. facing potential new investments. The aim will be for Malawi to be, within the next five years, one of the top ten nations in Sub-Saharan Africa, with respect to the Doing Business league-table on setting up a new investment.

- In order to achieve that aim, the following steps will be required, all of which will be supported by this sub-component:
- Advice as to what Malawi should be aiming for, as a five-year longer-term vision, with respect to implementing international best practice in the treatment of would-be new investments; followed by consensus building and an eventual agreement on this vision.
- Formulation of one or more draft national policy statements on the treatment of new investments, to include all aspects of permits, licenses, investment incentives, etc. Then, consensus-building, and an eventual agreement on, and adoption of published national policy statements.
- Drafting of new laws, or revisions of existing laws, in order to put into practice the specifics of the agreed national policy statements. Seeking comments, followed by adoption of these revisions and/or new laws.
- Advice on the institutional arrangements required for both positive promotion of new investments, and for whatever controls on new investments are retained under the new legislative framework adopted.

128. Given that positive promotion of new investments will certainly continue, whatever changes are made in the legislative framework, assistance will be made available immediately to MITC, so that it may adopt international best practice with respect to its investment promotion activities.

¹⁸ D.B. Mawindo, Lilongwe, "Reforming the Business Licensing Regime in Malawi," February 2007, for MITPSD.

129. ***Establishing an Institutional Framework for Public Private Partnerships (PPPs).*** As a landlocked, least developed country, inadequate economic infrastructure is a major constraint to private sector investment in Malawi. The high cost and unreliability of power, water and telecommunications utility services was a major impediment highlighted in the ICA. Similarly high transport costs undermine the competitiveness of Malawian exports.

130. Given that only limited resources are available in the public sector and from donors, the project will establish the legal and institutional framework for facilitating private investment in public infrastructure, through PPPs. The project will provide technical support to establish an appropriate legal framework for managing PPPs in Malawi. In addition the project will establish and staff a PPP unit under the Ministry of Finance, as well as providing full technical support and advisory services for PPP transactions during the lifetime of the project.

131. ***Strengthening the Department of Private Sector Development.*** The Government of Malawi is committed to continuously improving Malawi's business environment, as measured by the *Doing Business* indicators. Recognizing that this is an ongoing process, the project will support the strengthening of capacity within the Department of Private Sector Development, MITPSD. Support will include the provision of long-term residential technical assistance, systems investment and capacity building to ensure that the diagnosis, prioritization and implementation of reforms to reduce the costs of doing business are a continuous and sustained process.

132. The Department of Private Sector Development will be responsible, among other things, Department of Private Sector Development for forming additional technical working groups on *Doing Business* indicators to prioritize reforms. The project will also provide for the recruitment of short term specialists to carry out additional in-depth diagnostic analysis, and to prepare reform recommendations.

133. Recognizing the need for sustaining reforms beyond the lifetime of the project, the project will provide a capacity building package for the regular civil service staff of the Department of Private Sector Development, including short term specialized training, and staff attachments. The project will also provide systems investment for the department and two private sector development specialists.

134. ***Supporting a Sustainable Framework for Public-Private Dialogue.*** Effective public-private dialogue is essential in Malawi, in order to ensure that there is shared ownership and understanding on the respective roles and responsibilities of the public and private sectors. It is generally accepted that the implementation of the MPRSP and the MEGS was not as strong as it could have been. Deeper Government engagement with the private sector on policy formulation and implementation, with mutual accountability on agreed actions would lead to more effective implementation and better results.

135. In response to a joint statement by the Government of Malawi and the private sector in January, 2007 on the need for a new framework for public private dialogue, the project will support the establishment of a public-private dialogue secretariat to be housed in the MCCI. Project activities will include long term technical assistance to the secretariat, to provide for effective management of the dialogue process, as well as providing for research and analysis on private sector development issues in support of public-private dialogue.

136. The MCCCCI was established in 1892 and aims to act as the “voice of the private sector”. Recognizing that an effective chamber is in the wider interests of supporting private sector development, an additional project objective will be to improve the level of services delivered by the chamber to the private sector. The project will provide technical assistance to review the governance structure of the chamber, and develop a long term business sustainability plan. A systems investment and capacity building package will also be provided.

Component Three: Promoting Access to Finance and Productivity Enhancement (Total: US\$4.6 million, of which IDA 80%; EC 20%)

137. Malawi’s private sector is characterized by a “missing middle”, with comparatively few enterprises located in between the many micro and informal sector businesses, and the larger multinationals and conglomerates. The objective of this component is to support the growth and development of micro and small enterprises, into this middle market.

138. *Establishment of a sustainable SME Investment Fund.* Lack of access to cost-effective finance was identified by the ICA as the number one constraint among to private sector development in Malawi. Banks are generally hesitant to provide long term financing to small enterprises, even if they do have appropriate collateral.

139. The project will provide technical support and advisory services in support of an existing Ministry of Finance initiative to establish a new SME investment fund, which will aim to provide commercial venture finance to small-scale business start-ups. The investment fund would operate along the lines of a venture capital facility and provide business support services to beneficiary SMEs. Financial products offered will include loans, equity, quasi equity and guarantees.

140. Given that larger industrial establishments already have access to both domestic and foreign credit facilities, and that there are numerous microfinance institutions serving micro enterprises, the target market would be the “missing middle”. This is defined generally as constituting enterprises employing from around 10 to 200 people, with financial support per investment anticipated to be in the US\$50,000 to US\$500,000 range.

141. The fund will be managed independently by the private sector and Government’s contribution will be capped at a minority level with the majority of funding coming from the local and foreign private sector.

142. *Establishment and Operation of the Business Growth Scheme.* The BUGS scheme is in direct support of the project objective of supporting SMEs and private-sector led economic growth. The specific objective of BUGS is to facilitate the maximum possible growth in private sector economic activity. The scheme will run for the five years of the project, and will be operated by a small unit, established for the purpose, consisting of three experienced professionals recruited from the private sector. The intention is that BUGS-supported firms will, as a direct result of this support, increase their annual turnover at a rate at least one-fifth faster than the rate that non-supported firms manage, over the same period. BUGS will achieve this objective by the use of a mix of two specific forms of assistance to individual private firms:

- (a) Direct technical assistance will be provided to firms by the BUGS Unit. This will start with a detailed standard diagnostic. The unit will then provide direct mentoring & consulting help

on how to implement an agreed business growth plan within each supported firm (i.e. general business consulting);

- (b) Where more specialized help is required, to support a plan for growth by a particular firm, then the unit will provide matching grants, to part-fund the use of outside expert specialist help (e.g. choosing the right machines; quality control; product design; advertising planning; market research; setting up appropriate book-keeping & accounting systems; management information systems; etc.).

143. The scheme will be open to any private business entity, providing work to Malawi nationals within Malawi. The scheme will recognize that the vast majority of such firms are not yet officially registered. These are the taxpayers of the future. They, too, will be helped to grow by BUGS, but will be encouraged to register, once they reach the level where income tax (individual or corporate) becomes payable.¹⁹

144. The BUGS Unit will be staffed by three professionals, individually recruited on annual renewable contracts. The BUGS Manager will be recruited internationally, and is expected to bring to the task experience of running similar schemes elsewhere. The two BUGS Advisors will be expected to bring to the task both detailed local knowledge of the Malawi private sector, and experience in business consulting. The unit will be located in Blantyre, the clear focus of current private-sector activity within the country.²⁰

145. Each firm applying for help to the unit will receive an initial visit on a first-come, first-served basis. Thereafter, the unit will be free to allocate its resources as the BUGS Scheme Manager determines, in order to achieve the specific objective of the scheme. The team will be expected to achieve demanding annual targets, initially focused on work inputs, and then later focused on results, specifically the level of firm-level growth facilitated, measured by sample surveys. If team members are not performing, on this basis, then they will be quickly replaced. BUGS is to be a target-driven operation.

146. Assistance will begin with a detailed diagnostic of the firm, carried out by the unit or by consultants, and typically taking one to two man-days to complete. This will identify the weaknesses and gaps to be addressed, for the firm to achieve the maximum possible growth within a reasonable planning time horizon. The BUGS professional, or mentor, assigned to the firm will then agree with the firm a plan of action, to be undertaken by the firm, assisted by the unit. Actions will be broken down into stages. The firm's mentor will then visit the firm at regular intervals, typically quarterly, to monitor progress on this plan of action.

147. Where this plan of action reveals the need for more specialized outside help, then the unit will provide matching grants, to part-fund the costs. These grants will cover 50 percent of the direct costs of such help, in the form of fees and directly-attributable expenses. Grants will not cover the costs of hardware, nor of salaries. Only the direct incremental costs of buying

¹⁹ Since each firm receiving grants from BUGS will be required to enter into a formal contractual agreement with the BUGS Unit, then this contract must therefore be made either with an individual or a group of individuals operating a firm or business, or must be made with a legally-constituted business entity, such as a limited company.

²⁰ The ICA confirmed that of the 185 formal production units then operational, 110 were located in Blantyre. More recent data confirms that, of Malawi's three official regions, the southern region, centered on Blantyre, accounts for no less than 63% of all non-farm economic activity within Malawi.

specialized services will be covered.²¹ No individual firm, or group of firms under common control, may receive a cumulative total of grants from BUGS in excess of US\$50,000. This is to prevent a small number of larger firms from absorbing the lion's share of the available matching grants.

148. Grants will be paid strictly on a reimbursement basis only. Each firm being offered grant assistance will be required to sign a letter of agreement with the BUGS Unit, specifying the activities being supported, the supplier(s), and the costs. Once proof is provided that the activities have been satisfactorily completed, then the grant will be paid. Experience with several similar schemes within World Bank projects elsewhere has demonstrated that payment on a reimbursement basis is essential, in order to guard against misuse of grant funding.²²

149. It is expected that most grants will be under US\$10,000. Most services required will be accessed within southern Africa, if not available within Malawi itself. Any grant that takes a cumulative total over US\$25,000 received by any one firm, or group of firms under common control, will require a "no objection" from the BUGS Approvals Committee. Grants lower than US\$25,000 will be approved by the BUGS Program Manager. The members of this committee will be selected by the Project Steering Committee, and will consist of two Government members and one private-sector member. Meetings of this committee will be called by the BUGS Scheme Manager, as needed. No firm or group of firms under common control may receive more than US\$50,000 in grants in cumulative total.

150. Within the BUGS grant, there will be a small allocation of US\$200,000 to support expenditures by BUGS-eligible firms on the use of outside service providers, to provide on-site voluntary HIV/AIDS counseling and/ or testing at these firms' premises.

151. Sample surveys of firms, covering both those assisted and a control group of those not assisted by BUGS, will be carried out, firstly just ahead of the Mid-term Review, and then just ahead of the Completion Report. These surveys will form the basis for determining whether or not the BUGS scheme is achieving its stated objective.²³ The project will cover operating costs and goods for the BUGS Unit.

²¹ Internationally, subsidies covering these "indirect costs," are generally accepted. However, subsidies for the purchase of hardware, or for other direct costs of production, are not generally accepted. Also, subsidies on hardware have the effect of distorting financial markets, by providing implicit interest-rate subsidies on substantial expenditures.

²² This payment basis can cause problems to firms suffering cashflow constraints. Experience indicates that such firms can often get short-term bank help on the basis of the letter of agreement from the BUGS Unit, which provides a form of quasi-collateral. Also, service suppliers may be willing to structure payments so that most is payable on completion, thus reducing the negative impact on cashflow.

²³ The design of the BUGS scheme builds on the lessons learned from a previous cost-sharing grant scheme, funded by the European Union, and located at the Malawi Chamber of Commerce [MCCCI]. This was under the EU ISPS Project, 2002-2004.

152. ***Merger of MRFC and MSB into a viable Finance Institution.*** Access to credit is an especially large constraint to private sector development in Malawi's rural areas. Currently the two 100 percent state-owned banks (the Malawi Rural Finance Company and the Malawi Savings Bank) are not meeting performance targets, are unable to effectively serve clients, and are a drain on limited government resources.

153. MSB was originally carved out of the defunct Post Office Savings Bank, with a primary purpose of promoting savings among the poor and the rural communities of Malawi. MSB has excess funds, which, as is typical in a savings institution, have been invested in short term Government securities. Although MSB was granted a banking license in 1994, its banking products have been restricted, due to its inability to achieve the required minimum share capital. The bank has thus had limited success in penetrating the credit products market.

154. MRFC was originally set up by Government with the assistance of the World Bank and other donors, with the primary purpose of providing credit to the rural agricultural communities of Malawi. MRFC is not licensed as a bank and is prohibited from applying customer deposits for lending purposes. The company has few, mainly collateral deposits, and relies on loan financing from the Reserve Bank.

155. Working with the Reserve Bank of Malawi, the project will provide technical assistance and advisory services for the merger of MRFC and MSB.

Component Four: Capacity Building and Project Implementation Support *(Total: US\$2.9 million, of which IDA 80%; EC 20%)*

156. This Component will fund the following capacity building and project implementation activities: (i) provision of procurement, financial management, M&E and coordination services, (ii) operational costs and goods necessary for project implementation support. The Privatization Commission PIU, which has been managing the Privatization and Utility Reform Project, will assume the above functions - while MITPSD builds its capacity. There will be a review of MITPSD's capacity after two years of implementation to determine whether such project management functions can be transferred to MITPSD.

Annex 5: Indicative Project Costs by Component

MALAWI: Business Environment Strengthening Technical Assistance (BESTAP)

Project Cost By Component and/or Activity	IDA Grant US\$ million	EU contribution US\$ million	TOTAL US\$ million
Component One - Strengthening Private Property Rights & Business Facilitation	3.40	0.85	4.25
A: Streamlining the regulatory environment for business (MoJ)	0.88	0.22	1.10
B: Improving access to commercial justice (High Court)	1.04	0.26	1.30
C: Improving services at the business and lands registry (RG's Department and Lands Registry)			
1. Improving business registration services	0.68	0.17	0.85
2. Improving land registration services	0.80	0.20	1.00
Component Two - Strengthening the Department of Private Sector Development	3.68	0.92	4.60
A: Establishing a one-stop-shop Investment and Trade Center (MITPSD/ MoF)	0.72	0.18	0.90
B: Establishing an institutional framework for Public Private Partnership (MoF)	1.44	0.36	1.80
C: Strengthening the Department of Private Sector Development (MITPSD)	0.80	0.20	1.00
D: Supporting a sustainable framework for public-private dialogue (MCCCI)	0.72	0.18	0.90
Component Three - Promoting Access to Finance and Productivity Enhancement	3.68	0.92	4.60
A. Establishment of a sustainable SME investment fund (MoF/ RBM)	0.48	0.12	0.60
B. Establishment and operation of a business growth scheme (MITPSD)	2.56	0.64	3.20
C. Merger of MRFC and MSB into a viable financial institution (MoF/ RBM)	0.64	0.16	0.80
Component Four - Capacity Building and Implementation Support	2.32	0.58	2.90
A. Capacity building and implementation support (PIU)	2.32	0.58	2.90
Total Baseline Cost	13.08	3.27	16.35
Physical Contingencies	1.15	0.26	1.41
Price Contingencies	0.77	0.17	0.94
Total Project Costs	15.00	3.70	18.70

Annex 6: Implementation Arrangements

MALAWI: Business Environment Strengthening Technical Assistance (BESTAP)

C.1 Partnership arrangements

157. The main principle followed in guiding the institutional and implementation arrangements of the BESTAP Project is to ensure that operational implementation responsibility of the project is with the beneficiaries identified, who are already implementing the policy agenda to be addressed by the project. Thus project will adopt a decentralized approach with the sub-component institutions and identified contacts actually implementing the project, while the Project Implementation Unit will provide core project management support such as financial, procurement and monitoring and evaluation. Thus the project will seek to strengthen and use existing implementation skills to ensure capacity building and sustainability.

158. The project will be overseen by a Private Sector Development Steering Committee (PSC), which already exists and has been guiding the preparation of this project from the beginning. It is chaired by MITPSD with representatives from MoF, MEPD, MoJ, OPC, MITC and MCCCCI. The PSC previously had the responsibilities of; (i) providing strategic guidance and oversight of the overall PSD Strategy and Reform Program of the Government; (ii) review and approving the work of the Doing Business Technical Working Groups which were established on Paying Taxes, Getting Credit, Trading Across Borders, Closing a Business and Dealing with Licenses; and (iii) guiding the work of the Project Preparation Team.

159. The responsibilities of the PSC will be changed as follows; (i) provide strategic guidance and oversight of the overall Doing Business reform Process being undertaken by the Government of Malawi, (ii) provide strategic guidance and oversight for the project; (iii) approve annual work programs and budgets; (iv) review progress reports prepared by the Project Manager, clear the forwarding of the reports to IDA with comments; (iv) proactively address any major problems affecting project implementation; and (iv) review reports including the audit, mid-term review and implementation completion report. The committee will meet every six months.

160. A Project Review Committee (PRC) will: (i) provide technical and operational guidance for the project; (ii) review and approve quarterly progress reports prepared by the Project Manager for submission to the PSC; and (iii) proactively address technical and implementation problems affecting project progress and comprise the Director of PSD, the Project Manager and the BUGS Program Manager. The PRC will be meeting on a quarterly basis.

161. The PIU will have a project manager, financial management specialist, procurement specialist, monitoring and evaluation specialist, accounts and support staff. There will be a review of MITPSD's capacity after two years of implementation to determine whether these core functions can be transferred to MITPSD.

Subcomponent Executing Agencies

162. Actual implementation responsibility of the various components will be with designated focal points within the beneficiary institutions as follows:

Component 1
Streamlining the regulatory environment for business (Ministry of Justice)

Designated Sub-Component Focal Points
Chief Parliamentary Draftsperson (Head of legislative Drafting Division of Ministry of Justice)

Improving access to commercial justice (High Court)

The program manager, Malawi Judiciary Development Program (PIU of the High Court that implements donor funded projects in the High Court)

Improving services at the business and lands registry (RG's Dept. and Lands Registry)

Registrar General's sub-component - Registrar General
Ministry of Lands Sub-component- Commissioner of Lands

Component 2
Establishing a one-stop-shop at the Malawi Investment and Trade Centre (MITPSD/MoF)

Designated Sub-Component Manager
Chief Executive, Malawi Investment Promotion Agency/Malawi Investment and Trade Center

Establishing an institutional framework for Public Private Partnerships (MoF)

Secretary to the Treasury/designated representative

Strengthening the Department of Private Sector Development (MITPSD)

Director of Private Sector Development

Supporting a sustainable framework for public-private dialogue (MCCCI)

Chief Executive, Malawi Confederated Chambers of Commerce and Industry (MCCCI)

Component 3
Establishment of a sustainable SME investment fund (MoF/ RBM)

Designated Sub-Component Manager
Secretary to the Treasury/designated representative

Establishment and operation of a business growth scheme (MITPSD)

BUGS Scheme Manager

Merger of MRFC and MSB into a viable financial institution (MoF/ RBM)

Governor, Reserve Bank of Malawi/ designated representative

163. These Sub-component managers from the executing agencies will be formally designated by responsible heads of beneficiary organizations, e.g. Principal Secretaries, CEO, etc., and be responsible to the Project Manager. Sub-component managers will be responsible for day-to-day implementation of the activities under respective subcomponents in line with the annual work

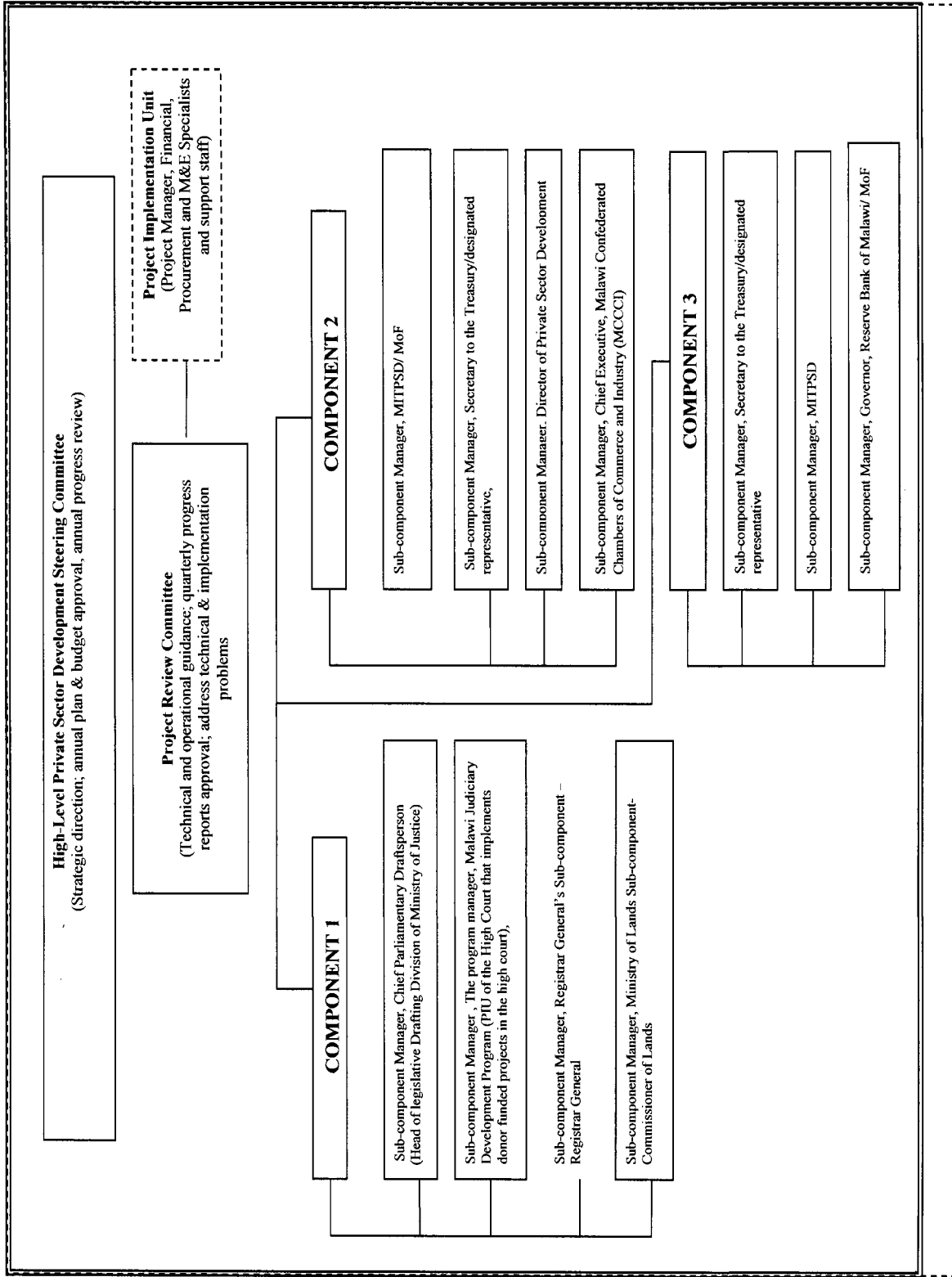
plans and budgets approved by the PSC; programming of annual plans and budgets; monitoring, public relations and reporting. They will manage all the technical aspects (with assistance from long term advisors where applicable); they will prepare all terms of reference and manage the supervision of consultants. They will be responsible for preparing all reports required under the credit for the respective project components. In addition to overseeing the implementation of the individual subcomponents, they will also ensure the necessary cooperation across Government.

164. Further, for the BUGS sub-component, a dedicated Approvals Committee will be established. The BUGS Scheme Manager will report to the Project Manager. A Project Manual including the Project Implementation Plan, Financial Management Procedures Manual and Procurement Plan will be finalized by Board date. Any private business entity, providing work to Malawi nationals within Malawi, will be eligible for BUGS capacity-building assistance. The scheme will recognize that the vast majority of such firms are not yet officially registered with the appropriate business registration authorities. These are the taxpayers of the future. They too will be helped by BUGS to grow, but will be encouraged to register, once they reach the level of turnover where income tax, either individual or corporate, becomes payable. Detailed eligibility criteria are in Annex 1 of the Project Manual. The Project Manual will include all periodic reporting, monitoring and evaluation arrangements throughout the life of the project and will include independent operational audits annually, which will provide impact assessment of the various project components. A mid-term review will take place in November 2009 with the objective of assessing progress to date and if necessary to re-direct the project by integrating additional lessons learned and realities on the ground.

165. A selection panel has been established for the purposes of selecting the BUGS Scheme Manager and Business Advisors. This panel will comprise the Principal Secretaries of MITPSD, MoF, MoJ, and CEO of MCCCCI. For other positions, specific to other sub-components, special selection panels will be set up in each case by the Project Manager.

166. Key positions (the BUGS Scheme Manager and the BUGS Business Advisors) will be widely advertised. A General Procurement Notice (GPN) will be placed on the dgMarket database (the online version of "UN Development Business). Advertisements will be placed in at least two local newspapers; in at least one regional newspaper, either online or hard copy; and in a magazine/paper that specializes in international development appointments. It is expected that the selection for the key positions will be completed by October 2007.

Figure 8: Implementation structure



Annex 7: Financial Management and Disbursement Arrangements

MALAWI: Business Environment Strengthening Technical Assistance (BESTAP)

Introduction

167. The financial management assessment was done in line with the Financial Management Practice Manual (November 2005) of the FM Board. The objective of the assessment is to determine whether the project implementing entity has acceptable financial management arrangements, which will ensure - (i) that funds are used only for the intended purposes in an efficient and economical way; (ii) the preparation of accurate, reliable and timely periodic financial reports; and (iii) safeguarding of the entities' assets.

Project Financial Management System Issues

168. The Malawi Growth and Development Strategy captures the Government's comprehensive strategy for growth. This strategy has as its main objective "to generate high and sustainable broad based growth of at least 6 percent per annum in the long-term." The MGDS recognizes that, amongst other critical preconditions, macroeconomic stability underpinned by sound fiscal control and budget management is of key importance.

169. There are several ongoing initiatives²⁴ contributing to the improvement of the Project Financial Management (PFM) system:

- *International Monetary Fund (IMF) Staff Monitored Program (SMP) and the World Bank Structural Adjustment Credit (SAC)*: Both of these have performance criteria tied to fiscal discipline. They both refer to the need for an effective public expenditure management system, including through adoption of the MTEF.
- *FIMTAP (Financial Management, Transparency and Accountability Project)*: This is a World Bank funded project aimed at strengthening financial accountability and reporting. A key component is support for the development of IFMIS (Integrated Financial Management information System).
- *MFAAP (Malawi Financial Accountability Action Plan)*: This is designed to be an umbrella framework for addressing fundamental weaknesses in the budget management and accounting system. Some key legislation under the MFAAP has already been enacted in the reform of the Public Finance Management, the Public Audit and the Public Procurement Acts.
- *The PEG (Project on Economic Governance)*: This is a Canadian International Development Agency (CIDA) supported initiative aimed at building the capacity of external stakeholders to engage in economic issues and the budget process.

²⁴ CAPACITY BUILDING PROGRAMME FOR ECONOMIC MANAGEMENT AND POLICY COORDINATION: TECHNICAL REPORT NO. 32, GOVERNMENT OF MALAWI AND EUROPEAN UNION, FEBRUARY 2005

- *MTEF Phase II Program*: Designed to improve budget credibility and make better linkages between the Malawi Poverty Reduction Strategy and the budget. The program is financed by DFID and other donors.
- *Macro-economic Advisory Services Project*: A German Agency for Technical Cooperation (GTZ) supported project, to strengthen macroeconomic planning and budgeting.
- *Tikambirane –Support for Voice, Accountability and Rights*: A DFID funded project, to enhance the voice and influence of Malawi citizens within accountable and responsive systems of governance.
- *Institutional Support Project for Aid-Debt Management and Governance*: A project supported by the African Development Bank, to build capacity of all ministries and agencies engaged in aid and debt management.
- *Institutional Cooperation with the Swedish National Audit Office (SNAO)*: A project supported by Norway and Sweden to produce high quality audits and increase the efficiency of the National Audit Office (NAO).
- *Support to the Anti Corruption Bureau*: Supported by the DFID, to enable the ACB strengthen its competence and credibility as an effective anti corruption agency.

170. Clear commitment and action by the Government is visible. The restoration of fiscal control is the cornerstone of its economic reform program and good progress has been made with the implementation of the principles of transparency and accountability enshrined in the new Public Finance Management Act (PFMA). The implementation of the new Integrated Financial Management Information Systems (IFMIS) has shown commendable progress since August 2006.

171. However, the problem²⁵ identified is that these individual components are yet to be sufficiently integrated into a functioning whole. The systems are therefore still somewhat dysfunctional and operating sub-optimally because of missing or weak linkages between the component parts. Stakeholders have assessed this to have serious negative consequences for the Government's ability to implement its plans.

172. For the project, the implication at this time is that full utilization of the Malawi PFM system is not yet possible. Components that will be relied upon are the following:

- (i) The Central Internal Audit Unit in the Ministry of Finance will provide or oversee the internal audit service as explained in more detail below; and
- (ii) The National Audit Office will provide or oversee the external audit service as explained in more detail below.

²⁵ CAPACITY BUILDING PROGRAMME FOR ECONOMIC MANAGEMENT AND POLICY COORDINATION: TECHNICAL REPORT NO. 32, GOVERNMENT OF MALAWI AND EUROPEAN UNION, FEBRUARY 2005

Risk Assessment and Mitigation

173. The project will be overseen by a Private Sector Development Steering Committee (PSC) and Project Review Committee (PRC), that already exist and whose constitution and roles are explained in Annex 6. The PC PIU will coordinate, control, account and monitor the utilization of project funds by the component implementing agencies. The PIU will be composed of a Project Manager, financial management specialist, procurement specialist, monitoring and evaluation specialist, accounts and support staff.

174. During the development of BESTAP, a Project Preparation Team (PPT) was formed to guide the project preparation process and ensure that all relevant stakeholders are adequately consulted and involved. The PPT considered options available to establish the PIU in the most effective way to support project effectiveness: (i) complete mainstreaming of all PIU functions into the MITPSD; (ii) outsourcing of all the PIU functions; (iii) outsourcing of certain PIU functions, such as financial management and procurement; and (iv) utilization of the Privatization and Utility Reform Project (PURP) PIU (closing in December 2007) to establish the BESTAP PIU, with a determination after two years whether the PIU functions can be mainstreamed in MITPSD.

175. Considering the current lack of capacity in MITPSD and the following reasons, the most feasible option at this stage appears to be the latter - (i) the PURP PIU already exists as a GoM organ in the PC and will not duplicate existing functions; (ii) it has the required capacity for financial management, procurement and project coordination (M & E expertise would have to be brought in); (iii) it has been involved in BESTAP preparations as part of the PPT; and (iv) it has the independence, profile and proven capacity to work across boundaries with the different implementing entities.

176. The PURP PIU staff has experience in managing Bank-funded projects. Systems have been established and a dedicated Financial Management Specialist in the PIU will support the implementation and maintenance of centralized financial management, internal controls, disbursements and financial reporting procedures for the project as a whole. This arrangement is further strengthened by separating and devolving implementation authority and budgets to the implementing agencies.

177. In summary, after assessment it is concluded that PIU arrangement will meet the basic financial management requirements of the project.

178. The FM risk assessment is summarized in the table below:

	Risk	Risk Rating	Risk Mitigating Measures Incorporated into Project Design
Inherent Risks			
1	Country Level	S	Key FM oversight elements of the project are entrusted to the Government – Internal Audit and External Audit. Capacity for internal and/ or external audit is enhanced by the use of private sector audit firms.
2	Entity Level	M	Existing Public Sector Agencies will implement the components, and implementation will further come under scrutiny of private sector and civil society, who will participate through their membership in these bodies and through specialized consultations and workshops.
3	Project Level	M	FM functions are to be centralized in the PIU, who has the basic capability to provide the required financial management. This arrangement is further strengthened by separating and devolving implementation authority and budgets to the implementing agencies.
Control Risks			
4	Budgeting	M	The PIU will determine the overall framework and system for budget development in a FM Procedures Manual. Annual budgets will be submitted to the Program Review Committee for approval and monitoring and evaluation.
5	Accounting	M	Accounting will be centrally done for the project as a whole, by staff experienced in WB fiduciary requirements and previous WB funded projects. A computerized accounting system (FINPRO), similar that used for PURP, will be deployed and supported by a FM Procedures Manual.
6	Internal Control	M	Internal control is strengthened by proper segregation of functions, use of trained staff, proper FM procedure manuals, processes and systems and also by deployment of independent internal audit services to test the effectiveness of the control system.
7	Funds Flow	M	Project funding will be disbursed through one US\$ Account opened at a commercial bank of the GoM's choice, under terms and conditions acceptable to the Association. Project expenditures will be paid from two local currency accounts, and all transactions on all bank accounts will be centrally accounted for in the project financial statements. Quarterly monitoring of this arrangement will be done via IFRs.
8	Financial Reporting	M	Monthly, quarterly and annual financial statements reports will be prepared to support monitoring of project implementation. In-year and annual reports will be submitted to Project Review Committee, with annual reports also submitted to the Private Sector Development Steering Committee (PSC) Accountant-General and Auditor-General.
9	Auditing	M	The Central Internal Audit unit of the Government of Malawi has the mandate and capacity to perform or oversee the internal audit for the projects. An external auditor will be engaged by the Auditor-general to carry out an annual independent audit of the project financial statements.
	Overall FM Risk Rating	M	The overall FM risk is considered moderate; inherent risks are offset by (a) centralizing key aspects of the FM system using experienced FM staff in the PIU, (b) an internal control system, which allows for segregation of functions and other basic internal control elements; independent internal and external audit; and (c) sound financial procedures and systems.
<p>H-High S-Substantial M-Moderate L-Low</p>			

Strengths

179. The provision of project FM management and control functions by qualified FM staff that has worked on Bank projects before is a significant FM strength in the project. Furthermore, the independent nature of internal and external audit arrangements strengthens the management of fiduciary risks.

FM Action Plan

180. The plan below indicates the key FM actions to be taken:

Key Actions	Responsible party
Actions to be completed by negotiations	
a. Draft PIM and FM Procedures Manual available	PIU
b. A template Interim Financial Report format that is acceptable to IDA	
Actions to be completed prior to effectiveness	
c. Bank accounts for IDA funding have been opened and signatories confirmed and authorized by Government	MITPSD / MOF
d. FM, procurement and M&E support services are ready for operations	PIU
Actions to be supported by the project	
e. Internal and external audit arrangements confirmed with Government and auditors appointed	MITPSD / PIU
f. Oversee building of project FM capacity in the MITPSD	PIU

181. Standard financial covenants included in the financing agreement are the following: (i) submission of audited financial statements within six months after the year end; (ii) submission of un-audited interim financial statements within 45 days after each calendar quarter, to cover such calendar quarter; and (iii) submission of any other information as required by IDA.

Implementation Arrangements

182. Annex 6 deals with the implementation arrangement in detail. Financial management and control will be centralized in the PIU and the FM system established as discussed later. The overall FM framework is depicted on the next page.

OVERALL FM FRAMEWORK	FM AREA →	Work Plan and Budget	1 x USS Designated Account	2 x Kwacha Bank Accounts	Contract Procurements	Fixed Assets	Administrative Expenses	Petty Cash Expenses	Financial Reporting	Auditing
Government of Malawi		Constitute PSC; Collaborate with Implementing agencies as needed	MoF opens; Countersign	MoF authorizes opening of all Countersign PIU account					Incorporate into GOM reporting framework	Provides Internal and External Audit Services
Private Sector Development Steering Committee		Approve, monitor and evaluate							Approve, monitor and evaluate	Monitor implementation of corrective actions
Project Review Committee		Recommend and report on execution	Countersign	Countersign PIU account	Approve threshold contracts; Delegate authority	Monitor safeguarding	Delegate authority	Delegate authority	Recommend	Report on implementation of corrective actions
Project Management Unit										
Project Manager			Countersign; Approve reconciliations	Countersign PIU account; Approve reconciliations	Authorize PIU orders and payments	Authorize and monitor use, maintenance and replacement	Authorize orders and payments	Authorize replenishments	Recommend	Oversee implementation of corrective actions
Project Financial Management Specialist		Consolidate and support monitoring of execution	Fund, account and reconcile to bank and WB records	Countersign PIU account; Fund, account and reconcile all bank accounts	Record and monitor commitments; Validate and recommend payments; Account and reconcile	Validate and recommend payments; Account; Maintain fixed asset register	Record and monitor commitments; Validate and recommend payments; Account and reconcile	Account and reconcile advances; Account for expenses; Recommend replenishment	Run FM systems and prepare quarterly and annual financial statements	Implement assigned corrective actions
Procurement Specialist				Countersign PIU account;	Execute procurement cycle; Monitor commitments; Ordering and validation of expenses; contract management					Implement assigned corrective actions
M & E Advisor										Implement assigned corrective actions
Tie to M&E framework for evaluation of project progress										

OVERALL FM RESPONSIBILITY FRAMEWORK	FM AREA →	Work Plan and Budget	1 x USS Designated Account	2 x Kwacha Bank Accounts	Contract Procurements	Fixed Assets	Administrative Expenses	Petty Cash Expenses	Financial Reporting	Auditing
Component Implementing Agencies										
Streamlining the regulatory environment for business (Ministry of Justice)										
Improving access to commercial justice (High Court, Commercial Division)										
Improving services at the business and lands registry (RG's dept and Lands registry)										
Establishing a one-stop-shop at the Malawi Investment and Trade Centre (MITC)										
Establishing an institutional framework for Public Private Partnerships (Mof/APC)		Develop inputs and implement approved work plan and budget		Operate on the PIU Account	Manage commitments; Request goods, works and services; Ensuring quality and authorize expenses	Request goods / works; Maintenance and safeguarding; Ensuring quality and authorize expenses	Request goods, works and services; Ensuring quality and authorize expenses	Authorize, monitor and report expenses	Analyze quarterly financial statements; Evaluate execution against approved work plan and budget; Provide explanations for material variances; Implement corrective actions	Implement assigned corrective actions
Improving private sector development policy analysis and delivery (MITPSD)										
Supporting a sustainable framework for public-private dialogue (MCCCI)										
Establishment of a sustainable SME venture finance institution / investment fund (Mof/private sector)										
Matching grant fund for enterprise development (FEDEM) to support SME productivity enhancement				Operate on own imprest account						
Merger and transformation of MRFC and MSB into a viable rural finance institution (RBM)				Operate on the PIU Account						

Planning and Budgeting

183. Cash budget preparation will be detailed in the FPM. At a minimum an annual cash budget for the life of the project at each level of implementation will be prepared, by the responsible implementing agency. The annual cash budget will be broken down quarterly and monthly, in support of project activities as reflected in the approved work plan and procurement plan.

Internal Control and Internal Auditing

184. Internal control comprises the whole systems of control, financial or otherwise, established by the PIU and implementing agencies in order to - (i) carry out the project activities in an orderly and efficient manner; (ii) ensures adherence to policies and procedures; (iii) to safeguard the assets of the project; and (iv) secure as far as possible the completeness and accuracy of the financial and other records.

185. The key elements to ensure a sound internal control system will include: (i) segregation of functions to authorize, execute and record; (ii) physical control over fixed assets; (iii) clear delegations and channels of command; (iv) monthly reconciliation and clearance of advances for expenditures; (v) integrity and performance of staff at all levels; and (vi) supervision.

186. Project activities will also be periodically audited by the Central Internal Audit unit of the Government of Malawi. The internal auditor managers in this unit are qualified, an audit approach has been established and they will prepare at least an annual audit report to the National Audit Office and the Project Review Committee. The scope of internal audit will include at least periodic reviews of project activities, assets, systems, records and accounts; ensure effectiveness of financial and accounting policies and procedures, as well as compliance with internal control mechanisms; review SOEs; verify material procurements and contract management; and carry out other functions as stated in their approved mandate. At the component level the project activities will also come under the scope of the internal audit units of the implementing entities, under the normal governance arrangements applicable to each implementing entity.

Accounting

187. Project accounts will be maintained on a cash basis, augmented with appropriate records and procedures to track commitments and to safeguard assets. Accounting records will be maintained in Kwacha. The opening and closing balances of the US\$ Designated Account ("DA"), and of any other bank accounts relating to the project that are held in a currency different from the books of account, should be translated at the rate ruling on the opening and closing dates, respectively. Expenditures made out of the DA (and other bank accounts as mentioned above) should be stated at the rate ruling on the transaction dates. The actual exchange rates used should be disclosed in a note to the financial reports.

188. The Chart of Accounts will facilitate the preparation of relevant monthly, quarterly and annual financial statements, including information on the following: (i) total project expenditures; (ii) total financial contribution from each financier; (iii) total expenditure on each project component/activity; and (iv) analysis of that total expenditure into the disbursement categories of the project, which would include goods, works, consultants' services and operating

costs. All accounting and control procedures will be documented in a FPM and regularly updated by the Financial Management Specialist.

Financial Reporting

189. Minimum requirements for Interim Financial Reports (quarterly) and Annual Financial Statements are outlined below.

- (i) *Statement of Sources and Uses of Funds*, showing by funding source for the period and cumulatively (project life or year to date) inflows and outflows by project component and disbursement category, as well as opening and closing cash balances of the project;
- (ii) *Bank Reconciliation Statement* for each bank account, including copies of the respective bank statements
- (iii) *Statement of Expenditure*, an itemized statement summarizing eligible expenditures incurred during a stated period based on individual transactions. The expenditures are normally grouped by project components and disbursement categories, comparing actual and budgeted expenditures. The report will also include a cash flow forecast for the following two quarters.
- (iv) *Payments made during the reporting period against contracts subject to the Bank's prior review*, summarizing contract payments
- (v) *Designated Account Reconciliation*, showing deposits and replenishments received, payments supported by withdrawal applications, interest earned on the account and the balance at the end of the reporting period.
- (vi) *Procurement Reports*, which provide information on the procurement of goods, works, and consultants and on compliance with agreed procurement methods. The reports will compare procurement performance against the plan agreed at negotiations or subsequently updated, and highlight key procurement issues such as staffing and building Recipient capacity.
- (vii) *Physical Progress Reports*, which include narrative information and output indicators (agreed during project preparation), linking financial information with physical progress and highlighting issues that require attention.

190. Specific formats for the reports have been agreed based on Bank Guidelines on General formats of FMRs contained in: "Financial Monitoring Reports for World Bank Financed projects: Guidelines for Borrowers"²⁶. In addition Annual Financial Statements would need to comply with relevant International Public Sector Accounting Standards (IPSAS).

191. Quarterly and annual reports are to be submitted respectively to at least – (i) the Accountant-General; (ii) the Auditor-General; (iii) IDA - for the purpose of monitoring project implementation; and (iv) the Project Review Committee in order to ensure transparency in project activities and implementation to all stakeholders.

²⁶ <http://siteresources.worldbank.org/INTRANETFINANCIALMGMT/Resources/TOPICS/FMRs/FMR-Borrowers-English-Nov-2002.pdf>

External Auditing

192. The IDA Financing Agreement will require the submission of audited Annual Financial Statements for the project, within six months after year-end. Relevantly qualified, experienced and independent external auditors will be appointed by the Auditor-general, based on ToRs acceptable to IDA. The ToRs were reviewed during negotiations.

193. Besides expressing an opinion on the Annual Financial Statements in compliance with International Standards on Auditing (ISAs), the auditors will be required to form an opinion on the degree of compliance with IDA procedures for the Designated Account and the balance therein at the year-end.

194. In addition to the audit report, the external auditors will be expected to prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the IDA agreement.

FM Supervision Plan

195. The first FM review will be carried out after six months of project implementation. This detailed review will cover all aspects of FM, internal control systems, reviewing the overall fiduciary control environment and tracing transactions from the bidding process to disbursements as well as SOE review. Thereafter, given that the FM risk rating for the project is moderate, subsequent reviews will be as follows: review of quarterly FMRs; annual SOE review as part of the ToR of the external auditors; review of audited Annual Financial Statements and management letter as well as timely follow up of issues arising; participation in project supervision missions as appropriate; and updating the financial management rating in the Implementation Status and Results Report (ISR). The FM staff at the Pretoria Country Office will play a key role in monitoring the timely implementation of any action plans.

FUNDS FLOWS AND DISBURSEMENT ARRANGEMENTS

Bank Accounts

196. The Government of Malawi (GoM) will open the following bank accounts: (i) One US\$ Designated Account (DA) at a commercial bank under terms and conditions acceptable to the Association, into which IDA will advance project funds in terms of its normal disbursement guidelines²⁷. Any interest on DA balances will be transferred to a separate bank account operated by GoM.

(ii) One “BESTAP IDA General Operating Bank Account” in Kwacha, opened at any commercial bank at the choice of the GoM, under terms and conditions acceptable to the Association, into which draw-downs from the DA will be credited to fund eligible expenditures. This account will be funded strictly in advance for 30 days on the basis of realistic cash forecast derived from the approved work plan. Five authorized bank account signatories, two of whom

²⁷<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,contentMDK:20120763~menuPK:276159~pagePK:41367~piPK:51533~theSitePK:40941,00.html>

need to authorize any payment, will be designated – either the FM Specialist or Project Manager and one of either the Director PSD, the PS of MITPSD, or the Procurement Specialist.

(iii) One “BESTAP BUGS Scheme Operating Bank Account” in Kwacha, opened at any commercial bank at the choice of the GoM, under terms and conditions acceptable to the Association.. Payments from this account will be authorized by the designated sub component manager and one additional person in that component. This account is needed to: (a) facilitate the payment of large batches of small expenditures in the local currency; (b) allow more control over the timing of payments by the Matching Grant sub-component; (c) avoid implementation bottlenecks caused by cumbersome procedures between the sub-component and the PIU who manages the DA. This account will be funded from the PIU local currency operating account, strictly in advance for 30 days on the basis of realistic cash forecast derived from the approved work plan. All transactions on these accounts will be reported monthly and substantiated with original source documents to the Project Financial Management Specialist, who will see to the accounting and reconciliation of these accounts before advancing any further amounts to these accounts.

197. The Project Financial Management Specialist will reconcile all bank accounts and advances on a monthly basis and submit such reconciliations to the Project Manager for review and approval. Detailed banking arrangements, including control procedures over all bank transactions (e.g., payment signatories, transfers, etc.); will be documented in the Financial Procedures Manual (FPM). If, in the opinion of the Project Manager, there is a need for additional local currency bank accounts, IDA approval for the opening of such bank accounts will be obtained.

Petty Cash Systems

198. As needed, implementing agencies will be given petty cash advances for cash payment of small administrative expenses and such petty cash records will be centrally recorded, controlled and reconciled by the PIU. The Designated Account facility will only be available under this project once the Government meets its lapsed loan obligations.

Disbursement Arrangements

199. By effectiveness, the Project will use the Transaction-based disbursement procedures, i.e., direct payment, reimbursement, and special commitments as described in the World Bank Disbursement Handbook. As project implementation proceeds, the quarterly Interim Financial Reports (IFRs) produced by the Project will be reviewed. Where the reports are adequate and produced on a timely basis, and the Recipient requests conversion to report-based disbursements, a review will be undertaken by the project team to determine if the Project is eligible for Report-based disbursement. The adoption of report-based disbursements by the Project will enable it to move away from time-consuming voucher-by-voucher (transaction-based) disbursement methods to quarterly advances to the Project’s Designated Account based on IFRs. Detailed disbursement procedures will be documented in the FPM.

Minimum Value of Applications

200. The Minimum Value of Applications for reimbursement, direct payment and special commitment is \$400,000.

Use of Statement of Expenditure (SOE)

201. IDA would require withdrawals from the grant accounts to be made on the basis of Statements of Expenditure for: (a) services of individual consultants costing less than US\$50,000 equivalent per contract; (b) services of consulting firms costing less than US\$100,000 per contract; (c) all training and workshops; (d) BUGS Scheme matching grants; (e) works; (f) goods costing less than US\$250,000; and (g) operating costs. All requests for withdrawal of expenditures under contracts subject to IDA's prior review would be fully documented. All supporting documentation will be retained by the PIU and must be made available for review by periodic World Bank review missions, internal and external auditors.

Designated Account

202. The Designated Account Facility will only be available under this project once the Government meets its lapsed loan obligations.

Withdrawal of grant proceeds

203. Withdrawal of grant proceeds to the Designated Account (see paragraph 202) will be in accordance with the World Bank Disbursement Guidelines and any disbursement letter that the Bank may issue from time-to-time.

Taxes

204. The project will pay for all reasonable taxes in terms of GoM legislation. The project will deduct on behalf of the GoM "Withholding Taxes" from payments to foreign consultants, but provision will be made during the procurement process to notify consultants of this arrangement.

Allocation of Grant Proceeds to Disbursement Categories

205. The Table below sets out the expenditure categories and percentages to be financed out of the grant proceeds.

Category	Grant in USD	% Financed with taxes
1. Goods (Excluding Part C.2 of the Project)	870,000	100%
2. Works	50,000	100%
3. Consultants' Services (including financial audits, Training and Workshops)	9,070,000	100%
4. a) Matching Grants under Part C.2 of the Project	1,600,000	50%
4. b) Operating Costs and goods under Part C.2 of the Project	960,000	100%
5. Operating Costs under Part D of the Project	530,000	100%
6. Unallocated	1,920,000	
TOTAL AMOUNT	15,000,000	

Note: Operating Costs eligible for funding under this Grant are the incremental operating costs arising under the Project on account of Project coordination, implementation, and monitoring activities undertaken by the PIU and BUGS Unit including office supplies, vehicles and vehicle operating and maintenance costs, but excluding salaries of the Recipient's civil servants.

Annex 8: Procurement Arrangements

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

A. General

206. Procurement would be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004, revised October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Recipients" dated May 2004 revised October 2006, and the provisions stipulated in the Legal Agreement. Procurement for non-ICB procurement and selection of consultants that does not involve international consultants will be carried out in accordance with the Malawi Public Procurement Act (No. 8 of 2003) and its accompanying regulations and desk instructions. The various items under different expenditure categories are described in general below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and timeframe are agreed between the Recipient and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

207. **Procurement of Goods:** The total cost of goods under the BESTAP is estimated at US\$ 1.0 million. Goods procured under this project would include Motor Vehicles, information technology equipment, and office furniture. The procurement will be done using the Bank's SBD for all ICB and National SBD satisfactory to the Bank. Under the project, Goods estimated to cost US\$250,000 or more per contract will be procured under ICB procurement method. Goods estimated to cost less than US\$250,000 will be procured on the basis of National Competitive Bidding (NCB). Where practical, the goods to be purchased will be grouped and be procured under ICB contracts. Goods that are estimated to cost less than US\$50,000 equivalent per contract may be procured through Shopping procedures in accordance with the procedures set forth in the Bank's Procurement Guidelines.

208. **Direct contracting:** Direct contracting for goods without competition may be allowed, upon prior clearance of the bank under the conditions specified in paragraphs 3.6 and 3.7 of the guidelines.

209. **Procurement of small works:** Minor may be carried out such as refurbishment of offices and will be included in the procurement plan as these are defined. Given the anticipated low value of such works, the procurement will be undertaken through shopping.

210. **Procurement of non-consulting services:** Non-consulting services under this project will include: workshops, transport, cleaning services, equipment and motor vehicle services, ICT maintenance services and training. As appropriate, the procurement of non consulting services will be done using National SBDs acceptable to the Bank.

211. **Training:** The total cost of training under the BESTAP is estimated at US\$ 4.5 million. When appropriate, training may be procured on the basis of Single Source subject to review and approval by the Bank. The BESTAP will, based on the approved budgets and Annual work plans, prepare and submit to the Bank, for its prior review and approval, an annual training plan,

as part of the approval process for the procurement plan. The training will, inter alia, identify: (i) the training envisaged; (ii) the justification for the training, how it will lead to effective performance and implementation of the project and or sector (iii) the personnel to be trained; (iv) the selection methods of institutions or individuals conducting such training; (v) the institutions which will conduct training, if already selected; (vi) the duration of proposed training; and (vii) the cost estimate of the training. Report by the trainee upon completion of training would be mandatory.

212. **Selection of Consultants:** The total cost of consultant's assignments under the BESTAP is estimated at US\$2.0 million. Consulting services under the project include: Steam lining of the regulatory environment for business, improving access to commercial justice, improving services at the business and lands registry, establishing a one stop shop at the MITC, Establishing an institutional framework for public private partnerships, improving private sector development policy, analysis and delivery, Support a sustainable framework for public private dialogue, establishment of a sustainable SME venture finance institution / investment fund. Other consulting contracts include matching grant fund for enterprise development to support SME productivity enhancement, major and transformation of MRFC and MSB into a viable rural finance institution. Except as detailed below, consulting services will be selected through competition among qualified short-listed firms based on Quality- and Cost-Based Selection (QCBS). Consultants for financial audits and other repetitive services estimated to cost less than US\$50,000 equivalent per contract will be selected through Least Cost Selection (LCS) method. As appropriate, other selection methods such as Selection under a Fixed Budget (FBS), Selection Based on Consultants' Qualifications (CQS), Single-Source selection (SSS) and Quality-Based Selection (QBS) may be used for selection of consultants.

213. In exceptional cases, and under circumstances described under Paragraphs 3.9 through 3.13 of the Guidelines, the Recipient may, upon prior clearance with the Bank, hire consultants through the single-source selection method. Consultants for services meeting the requirements of Section V of the Consultant Guidelines will be selected under the provisions for the Selection of Individual Consultants (IC) method. The procurement of consultants will be done using the Bank's SRFP and Standard Bid Evaluation and Recommendation for Award forms agreed with (or satisfactory to) the Bank.

214. **Short lists of consultants:** Short-list of consultants for services estimated to cost less than US\$100,000 equivalent per contract, may be comprised entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

215. **Prior Review of Consultants:** All consultant assignments for contracts with individuals estimated to cost US\$50,000 and above and all consultants assignments for contracts with firms estimated to cost US\$100,000 and above and all single source selection of consultants for individual consultants and firms will be subject to prior review by the Bank.

216. **Operating Costs:** Operating costs will be procured using the Government of Malawi's administrative procedures and or the administrative procedures of the component implementing agency's, which were reviewed and found acceptable to the Bank.

217. **Commercial Practices:** As the BESTAP will include a component (Component 3 - **Promoting Access to Finance and Productivity Enhancement**) which will include the use of financial intermediary (the BUGS Unit to be established by the Government for this purpose) to administer Matching Grants to the private sector enterprises for technical advisory services related to specialized business development services and/or HIV/AIDS on-site voluntary counseling and testing services, the "Commercial Practices" procurement method under paragraph 3.14 of the Consultant Guidelines will be utilized. The specific details on the "Commercial Practices" that are acceptable to the Association for this purpose is set out in the Project Implementation Manual.

B. Assessment of the agency's capacity to implement procurement

218. A formal procurement capacity assessment has been undertaken of the PURP PIU as the implementing agency that will implement and coordinate the BESTAP. The procurement capacity assessment was finalized on 22nd February 2007 by Wedex Ilunga, Procurement Specialist. The capacity assessment noted that procurement activities will be carried out by the BESTAP PIU for several beneficiary implementing agencies: (i) The Ministry of Justice; (ii) The Commercial Division of the High Court; (iii) Registrar General's Department; (iv) Lands Registry; (v) MoF (vi) MITPSD; (vii) MCCI; (viii) Secretary to the Treasury; (ix) Director of Private Sector Investment; and (x) Reserve Bank of Malawi.

219. The PIU comprises five professional and five support staff. The professional staff includes: (a) Project Manager (b) FM Specialist (c) Accountant (d) Assistant Procurement Specialist (who also does M&E) (e) Procurement Specialist and Support staff includes: (a) Secretary (b) Program assistant (c) Registry / Procurement Clerk (d) Driver and (e) Office Assistant.

220. The Procurement Specialist prepares the procurement bid or RFP documents, these are submitted to the Project Manager who reviews it and submits to IDA for No Objection. After the approval of bidding documents, advertising, then receive bids and open and evaluate. For evaluation the PIU gets experts from the focal points to do the evaluation with the participation of the Procurement Specialist. The Procurement Specialist, as Secretary guides the evaluation process and report writing. The report is submitted to the focal point IPC for approval. After approval by the IPC, the report is sent to IDA for approval, following which it is submitted to the DoPP. After DoPP approval contract is awarded. During implementation, the head of the focal point will take charge to supervise the contract. The contract is signed between the PIU and the bidder. The thresholds for procurement requiring DoPP approval is US\$2,400 and above.

221. The IPC reviews and approves procurement above or equal to MK380 000 (approximately equivalent to US\$2,200) for goods and MK800 000 for works. Above this needs DoPP approval. In the case of consultants, all values require DoPP approval. It takes about 10 working days to get DoPP approvals. The existing thresholds have been sent a blanket threshold. The DoPP is yet to review and assess the capacity of the PURP PIU to provide realistic limits. The regulations require that the DoPP review the thresholds based on assessed capacity. The Inspection Unit (IU) of the DoPP has not carried out any capacity and performance assessment since the inception of DoPP in 2004. The PS has carried out 2 training courses February 2006 and January 2007.

222. "To facilitate the procurement of goods, works, and services for **Component Three - Promoting Access to Finance and Productivity Enhancement** whose objective is to "support the growth and development of micro and small enterprises into the middle market in Malawi",

the BESTAP Project Implementation Manual includes relevant information on procurement procedures and implementation guidelines, including details on appropriate private sector commercial practices for the Business Growth Scheme sub-component. Appropriate procurement or selection methods have been recommended for activities under each sub component below. "

- *Sub-component A: Establishment of a Sustainable SME Investment Fund* This sub-component will support the (i) technical and advisory services in support of an existing MoF initiative to establish either an SME investment fund or loan guarantee fund, in support of better access to finance for small-scale businesses. The fund will be managed by the private sector and Government's contribution will be capped with the majority of funding coming from the private sector (both domestic and foreign). The contracting of technical and advisory services to establish an SME investment fund or loan guarantee fund will be undertaken through appropriate selection methods of the Banks Guidelines for selection of Consultants revised October 2006. The modalities for accessing funds by the private sector from the SME investment fund or loan guarantee fund will be articulated in a manual to be developed for this purpose which will also outline the eligibility and qualification criteria for accessing the funds. This manual will be prepared by the Recipient and submitted for the banks review for acceptability.

Sub-component B: Establishment and operation of a Business Growth Scheme. This sub-component will strengthen the capacity and international competitiveness of private firms (mostly indigenous owned SMEs), through provision of direct technical advisory services by the BUGS Unit or Matching Grants to finance technical advisory services for specialized business development activities and/or on-site HIV counseling and testing services. BUGS will be independently managed by the BUGS Unit. The detailed operations of the Business Growth Scheme are set out in the PIM, including eligibility criteria for accessing the funds and procurement procedures. For the specialized technical advisory services being financed from the Matching Grants, the "Commercial Practices" procurement method under paragraph 3.14 of the Consultant Guidelines will be utilized, with details on the acceptable "Commercial Practices" set out in the PIM. Examples of specialized business development services that may be considered by the BUGS Unit for Matching Grant support after carrying out a business firm's diagnostic include market research, product design, product quality improvement, selection of production machinery, factory layouts, training of production and other staff, design of advertising materials, selection of advertising media, and selection of local and foreign distributors or agents.

- *Sub-component C: Merger of Malawi Rural Finance Company and the Malawi Savings Bank.* Working with the Reserve Bank of Malawi, the BESTAP project will update the feasibility/ option study and provide technical assistance/ advisory services to implement the merger of MRFC and MSB to achieve efficiency gains and improved access to finance by SMEs in Malawi. Activities under this subcomponent will use procurement and selection methods defined in the Banks Procurement and Consultants Guidelines Revised October 2006.

223. The procurement capacity of the PIU was assessed and found to be generally satisfactory. The procurement staff of the PIU has over the years of participating in a previous World Bank supported project the Privatization and Utility Reform Project estimated at approximately US\$31million, acquired experience to undertake procurement and are thus familiar with the Bank's procurement policies and procedures. However some minor deficiencies and concerns were noted as tabulated below including the suggested remedial actions:

Issue No	Description of Issue	Proposed remedial action
1	Provisions of the Shopping / quotation solicitation form needs improvement	(e.g. payment terms need to be included and use of delivery terms need to be
2	Record keeping – completeness of information.	(i) Record and track financial instruments (ii) maintain record and cross reference documents which are not placed on files
3	Improvement in contract management	use of standard bid/proposal evaluation forms including related training in the use of the same
4	Internal Procurement Guidelines lacking	Internal procurement guidelines have been developed and are set out in the PIM, due to be finalized by Board Date
5	Weak contract management.	Improve mechanisms for improving performance
6	Capacity development	(i) Hold a procurement workshop for all procurement staff and (ii) Finalize by Board Date the BESTAP PIM. The PIM includes procurement guidelines for the BUGS components Matching Grants to the private sector enterprises for technical advisory services and/or HIV/AIDS on-site voluntary counseling and testing services based on "Commercial Practices" procurement method under paragraph 3.14 of the Consultant Guidelines. Details for the Commercial Practices Procurement method, satisfactory to the Bank will be provided in the PIM.
7	Publishing of awards and tracking information on Dg market and Client Connection	Register and learn how to review and place and monitor information on Bank client Connection

Notwithstanding the areas for improvement noted above, the overall project risk for procurement is Average.

C. Procurement Plan

224. The Recipient at appraisal developed a procurement plan for project implementation, which provides the basis for the procurement and selection methods. This plan was agreed between the Recipient and the Bank at negotiations and is available at PIU Office in Livingstone Towers, Blantyre. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with IDA annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

225. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agencies has recommended supervision missions to visit the field every six months in the first year and thereafter once a year to carry out post review of procurement actions.

226. Annual Procurement Post Reviews and or independent procurement audits may also be carried out and would aim to: (i) verify that the procurement and contracting procedures and processes followed for the projects were in accordance with the Financing Agreement (FA); (ii) verify technical compliance, physical completion and price competitiveness of each contract in the selected representative sample; (iii) review and comment on contract administration and management issues as dealt with by participating agencies; (iv) review capacity of participating agencies in handling procurement efficiently; and (v) Identify improvements in the procurement process in the light of any identified deficiencies.

E. Contract Award Disclosure Requirements

227. Contract awards done through ICB procurement method shall be consistent with Paragraph 2.60 of the Guidelines: Procurement under IBRD Loans and IDA Credits, May 2004 revised October 2006. Within two weeks of receiving the World Bank's "no objection" (acting on behalf of the cooperating partners) to the recommendation of contract award, the Recipient shall publish in UNDB online and in dgMarket the results identifying the bid and lot numbers and the following information: (i) name of each bidder who submitted a bid; (ii) bid prices as read out at bid opening; (iii) name and evaluated prices of each bid that was evaluated; (iv) name of bidders whose bids were rejected and the reasons for their rejection; and (v) name of the winning bidder, and the price it offered, as well as the duration and summary scope of the contract awarded.

F. Contract Awards done through Direct Contracting Procurement

228. Contract awards done through Direct Contracting Procurement Method shall be consistent will Paragraph 3.7 of the Guidelines: Procurement under IBRD Loans and IDA Credits, May 2004. After the contract signature, the Recipient shall publish in UNDB online and in dgMarket the: (i) name of the contractor; (ii) price; (iii) duration; and (iv) scope of the contract. This publication may be done quarterly and in the format of a summarized table covering the previous period.

G. Contract Awards for Consultancies

229. Contract Awards for Consultancies shall be consistent with Paragraph 2.28 of the Guidelines: Selection and Employment of Consultants by World Bank Recipients, May 2004 revised October 2006. After the award of contract, the Recipient shall publish in UNDB online and in dgMarket the following information: (i) names of all consultants who submitted proposals; (ii) technical points assigned to each consultant; (iii) evaluated prices of each consultant; (iv) final point ranking of the consultants; and (v) name of the winning consultant and the price, duration, and summary scope of the contract. The same information shall be sent to all consultants who have submitted proposals.

H. Contract Awards for Selection Based on the Consultants' Qualifications (CQS)

230. Contract Awards for Selection Based on the Consultants' Qualifications (CQS) shall be consistent with Paragraph 3.8 of the Guidelines: Selection and Employment of Consultants by World Bank Borrowers, May 2004. The Recipient shall publish in UNDB online and in dgMarket the: (i) name of the consultant to which the contract was awarded; (ii) the price; (iii) duration; and (iv) scope of the contract. This publication may be done quarterly and in the format of a summarized table covering the previous period.

Details of procurement

a) Works and goods

Description	Package Number	Lot Number	Estimated Amount in US \$	Proc Method	Preq (yes / no)	Domestic Pref	Prior or Post Review	Expected Bid Opening Date	Expected Contract Signature Date	Comments
Vehicles (4 4x4 vehicles and 2 salon vehicles)	1	1	414,000	ICB	No	No	Prior	8/07	12/07	To be bid for in lot
Vehicles (2 4x4 vehicles)	2	1	100,000	NCB	No	No	Post	8/07	12/07	
Office furniture	3	2	51,400	NCB	No	No	Post	8/07	12/07	To be bid for in lot
IT equipment (Desktop computer, laptops, scanner, printer, photocopier, software)	4	3	299,260	ICB	No	No	Prior	8/07	12/07	To be bid for in lot
IT equipment (Desktop computer, laptop, scanner, printer, photocopier, software)	5	3	40,000	Shopping	No	No	Post	n/a	8/07	To be bid for in lot
Land survey equipments and software	6	3	115,000	NCB	No	No	Post	8/07	12/07	To be bid for in lot
Local Area Network installation	7	4	55,400	NCB	No	No	Post	8/07	12/07	
Printing of reports	8	5	30,000	Shopping	No	No	Post	n/a	8/07	

b. Procurement of consultant services

Description	Package Number	Lot Number	Estimated Amount in US \$	Proc Method	Preq (yes / no)	Domestic Pref	Prior or Post Review	Expected Bid Opening Date	Expected Contract Signature Date	Comments
Vehicles (4 4x4 vehicles and 2 salon vehicles)	1	1	414,000	ICB	No	No	Prior	8/07	12/07	To be bid for in lot
Vehicles (2 4x4 vehicles)	2	1	100,000	NCB	No	No	Post	8/07	12/07	
Office furniture	3	2	51,400	NCB	No	No	Post	8/07	12/07	To be bid for in lot
IT equipment (Desktop computer, laptops, scanner, printer, photocopier, software)	4	3	299,260	ICB	No	No	Prior	8/07	12/07	To be bid for in lot

IT equipment (Desktop computer, laptop, scanner, printer, photocopier, software)	5	3	40,000	Shopping	No	No	Post	n/a	8/07	To be bid for in lot
Land survey equipments and software	6	3	115,000	NCB	No	No	Post	8/07	12/07	To be bid for in lot
Local Area Network installation	7	4	55,400	NCB	No	No	Post	8/07	12/07	
Printing of reports	8	5	30,000	Shopping	No	No	Post	n/a	8/07	
Description	Package Number	Lot Number	Estimated Amount in US \$	Proc Method	Preq (yes / no)	Domestic Pref	Prior or Post Review	Expected Bid Opening Date	Expected Contract Signature Date	Comments
Vehicles (4 4x4 vehicles and 2 salon vehicles)	1	1	414,000	ICB	No	No	Prior	8/07	12/07	To be bid for in lot
Vehicles (2 4x4 vehicles)	2	1	100,000	NCB	No	No	Post	8/07	12/07	
Office furniture	3	2	51,400	NCB	No	No	Post	8/07	12/07	To be bid for in lot
IT equipment (Desktop computer, laptops, scanner, printer, photocopier, software)	4	3	299,260	ICB	No	No	Prior	8/07	12/07	To be bid for in lot
IT equipment (Desktop computer, laptop, scanner, printer, photocopier, software)	5	3	40,000	Shopping	No	No	Post	n/a	8/07	To be bid for in lot
Land survey equipments and software	6	3	115,000	NCB	No	No	Post	8/07	12/07	To be bid for in lot
Local Area Network installation	7	4	55,400	NCB	No	No	Post	8/07	12/07	
Printing of reports	8	5	30,000	Shopping	No	No	Post	n/a	8/07	
1	2	3	4	5	6	7				
Ref. No.	Description	Selection Method	Estimated Cost in US\$	Prior / Post Review	Expected proposal submission /opening Date	Comments				
Firms										
	Comp One – Strengthening Private Property Rights Institutions and Business Facilitation									
	A. Streamlining the regulatory environment for business									

	1. Review and update economic laws					
1-f	1.1. Diagnostic study of economic laws	CQS	100,000	Prior	1/14/08	short list may comprise of national cons
2-f	1.2. Drafting of economic laws	QCBS	300,000	Prior	1/14/08	short list may comprise of national cons
3-f	2. Design and drafting of short term legislative training courses	CQS	95,000	Post	1/22/09	short list may comprise of national cons
B. Improving Access to commercial justice						
4-f	1. Case management and tracking Information System	QCBS	162,400	Prior	2/4/08	
5-f	2: Production of material, radio and TV programs	IC/CQS/SS	63,200	Post	12/25/08	There will be various contracts to be defined during implementation and procured differently
C. Improving Business and Land Registration Services						
6-f	1. Review and simplification of the registration and licensing procedures and processes for the registrar dept.	CQS	50,000	Post	2/26/08	
7-f	2. Review and simplification of the registration procedures	CQS	50,000	Post	2/26/08	
8-f	1. Design and development of an integrated business licensing and registration system	QCBS	300,000	Prior	10/27/08	
9-f	2. Development of national database for business registration and licensing	QCBS	100,000	Prior	10/27/08	short list may comprise of national cons
10-f	3. Computerization of current manuals of business registry and land titling	QCBS	100,000	Prior	10/27/08	short list may comprise of national cons
Comp Two - Strengthening private sector development support institutions						
A. Establishing a one-stop-shop Investment and Trade Centre						
11-f	1. Development of a legal and regulatory framework	QCBS	135,000	Prior	1/29/08	short list may comprise of national cons
	2. Investment incentives review	QCBS	101,200	Prior	12/25/07	short list may comprise of national cons
B. Strengthening the Department of Private Sector Development						
12-f	1. Economist	IC	100,000	Prior	5/29/08	
	2. Legal Specialist	IC	100,000	Prior	5/29/08	
13-f	3. Information system and website for MITPSD	CQS	100,000	Prior	4/15/08	
C. Supporting a sustainable framework for Public-Private dialogue						
14-f	1. Establishment and operation of a sustainable PP dialogue mechanism	QCBS	240,000	Prior	2/26/08	
15-f	3. Development of a long term business plan	QCBS	100,000	Prior	5/29/08	

16-f	2. Review of the governance structure of the MCCC	IC	50,000	Prior	2/26/08	
Comp Three - Promoting access to finance and productivity enhancement						
A. Establishing a sustainable SME investment fund						
17-f	1. Advisory service to establish a new SME fund	QCBS	100,000	Prior	5/20/08	
18-f	2. Study to review the establishment of an investment capitalization	QCBS	400,000	Prior	6/10/08	
B. Merger of Malawi Rural Finance Company and Malawi Savings Bank						
19-f	1. Review of study and recommendation of potential for merging MRFC and MSB	QCBS	500,000	Prior	7/24/08	
Comp 4. Capacity building and implementation support						
20-f	1. External auditor	CQS/SS	20,000	Post	3/4/08	
21-f	2. Design of Monitoring and evaluation system for BESTAP	CQS	100,000	Prior	1/29/08	
Individual						
Comp One - Improving economic governance						
A. Improving Access to commercial justice						
1-c	1. International case audit advisor	IC	18,300	Post	1/25/08	
2-c	2. Local case audit advisor	IC	40,900	Post	3/26/08	
3-c	3. Conduct training needs assessment	IC	20,000	Post	4/28/08	
Comp Two – Strengthening the Department of Private Sector Development						
A. Establishing a one-stop-shop Investment and Trade Center						
4-c	1. Finalization of the investment review process	IC	32,000	Post	2/26/08	
5-c	2. Development of MITC business plan	IC	45,000	Post	4/28/08	
6-c	3. Updating of investor tracking system database	IC	7,000	Post	2/26/08	
7-c	4. Design and production of investor promotional material	IC	50,000	Prior	12/25/08	
8-c	5. Investor road map study	IC	50,000	Prior	2/7/08	
9-c	1. Research and analysis on PSD issues	IC	100,000	Prior	2/26/08	
C. Establishing Institutional Framework for PPP						
s10-c	1. Director PPP (24 months)	IC	105,800	Prior	2/8/08	
11-c	2. International advisor (24 months)	IC	95,800	Prior	7/8/08	
12-c	3. Banking and investment manager (24 months)	IC	55,200	Prior	4/2/08	
13-c	4. Administration secretary (24 months)	IC	27,600	Post	4/2/08	
14-c	5. Accountant (24 months)	IC	76,800	Prior	4/2/08	
15-c	6. IT officer (24 months)	IC	27,600	Post	4/2/08	

16-c	7. Administration and human resources (24 months)	IC	27,600	Post	4/2/08	
17-c	8. Finance and administration assistant (24 months)	IC	19,800	Post	4/2/08	
18-c	9. Information system and Website	IC	50,000	Prior	7/15/08	
Comp Three - Promoting access to finance and productivity enhancement						
A. Establishing a sustainable SME investment fund						
19-c	1. TA for Fund manager	IC	160,000	Prior	7/8/08	Potentially internationally recruited
B. Establishing and operationalizing a business growth scheme						
20-c	1. BUGS Scheme Manager	IC	126,100	Prior	7/8/08	
21-c	2. BUGS Business Advisor	IC	10,000	Prior	7/22/08	
	3. BUGS Business Advisor (i)	IC	70,000	Prior	7/22/08	
	3. Survey year 1-baseline data collection	CQS	50,000	Post	8/12/08	
23-c	4. Survey year 2-data collection for M&E	CQS	50,000	Post	8/12/09	
Comp 4. Capacity building and implementation support						
24-c	1. Project Manager (24 months)	IC	80,000	Prior	6/8/07	Recruited on a sole source basis from existing PURP-PIU
25-c	2. Financial management specialist (24 months)	IC	60,000	Prior	6/8/07	Recruited on a sole source basis from existing PURP-PIU
26-c	3. Accountant (24 months)	IC	50,000	Prior	6/8/07	Recruited on a sole source basis from existing PURP-PIU
27-c	4. Procurement specialist (24 months)	IC	60,000	Prior	6/8/07	Recruited on a sole source basis from existing PURP-PIU
28-c	5. Monitoring and evaluation specialist (24 months)	IC	60,000	Prior	6/8/07	Recruited on a sole source basis from existing PURP-PIU
29-c	6. Administrative assistant (24 months)	IC	18,000	Post	6/8/07	Recruited on a sole source basis from existing PURP-PIU
30-c	7. Office assistant/messenger (24 months)	IC	12,000	Post	6/8/07	Recruited on a sole source basis from existing PURP-PIU
31-c	8. Annual survey year 1	IC	8,000	Post	5/27/08	
32-c	9. Annual survey year 2	IC	8,000	Post	5/27/09	
33-c	10. Implementation support-short term consultant year 1	CQS	50,000	Prior	4/15/08	
34-c	11. Implementation support-short term consultant year 2	CQS	50,000	Prior	4/15/09	

c. Non consultant services

I-ncs	Publishing and dissemination	Shopping	12	Post	8/26/08	As and when defined may be broken down into various procurement processes
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d. Capacity Building , training and workshops

Ref. No.	Training, workshop and study tours	Selection Method	Estimated Cost (US\$)	Expected TOR Preparation Date	Expected Training Date
Component One - Improving economic governance, property rights institutions and business facilitation					
Regulatory business environment reform					
1-T	1. Staff secondment / attachment (various contract)	SS	90,500	7/08	10/08
2-T	2. Advocacy with Parliamentary committees (various contract)	SS	50,000	8/07	11/07
Improving Access to commercial justice (High Court)					
3-T	1. Case Audit management training	SS	27,800	9/07	1/08
4-T	2. Regional Study tours (3 judges/3 staff)- one week	SS	14,700	9/07	1/08
5-T	3. Outside region Study tours (3 judges/3 staff)- one week	SS	31,800	10/07	3/08
6-T	4. Attachment of Judges from common law jurisdiction	SS	150,000	9/07	1/08
7-T	5. Attachment of Judges to region -three months	SS	115,000	9/08	1/09
8-T	6. Training private sector on rules of procedures for the commercial court /a	SS	28,000	4/8	7/08
9-T	7. Training of judicial officers four-five meetings (Continuous legal education) (various contract)	SS	21,000	5/08	8/08
10-T	8. Training of judiciary support staff- meetings	SS / Shopping	23,000	6/08	9/08
Advocacy (Bringing judiciary to people)					
11-T	Launch of the commercial court	Shopping	20,000	2/08	3/08
Improving business and land registration services					
12-T	Training of Department of registration and licensing staff on new procedures	SS / Shopping	50,000	3/08	6/08
13-T	Training of land registration staff on new procedures	SS	50,000	4/08	7/08
Component Two - Strengthening the Department of Private Sector Development					
Establishing a one-stop-shop investment and trade center					
14-T	Sensitization of key stakeholder department	SS	45,000	2/08	5/08
Supporting a sustainable framework for public-private dialogue					
15-T	Training (various contract)	SS/Shopping	25,000	9/08	1/09

16-T	Workshop (various contract)	SS/Shopping	40,000	10/07	2/08
Component 4: Capacity building and implementation support					
17-T	Training of project staff (various contract)	SS/Shopping	100,000	7/07	10/07
18-T	Workshop for steering committee (various contract)	SS/Shopping	40,000	8/07	11/07

Note: All training will be based on agreed training plan that will be prepared by the GOM and approved by the Bank and will include at the least the justification of the training identified and the capacity gap, the intended trainees, the name of the training provider, the duration and cost of training. After the training, the beneficiaries will be requested to submit a brief report indicating what skill have been acquired and how these skills will contribute to enhance his performance and contribute to the attainment of the project objective. The training plan will be prepared and submitted once a year and updated as required.

Table 4: Thresholds for Procurement Methods and Prior Review Works and Goods

Expenditure Category	Contract Value Threshold (US\$)	Procurement Method	Contracts Subject to Prior Review (US\$ millions)
1. Works	<50,000	Shopping	None
2. Goods	>=250,000	ICB	All Contracts
	>=50,00 < 250,000	NCB	None
	<50,000	Shopping	None
	All value	Direct Contracting	All Contracts

b) Consultant Services

Table 5: Thresholds for Consultants Selection Methods and Prior Review

Expenditure Category	Contract Value Threshold (US\$)	Selection Method	Contracts Subject to Prior Review
Firms	>=100,000	QCBS	All contracts
	<100,000	CQS, LCS, QBS, FBS	First contract
	All values	SSS	All contracts
	All Values	Commercial Practices	None
Individual	>=50,000	IC	All contracts
	All values	Commercial Practices	None

Contracts subject to prior review:

Goods: US\$ 713,260;

Works: US\$ 00,000; (None envisaged)

Consulting Assignments: US\$4,245,900

Total all contracts for Prior Review: US\$ 4,959,160

Overall Procurement Risk Assessment: {Average}

Annex 9: Economic and Financial Analysis

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

231. The cost-benefit analysis of the project presents some difficulties not only because of the scarcity of data on SME sector, the principal project beneficiaries, but also because of the indirect relationship between the technical assistance provided under the project and the stream of benefits, and from the lagged effects of the project. However, a simple cost-benefit analysis model has been built to calculate the net present value (NPV) and the economic rate of return (ERR) in a “with” and “without” project framework on a 12-year forecast timeframe.

232. Benefits have been estimated on the basis of market assessments and experience from the implementation of similar projects in other developing countries. The benefits of the project are expected from: (i) reducing the regulatory burden and costs of doing business; (ii) improving service delivery to the private sector and access to finance for SMEs; (iii) and by strengthening support for technical and business management skills at the firm level.

233. The analysis suggests that a positive NPV of US\$20.33 million at a discount rate of 12 percent and an ERR of 49.44 percent can be anticipated from this project. Table A9.1 below displays the aggregate estimates of the economic cost-benefit analysis of the project.

Table A9.1: Economic and Financial Analysis

	Present Value of Flows	
	Net Financial – Economic	Fiscal Impact Taxes
Benefits (US\$ 000)	20.33	
Cost (US\$ 000)	10.28	
Net Benefits (US\$ 000)	10.05	3.51
ERR (%)	49.44	

Notes: The discount rate used for the economic analysis is 12 percent. The result above is based on a 12-year forecast horizon.

Methodology

234. The main challenges of the economic analysis of this type of private sector development project arise from the fact that the linkage between the effort and activities of the project and the targeted stream of benefits is very loose. As a result, there is no guarantee that project efforts will not leak and dissipate, failing to achieve the desired impact. Also, observed results cannot always be unambiguously attributed to the project.

235. In keeping with common practices in the appraisal of project of this type, it is assumed that technical assistance efforts do yield tangible economic benefits. A distinction is made between project activities whose effects permeate throughout the entire economy from those with effects limited to a sector, as well as between project activities supposed to generate a sustained expansion of the economic base from those yielding increased productivity.

236. Benefits from project subcomponents with presumed economy wide effects will be assumed to affect the Gross Domestic Product (GDP) directly, whereas those from sector limited effects are supposed to affect the GDP indirectly, after proper adjustment to account for the elasticity of the GDP with respect to the sector. Benefits from sustained economic base expansion project subcomponents are supposed to constitute a persistent increase in economic growth as such subcomponents create a dynamic of economic expansion. Productivity enhancement project subcomponents benefits are seen as eliciting transitory growth (one-time growth).

237. Table A9.2 shows the assumed reach of each subcomponent of the projects. Improving services at the business and land registry and Establishing a one-stop-shop at the Malawi trade and investment center subcomponents are supposed to yield economy wide and economic base expansion effect because it will result in increasing the rate of net business creation due to lessened barrier and obstruction to entry. They also supposed to have an economy wide effect following an increased incentive for foreign investors and guest workers to settle in the country and an improvement in the business environment.

238. The Establishing of a sustainable SME venture finance institution/ investment fund (MoF/Private Sector), Support to SME productivity enhancement and establishing a viable rural finance institution is seen to yield benefits that have an economy wide reach in boosting the productivity of the existing base of MSME and improved servicing of firms. The subcomponents Establishing an institutional framework for Public Private Partnership, Improving private sector development policy analysis and delivery and Supporting a sustainable framework for public-private dialogue are presumed to carry an economy wide reach in both the economic base expansion and the productivity dimensions.

239. A conventional methodology is used for carrying out the economic analysis of the project by estimating future stream of costs and benefits and deriving net benefits to calculate the net present value (NPV) and the economic rate of return (ERR) based on 12-year forecast horizon. NPV is positive when ERR is greater than the assumed discount rate. The NPV is the decision criteria. Cost-benefit analysis was carried out for all the subcomponents of each of the following components of the project: (i) business environment improvement, (ii) and economic diversification. The project impact is expected to start materializing during the first year of project implementation, except for three subcomponents assumed to yield their effects gradually, reaching full effect by the fifth year.

240. A dynamic econometric model describing Malawi's constant price GDP growth rate is developed, using IMF World Outlook annual data (and Stanbic Bank, Research economics, Malawi 2007). To capture Malawi's interdependency with South Africa's economy and the rest of the World, Malawi's growth rate is assumed to depend on South Africa growth rate which in turn is supposed to depend on the Advanced Economies growth rate.

241. Measurement of economic benefits in the institutional development support and business and regulatory reforms is difficult because the project services provided to firms are indirect. Therefore, following common practices, the simple assumption that financial costs and benefits can be equated with the economic costs and benefits of the project is adopted.

242. Also adopted is the commonly accepted assumption in similar economic analyses that the support the project provides would increase efficiency of the supported recipients to the point of yielding an increase in economic outputs that is twice the amount of the disbursement. In each year, for most project subcomponents, project results are estimated to be two times the amount disbursed.

Table A9.2 Economic Impact of Project Subcomponents

	Economy Wide Effects		Sector Specific Effects	
	Enhanced Growth	Improved Productivity	Enhanced Growth	Improved Productivity
COMPONENT 1 Strengthening private property rights institutions and business facilitation	<i>A: Streamlining the regulatory environment for business</i> <i>B: Improving access to commercial justice</i>			
	<i>C: Improving services at the business and lands registries.</i>			
	<i>A: Establishing a one-stop-shop Investment and Trade Center</i> <i>B: Establishing an institutional framework for Public Private Partnerships</i> <i>C: Strengthening the Department of Private Sector Development</i> <i>D: Supporting a sustainable framework for public-private dialogue</i>		Improved Private Sector support to the private sector Enhanced Private Sector Productivity due to improved private business atmosphere	
COMPONENT 2 Strengthening private sector development agencies and services	Increased number of new businesses. Market development			
	Market development			
	Improved Private Sector support to the private sector Enhanced Private Sector Productivity due to improved private business atmosphere			
COMPONENT 3 Promoting access to finance and productivity	Market development. Improved servicing of firms		Increased access to finance and productivity.	Agriculture and Export
	Market development. Improved servicing of firms		Increased access to finance and productivity.	Agriculture and Export
	Market development. Improved servicing of firms		Increased access to finance and productivity.	Agriculture and Export

243. If the project subcomponent is assumed to have an economic base expansion reach, its economic benefits are interpreted as a direct contribution to the GDP. The share of this contribution to the GDP is used as the increase in the growth rate of the GDP. The dynamic model of the GDP is used to derive the sequence of GDP growth rates associated with the implementation of the project. If the project subcomponent is deemed to yield a rise in productivity, this effect is captured as a one time multiplier shift to the GDP levels.

244. To derive the benefits of the subcomponent, baseline GDP growth rates forecasts is first obtained, using the dynamic GDP growth model and the corresponding GDP estimates are calculated. These would correspond to the 'without' subcomponent growth forecasts. Next, the GDP growth rates corresponding to the 'with' the subcomponent are estimated using the growth rate model, after accommodation of the shift in growth rates resulting from the project subcomponent's contribution to GDP growth. Calculation of the GDP levels using the revised growth rates and adjustments for the productivity multipliers as appropriate then yield the final 'with' project subcomponent GDP levels. The project subcomponent benefits cash flows are estimated as the difference between the 'with' and 'without' project subcomponent GDP.

Base Case Results

245. Table A.9.3 below shows that the Net Present Value of the net benefits of the components of the project at the discount rate of 12 percent are estimated at \$3.89 million for component 1, \$2.29 million for component 2 and \$3.86 million for component 3. The ERR for the three components are estimated at 54.04 percent, 42.88 percent, and 49.69 percent respectively. Substantial fiscal benefits of \$1.36, \$0.80 millions and \$1.35 are expected to accrue out of components 1, 2 and 3 of the project, respectively, owing to the rather large share of tax revenues on the GDP.

246. The project is expected to have positive impact on direct employment creation due to the increased production. Supported SMEs are expected to create a minimum of 2500 direct jobs by the end of the project. Through the matching grants components for BDS, Seed Capital Fund, and financial institutions, there is a straightforward and direct relationship between investment and job creation compared with other project components, where employment generation is easily quantified.

Main assumptions

247. Based on the information from field visits and experience from similar projects in other African countries, the following assumptions were made:

- a. It is assumed that financial costs and benefits can be equated with the economic costs and benefits of the project are assumed.
- b. Most project subcomponents are supposed to yield increased efficiency of the supported recipients to the point of generating an initial increase in economic output; such an initial output is interpreted as an impulse from the project subcomponent;
- c. So the ratio between the initial impulse and the GDP is interpreted as the initial contribution of the project subcomponent to the GDP growth in case of a subcomponent acknowledged to have an economic base expansion reach. The share of this contribution to the GDP is used as the increase in the growth rate of the GDP. The dynamic model of the GDP is used to derive the sequence of GDP growth rates associated with the implementation of the subcomponent;

Table A.9.3: Detailed Economic Cost-Benefits Analysis

	Net Present Value of Flows in \$000			Economic Rate of Return	Fiscal NPV		Impact
	Benefits	Costs	Net Benefits		Taxes	Expenses	
COMPONENT 1: Improving economic governance, property rights institutions and business facilitation	7202.56	3310.34	3892.22	54.04%	1362.28	-	
A: Streamlining the regulatory environment for business (MoJ)	1483.36	796.10	687.26	23.3%	240.54	-	
B: Improving access to commercial justice (HC, Commercial Division)	2043.70	1070.86	972.84	23.5%	340.49	-	
C: Improving services at the business and lands registry	3675.49	1443.37	2232.12	60.7%	781.24	-	
COMPONENT 2: - Strengthening private sector development policy and services	\$5,350	\$3,056	\$2,294	42.88%	802.90	-	
A: Establishing a one-stop-shop at the Malawi Investment and Trade Center	\$954	\$531	\$423	44.34%	148.05	-	
B: Establishing an institutional framework for Public Private Partnership	\$2,212	\$1,288	\$924	41.77%	323.40	-	
C: Improving private sector development policy analysis and delivery	\$1,280	\$732	\$548	42.81%	191.80	-	
D: Supporting a sustainable framework for public-private dialogue	\$904	\$505	\$399	44.14%	139.65	-	
COMPONENT 3: Promoting access to finance and productivity	\$7,783	\$3,916	\$3,867	49.69%	1353.45	-	
A. Establishing a sustainable SME fund	\$2,051	\$1,139	\$912	44.47%	319.20	-	
B. Support to SME productivity enhancement	\$4,542	\$2,101	\$2,441	53.74%	854.35	-	
C. Establishing a viable rural finance institution	\$1,190	\$676	\$514	43.19%	179.90	-	

- d. With the output estimate established, its share of the GDP is treated as a permanent jump in the GDP growth rate;
- e. For project subcomponents such as the Support to SMEs productivity enhancement, it is assumed that they will elicit a one-time lift of the productivity from the current level to the targeted level. In this case, the target productivity level is assumed to be the lower bound of the current productivity.;
- f. Correlations between GDP growth rates and those of specific sectors of interest (e.g. agriculture, tourism) are exploited to distribute the loose effects of the project on different sectors whenever necessary;
- g. Project subcomponents are assumed to accrue their benefits according to phase-in schedules ranging from immediate effects (i.e. effects happening in the second to third year of project subcomponent implementation).

Sensitivity Analysis

248. Sensitivity analyses were effectuated through adoption of more conservative scenarios. The first conservative scenario consists in assuming a shorter forecasting horizon of only 8 years as opposed to the baseline of 12 years.

Expected Benefits

249. Economic benefits expected from the project include job creation, increased productivity and diversification of the economy.

Annex 10: Project Preparation and Supervision

Malawi: Business Environment Strengthening Technical Assistance Project (BESTAP)

	Planned	Actual
PCN review	January 8 th , 2007	January 8 th , 2007
Initial PID to PIC	February 5 th , 2007	February 1 st , 2007
Initial ISDS to PIC	February 9 th , 2007	February 12 th , 2007
Appraisal	April 2 nd – 6 th , 2007	March 19 th - 23 rd , 2007
Negotiations	April 9 th – 13 th , 2007	April 10 th – 13 th , 2007
Board/RVP approval	May 24 th , 2007	
Planned date of effectiveness	August 1 st , 2007	
Planned date of mid-term review	November 2009	
Planned closing date	December 31 st , 2012	

Key institutions responsible for preparation of the project: (i) Ministry of Industry, Trade and Private Sector Development, (ii) Ministry of Justice and (iii) Ministry of Finance.

Bank staff and consultants who worked on the project included:

Name	Title	Unit
Mr. Constantine Chikosi	Task Team Leader	AFTPS
Mr. Gert Van Der Linde	Lead FM Specialist	AFTFM
Mr. Wedex Ilunga	Procurement Spec	AFTPC
Ms. Muthoni W. Kaniaru	Senior Counsel	LEGA
Ms. Modupe Adebawale	Senior Finance Officer	LOAG2
Mr. Dileep Wagle	Lead PSD Specialist	AFTPS
Ms. Ingrid Chikazaza	PSD Consultant	AFTPS
Ms. Irene F. Chacon	Operations Analyst	AFTPS
Mr. Khwima Nthara	Economist	AFTP1
Ms. Yeshareg Dagne	Program Assistant	AFTPS
Ms. Grace Soko	Program Assistant	AFMMW
Ms. Esther Lozo	Program Assistant	AFMMW

Bank funds expended to date on project preparation: (i) Bank resources: \$110,000.00 (ii) Trust funds: 0

Estimated Approval and Supervision costs: (i) Remaining costs to approval: \$20,000.00 (ii) Estimated annual supervision cost: \$110,000.00

Annex 11: Documents in the Project File

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

1. Project Concept Note
2. Minutes of Concept Note Review Meeting
3. Financial Management Capacity Assessment
4. Procurement Assessment
5. Doing Business Report 2007: Malawi Profile
6. Investment Climate Assessment 2006
7. Diagnostic Trade Integrated Survey 2004
8. Power Point Presentation on Economic Laws (to be revised)
9. Motivation Essay – Commercial Courts
10. Power Point Presentation – Registrar General’s Office
11. Draft Malawi Investment Policy
12. Draft Malawi Investment & Trade Center Bill
13. Executive Summary – Public Private Partnerships
14. Final Report – Public Private Partnerships
15. Power Point Presentation – Public-Private Dialogue
16. Concept Note – SME Investment Fund
17. Report on Matching Grant Scheme
18. Merger Analysis Paper – MRFC & MSB Merger
19. MRFC Restructuring Report
20. MSB Restructuring Report
21. Summary on Short Term restructuring options – MRFC & MSB Merger
22. Executive Summary – MRFC & MSB Merger
23. Aide Memoir – Joint WB/ IFC Mission (22 – 26 January, 2007)
24. Aide Memoir – BESTAP Preparation Mission (4 – 15 February, 2007)

Annex 12: Statement of Loans and Credits

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

Project ID	FY	Purpose	Original Amount in US\$ Millions				Cancel.	Undisb.	Difference between expected and actual disbursements	
			IBRD	IDA	SF	GEF			Orig.	Frm. Rev'd
P084148	2006	MW-Irrig, Rural Lvlhds & Agr SIL (FY06)	0.00	0.00	0.00	0.00	0.00	38.03	7.13	0.00
P057761	2006	MW-Infrastr Srvcs SIM	0.00	0.00	0.00	0.00	0.00	41.20	0.33	0.00
P083401	2005	MW-Health Sec Supt SIM (FY05)	0.00	0.00	0.00	0.00	0.00	8.65	1.14	0.00
P070823	2005	MW-Edu Sec Supt SIL 1 (FY05)	0.00	0.00	0.00	0.00	0.00	24.89	-6.33	0.00
P075247	2004	MW-Com Based Rural Land Dev (FY04)	0.00	0.00	0.00	0.00	0.00	17.16	4.68	0.00
P073821	2004	MW-Multi-sectoral AIDS - MAP (FY04)	0.00	0.00	0.00	0.00	0.00	13.59	-10.03	0.00
P078408	2003	MW-Fin Mgmt, Transpar & Account (FY03)	0.00	23.70	0.00	0.00	0.00	14.70	9.37	0.00
P075911	2003	MW-MASAF APL 3 (FY03)	0.00	32.80	0.00	0.00	0.00	0.09	-4.78	0.00
P070235	2001	Regional Trade Fac. Proj. - Malawi	0.00	15.00	0.00	0.00	0.00	12.60	11.08	0.00
P063095	2000	MW-Priv & Utility Reform (FY00)	0.00	28.90	0.00	0.00	0.00	6.78	4.01	1.21
Total:			0.00	100.40	0.00	0.00	0.00	177.69	16.60	1.21

MALAWI
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

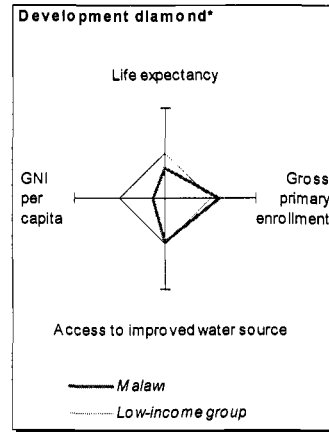
FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
2000	NICO	0.00	0.52	0.00	0.00	0.00	0.52	0.00	0.00
	Total portfolio:	0.00	0.52	0.00	0.00	0.00	0.52	0.00	0.00

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
	Total pending commitment:	0.00	0.00	0.00	0.00

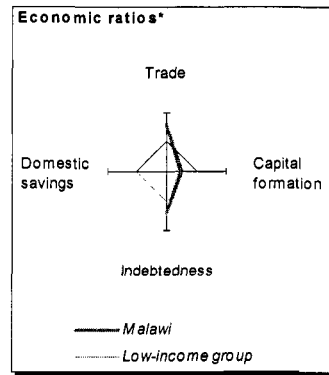
Annex 13: Country at a Glance

MALAWI: Business Environment Strengthening Technical Assistance Project (BESTAP)

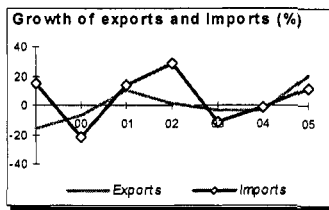
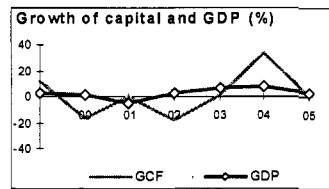
POVERTY and SOCIAL	Sub-Saharan Africa		
	Malawi	Africa	Low-income
2005			
Population, mid-year (millions)	12.9	741	2,353
GNI per capita (Atlas method, US\$)	160	745	580
GNI (Atlas method, US\$ billions)	2.1	552	1364
Average annual growth, 1999-05			
Population (%)	2.3	2.3	1.9
Labor force (%)	2.0	2.3	2.3
Most recent estimate (latest year available, 1999-05)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	17	35	30
Life expectancy at birth (years)	40	46	59
Infant mortality (per 1000 live births)	110	100	80
Child malnutrition (% of children under 5)	22	29	39
Access to an improved water source (% of population)	73	56	75
Literacy (% of population age 15+)	64	..	62
Gross primary enrollment (% of school-age population)	125	93	104
Male	123	99	110
Female	126	87	99



KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1985-2005				
	1985	1995	2004	2005	2006
GDP (US\$ billions)	1.1	14	19	2.1	2.1
Gross capital formation/GDP	16.8	17.4	15.3	14.5	14.5
Exports of goods and services/GDP	24.2	30.4	26.8	26.8	26.8
Gross domestic savings/GDP	12.9	-0.3	-9.1	-11.6	-11.6
Gross national savings/GDP	..	-4.0	-5.3	-7.4	-7.4
Current account balance/GDP	-8.5	-12.2	-19.1	-19.2	-19.2
Interest payments/GDP	2.7	2.8	12	..	..
Total debt/GDP	90.2	102	179.6	..	..
Total debt service/exports	39.0	26.5	9.3	..	..
Present value of debt/GDP	..	..	57.1	..	..
Present value of debt/exports	..	..	169.8	..	..
(average annual growth)					
GDP	2.4	2.7	7.1	2.6	6.8
GDP per capita	-0.9	0.1	4.8	0.4	6.2
Exports of goods and services	17	19	-3.0	20.2	3.0



STRUCTURE of the ECONOMY	1985-2005				
	1985	1995	2004	2005	2006
(% of GDP)					
Agriculture	42.9	30.4	38.9	34.7	34.7
Industry	21.9	19.6	17.2	19.4	19.4
Manufacturing	14.5	15.8	11.4	12.5	12.5
Services	35.2	50.0	44.0	45.9	45.9
Household final consumption expenditure	69.4	79.4	92.2	94.9	94.9
General gov't final consumption expenditure	17.7	21.0	16.9	16.7	16.7
Imports of goods and services	29.9	48.1	51.2	53.0	53.0
(average annual growth)					
Agriculture	1.9	4.0	2.7	-9.1	-9.1
Industry	3.4	1.1	10.2	15.4	15.4
Manufacturing	3.1	-0.7	6.9	11.9	11.9
Services	2.4	1.3	5.3	6.2	6.2
Household final consumption expenditure	4.8	3.2	2.1	2.7	2.7
General gov't final consumption expenditure	1.6	3.7	12.1	1.5	1.5
Gross capital formation	-1.4	-1.2	33.2	0.3	0.3
Imports of goods and services	2.8	2.3	-0.7	11.0	11.0



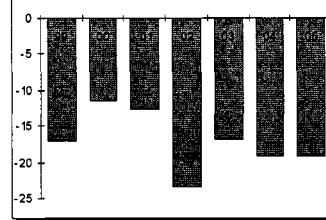
Note: 2005 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

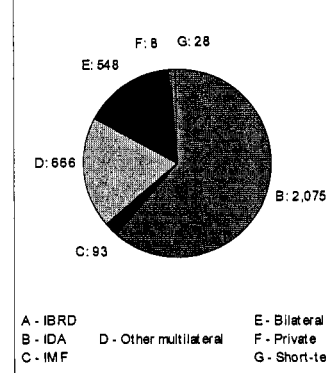
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

BALANCE of PAYMENTS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Exports of goods and services	276	429	511	578
Imports of goods and services	331	548	947	1066
Resource balance	-54	-119	-436	-488
Net income	-53	-47	-45	-41
Net current transfers	..	-4	18	31
Current account balance	-97	-171	-363	-398
Financing items (net)	54	258	379	445
Changes in net reserves	42	-87	-16	-47
Memo:				
Reserves including gold <i>(US\$ millions)</i>	49	15	134	165
Conversion rate <i>(DEC, local/US\$)</i>	17	15.3	108.9	118.4

Current account balance to GDP (%)

EXTERNAL DEBT and RESOURCE FLOWS

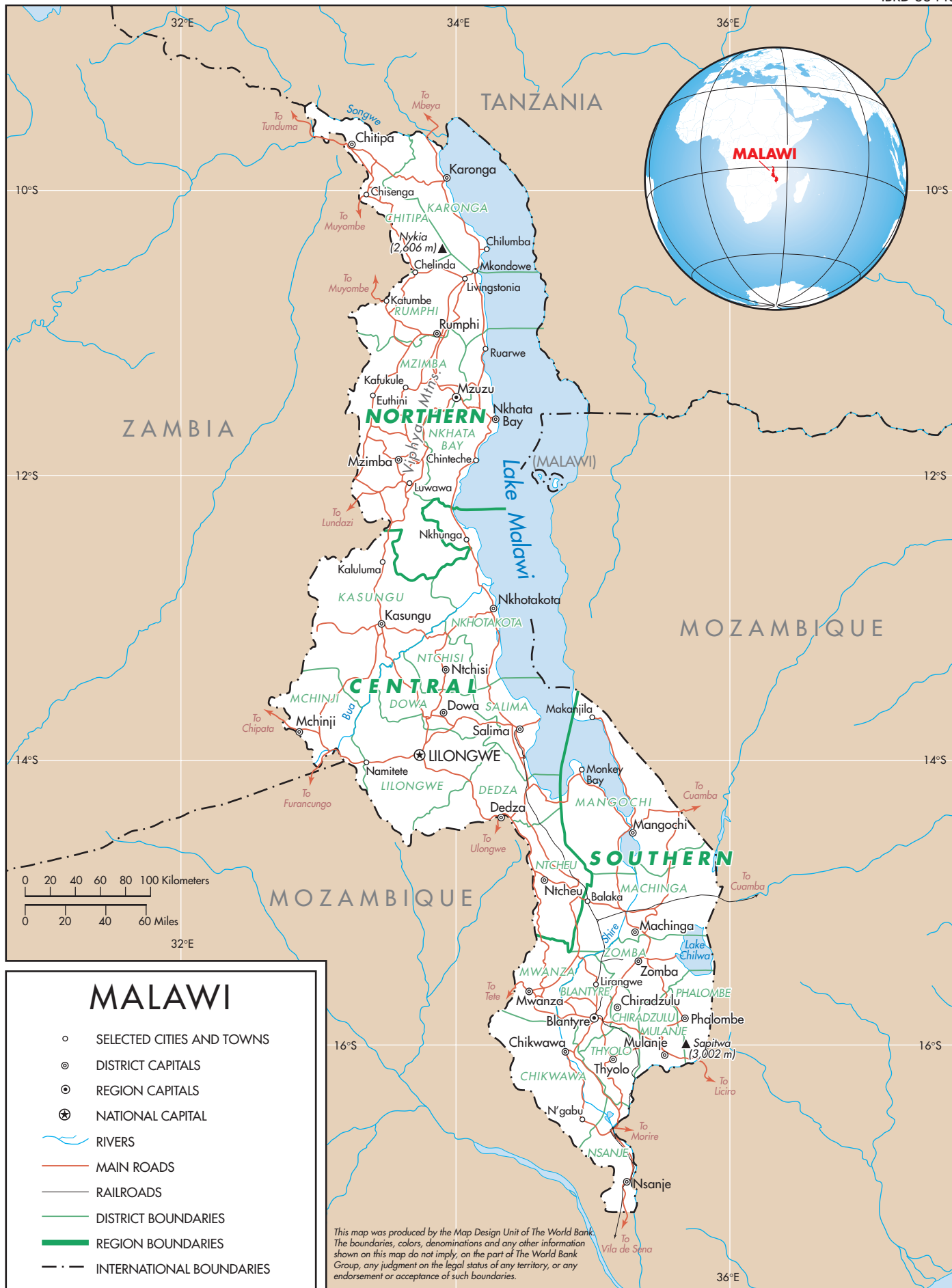
	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	1021	2,239	3,418	..
IBRD	69	55	0	0
IDA	322	1251	2,075	1940
Total debt service	10	18	60	..
IBRD	7	18	1	0
IDA	3	16	25	50
Composition of net resource flows				
Official grants	38	262	348	..
Official creditors	52	173	62	..
Private creditors	-29	-23	-2	..
Foreign direct investment (net inflows)	1	6	16	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	125	100	54	..
Disbursements	34	73	62	45
Principal repayments	2	19	12	35
Net flows	32	55	50	10
Interest payments	8	16	14	16
Net transfers	24	39	37	-5

Composition of 2004 debt (US\$ mill.)


Note: This table was produced from the Development Economics LDB database.

8/13/06

MAP SECTION



MALAWI

- SELECTED CITIES AND TOWNS
- ⊙ DISTRICT CAPITALS
- ⊙ REGION CAPITALS
- ⊙ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- DISTRICT BOUNDARIES
- REGION BOUNDARIES
- INTERNATIONAL BOUNDARIES

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