

USAID/Malawi

ACTION PLAN

for

Fiscal Years 1987 - 1989

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BEST AVAILABLE

USAID/MALAWI ACTION PLAN

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I. STRATEGY RECAP AND POLICY AGENDA

A. Strategy

The goal of the U.S. economic assistance to Malawi is to contribute to national economic growth in a manner which enhances the social and economic well-being of the average rural Malawian. The USAID strategy is focused on four major development problems which impede sustained growth:

1. low per capita income due to low smallholder agriculture productivity and limited sources of rural income and off-farm employment opportunities;
2. critical shortage of foreign and domestic financial resources;
3. high population growth rate, low child survival rates and overall poor rural health quality; and
4. insufficient technical, development planning, analytical and management capacities in both the public and private sectors.

The nature of these problems requires a cross-sectoral investment approach to achieve our program goal. Consequently, the portfolio of second generation programs and projects which we are now designing are intended to simultaneously address a number of these "strategic targets." Moreover, they are highly complementary and, in some instances, interdependent. For example, raising agricultural productivity requires strengthening the institutional base to provide extension services as well as agronomic research to enable crop diversification. Shifting to higher value crops will not only improve rural farm income but also will increase the availability of foreign exchange and domestic revenue required for national economic development. Finally, improving smallholder productivity is constrained by poor rural health conditions and is undermined by rapid population growth. Given these inter-relationships, USAID/Malawi's strategy focuses on several key constraints rather than sectors per se.

Attachment 1 provides a schematic overview of USAID's investment strategy: the major development problems upon which our program is focused; the major causes of these problems; the current and proposed AID-financed interventions; and the Mission's key medium-range and long-term objectives. This strategic orientation will be detailed in Section III, Key Program Targets.

In responding to the key development constraints, the Mission has developed a program which is fully consistent with Agency policies, strategies and priorities. Attachment 2 demonstrates how A.I.D.'s four pillars--policy dialogue, technology transfer, human resource and institutional development, and private sector/privatization--are woven throughout the investment portfolio.

USAID/Malawi plans to maximize the use of non-project assistance to tackle the development problems upon which the Mission's strategy is focused. The Mission has opted for this assistance mechanism for several reasons. First, there is a well established need for balance of payments assistance to Malawi to meet a severe foreign exchange resource gap. At the January 1986 Consultative Group meeting, it was agreed that economic growth can be sustained only if at least \$145 million in additional concessional aid, primarily quick disbursing non-project assistance, is forthcoming during the next five years. Since the CG, Malawi's economic situation has worsened markedly (see Program Target #2 for details). The Government of Malawi (GOM) is currently drafting a Development Policy which will establish the policy framework for the next five years and will be the foundation for the GOM's preparation for the next CG, currently planned for November 1987. Second, the Government of Malawi has a good reputation for effective administrative and financial controls which assure efficient use of donor assistance. However, with some 200 development projects, financed by 50 different donors, each with its own set of rules, regulations, procedures and conditions, the GOM's planning and management systems are already overburdened. The non-project assistance mode will permit the Mission to work with the GOM on program planning, monitoring and policy issues. Third, many of the development problems that USAID/Malawi's strategy aims to address can be eased with the use of local currency resources, much of which can be marshalled from the private sector. Consequently, the generation and utilization of local currency is an integral part of our strategy of employing the non-project assistance approach.

Although constantly threatened by exogenous factors such as excessively high transport costs and regional instability, the Government of Malawi (GOM) has laid a sound foundation for future economic growth. Many of the policy issues which might impede a program such as ours have already been dealt with by the GOM. Producer prices have been dramatically increased over the past five years to promote agricultural diversification and raise rural incomes, while maintaining food self-sufficiency. The country's nascent indigenous private sector is looked to as a key to national economic development. The GOM has created a positive policy environment for promoting SME development and expansion and is directing large amounts of donor assistance toward strengthening requisite intermediate financial institutions and business advisory services. On the macroeconomic front, the GOM has maintained an active exchange rate policy aimed at stimulating the diversification and growth of exports and promoting efficient import substitution, and has decontrolled consumer prices on all but five "strategic" items (petroleum, vehicle spare parts, fertilizer, low grade meat and sugar). In the health sector, the GOM openly advocates child spacing, actively encourages and relies heavily on private sector participation in health care delivery, and endorses fees-for-services.

B. Policy Agenda

Therefore, the Mission's policy agenda over the next two years will concentrate on reinforcing ongoing efforts, particularly:

- sharpening the focus of agricultural research and furthering integration of research and extension services;
- Transport* - removing additional policy constraints and establishing necessary incentives for SME expansion;
- fertilizer subsidy removal and producer price incentives;
- privatizing the assets of the Agricultural Development and Marketing Corporation (ADMARC), Malawi's largest parastatal;
- increasing domestic and foreign sources of investment capital;
- expanding USAID-financed health training programs to include private sector service providers; and
- moving GOM's current child spacing policy more directly toward family planning and increasing promotion of FP services and commodities.

In addition, through studies to be initiated in 1987, the Mission expects to become involved in several new areas of policy dialogue which have emerged from our efforts to date:

- increasing private sector participation in agricultural produce marketing;
- food security and the management of a strategic grain reserve; and
- strengthening capital markets and promoting domestic savings.

II. OVERALL PROGRESS AND IMPLICATIONS

Implementation and management of USAID/Malawi's project portfolio are good and improving. During the past 18 months, the Mission has concentrated on refining its strategy, streamlining and consolidating the portfolio, strengthening project management, and initiating several new investments to achieve our strategic objectives.

The Mission's strategy is framed around four major development problems (see Attachment 1). Once the strategic focus was set the Mission conducted a comprehensive review of the project portfolio to clarify and reestablish the relationship and relevance of the various activities to the Mission's strategy. As a result, numerous activities were identified for discontinuance after their PACD, critical new investments have been

initiated or conceptualized which cross-sectorally attack strategy constraints to achieve program objectives, and proposed regionally or centrally funded activities deemed to be outside the Mission's strategic focus have been disapproved. (This is discussed in detail under Section IV, Work Plan). Next, to strengthen implementation, a monthly project planning and monitoring system has been instituted which, in turn, feeds into the Bureau's biannual project implementation reporting system. REDSO technical staff and legal advisor are being called upon early in the planning process to help avoid subsequent design or implementation problems. Finally, Mission management capacity has been greatly strengthened with the establishment of several new USDH positions, the hiring of Malawian professional and support staff, and Mission reorganization. (This is also discussed in greater detail under Section IV, Work Plan).

Good progress has been made toward achieving program objectives. The development of necessary institutions and critical manpower is being accomplished. Child survival and family planning activities are advancing and being better focused. Policy dialogue to increase smallholder productivity and income, to help rectify the balance of payments situation, and to improve rural health standards and slow population growth rates has been initiated and is proceeding well. Private sector development and privatization efforts are progressing, although at a slower pace than anticipated. The most problematic area is support to redress Malawi's international transport crisis.

A. Agriculture

In the agricultural sector, A.I.D. assistance has greatly strengthened the institutional capacity of the Ministry of Agriculture and has been the catalyst for a major reorganization of the Government's research and extension activities. The Fertilizer Subsidy Removal Program (AEPRP I) has exceeded performance targets in its first two years and, in concert with producer price realignments, has resulted in significant crop diversification. Because of the dramatic changes in cropping patterns and fertilizer demand, a comprehensive impact study of this economic policy reform program will be conducted shortly which will provide the basis for continued policy dialogue on input and producer prices.

B. Health

Excellent progress has been made in the provision of rural potable water and community training in health and sanitation; upgrading of health personnel in primary health care and child spacing; child survival activities, including ORT and immunizations; and family planning dialogue. These accomplishments serve as the foundation for a proposed, expanded health sector program.

C. The Private Sector

Private sector development activities are progressing, although at a slower pace than had been anticipated. A.I.D.-funded technical assistance and budgetary support are helping improve the operational effectiveness of several SME development institutions. The Mission's assistance structure, however, is overly complex, making overall planning and implementation cumbersome. The current portfolio is being restructured and follow-on SME activities will be greatly streamlined. A.I.D. funding has been provided directly to or on-lent by the GOM to intermediate financial institutions (IFI's) to provide necessary credit for SME expansion. These credit funds, however, are being drawn upon very slowly as the IFI's take a very cautious approach to high risk, high cost, rural-focused loans. It is apparent that interest rates charged to IFI's will have to be reduced and loan appraisals improved if A.I.D.'s assistance is to have the desired impact. The most significant contribution to date is the conclusion of a major study on constraints and barriers to SME development which will serve as the basis for the GOM's sector strategy, continuing policy dialogue, and future directions of A.I.D. assistance in this domain.

D. Policy Reform

The Mission's second economic policy reform program is focused on parastatal divestiture. While the Government is strongly committed to a major restructuring and reform of the country's largest parastatal, actual divestiture is proceeding slowly due to political and economic uncertainties within the Southern Africa region which are generally eroding investor confidence. However, a program-funded firm with considerable privatization experience will begin developing a divestiture strategy and will assist in the marketing of assets.

E. Transport

Resolution of Malawi's transport problems is critical to economic development. Unfortunately, implementation of A.I.D.'s initial transport project has moved very slowly. The major impediments to establishing an indigenous international trucking industry has been the Agency's inability to interpret and apply A.I.D. and federal procurement regulations and policy without undermining the financial viability of the project. Consequently, other donors now will supply equipment that might have otherwise been procured from American manufacturers and, therefore, the A.I.D. component will be redesigned. Donor coordination on the \$100 million Northern Corridor Project has been excellent and the delays encountered to date in finalizing the design and negotiating bilateral agreements are no more than would be expected on an endeavor of such magnitude and complexity.

*What's happening
N. + Inid*

F. Implementation Problems

Generic problems which have impeded project implementation are contracting and procurement. Major construction activities in two projects were delayed almost two years due to requirements to solicit bids abroad since all local contractors were deemed ineligible or unqualified. Moreover, because of lack of effective competition, all bids were 30-100% higher than estimates by European-owned firms which are an integral part of the local construction industry. Consequently, USAID and the GOM have mutually concluded that direct A.I.D. involvement in construction will be minimal in the future. Long delays in offshore procurement activities managed by inexperienced technical assistance contractors also adversely affected two projects. To redress this problem, the Mission is now involving the Regional Commodity Management Office in the planning of all procurement and using only professional procurement services agents under AID/W's new IQC's.

G. Conclusion

In conclusion, during the last year and a half, the Mission has considerably sharpened program focus, improved portfolio management, and made good progress toward achieving strategic objectives.

Political and economic developments in the region will directly impact upon economic development progress in Malawi and the extent to which USAID/Malawi can effectively pursue, through its present and planned project portfolio, its strategic objectives. The following section of the Action Plan is premised on the current regional situation remaining largely unchanged over the next two years. However, because of the looming threat of even more far-reaching political and economic disruptions within the region, the Mission has prepared a thought piece entitled "The Impact of Regional Instability on the USAID/Malawi Program," as an appendix to the Action Plan.

III. KEY PROGRAM TARGETS

USAID/Malawi's strategy is focused on four major development problems. Because the problems are interrelated, new programs and projects will simultaneously address a number of these "strategic constraints." The matrix in Attachment 1 provides a schematic overview of the Mission's analysis of the problems, our key program targets, and the Mission's program interventions and key objectives.

Problem #1: Low per capita income due to low smallholder productivity and limited sources of rural income and off-farm employment opportunities

A. Context/Causes

Over 85% of the Malawian labor force earns a major portion of their income from smallholder production. However, the average farm is quite small (1.2 hectares) and consequently production is geared principally to farmer consumption needs. Only about \$50 in cash is derived annually by the average smallholder and it is estimated that the large majority (85%) of rural Malawians live at or below an absolute subsistence level. The annual per capita agricultural production growth rate over the last decade has been only 0.4%. The major causes of this situation are: low labor productivity; limited arable land; declining soil fertility; weak forward and backward linkages between farmers, extension agents and researchers resulting in a lack of appropriate, affordable technical packages for the smallholder; rising costs of inputs; insufficient seasonal credit for inputs; and inefficient input distribution systems.

Off-farm employment opportunities are very limited due to: lack of technical, financial and managerial skills needed to identify, analyze and capitalize on business opportunities; and limited credit and support services available to rural entrepreneurs.

South Africa
B. Progress and Problems

A number of policy dialogue and program benchmarks were identified in the FY 87 Action Plan:

- begin discussions on fertilizer subsidy removal;
- provide incentives to diversify production through realigning producer prices;
- re-examine Ministry of Agriculture's (MOA) manpower development plans;
- strengthen research-extension linkages;
- identify most serious smallholder problems and initiate research
- improve policy-making and planning capacity in the MOA;
- revitalize GOM's private sector policy and planning capacities; and
- conduct an assessment of SME development.

During the past two years, progress in this domain has exceeded performance targets. A.I.D.'s most significant impact on the agriculture sector, in collaboration with the World Bank, was in reorganizing how the MOA plans, manages and conducts agronomic research and provides extension services:

- on-farm (adaptive) research teams (ART's) were established within the Agricultural Development Divisions (ADD's) to diagnose farmers' problems and to evaluate new technologies under farm conditions;
- on-station (applied) commodity teams were formed to solve problems identified by the ART's;
- the Agricultural Research Council was established to set research priorities and review progress/relevancy of research programs; and
- the Management Steering Committee was formed to oversee and coordinate major donor investments in the agricultural sector.

Other changes were made to increase effectiveness and efficiency and to cut costs:

- research and extension efforts were integrated at the field level;
- the research network was reduced from eleven to three major stations;
- and a research cost recovery program was initiated whereby private seed companies now pay for all maize breeding trials.

In addition to these institutional changes, A.I.D. helped strengthen the Ministry's institutional capacity through the construction and equipping of over 60 research station structures and the training of 39 Malawians to the masters or PhD level at U.S. universities.

The smallholder has already begun to benefit from improved research and extension activities. The production of a particular groundnut bred in Malawi increased 42% this past year. A new fertilizer package has been developed which is as effective as traditional fertilizers but more economical. Demonstration programs were completed at 24 sites around the country. The introduction of smaller, more affordable packages is enabling many smallholders to begin using fertilizers for the first time.

Institutional strengthening of research and extension and MOA staff development is continuing through A.I.D.'s provision of a nine person technical assistance team, while the World Bank is helping improve the MOA's planning capacity through additional advisors and training.

On the policy front, A.I.D. became involved in input and producer price dialogue as part of the World Bank's Structural Adjustment Loan program. Performance targets in the first two years of A.I.D.'s Fertilizer Subsidy Removal Program (AEPRP I) were exceeded and, in conjunction with producer price realignments, has clearly encouraged (as intended) crop diversification and more rational allocation of resources. However, the dramatic drop in maize production marketed (108,000 MT this year vs 271,200 MT last year) and corresponding shift to groundnuts accompanied by a 20% decline in fertilizer uptake, has worried GOM policy makers.

Consequently, A.I.D. will finance a major study, to be initiated this month, to assess the impact of the program on smallholder production and income.

Much of the progress made to date in small and medium enterprise (SME) development has been in building the requisite financial and service institutions. Technical assistance to the Malawi Union of Savings and Credit Cooperatives (MUSCCO) has helped improve loan administration and financial management, and the numbers and membership of viable rural Co-ops have increased. Likewise, the capacity of INDEFUND, the intermediate financial institution aiding rural entrepreneurs and agribusinesses, to appraise loans and manage credit operations is improving. A.I.D. credit funds are being channeled through both institutions to stimulate SME development. The institutional capacity to conduct pre-feasibility studies and provide business advisory services is also being built. A broad-based committee has been established to provide sector policy guidance, advise on project direction and insure coordination amongst donors and the various SME development institutions. One of A.I.D.'s most important contributions to private sector development was the conclusion of a major study on constraints and prospects for SME growth which is serving as the basis for the GOM's sector strategy, continuing policy dialogue, and new directions for SME development. This study was also used in preparing the new SAL IV package which is principally focused on private sector development.

Two issues have hindered the Mission's private sector activities. The most basic is the complex management structure. Four American entities, funded from two projects, are involved in fielding technical assistance and providing institutional support. This has made project planning and implementation cumbersome and difficult to coordinate. With the demise of one of the PVO's (due to problems unrelated to this program), the Mission and Government will restructure and consolidate A.I.D.'s assistance. Follow-on SME activities will be greatly streamlined. The second problem relates to interest rates, risks and operating costs. At the current rates charged by the GOM on on-lent grant aid, the intermediate financial institutions (IFI's) do not have enough margin to cover high administrative costs and assume the financial risk inherent in new rural enterprises. An alternative would be to move away from higher-risk productive investments to more conservative service sector loans, but this would depart from A.I.D.'s original intent and what the Mission believes should be the proper focus of our assistance to this sector. Consequently, it will be necessary to reduce the interest rates charged to the IFI's for credit capital; develop a more balanced, diversified loan portfolio, including small urban businesses; and direct more assistance toward expansion of successful SME's rather than concentrating on developing new businesses.

A general policy issue which the Mission has to contend with is that of full cost recovery, particularly for business advisory services. Given the geographic spread and relatively small capital associated with rural SME's, DEMATT is simply not able to cover its costs, at least not in the short-run. Alternatives, such as venture capital programs or curtailing their services, are not consistent with A.I.D.'s overall SME objectives.

C. Other Donor Assistance

How covered

Other major donors involved in agriculture and SME development are:

- World Bank

National Agricultural Research (ongoing - \$23.8 million)
Ag. Extension and Planning Support (ongoing - \$11.6 million)
Industrial and Agricultural Credit (ongoing - \$7.8 million)
Smallholder Credit (proposed FY 89 - \$15.0 million)
Industrial Development (proposed FY 89 - \$15.0)

- African Development Bank:

Area Development: Shire Highlands and Mangochi (ongoing - FUA 11.4 million)
Area Development: Zomba (proposed FY 87 - FUA 10.0 million)
Livestock Development (proposed FY-87 - FUA 12.0 million)

- European Community

Agriculture and Fisheries (ongoing Lome II - ECU 23.1 million)
Small Enterprise Development (ongoing Lome II - ECU 4.8 million)
Various agri-rural development projects anticipated under Lome III, amounting to almost ECU 85.0 million, including smallholder tobacco, a fertilizer buffer stock, and additional support to SEDOM

- Japan

Approx. \$19.0 million proposed for unspecified agricultural reforms

- West Germany

Area Development: Kawinga and Liwonde (ongoing - \$5.0 million)
Kawinga and Balaka (proposed - \$3.6 million)
Livestock (ongoing - \$2.0 million)
Small Enterprise Development (proposed - \$4.0 million)

D. Policy and Program Agendas

Following are USAID/Malawi's policy and program agendas to redress the problem of low smallholder productivity and limited rural income and off-farm employment opportunities.

POLICY AGENDA

PERFORMANCE TARGETS

MANAGEMENT ACTIONS

- 1. Reorient commodity research towards composites and improved local varieties particularly maize.
 - 2. Continue fertilizer subsidy removal and shift to high analysis fertilizers.
 - 3. Increase private sector participation in agricultural produce marketing.
 - 4. Initiate broader dialogue on food security and smallholder sector development potential and constraints.
 - 5. Reduction and/or elimination of barriers to SME expansion.
 - 6. Enhance the viability of SME credit programs.
 - 7. Clarification of roles of various institutions supporting SME development.
-
- 1. More extensive breeding efforts on-station, as well as on-farm testing.
 - 2. Reduction of fertilizer subsidy to 12% in 1987/88 and to 5% in 1988/89 (including 5% import levy) and at least 45% of total 1988/89 supply program composed of the new concentrated fertilizers.
 - 3. Licensing of private traders, net decrease in ADMARC purchases of smallholder production, and a shift in ADMARC's role to that of ensuring a minimum or floor price for smallholder production.
 - 4. Complete a study on the need for a strategic grain reserve.
 - 5. Initiate a broad review of smallholder sector, including income generation, nutrition, rural non-farm enterprises and impact of commercial (estate) farming.
 - 6. GOM acceptance of READI study, recommendations and promulgation of SME/Industrial Strategy, as part of Development Policy.
 - 7. Decrease in GOM's on-lending rate from 7% to probably 1%, consistent with other donor grant aid.
 - 8. Greater coordination between institutions, GOM and donors.
-
- 1. A. The Joint USAID/World Bank appraisal mission will review progress and the Ag. Research Council will continually monitor research program.
 - 2. Assess progress and priorities during mid-term project evaluation.
 - 3. A. More clearly define methodology for the calculation of the economic value of fertilizer prior to 87/88 pricing exercise.
 - 4. Assess impact of fertilizer subsidy removal on smallholder productivity and welfare, concurrent with producer price exercise.
 - 5. Public announcement of policy change and study on constraints to increased participation.
 - 6. Develop TOR, in concert with GOM, and contract thru IQC.
 - 7. Assistance of AFR/DP/PAR and PPE in developing TOR and contract as a result of AFIP.
 - 8. High-level GOM/USAID discussions, followed by policy decisions.
 - 9. GOM/INDEFUND/USAID decision and amendment of GOM/INDEFUND channelling agreement.
 - 10. High level GOM/multi-donor discussions, followed by GOM policy decision.
 - 11. Expansion of READI Project Implementation Committee's membership, activities and influence in the sector.

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PROGRAM AGENDA

PERFORMANCE TARGETS

MANAGEMENT ACTIONS

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| <p>1. ART's operating on national basis.</p> <p>2. Increase productivity of traditional crops and identify the most viable crops for smallholder diversification.</p> <p>3. MDA staff development program established and operative.</p> <p>4. Strengthened Women's program.</p> <p>5. Improved agricultural communications service delivery extension themes to more smallholders.</p> <p>6. Increased use of high-analysis fertilizers.</p> | <p>1. ART's working in all 8 ADD's (increased from current 5) by end of 1989.</p> <p>2. 550 trials, leading to 18 verified agro-ecological specific technical packages by the end of 1990.</p> <p>3. 49 officers in advanced degree training programs by end of 1989; 84 person months of off-shore training administered; 4000 person months of in-country training completed.</p> <p>4. 9 women program officers trained and 200 female extension staff trained as trainers by 1990; and 20% of educational materials developed for smallholder will reflect women's involvement in ag. production.</p> <p>5. A pilot mass communications project in one ADD.</p> <p>6. Fertilizer demonstrations in all 8 ADD's by end of 1988 and at least 40% smallholder acceptance rate by end of 1989.</p> | <p>1. Training and placement of personnel.</p> <p>2. Greater integration of ART's with commodity research teams.</p> <p>3. Overall MOA training plan devised; PLO/P's prepared for all off-shore training; USDA assistance, if needed, to plan in-country short-courses.</p> <p>4. AID-funded women's program advisor closely coordinating with extension service in the training of field personnel and with Extensions Aids Branch in the development of material.</p> <p>5. Collaboration between A.I.D. and Bank-funded communications experts.</p> <p>6. More thorough planning and closer oversight by Extension Service, probably using Peace Corps Volunteers; and mobilization of Extension Aids Branch and more effective publicity.</p> |
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PROGRAM AGENDA

PERFORMANCE TARGETS

MANAGEMENT ACTIONS

- | | | |
|--|---|--|
| 7. Rural savings mobilization. | 7. 50% increase in rural savings and credit coop. membership and 100% increase in total savings within societies. | For performance targets #7-10:
Extend PACD and restructure READI and amend Africare and WOCU/AMA OPG's to continue I.A. and operational support to MUSCO, INDEFUND and DEMATI. |
| 8. Improvement and expansion of technical and managerial assistance to SME sector. | 8. 100% increase in business advisory services to SME thru public and private sector channels;
500% increase in no. of pre-feasibility studies. | Design follow-on activities (HRID project and CIP, or other local currency generating program). |
| 9. Identification of viable rural enterprise and agribusiness opportunities. | 9. 500% increase in no. of pre-feasibility studies. | |
| 10. Expand credit available for SME and agribusiness development. | 10. 50% increase (in Malawi Kwacha terms) in MUSCO's central finance fund and INDEFUND's SME credit portfolio. | |
| 11. Expand and institutionalize the SME Steering Committee and strengthen policy and program guidance role of Min. of Trade, Industry & Tourism (MITI) | 11. A. GOM approval of additional committee members and expansion of Committee's authority and reporting requirements;
B. Continued UNDP-financed assistance to MITI's SME Division.
C. READI Coordinating Unit (RCU) moved into MITI's SME Division and its functions institutionalized. | 11. Continue high level contacts within appropriate GOM ministries and closely coordinate with other donors, esp. UNDP, EEC, and West Germany and the Netherlands. |
| 12. Rationalize A.I.D. assistance to SME development. | 12. A. Number of actors decreased and A.I.D.'s projects consolidated immediately;
B. Future I.A. under HRID project to be fielded by a single firm.
C. Simplified mechanism for providing local currencies required for institutional support. | 12. A. Deob of PFP grant/Rec: to expanded READI, and transfer of long-term DEMATI Advisor to RCU.
B. Conduct private sector training and T.A. assessment as part of HRID design, and coordinate with other donors re: current and anticipated sector assistance, and include unmet SME needs in new HRID project.
C. Design/authorization/eligibility of Private Sector CIP, or similar LC-generating program. |

Problem #2: Critical shortage of foreign and domestic financial resources

A. Context/Causes

Although the GOM has made impressive progress during the past five years in implementing an extensive Structural Adjustment Program, the national economy is still very fragile. In fact, despite numerous economic and fiscal policy reform measures taken (including price liberalization, producer price incentives, devaluations, containment of government expenditures and significant increases in revenue) with support of the IMF and World Bank, all major indicators point to a serious deterioration in the economy:

- real GDP grew by 2.9% in 1985, down from 3.3% in 1984 and 3.6% in 1983; the original growth estimate of 3.1% for 1986 was recently adjusted downward to almost zero;
- between 1984 and 1985, the current account deficit (excluding official transfers) increased six-fold to over \$100 million (9.5% of GDP); concurrently, net capital inflows declined by about one half;
- official reserves have continually fallen (from 11 weeks of imports at the end of 1984 to 7 weeks at the end of 1985 to a current estimate of 4 weeks) and the Reserve Bank is estimated to be MK 120 million (over \$50 million) in arrears to external suppliers;
- external debt service ratio rose by almost 7% in 1985, to 39% of exports, and external debt reached 78% of GDP;
- the Government's overall deficit (including grants) increased from 6.3% of GDP in 1984/85 to 8.2% in 1985/86 and is projected to rise to 8.7% in 1986/87 (excluding grants, the deficit is 8.7%, 10.6% and 12.7%, respectively); and
- consumer prices have been continually rising (average annual rate of 12.4% in 1983 and 1984 and at least 15.0% in 1985 and 1986, with expectations of higher inflation rates in 1987 following two major devaluations).

While many of the causes of this situation are the focus of the programs of the IMF and World Bank, there is a role to be played by A.I.D. through policy dialogue and program interventions. The constraints appropriately addressed by A.I.D. are:

- The economic base of the country is too narrow and is very vulnerable to exogenous factors. Agricultural production accounts for almost half (48%) of GDP and virtually all (95%) of Malawi's export earnings are derived from primary agriculture products (in 1985: tobacco - 45%; tea - 22%; sugar - 10%; maize - 7%; all others (cotton, coffee, beans, peas, groundnuts, rice and tung) - 11%), most of which are subject to large price fluctuations on world markets and always at risk because of climatic conditions. There is a desperate need to diversify the economy, encourage efficient import substitution and promote higher value exports.
- The development which has had the single most devastating effect on the national economy is the closure of rail lines through Mozambique, which traditionally carried 90% of Malawi's imports and exports. The new routings, via Zambia and Zimbabwe to South Africa, are estimated to cost the Malawian economy as much as \$100 million annually in scarce foreign exchange (FX). Cheaper and dependable international transport routes must be found if Malawi is to return to real economic growth in the medium term.
- Poor performance of parastatals, particularly ADMARC, has put tremendous pressure on domestic capital resources through government borrowing and ineffective marketing has resulted in a decline in foreign exchange earnings.

8. Progress and Problems

The Action Plan drafted two years ago did not address these problems. However, two African Economic Policy Reform Programs (AEPRP) were designed, in parallel with the World Bank's Structural Adjustment Loan III, by the Mission to address specific structural problems impeding economic growth. Several private sector initiatives and transport projects were also developed. As a result of the policy dialogue and new program and project assistance initiated during the last two years, the Mission has helped increase the availability of financial resources and their efficient utilization.

The reduction of fertilizer subsidies during the first two years of AEPRP I has saved the central budget over MK 5.0 million. More importantly, the smallholder pricing system has encouraged farmers to increase cultivation of groundnuts, which have strong export growth potential. In fact, this year export earnings from groundnuts increased 7.5 fold to almost MK 45.0 million (almost \$20.0 million). Simultaneously, maize production has dropped off. This should improve ADMARC's financial situation since the maize trading account has traditionally been a heavy loser. Decreasing ADMARC's debt overhang will, in turn, take pressure off the domestic capital market.

The A.I.D.-supported shift to high analysis fertilizers is helping conserve scarce financial resources. The new fertilizers are cheaper on a per nutrient basis than traditional fertilizers and so will either cost the farmer less for the same amounts or will enable the farmer to increase fertilizer application. Purchase price and transport costs on a per nutrient basis are cheaper which is resulting in a savings of scarce foreign exchange.

Parastatal divestiture under AEPRP II will inject critically needed FX into the economy and local currency generations will help revive the domestic capital market. To date, one of ADMARC's assets (Lever Bros.) has been sold to its parent company through a local subsidiary. The net result of this sale will be an increase of over \$2.5 million in foreign exchange (i.e. about \$1.6 million from the actual sale and \$917,000 released from A.I.D.'s program grant). Counterpart funds, amounting to about MK 2.1 million, will be used to clear some of the ADMARC/GQM indebtedness to the commercial banking system. There is some question about how quickly additional divestiture will proceed given that investor confidence is generally declining in the face of regional instability. An A.I.D.-financed U.S. consulting firm, however, will soon begin working with ADMARC to develop a privatization strategy and assist in managing the divestiture process.

The recently completed, READI project-financed assessment of barriers to SME development and the financial and support service institutions being built to aid rural entrepreneurs and agribusinesses will greatly contribute to diversification of the economy, export expansion and efficient import substitution, as well as greater efficiency in resource utilization.

The Mission's transport sector assistance is very important to redressing Malawi's financial and economic crisis. The design and planning of a major, multi-donor funded alternative transport route from Blantyre to Dar es Salaam is progressing reasonably well considering its technical and administrative complexities. Assuming Mozambican outlets remain closed and because the Northern Corridor tariffs are projected to be cheaper than routes to Durban, FX will be saved on imports and it may help increase the competitiveness of Malawi's exports. It is also a valuable hedge against increased regional instability. A.I.D.-funded technical assistance is currently helping cut transport costs through better logistical planning and coordination between the public and private sectors, in Malawi and within the region.

The most problematic area of A.I.D. assistance has been in establishing a Malawian international trucking industry. The project has been delayed over two years due to the Agency's inability to interpret flexibly and apply practically federal procurement regulations. In order to "buy American" without undermining the economic viability of the project, the Mission proposed waiving the American flag shipping requirement or deducting the transport costs or administratively determining the sales price based on a basket of competitor prices. Alternatively, a source/origin waiver could have been authorized.

The crowning blow was struck when it was determined that the proposed ownership structure of the IFI presented "a conflict of interest" which would prohibit A.I.D. credit funds from being directed through the IFI. Ultimately, A.I.D. and GOM agreed that the A.I.D. commodity component should be redesigned and, consequently, other donors will finance the truck tractors which might otherwise have been supplied by an American manufacturer. This has pointed up the fact that Agency policies, procedures and regulations--albeit sometimes Congressionally mandated--often work at cross purposes and can be serious impediments to A.I.D.'s private sector development initiatives.

C. Other Donor Assistance

Major contributors to the GOM's efforts to redress the structural problems and transport crisis are:

- World Bank, including Special Joint Financing from Great Britain, Japan and West Germany (just completed SAL III - \$107 million; ongoing supplement - total \$35 million; and a proposed SAL IV - estimated \$70 million);
- International Monetary Fund (SDR 57.0 million was drawn under an extended arrangement which ended Sept '86; a new stand-by program is being negotiated although it is as yet unknown whether the Fund and GOM will be able to come to terms);
- World Bank, EEC, Great Britain, West Germany and the Netherlands are participating in the \$100 million Northern Corridor Project, and the African Development Bank is financing complementary secondary routes; and
- West Germany and Great Britain are also helping strengthen the Malawian trucking industry.

D. Policy and Program Agendas

The Mission's efforts to address the critical shortage of foreign exchange and domestic revenue are outlined in the policy and program agendas which follow.

POLICY AGENDA

PERFORMANCE TARGETS

MANAGEMENT ACTIONS

1. Greater efficiency in public and private sector resource utilization, through fertilizer subsidy removal, producer price incentives, parastatal divestiture and increased private sector participation in agricultural produce marketing.
 1. A. Reduction of fertilizer to 12% in 1987/88 and to 5% in 1988/89 (including 5% import levy); further realignment of producer prices; and at least 45% of total 1988/89 supply comprised of the new concentrated fertilizers.
 1. A. More clearly define methodology for the calculation of the economic value of fertilizer prior to 87/88 pricing exercise.
2. Promotion of Malawian International trucking industry to reduce FX outlays and reduce national vulnerability.
 2. High-level GOM/USAID discussions, followed by GOM policy decisions.
3. Strengthen capital markets and promote domestic savings.
 3. Develop a SOM, in concert with GOM and assistance from AFR/DP/PAR, and execute under the ADMARC divestiture contract, thru IQC, or with local consultancy/consultancy firm.
4. Licensing of private traders and net decrease in ADMARC purchase of smallholder production.
 4. Public announcement of policy change and study on constraints to increased participation.
5. Complete a comprehensive assessment of constraints to expanding capital markets and mobilizing domestic savings, including recommendations on corrective actions and options.
 5. Complete a comprehensive assessment of constraints to expanding capital markets and mobilizing domestic savings, including recommendations on corrective actions and options.
6. Selection and placement of Investment Coordinator (April 87); and development and GOM approval of the divestiture strategy (by November 87).
 6. Selection and placement of Investment Coordinator (April 87); and development and GOM approval of the divestiture strategy (by November 87).
7. Strategy for privatization and rationalization of ADMARC's investment portfolio; Sale of at least MK 30 million of ADMARC's equity shareholdings; and establishment of private trust or holding company for remaining assets.
 7. Strategy for privatization and rationalization of ADMARC's investment portfolio; Sale of at least MK 30 million of ADMARC's equity shareholdings; and establishment of private trust or holding company for remaining assets.
8. Assess impact of fertilizer subsidy removal on smallholder productivity and welfare, in parallel with producer price exercise.
 8. Assess impact of fertilizer subsidy removal on smallholder productivity and welfare, in parallel with producer price exercise.

PROGRAM AGENDA

PERFORMANCE TARGETS

MANAGEMENT ACTIONS

1. Strengthened balance of payments position through provision of quick disbursing assistance.

1. A. Injection of US\$ 5.1 million in late 1987 under Fertilizer Subsidy Removal Program.

1. A. More clearly define methodology for the calculation of the economic value of fertilizer prior to 87/88 pricing exercise;

Assess impact of fertilizer subsidy removal on smallholder productivity and welfare, in parallel with producer price exercise.

B. Injection of US\$ 15 million by end of 1989 under Parastatal Divestiture Program.

B. Selection and placement of Investment Coordinator (April 87); and development and GOM approval of Divestiture Strategy (by November 87).

C. Injection of US\$6.0 million by end 1989 under Private Sector CIP or similar local currency-generating program.

C. Approval of AID/W to proceed with design of CIP or, alternatively, a Section 206 food aid program; program design/ authorization/obligation.

D. Injection of US\$ 5.0 million by end 1989 under MASH.

D. Design/authorization/obligation of MASH; GOM development and USAID approval of annual plans.

E. Debt relief on outstanding loans totalling \$30.0 million.

E. Open dialogue with AID/W in March 1987 on issue of debt forgiveness as part of expanded policy reform program.

*Open dialogue with AID/W on the option of increased funding for ongoing as opposed to new policy reforms. Possible area for reform is the expansion of small and medium scale enterprises.

2. Improvement in transport situation.

2. A. Indigenous trucking industry expanded, with at least 40 new Malawian-owned rigs operating by 1989;

2. A. A.I.D.'s project restructured (PP and Pro Ag Amendments); German and British programs initiated; close donor coordination in course of implementation.

B. Northern Corridor at least partially operational by end of 1989.

B. Final design and costing completed; all donor assistance (\$10 million) in place; supervisory engineers contracted; equipment procurement and civil works mostly completed.

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3. Expanded availability of credit for investments in agriculture, industry, manufacturing and commerce through a reduction in Government's indebtedness.
 3. A. ADMARC and ADD debts to Smallholder Fertilizer Revolving Fund paid and actions taken to protect its financial integrity.
 3. A. Assessment of Alternative Institutional Arrangements conducted and conclusions/recommendations acted upon by GOM.
 - B. Repayment of GOM's debt to commercial banks incurred as result of strategic grain reserve and silo purchase.
 - B. Programming of local currency counterpart funds generated under ADMARC divestiture.
 - C. At least 50% increase in loan funds to INDEFUND, SEDQM and MUSCO.
 - C. Design/authorize/obligate Private Sector CIP, or alternate local currency-generating assistance mechanism; coordinate credit capitalization with ECC and West Germany.
4. Greater efficiency in public and private resource utilization, through increased planning and management capacity.
 4. A. At least 20 key GOM officials (from Office of the President and Cabinet, Ministry of Finance and Reserve Bank) receive short-term training, at least 2 others enrolled in an advanced degree program (MBA, MSc Econ), and at least one in-country seminar conducted, annually, in 1987 and 1988; targets to be increased in 1989 with initiation of HRID.
 4. A. GOM/USAID develop annual training plans for Fertilizer Subsidy Removal Program financing; establish relationship with a highly reputable university/center (eg. HRID) to facilitate in-country and U.S. training.
 - B. Establishment of Malawi Institute of Management.
 - B. Design/authorize/obligate HRID project and develop annual training plans.
 - B. Coordinate with World Bank, providing T.A. as needed.

Problem #3: High population growth rate, low child survival rates and overall poor rural health quality

A. Context/Causes

Despite significant progress in the last ten years, Malawi still has some alarming health and demographic statistics:

- Infant mortality rate (151/1000) and under fives death rate (220/1000) are among the highest in the world.
- Measles, pneumonia, tuberculosis, nutritional deficiency, malaria, anemia and diarrheal diseases, which account for almost 70% of mortality and morbidity among children 0-4 years of age, are easily preventable or treatable.
- Malawi is one of the most densely populated (74 inhabitants per sq km) and fastest growing (3.2% annually) countries in Sub-Saharan Africa.
- A fairly small proportion of the population live in cities (less than 15%) but the urban growth rate is almost 8% annually.

There are a number of reasons for this situation:

- The quantity and coverage of health services have steadily improved but there are still significant gaps in the system (some 40% of all pregnant women deliver at home and over 50% of the children under 5 years of age are not being reached by maternal and child health (MCH) care; primary health care (PHC) is a fairly new concept.
- While immunization programs are an integral part of the MCH program, a shortage of equipment and supplies, a weak cold chain and poorly trained staff have limited its expansion.
- Chloroquine - resistant malaria is rising.
- Under-nutrition is a serious problem.
- Parasitic diseases are endemic as access to safe water is limited (37% of rural population) and sanitation is generally poor.
- Child spacing services were only first introduced in 1983 and there remain strong, traditional social values and a general lack of knowledge about contraceptive means which slow their acceptance.
- There are limited educational opportunities for women and little off-farm employment.

The policy environment, however, for improving health status and slowing population growth is good. The recently completed National Health Plan (1986-1995), toward which the Mission's proposed Multiple Assistance Schemes in Health Program will contribute, has set the following medium term goal: "... to achieve a drop in early childhood mortality of 33.3% over a five-year period; to achieve an improvement in maternal health; and to impact on the extent and severity of illness due to major causes of morbidity 5 years of age and over through the Primary Health Care approach". To accomplish this goal, six specific objectives have been developed: (1) improve access to a rational network of available and acceptable facilities by extending the peripheral services, especially community-based services and by modestly strengthening hospital facilities and staffing; (2) establish effective mechanisms for the MOH manpower development and the monitoring of deployment; (3) improve the management support of the enhanced health delivery system; (4) improve child survival of the under five age group; (5) improve health status generally by strengthening relevant programs; and (6) improve the nutritional status of mothers and children.

The GOM's present population policy consists of providing child spacing (CS) services as an integral part of the MCH program and establishing social and educational programs which will develop awareness of the problems of rapid population growth. In the last couple years, the Government increasingly publicized the health benefits of CS. A major breakthrough, however, appears to have been made in 1987 -- for the first time, the (official) Daily Times carried the issue of "overpopulation" in the front page headline and the ensuing article stated that "... nations should adopt child spacing to check population growth".

8. Progress and Problems

There has been a major expansion of A.I.D.'s health and population initiatives during the past three years. Implementation has been good and almost all performance targets set forth in the FY 87 ABS have been met or exceeded.

The Mission is helping redress the problem of water-borne, parasitic diseases through the Self-Help Rural Water Supply Project. During the past two years, community-built, gravity-fed water systems were completed for an additional 90,000 people. To date, over 1500 miles of pipe and 3200 taps have been financed, providing safe water to almost 400,000 rural Malawians. In addition, participating villagers are trained in management and maintenance of the systems and are receiving health education to improve sanitation and hygiene practices. A 1986 impact evaluation concluded that the Project is "an excellent example of the overall development success that can be achieved through the proper integration of water supply, hygiene education and sanitation."

A number of interventions are contributing to reducing infant and child mortality and morbidity rates. Through the CCCD Project, almost 4000 health care and community service workers have attended a 3-day training course in malarial and diarrneal disease control, nutrition monitoring and epidemiology surveying. Peace Corps volunteers participating in the CCCD Project have helped establish over 500 fully-functioning oral rehydration therapy (ORT) centers nationwide. A multi-donor effort, in which A.I.D. is involved, is measurably decreasing risk of death due to communicable diseases. -- full immunization coverage of children under 5 years of age increased from 35% in 1985 to 50% in 1986. Howard University, through the Health Institutions Development Project, has provided medium-term training in maternal and child health care to 350 public and private service providers. Five Malawian women who completed health degree programs in the U.S. are serving as counterparts to the Howard team members in order to continue this critical in-service training.

A.I.D. has been instrumental in shaping and implementing the GOM's family planning policy. Based on recommendations of a joint World Bank/A.I.D. population sector review, conducted in late 1984, the Government decided to set up a special population policy formulation and planning unit in the Office of the President and Cabinet and strengthen its child spacing program. A.I.D., through FPIA, is the primary supplier of family planning commodities. There are sufficient contraceptive supplies in-country for all health facilities, down to the district level. The GOM has recently agreed that the Mission be responsible for supplying all future FP commodities, with the exception of Depo-Provera which will be obtained through UNFPA. All 350 health care workers trained in MCH care by Howard University also received training in Child Spacing. Howard has also initiated community-based family planning awareness seminars. After recently conducting one such class for village women, the trainers were asked to return to present the material to 40 men! Although it is too soon to quantify impact, the message is getting out and the demand for services and commodities is increasing.

USAID/Malawi's most serious problem in the health and population field is trying to consolidate our program and maintain a sharp strategic focus and direct management control. The extensive resources available through centrally-funded programs, including child survival, and the keen interest of numerous organizations in Malawi have created enormous pressures to proliferate health and population activities. We will continue to need AFR's support in limiting the number of activities and studies in the health and population sector.

C. Donor Assistance

Closer donor coordination is critical given the numerous donors already involved or interested in assisting the health and population sector:

- African Development Bank
 - Rural Water Supply (ongoing - FUA 12.65 million)
 - Rural Health Care (ongoing - FUA 11.0 million);
- EEC: district hospital and health sub-centers (ongoing ECU 3.8 million);
- Great Britain: medical personnel and scholarships;
- WHO: numerous studies and training (ongoing);
- UNICEF: EPI supplies, equipment and training (ongoing);
- UNFPA: supplies, equipment and training (ongoing);
- World Bank: Family Health Program (new \$11.0 million);
- Other potential contributors to the new Family Health Program include EEC, UNICEF, UNDP, UNFPA, WHO, Great Britain, Canada, West Germany and the Netherlands.

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D. Policy and Program Agendas

During the next two years USAID/Malawi will be consolidating its health and population efforts. As ongoing projects come to a close, a sector program grant (described in Section IV) will be initiated. The Mission's policy and program agendas to redress the problem of high population growth rate, low child survival rates and overall poor rural health standards are found below.

POLICY AGENDA

PERFORMANCE TARGETS

MANAGEMENT ACTIONS

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| <p>1. Increase utilization of private health care delivery.</p> <p>2. Increase private sector health providers' access to GOM-financed in-service training.</p> <p>3. Shift policy emphasis from child spacing to family planning and more aggressive promotion of FP services and commodities.</p> | <p>1. A.I.D.'s PHC resources under MASH flowing thru GOM to PIAH, resulting in increase in PIC coverage by PIAH.</p> <p>2. At least 25% of all enrollees under MASH-financed training from PIAH by 1989, and increasing to 30% by 1990.</p> <p>3. Increasing public pronouncements (press coverage) about problem of overpopulation; initiation of social-marketing campaign</p> | <p>1. Discussions with GOM in course of MASH design; Program design/authorization/obligation; Development of annual plans.</p> <p>2. Per above.</p> <p>3. Ongoing, GOM/USAID discussions; Participation of key GOM (MAM and OPC) officials in a social marketing seminar; Expansion of health and family planning media coverage and development of motivational materials.</p> |
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PROGRAM AGENDA

PERFORMANCE TARGETS

MANAGEMENT ACTIONS

Required for all three agenda items:
Design /authorize/obligate MASH and develop
annual plans.

1. Strengthen family planning/child spacing services.
1. A. Train an additional 500 MCH/FP service providers by 1983.
1. A. Complete Lilongwe School of health Sciences facilities required for training; and PP supplement and Coop. Agreement Amendment to enable Howard University to complete MCH/FP training.
2. Lower infant and child mortality and morbidity rates.
2. A. Proportion of fixed health care facilities with fully equipped, functioning ORT centers increased from 85% to 100% and community-based ORT education program initiated by 1988.
2. A. Retain/expand involvement of Peace Corps volunteers in CCCD project.
3. Improve rural water and sanitation.
3. An additional 75,000 rural Malawians receiving potable water and trained in sanitation and hygiene.
3. Monitor progress of Water Dept. and MCH Health Education and Sanitation Promotion Unit.
- B. FP commodities available in all public and most private health facilities by 1988.
- B. Conduct a national survey of FP practices (KAP) Clarify commodity provision mechanism and insure timely orders; Coordinate with resident FP logistics advisor and with other donors (World Bank/UNFPA/WHO Dutch).
- B. Closely coordinate provision of technical assistance and supplies with WHO and UNICEF.
- C. Provide therapeutic and prophylactic Vitamin A to all vulnerable groups in seriously deficient areas (by 1988).
- C. Monitor IEF progress.
- D. At least 80% of children under 5 fully protected (immunized) by 1990.
- D. PP Supplement and Coop. Agreement Amendment to enable Howard Univ. to complete MCH/FP training.

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Problem #4: Insufficient technical, development planning, analytical and management capacities in both the public and private sectors

A. Context/Causes

Most studies of the human resources development situation in Malawi agree that this area needs to be a major priority in the overall development strategy of the country. The source of this problem can be traced back to the colonial period when the financing of education was left largely to missionary groups who had very limited amounts of funds for such work. To the extent that the Colonial Government provided funds for education, such funds were distributed to European children in preference to African children by a ratio of 177:1. In addition, the curriculum was very limited and did little to prepare the majority population as an educated labor force. Moreover, at independence in 1964 there were less than 20 Malawians who had received any advance degree training. Consequently, the new country was confronted with a serious shortage of trained human capital.

In the past twenty years, Malawi has made considerable advancements in strengthening its human resource base.

- Adult literacy has increased from 12.3% to 32.3%.
- The proportions of primary age and secondary age children in school have risen from 44% to 65% and from 2% to 4%, respectively.
- Numerous higher institutions of learning and specialized training institutes have been established, including the University of Malawi (incorporating Chancellor College, Bunda College of Agriculture, the Polytechnic and Kamuzu College of Nursing), the Natural Resources College, Lilongwe School of Health Sciences, the Malawi College of Accountancy and the Staff Training College, and in the planning stage are a new Medical School and the Malawi Institute of Management.
- Education's share of the national budget has expanded from 3% to 10.7%.

Despite these achievements, Malawi has a long way to go to meet the growing demand for educational opportunities within the society and the increasing requirements of the public and private sectors for technically and managerially qualified personnel. In the last twenty years, the public service has grown from approximately 10,000 employees to about 46,000 (excluding police and army). During this same period, the nature of government responsibility has increased greatly in scope and complexity.

Particularly important is the fact that the role of the Government (as in other developing countries) has gone beyond the maintenance/status quo functions of traditional bureaucracies to a change/development oriented role which requires different and more complex sets of skills and expertise. At present there are 32 statutory bodies, spanning a wide array of commercial and service functions, which employ over 17,000 people. There has also been a significant expansion of the formal private sector, which accounts for some 80% of all paid employees. The GOH and private sector depend heavily on expatriates to fill the management and technical gaps. A 1979 study indicated that 43% of all administrative and managerial positions were held by non-Malawians. Reflecting the critical shortage of certain technical skills, over 50% of the some 550 expatriates employed by Government are concentrated in four ministries: Education and Culture, Health, Agriculture and Works and Supplies. Institutional Requirements in Malawi" to help frame our future assistance. The principal findings were:

- Few managers and administrators, despite economic sector or level of responsibility, have had training in management.
- There is heavy reliance on short and long-term academic programs for training of administrators and managers, as well as professionals and technicians. Prospective trainees, as well as personnel managers and training officers, show a marked preference for overseas training. Training in certain areas may, indeed, require overseas study. There is, however, considerable potential for increased utilization of Malawian education and training institutions.
- There are numerous local training institutions producing graduates that become the country's administrative/managerial and professional/technical labor force. However, the capacity of some of these institutions to produce the quantity and quality of graduates that the economy demands is circumscribed by a lack of staff development opportunities and other institutional weaknesses.
- The demand for professionally qualified accountants and accounting technicians far exceeds the supply. There is also continued high demand for, and low supply of, professionally and technically qualified economists, architects, computer skills specialists, engineers, professionals and technicians in medical and related fields, and veterinarians.
- The numbers and percentages of women participating in administrative, managerial, professional and technical positions in all sectors are markedly low. The notable exceptions are in the occupations of nursing and home economics, traditionally considered women's professions. Further, the numbers and percentages of women enrolled in training programs and institutions that lead to administrative/managerial and professional/technical positions in the various sectors are also very low, perpetuating their present low level of participation.

Significant progress has been made in recent years on the GOM's localization policy. Those positions now occupied by non-Malawians are higher level administrative/managerial or higher skilled professional/technical positions. Continued progress in localization will require a well-planned and sustained manpower development effort in all sectors, but will most likely require continued reliance on expatriate workers in certain occupation areas.

Within the past few years the Government of Malawi has been giving increased attention to the general problem of meeting its changing human resources requirements and has initiated a number of policies which should help to address key problems. There has been a clear decision to increase the numbers of children attending primary and, to a lesser extent, secondary schools. In addition, the University of Malawi system is targeted to increase student enrollment from 2,000 in 1984/5 to over 4,000 by the mid-1990's. To better ascertain human resource needs, the GOM has just launched a National Manpower Survey. The Government has also established a Central Training Advisory Board (CTAB) made up of representatives from both the public and private sectors to establish a national training policy and advise Government on training issues of concern to the economy as a whole. In addition to the development of a broad national policy on training, the Government has initiated a few other policy changes of note. With regard to donor support of training, it has decided to give increasing emphasis to developing local training institutions with donor funds, so that over the long term there will be less need to send Malawians overseas for training. This will save considerable money and enable the country to become more self-reliant in the long run. Also, where feasible, the Government is looking at the possibility of bringing expatriate trainers to Malawi to conduct specific courses rather than sending large numbers of Malawians overseas for such training. Government also recently decided to include statutory bodies in allocations of the external training awards made available by various donors in order to increase the human resources talent in this domain.

B. Progress and Problems

Although the Mission did not establish performance targets in the area of human resource development, numerous ongoing projects have substantial training components and/or are of an institutional-building nature. Mentioned in earlier sections were the contributions A.I.D. has already made to increasing the technical capacities of the Ministries of Agriculture and Health and the managerial capacities of several financial and business advisory institutions critical to private sector development. In addition, under the Polytechnic Institute Expansion Project seventeen University of Malawi faculty members have done advanced degree programs, a science laboratory and 100,000 volume library have been constructed and equipped and an engineering degree program has been greatly strengthened.

Finally, the Mission has liberally utilized funds under the Fertilizer Subsidy Removal Program's T.A./Training/Studies component to provide short-term training for key GOM officials in such critical areas as: national budgeting, investment appraisal and management, public enterprise policy and management, computers in management and development, and fertilizer marketing management. A training plan has just been developed for 1987 which will further help strengthen public sector planning and management capacities. Included in the list of prospective participants are several Principal Secretaries and Deputy Secretaries.

A recurring problem faced by the Mission in its institutional-building endeavors is the problem of fielding competent expertise in a timely, effective manner. There have been extensive delays (e.g. Polytechnic), problems of quality or turn-over of technical assistance team members (e.g. Polytechnic and Agricultural Research), or convoluted contracting mechanisms (e.g. Commercial Transport and READI). To resolve these problems, during the past 18 months the Mission has attempted to involve the Regional Contracts Office and Regional Legal Office in all phases of contracting, whether A.I.D.- direct or Host Country. We have relied increasingly on the IQC mechanism for short-term assistance or studies. The Mission has also successfully experimented in utilizing local consultancy/accountancy firms for procurement under \$100,000 through an RFTP process.

Looking towards the future, USAID/Malawi will consolidate its human resources and institutional development activities under a single umbrella project which will provide technical assistance and off-shore training in support of the program's strategic objectives. With such an umbrella approach, the Mission expects to avoid some of the contracting pitfalls of the past and streamline management. Local currency resources required for in-service training, in-country seminars and institutional support will be generated from the health sector program (MASH) and Private Sector C.I.P or alternative mechanism. These new projects are detailed in the Work Plan, Section I.V.

C. Donor Assistance

Several donors are heavily involved in human resource and institutional development.

- Great Britain: multi-sectoral (through the provision of personnel and scholarships, with particular emphasis on health).
- World Bank: agriculture (ongoing - \$35 million), health (proposed \$11 million) and formal education (over \$100 million in last 20 years; proposed - \$25 million).
- UNDP: multi-sectoral (\$26 million under the '82-86 Third Country Programme and \$40 million proposed under the '87-91 Fourth Country Programme).
- West Germany: particularly agriculture and SME development.

D. Policy and Program Agendas

The mission's policy and program objectives to strengthen the public and private sectors' technical, planning, analysis and management capacities are outlined below.

POLICY AGENDA

Private sector access to donor financed training and technical assistance.

PERFORMANCE TARGET

Increasing proportion of resources, probably starting with 5% in 1988, programmed for training of private sector employees and provision of T.A. to development institutions.

MANAGEMENT ACTIONS

Design/authorization/obligation of Human Resources and Institutional Development project; Public and private sector management training plan approved by April 1988.

PROGRAM AGENDA

1. Improved public and private sector management, administrative, planning and analytical capacity.

PERFORMANCE TARGETS

1. Increased efficiency in development project management, planning and implementation.

Qualitative increase in technical and professional manpower in key sectors such as health, transportation, industry, agriculture.

MANAGEMENT ACTIONS

1. A. Authorization of Human Resources and Institutional Development project and signed Grant Agreement with GON by July 1987.
- B. Selection of a contractor(s) to manage and supply participant training and technical assistance services for the Mission's various program priority areas by November 1987.
- C. Development of training and technical assistance plan for IIRIU's first and second years by January 1988.
- D. Development and approval of institutional development plans for key training institutions by May 1988.
- E. Establishment of an effective capacity within the Malawi Institute of Management for a limited but well targeted program of short-term intensive training and consultative services for public and private sector managerial, administrative and financial personnel.
- F. Close coordination with other donors, especially the World Bank and UNDP, in provision of technical assistance and training.

PROGRAM AGENDA

2. Expanded and strengthened local training institutional capacity in key areas such as management, planning, finance, agriculture, health, transport, business and economics.

PERFORMANCE TARGETS

2. Establishment of Malawi Institute of Management as an effective training institution for mid and senior level public and private sector managers and administrators.

Qualitative and quantitative improvement in other institutions which offer training in finance, accountancy, management and administration, such as Malawi College of Accountancy, Staff Training College, and the University of Malawi system.

Qualitative and quantitative improvements in critical technical and professional manpower training institutions including University of Malawi system and other training organizations.

MANAGEMENT ACTIONS

2. As per above.

IV. WORK PLAN

A. Proposed New Starts and Delegations Requested

During FY 87 and FY 88, the Mission proposes to design and initiate three new investments: the Human Resources and Institutional Development Project (late FY 87 obligation); the Multiple Assistance Schemes in Health (sector) Project (early FY 88 obligation, although ready as a late FY 87 shelf item); and the C.I.P. for Private Enterprise Development (early FY 89 obligation, although to be ready as a late FY 88 shelf item). These initiatives, along with the ongoing Agricultural Research and Extension Project, Northern Transport Corridor Project and policy dialogue programs, will form the core of USAID/Malawi's assistance portfolio into the early 1990's. The three new investments are each intended to cross-sectorally attack, in a systematic and complementary manner, a number of the strategic constraints outlined above in Section III. They are designed to provide resources in a timely and effective manner and to the greatest extent possible minimize management burdens on both the Mission and GOM. The proposed initiatives, which are described in detail in the FY 88 ABS, are outlined below.

1. Human Resources and Institutional Development (612-0230)
 - Eight year project
 - LOP of \$18.0 million (from multiple accounts)

A major constraint to sustained economic and social development is limited trained and experienced manpower and the local institutional capacity to provide it. In this context, project proliferation tends to further weaken and dilute these limited human resources. This project recognizes both facets of this problem by consolidating technical assistance and training into a single umbrella project. It will allow the Mission to respond to priority human resource needs more efficiently and effectively and will simplify project management for both the Mission and the GOM. The project embraces a strong institutional development component which will enable the Mission to provide training and technical assistance to key Malawian training institutions. Over time, this project will become the primary vehicle for technical assistance and training in support of USAID/Malawi's health, transportation, small enterprises development and agricultural initiatives.

- Pre-PID assessment December '86
- PID development January - February '87;
authorized in the field March '87 (per 86 State 377569)
- PP design April - June '87;
authorized in the field July '87.

2. Multiple Assistance Schemes in Health (612-0226)

- Six year sector program
- LOP of \$11.0 million (from HE and POP)

The proposed health sector program builds on USAID/Malawi's experience in family planning and rural potable water. It opens a new avenue to expand private sector, fee-for-service provision of integrated family health services, including child spacing, and furthers the Agency's interest in child survival activities. Finally, the sector approach provides the Mission flexibility to increase support to family planning activities as fast as the infrastructure can accommodate.

- PID development February - April '87;
authorized in AID/W (per 86 State 377569)
- PP design June-July 1987;
authorized in the field August '87.

3. C.I.P. for Private Enterprise Development (612-0229)

- Six year program
- LOP of \$16.0 million (from ARDN)

The proposed program has three purposes. The first is to increase the availability of foreign exchange resources to the private sector to stimulate investment and economic growth. The second is to promote the development and expansion of small and medium scale enterprises to generate income and employment opportunities in rural and urban areas. The third is to stimulate intra-regional trade to establish a better basis for sustained growth within Malawi and the Southern and Eastern Africa Region.

The Mission believes that a Geographic Code 941 C.I.P. is best suited for achieving the project purposes. This mechanism was selected because of its dual impact and multiplier effect. First, foreign exchange will go to private sector importers of raw materials, equipment and supplies. Second, for the foreign exchange, the importers will be required to put up Malawi Kwacha resources. These local currency generations will be channelled back into the financing of small and medium scale enterprise development. Thus, this mechanism taps private sector liquidity, mostly among larger firms, to expand domestic capital resources for the expansion of smaller sized ones. The use of Code 941 countries as eligible sources for the CIP also promotes intra-regional trade since Zimbabwe, Kenya and Zambia are major sources of imports.

- PID development 1st Quarter FY 88:
authorized in AID/W
- PP design 3rd quarter FY 88;
authorized in the field

B. Major Design Issues

There are no major issues impacting the design of the Human Resources and Institutional Development Project.

The only salient issue regarding the Multiple Assistance Schemes in Health (sector) program is recurrent costs for primary health care services and provision of rural water. Relative to similar service delivery projects, the recurrent costs should be nominal. Support to the Private Hospital Association of Malawi for facility construction or expansion will expand rural health and family planning service coverage without increasing the Government's recurrent cost burden. Training to be provided public and private health service providers is intended to upgrade the skills, particularly in the area of maternal and child health/child spacing services, of existing personnel; no formal, pre-service training is envisioned. The recurrent costs of the rural water supply program are minimized because the gravity-fed, PVC pipe technology is very simple and beneficiaries are involved in construction and trained in system maintenance. However, the recurrent cost issue will be scrutinized by the design team and will be analyzed in relation to recurrent benefits.

Several important issues surround the design of the C.I.P. for Private Enterprise Development. First is the appropriateness of the C.I.P. mechanism. As described in Section III, Program Target #2, there is a critical shortage of foreign exchange. In the past six months numerous industries have had to close or slow down for want of raw materials or spare parts because foreign exchange was not available. Similarly, the lack of domestic capital through commercial and intermediate credit institutions has inhibited SME development and expansion. The C.I.P. mechanism was selected because of its dual benefit and multiplier effect. Generally larger private sector firms would obtain foreign exchange by posting an equivalent in local currency which in turn would be channeled back to domestic capital resources for smaller private sector firms. Other local currency-generating programs, such as a Section 206 or policy-based cash transfer, would not have the dual benefits of the C.I.P. Furthermore, pricing of food aid commodities could prove difficult given that much of Malawi's imports are obtained from within the region and hence would be cheaper than FAS American commodities.

The need for a bilateral C.I.P. has been questioned in light of anticipated funds under the new Southern Africa Initiative for regional trade and industry. The basic rationale for putting forth this proposed bilateral C.I.P. is to be able to quickly and flexibly respond to Malawi's critical shortage of foreign exchange while also generating local currency resources for SME development. USAID/Malawi does not see these needs being met through a regional C.I.P. or export pre-financing revolving fund. First, in any such regional endeavor a Mission has to relinquish decision-making authority to an external party(s) which impedes the Mission's ability to quickly and flexibly respond to specific national needs. Given the anticipated level of resources (\$30-35 million

annually for the whole region), the relative size of Malawi's economy and historically nominal benefits accrued through the PTA, Malawi's share of a regionally-managed trade and investment scheme would likely be small. Instead, countries like Zimbabwe with stronger economies, industry and political clout undoubtedly will be the primary beneficiaries. Finally, an export pre-financing revolving fund, as currently under consideration by SARP (cf. Harare 01022, dated 2/23/87), would not provide the foreign exchange relief and local currency resources envisioned in a bilateral C.I.P. Moreover, it would be very difficult to equitably manage given differences amongst the SADC members.

The Mission believes it is important to initiate the C.I.P., or another local-currency generating mechanism, no later than late FY 88/early FY 89 in order to avoid a hiatus in our support to three key SME development institutions. Consequently, these issues must be rapidly resolved and a plan of action (including funding mechanism, start date and PP authorization DOA) mutually agreed upon.

C. Evaluation Plan

A comprehensive program impact assessment and three important mid-term project evaluations are planned during the next 18 months.

1. Fertilizer Subsidy Removal Program (612-0225)
 - Impact Assessment (March - May 1987)

The objective of this comprehensive study is to assess the impact of the fertilizer subsidy removal program on smallholder productivity and income. The three person team will evaluate:

- The role of fertilizer prices in both qualitative and quantitative terms on smallholder fertilizer uptake and use, separating the price effects emanating from subsidy removal, world market prices and overland transport costs.
- The role of producer prices for maize and all major smallholder crops on fertilizer uptake and use.
- The role of prices of inputs other than fertilizers on fertilizer use.
- The role of non-price variables (extension services, land and labor availability, credit, climatic fluctuations, ADMARC cash flow problems, distribution problems and fertilizer bag sizes) on smallholder fertilizer uptake.
- Factors affecting the uptake of high-analysis fertilizers.
- The likely path of fertilizer use, agricultural output and smallholder income under various subsidy levels and systems.
- The costs and benefits with respect to the Government budget.

- The costs and benefits with respect to the national economy including implications for efficient resource allocation and an assessment of the economic rate of return to the funds invested in subsidies.

- The implications of subsidy removal on the implementation of other Government policies, e.g. related to agricultural trade liberalization of smallholder inputs and outputs, food prices, income distribution and foreign exchange earnings.

Based on their analysis, the team will make recommendations to the GOM and USAID about the continuation/modification/suspension of the subsidy removal program and suggest appropriate fertilizer prices for the 1987/88 season.

2. Rural Enterprise and Agribusiness Development (612-0214), Management Assistance to Rural Traders (612-0219) and SME Energy Initiatives (698-0424.12)
- Joint Mid-term Evaluation (May 1987)

This mid-term evaluation will assess the effectiveness of business advisory and support services, evaluate the adequacy of the loan application review process used by the different IFI's, determine any economical, administrative/procedural or institutional constraints inhibiting private sector expansion, and identify promising areas for continued A.I.D. support through the proposed C.I.P. for Private Enterprise Development (612-0229).

3. Health Institutions Development (612-0211)
- Mid-term Evaluation (1st quarter FY 88)

The purpose of this mid-term evaluation is to assess the relevance and cost-effectiveness of the in-service training program and whether the training of trainers component will permit the activity to be self-sustaining. The evaluation should recommend any necessary modifications in the training plan/program and identify needs for future A.I.D. support to be factored into the proposed Multiple Assistance Schemes in Health (612-0226).

4. Malawi Agricultural Research and Extension (612-0215)
- Mid-term Evaluation (2nd quarter FY 88)

The mid-term evaluation, to be done in concert with two IDA-financed agricultural research and extension projects, will measure progress being made in strengthening the Ministry of Agriculture's institutional capacity to develop, test and transfer improved technologies to smallholders. Specifically, it will evaluate the linkages between farmers/adaptive research teams/commodity research teams and assess progress being made in the commodity research program to develop new, improved varieties. It will also examine the Ministry's planning and training functions. The evaluation will provide guidance for out-year programming of Bank/A.I.D. resources.

D. Research Agenda

A.I.D. is funding important analytical work in the agricultural and health sectors during the next two years.

The focus of agronomic research will be on increasing returns to land and labor for traditional crops and identifying crops for diversification, in order to raise smallholder income and increase foreign exchange earnings through export expansion. The research will be conducted by adaptive (on-farm) research teams and commodity (on-station) research teams. Research priorities include:

- Maize: develop composites or improved varieties which can be more easily handled (storage and food preparation) than the current hybrids and which will permit crop diversification without undermining food security;
- horticulture, including pulses;
- agroforestry;
- soil fertility, including use of manures; and
- land and water management.

The research and development of improved technology packages for smallholders will account for agro-ecological variations, different resource levels within the smallholder sub-sector, and varying land and labor patterns across different crops and between geographic regions.

In the health field, a comprehensive investigation of the efficacy of antimalarial chemoprophylaxis and chemotherapy among women residing in areas with chloroquine-resistant malaria will be conducted. The results will assist the GOM in the formulation of a national drug policy.

USAID'S INVESTMENT STRATEGY

ATTACHMENT NO. 1

* denotes a proposed program or project

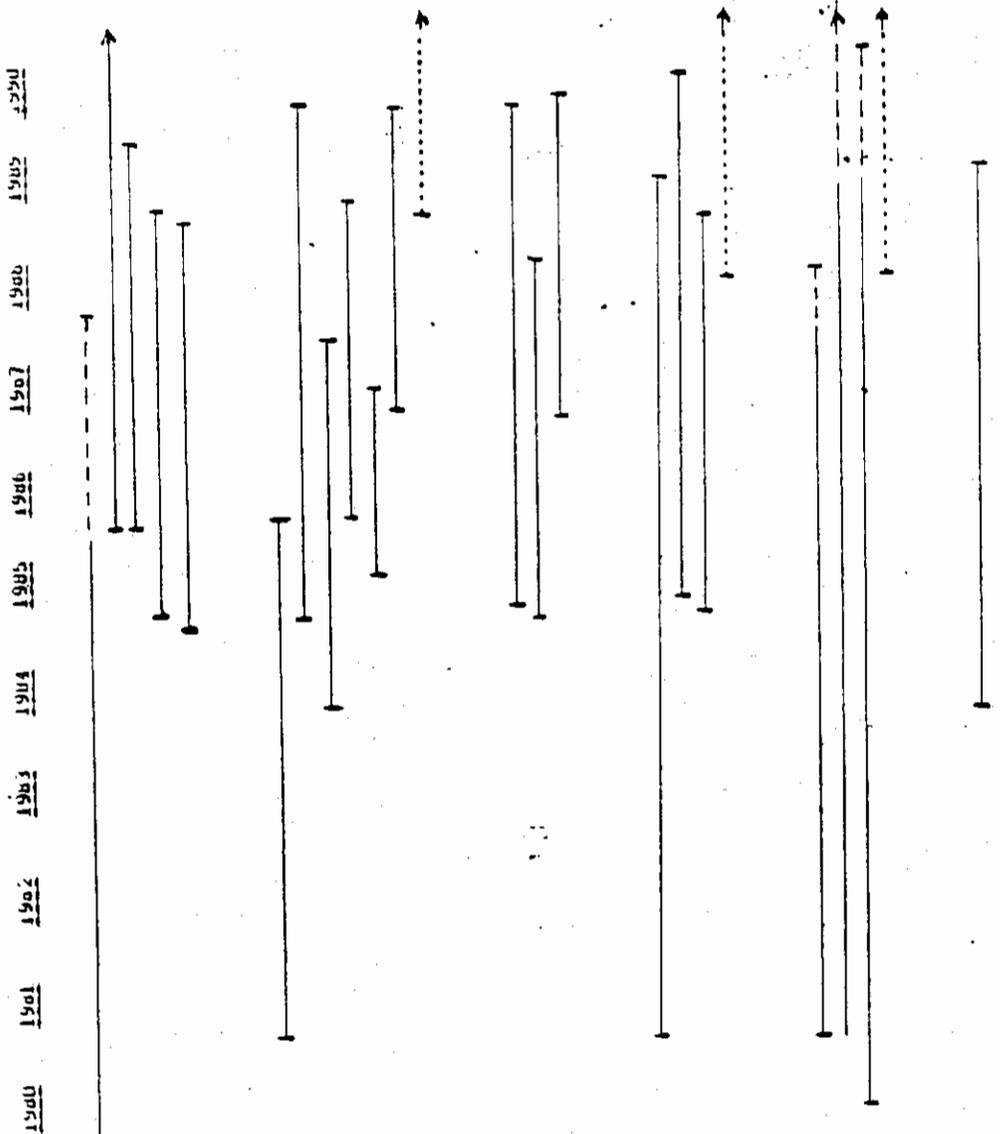
Major Development Problems to be addressed by USAID	Major Causes of these Problems	Program Interventions	USAID Responses	Key Objectives
<ul style="list-style-type: none"> Low per capita income due to low smallholder agriculture productivity and limited rural income and off-farm employment opportunities 	<ul style="list-style-type: none"> low level of labor productivity inadequate tech. packages weak research & extension linkages declining soil fertility limited arable land insufficient rural credit rising costs of inputs lack of agro-industrial "processing" capabilities 	<ul style="list-style-type: none"> Malawi Ag. Research & Extension Fertilizer Subsidy Removal (AERPR I) READI Rural Development Linkages Policy dialogue Rural Water Supply CCCD/Health Mass Media * CIP for Private Enterprise Dev. * Multiple Asst. Schemes in Health * Hum. Resource & Institutional Dev. 	<ul style="list-style-type: none"> Improvement of HDA technology generation and transfer system agriculture diversification shift to higher-value crops increasing productivity of maize and other traditional crops promotion of ag. processing industries increasing rural employment expanding rural credit greater private sector involvement and efficiency in input delivery & marketing improving rural health standards 	
<ul style="list-style-type: none"> Critical shortage of both foreign and domestic financial resources 	<ul style="list-style-type: none"> transport crisis declining export performance (quotas; transport costs) worsening terms of trade Some inappropriate economic policy decisions (due to poor investment decisions and external factors such as interest rate swings, drought, economic slowdown, regional instability, etc.) fine ceiling on public sector expenditures poor performance of parastatals limited private capital formation 	<ul style="list-style-type: none"> policy dialogue & donor coordination Fertilizer Subsidy Removal (AERPR I) Northern Corridor Commercial Transport Malawi Ag. Research & Extension READI ADHARC Divestiture (AERPR II) * CIP for Private Enterprise Dev. * Multiple Asst. Schemes in Health * Hum. Resource & Institutional Dev. 	<ul style="list-style-type: none"> Policy reform to free up government revenue (shift to high analysis fertilizer; subsidy removal; parastatal divestiture) export promotion import substitution agriculture diversification reduce transport costs and open alternate international transport links support national transport planning and develop private sector road haulage capacity develop greater and more efficient private sector capabilities to implement development objectives greater public sector efficiency and effectiveness increase in the availability of private capital 	
<ul style="list-style-type: none"> High population growth rate, low child survival rates and overall poor rural health quality 	<ul style="list-style-type: none"> traditional social values, including fatalism and perception of need for large number of children to assure the survival of some, esp. sons need for income security high infant mortality lack of knowledge of contraceptive means poor sanitation and lack of clean water endemic parasitic diseases 	<ul style="list-style-type: none"> Health Institutions Development CCCD/Health Mass Media Rural Water Supply S & T funded resources Child Survival Fund * Multiple Asst. Schemes in Health * Hum. Resource & Institutional Dev. 	<ul style="list-style-type: none"> slowing of birth rate decrease in morbidity and mortality rates, especially among children self-sustaining MCH/FP delivery capability increase productivity of rural labor force 	
<ul style="list-style-type: none"> Insufficient technical, development planning, analytical and management capacities in both public and private sectors 	<ul style="list-style-type: none"> past expansion of public sector (price controls, parastatals, etc.) shortage of trained manpower complex, interrelated development problems donor project proliferation public/private sector wage differential and conditions of service 	<ul style="list-style-type: none"> substantial HRD component (training programs and T.A.) for technical ministries contained in existing projects (esp. MARE, READI, MID) * training projects* (AMOP, AFGRAD and Polytechnic) * Human Resource & Institutional Dev. * Multiple Asst. Schemes in Health 	<ul style="list-style-type: none"> greater public and private sector efficiency improve ability to plan, implement and evaluate investment portfolio and identify new solutions for development problems (analysis and research capacity) strengthen local training institutions 	

USAID/MALAWI: A Program Supporting the Agency's Priorities

	<u>Policy Dialogue</u>	<u>Technology Transfer</u>	<u>Hum. Resource & Institutional Development</u>	<u>Private Sector</u>
<u>Agriculture</u>				
612-0202 Agricultural Research (\$9,000)		X	X	
612-0215 Malawi Ag. Research & Extension (\$14,000)	Z	X	X	
612-0227 EPRP I: Fertilizer Subsidy Removal (\$15,000)	X	X	Z	
612-0220 Rural Development Linkages (\$1,250)			X	
690-0215 SADCC Fisheries Development (\$974)			X	
<u>Private Sector</u>				
612-0227 EPRP II: ADMARC Divestiture (\$15,500)	X		Z	X
612-0214 READI (\$5,100)	X		X	X
612-0219 Mgt. Asst. to Rural Traders (\$2,828)			X	X
*612-0229 Private Sector CIP (\$16,000)	X		X	X
<u>Transport</u>				
612-0218 Commercial Transport (\$5,000)			X	X
690-0234 Blantyre-Mwanza Road (\$750)	Z			Z
690-0237 Northern Corridor (\$10,500)				Z
<u>Health/Population</u>				
612-0207 Rural Water Supply (\$6,000)		X	Z	
612-0211 Health Institutions (\$9,700)		Z	X	
698-0421 CCCD (\$1,430)		X	X	
*612-0226 Mult. Asst. Schemes in Health (\$11,000)	X	Z	X	X
<u>Human Resources Development</u>				
612-0201 Polytechnic Expansion (\$8,314)			X	Z
698-0433 AMDP (\$1,000)			X	
AFR-C1292 AFRAD (\$1,000)			X	
*612-0230 Hum. Resources & Inst. Dev. (\$15,000)		X	X	X

Notes: X: Projects primary orientation
 Z: Secondary impact
 *: Proposed activity, still in design stage

USAID Program Evolution



Agricultural & Rural Development

- 612-0202 Ag. Research (\$9,000)
- 612-0215 Malawi Ag. Research & Extension (\$14,000)
- 612-0225 ERDP I: Fertilizer Subsidy Removal (\$15,000)
- 612-0220 Rural Development Linkages (\$1,250)
- 650-0215 SAUCC Fisheries Development (\$974)

Private Sector/Privatization

- 612-0205 Malawi Union of Savings Co-ops (\$534)
- 612-0214 READI (\$5,100)
- 612-0215 RPL Asst. to Rural Traders (\$2,826)
- 690-0424 EIA: Energy for SIE (\$150)
- 540-0002 RUC: Ag. Diversification (\$2,000)
- 612-0227 ERDP II: AIMPAC Investiture (\$15,500)
- 612-0225 Private Sector CIP (\$16,000)

Transport

- 612-0216 Commercial Transport (\$5,000)
- 690-0234 Blantyre-Mwanza Road (\$750)
- 690-0237 Northern Corridor (\$10,500)

Health/Population

- 612-0207 Rural Water Supp.; (\$0,000)
- 612-0211 Health Institutions (\$9,700)
- 690-0421 CCCC (\$1,430)
- 612-0226 Mult. Asst. Services in Health (\$11,000)

Human Resources & Institutional Development

- 612-0201 Polytechnic Expansion (\$6,314)
- 690-0433 ARDP (\$1,000)
- AFR-C1292 AFRAD (\$1,000)
- 612-0230 Human Res. & Institutional Dev. (\$15,000)

Other

- 690-0506 Sm. Projects Assistance (\$120)

Notes: (1) dollar figure in parenthesis indicates Life-of-Project funding (in thousands of U.S. dollars)
 (2) dashed line indicates phase-out period, during which principal activity will be completion of long-term training
 (3) dotted line indicates project still in planning stages

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INCOMING TELEGRAM

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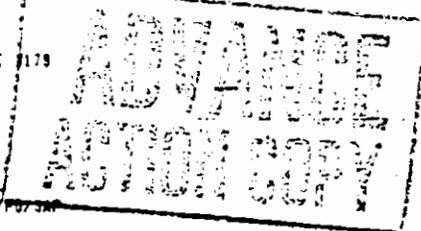
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- NORTHERN TRANSPORT CORRIDOR (LATE '86 START)
- HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT (LATE '82 START)
- MULTIPLE ASSISTANCE SCHEMES IN HEALTH (EARLY '88 START)
- PRIVATE SECTOR CIP (EARLY '89 START)

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AS DESCRIBED EARLIER, THESE NEW INVESTMENTS CROSS-SECTORALLY ATTACK A NUMBER OF THE MISSION'S STRATEGIC TARGETS AND ARE HIGHLY COMPLEMENTARY.

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THE NEWEST PROJECTS ARE BEING DESIGNED TO REDUCE THE MISSION'S AND SOU'S OPERATIONAL MANAGEMENT REQUIREMENTS AND TO PERMIT US TO FOCUS MORE ON PROGRAM PLANNING, MONITORING AND POLICY ISSUES. THESE INITIATIVES ARE ALSO LARGER IN SIZE (AVERAGE LOP IS ALMOST DOLS 14.5 MILLION) AND LONGER IN DURATION (5-8 YEARS) THAN PAST PROJECTS (AVERAGE LOP DOLS 5.1 MILLION OVER 5 YEARS) WHICH WILL REDUCE THE MISSION'S DESIGN WORKLOAD OVER THE NEXT SEVERAL YEARS.

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FOR AFR/SA, AFR/DP/PPE, AFR/PD/304

THE PROGRAM IS IN A TRANSITIONAL PHASE AS THE CRITICAL NEW INVESTMENTS ARE BEING DESIGNED AND INITIATED AND OLDER PROJECTS ARE CLOSED OUT OR CONSOLIDATED. DURING THE PAST EIGHTEEN MONTHS TWO PROJECTS HAVE ENDED AND DURING THE NEXT EIGHTEEN MONTHS TEN ADDITIONAL PROJECTS WILL BE CONCLUDED. THUS, AT THE END OF FY 88 THE USAID/MALAWI PORTFOLIO WILL BE SIGNIFICANTLY STREAMLINED AND CONCENTRATED:

E.O. 12356: N/A SUBJECT: USAID/MALAWI PROGRAM WEEK: REMAINING SECTIONS OF ACTION PLAN

REF: STATE 96329

1. FOLLOWING IS LAST SECTION (PAGE 48 FOLLOWING) OF ACTION PLAN WHICH MISSION HAD ORIGINALLY INDICATED WOULD BE HANDCARRIED TO A10/W BUT WITH POSTPONEMENT OF PROGRAM WEEK WAS REQUESTED (PER REFFEL) BE CABLED. PAPER COPY BEING SENT BY DHL.

- IN THE AGRICULTURE FIELD, THE DOLS 14.8 MILLION MALAWI AGRICULTURAL RESEARCH AND EXTENSION PROJECT (612-0215) WILL BE THE SOLE CHANNEL OF ASSISTANCE;

BEGIN TEXT

MANAGEMENT IMPROVEMENTS (UNDERSCORE)

- IN THE TRANSPORT SECTION, THE DOLS 10.5 MILLION NORTHERN TRANSPORT CORRIDOR (638-0237) AND THE DOLS 5.2 MILLION COMMERCIAL TRANSPORT (612-0218) PROJECTS WILL BE IN PROGRESS;

DURING THE PAST EIGHTEEN MONTHS USAID/MALAWI HAS MADE A CONCENTED EFFORT TO SHARPEN PROGRAM FOCUS AND IMPROVE PORTFOLIO MANAGEMENT THROUGH CONSOLIDATION, LIMITING NEW BILATERAL ACTIVITIES, AND STAFF EXPANSION AND REORGANIZATION, INCLUDING IMPROVED UTILIZATION OF FOREIGN NATIONAL STAFF. AS HAD BEEN ANTICIPATED, THE LAST TWELVE MONTHS HAVE BEEN A PERIOD OF PARTICULARLY HEAVY WORKLOAD, AS THE PROGRAM AND MISSION HAVE BEEN IN TRANSITION, BUT WE SEE THE SITUATION EASING OVER THE NEXT YEAR. THE MISSION REGARDS THE PAST YEAR OF INTENSIVE RESTRUCTURING AS THE MOST CRITICAL PHASE OF BUILDING A PROGRAM MORE DIRECTLY GEARED TOWARDS ACHIEVING OUR STRATEGIC OBJECTIVES. CURRENT AND PROJECTED MORTGAGE LEVELS ARE MANAGEABLE AND THE PIPELINE, WHICH IS PRESENTLY HIGH DUE TO INORDINATE AID LEVELS IN FY'S 85 AND 86, WILL CONTINUE TO BE REDUCED, TO AN ACCEPTABLE LEVEL BY THE END OF FY 88.

- IN THE PRIVATE SECTOR/PRIVATIZATION ARENA, THE DOLS 15.8 MILLION AEPF PARASTATAL DIVESTITURE WILL BE CONTINUING AND THE READI PROJECT (612-0214) WILL BE PHASING OUT AS THE NEW DOLS 16.8 MILLION PRIVATE SECTOR CIP (612-0229) OR OTHER LOCAL CURRENCY GENERATING MECHANISM IS DESIGNED TO CONTINUE OUR SME DEVELOPMENT ACTIVITIES;

PROGRAM TRANSITION: EXPANSION/CONSOLIDATION/STREAMLINING (UNDERSCORE)

- IN TERMS OF HEALTH, FAMILY PLANNING AND CHILD SURVIVAL ACTIVITIES, THE HEALTH INSTITUTIONS DEVELOPMENT PROJECT (612-0211) WILL BE COMING TO A CLOSE AS ALL NEW AID WILL BE PROVIDED THROUGH THE DOLS 11.8 MILLION MULTIPLE ASSISTANCE SCHEMES IN HEALTH SECTOR PROGRAM (610-0220); AND

USAID/MALAWI IS IN THE MIDST OF DEVELOPING AND INITIATING A PORTFOLIO OF NEW INVESTMENTS INTENDED TO MORE EFFECTIVELY AND EFFICIENTLY ADDRESS THE MAJOR DEVELOPMENT PROBLEMS, OR "STRATEGIC TARGETS," WHICH WERE DEFINED IN LATE 1985.

- ALL NEW TECHNICAL ASSISTANCE AND TRAINING REQUIRED IN SUPPORT OF THE MISSION'S STRATEGIC OBJECTIVES WILL BE PROVIDED THROUGH THE DOLS 18.0 MILLION UMBRELLA HUMAN RESOURCE) AND INSTITUTIONAL DEVELOPMENT PROJECT (610-0230).

THESE NEW PROJECTS AND PROGRAMS WHICH WILL ENABLE US TO ACHIEVE PROGRAM OBJECTIVES ARE:

ATTACHMENT 1 GRAPHICALLY PORTRAYS HOW, AFTER AN INITIAL EXPANSION OF PROGRAM ACTIVITIES IN FY'S 86 AND 87 AS CRITICAL NEW INVESTMENTS ARE INITIATED, THE MISSION'S ON-GOING EFFORTS TO CONSOLIDATE AND STREAMLINE THE PORTFOLIO COME TO FRUITION IN FY 88 AND BEYOND.

- MALAWI AGRICULTURAL RESEARCH AND EXTENSION (LATE '85 START)
- AEPF I: FERTILIZER SUBSIDY REMOVAL (LATE '85 START)
- AEPF II: PARASTATAL DIVESTITURE (LATE '86 START)

THE EVOLUTION OF PORTFOLIO STRUCTURE IMPACTS ON PIPELINE AND MORTGAGE LEVELS AND ALSO HAS STAFFING IMPLICATIONS.

BUDGETARY IMPLICATIONS (UNDERSCORE)

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AS ATTACHMENT 4 SHOWS, THE USAID/MALAWI PROGRAM HAD A DRAMATIC INCREASE IN RESOURCE LEVELS IN FISCAL YEARS 85 AND 86. THE MAJORITY OF THE TOTAL OOLA \$2.9 MILLION IS ATTRIBUTABLE TO TWO ECONOMIC POLICY REFORM PROGRAMS AND THE NORTHERN CORRIDOR PROJECT. HOWEVER, THE RESULTANT OYB LEVEL IN FY 86 WAS EQUAL TO THE TOTAL AID PROVIDED DURING FY 85-84.

SUCH AN INFUSION, COMBINED WITH THE INITIATION OF A MAJOR TRAINING AND TECHNICAL ASSISTANCE PROJECT WHICH NATURALLY HAS HEAVY UP-FRONT COMMITMENT REQUIREMENTS BUT SLOW DISBURSEMENT RATES, HAS RESULTED IN A LARGE PIPELINE. THIS SITUATION WILL CHANGE SIGNIFICANTLY BY THE END OF FY 83. AS INDICATED ABOVE, TEN ONGOING PROJECTS WILL BE CLOSED OUT. OTHERS WHICH ARE OF A SLOW DISBURSING NATURE WILL BE WELL ALONG IN IMPLEMENTATION (E.G. HEALTH INSTITUTIONS, ROAD, TRANSPORT AND MARINE). THE PROPOSED HUMAN RESOURCE AND INSTITUTIONAL DEVELOPMENT PROJECT WILL BE, BECAUSE OF THE NATURE OF SUCH AN ENDEAVOR, THE PRINCIPAL SOURCE OF FUTURE PIPELINES, ALTHOUGH THE MISSION EXPECTS EARMARKING/COMMITMENT RATES TO BE QUITE HIGH. BECAUSE THE HEALTH SECTOR PROGRAM AND CIP BOTH HAVE LARGE LOP'S, BUT ARE DESIGNED AS FAST-DISBURSING, NON-PROJECT ASSISTANCE, THEY SHOULD HELP KEEP FUTURE PIPELINE LEVELS RELATIVELY LOW.

MORTGAGE LEVELS SHOULD REMAIN AT ACCEPTABLE RATES OVER THE NEXT SEVERAL YEARS. BASED ON CURRENT OYB PLANNING LEVELS, PROPOSED LOP'S, AND WITH PROJECTS STARTING ACCORDING TO THE SCHEDULE ABOVE, ALL PROJECTS PROPOSED IN THIS ACTION PLAN WOULD BE FULLY FUNDED BY FY 91. THE END-OF-FISCAL YEAR PIPELINE LEVELS WILL BE AS FOLLOWS:

- FY 87 : OOLS 16,176,000
- FY 88 : OOLS 17,176,000
- FY 89 : OOLS 21,176,000
- FY 90 : OOLS 9,176,000

GIVEN THAT THE NEW INITIATIVES RUN THROUGH FY 94/95, THE FUNDING COULD BE STRETCHED OUT IN THE EVENT OF OYB REDUCTIONS WITH THE ONLY IMPLICATION BEING A NOMINAL INCREASE IN THE MORTGAGE LEVELS. HOWEVER, IN THE CASE OF DRASTIC CUTS WHICH WOULD NOT PERMIT LONGER, PHASED FUNDING (NOTE THAT THIS WOULD REQUIRE HALVING CURRENT PLANNING LEVELS), THE PROJECTS COULD BE SCALED DOWN IN THE COURSE OF IMPLEMENTATION. ILLUSTRATIVELY:

- LESS FX CREDIT MADE AVAILABLE UNDER THE PLANNED CIP WOULD RESULT IN LESS LC CREDIT AND SLOWER EXPANSION OF AGROINDUSTRIES AND SME'S;
- THRU THE WASH PROJECT, THERE WOULD BE SMALLER NUMBER OF HEALTH PERSONNEL TRAINED, FEWER BENEFICIARIES OF THE RURAL WATER SCHEME AND MORE LIMITED EXPANSION OF PRIVATE SECTOR HEALTH SERVICES;
- SUCH REDUCTIONS WOULD BE ACCOMPANIED BY A SOMEWHAT EQUIVALENT SCALING DOWN OF T.A. AND OFFSHORE TRAINING UNDER THE HRID PROJECT.

STAFFING (UNDERSCORE)

MISSION MANAGEMENT CAPACITY HAS BEEN CONSIDERABLY STRENGTHENED WITH THE FILLING OF VACANT AND THE ESTABLISHMENT OF NEW USOM POSITIONS, THE HIRING OF MALAWIAN PROFESSIONAL AND SUPPORT STAFF, MISSION REORGANIZATION, AND DELEGATION OF AUTHORITIES.

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DURING MOST OF 1985 -- THE EARLIEST STAGES OF THE TRANSITION -- A SEVERE STAFF SHORTAGE SERIOUSLY IMPEDED EFFECTIVE PROGRAM MANAGEMENT. OVER THE LAST TWO YEARS, THE POSITIONS OF ASSISTANT DIRECTOR, HEALTH AND POPULATION OFFICER, AGRICULTURAL DEVELOPMENT OFFICER AND FINANCIAL MANAGEMENT OFFICER HAVE BEEN ESTABLISHED AND FILLED AND A USDI ECONOMIST IS BEING RECRUITED TO IMPROVE PORTFOLIO MANAGEMENT AND DESIGN CAPACITY AND TO MEET THE DEMANDS OF A GROWING AND INCREASINGLY COMPLEX PROGRAM. THE MISSION HAS ALSO INCREASED UTILIZATION OF PROFESSIONAL AND ADMINISTRATIVE POSITIONS. UNTIL 1986, THERE WERE ONLY TWO UNDERUTILIZED PROGRAM ASSISTANTS. THE MISSION HAS SINCE ESTABLISHED SIX ADDITIONAL PROFESSIONAL FSN POSITIONS AND DESIGNED STAFF DEVELOPMENT PROGRAMS TO PERMIT AN INCREASING DELEGATION OF RESPONSIBILITY AND AUTHORITY TO THESE INDIVIDUALS.

AS A CONSEQUENCE OF THESE STAFFING ACTIONS, THERE HAS BEEN A MAJOR REALIGNMENT OF PORTFOLIO MANAGEMENT RESPONSIBILITIES. AS INDICATED IN THE TABLE IN ATTACHMENT 3, THE PROGRAM WORKLOAD IS NOW BETTER APPORTIONED AND WILL HELP ENSURE MORE EFFECTIVE MANAGEMENT.

THERE HAVE BEEN TWO SIGNIFICANT REORGANIZATIONS WITHIN THE MISSION TO STRENGTHEN OPERATIONAL EFFECTIVENESS. FIRST, THE ASSISTANT DIRECTOR HEADS THE PROGRAM PLANNING AND IMPLEMENTATION SUPPORT UNIT WHICH IS RESPONSIBLE FOR OVERALL STRATEGY DEVELOPMENT, BUDGETING, PROJECT MONITORING AND EVALUATION, AND ASSISTS IN DRAFTING MAJOR IMPLEMENTATION DOCUMENTS.

USAID/MALAWI'S FINANCIAL MANAGEMENT OPERATIONS HAVE BEEN REORGANIZED AND STRENGTHENED DURING THE PAST SIX MONTHS. WITH THE ADDITION OF A HIGHLY QUALIFIED U.S. PSC, AN INDEPENDENT FINANCIAL MANAGEMENT OFFICE HAS BEEN ESTABLISHED WITHIN THE MISSION. SEVERAL PROFESSIONAL AND ADMINISTRATIVE MALAWIAN STAFF HAVE BEEN RECRUITED, RFMC HAS TRANSFERRED EARMARKING/COMMITMENT RESPONSIBILITIES TO USAID/MALAWI, AND THE FINANCIAL MANAGEMENT OFFICER HAS JUST BEEN EXTENDED PAYMENTS CERTIFYING AUTHORITY BY FM WASHINGTON. THESE MEASURES HAVE ALREADY SIGNIFICANTLY IMPROVED PROJECT AND OPERATING EXPENSE FINANCIAL CONTROLS, REDUCED BY SEVERAL WEEKS THE TURNAROUND TIME FOR PAYMENTS AND HAVE ENHANCED THE OVERALL EFFICIENCY OF MISSION FINANCIAL MANAGEMENT OPERATIONS.

FINALLY, IN AN EFFORT TO STRENGTHEN AND STREAMLINE PROJECT IMPLEMENTATION AND PERMIT MISSION MANAGEMENT TO CONCENTRATE ON MAJOR PROGRAM AND POLICY ISSUES, A SERIES OF MISSION MANAGEMENT ORDERS HAVE BEEN ISSUED WHICH SET FORTH INTERNAL MISSION OPERATIONAL PROCEDURES. AN ORDER HAS ALSO BEEN ISSUED WHICH ESTABLISHED MISSION PROCEDURES UNDER RECENTLY ISSUED ODA 551 AND SPELLS OUT REDELEGATIONS FROM THE MISSION DIRECTOR TO OTHER MISSION STAFF.

OPERATING EXPENSES (UNDERSCORE)

AS THE SIZE OF THE MISSION AND PORTFOLIO HAVE GROWN OVER THE PAST TWO YEARS, THE OPERATING EXPENSE LEVELS HAVE ALSO INCREASED:

- FY 85 : OOLS 648,000
 - FY 86 : OOLS 887,000 (OF WHICH OOLS 25,500 WAS LCC)
 - FY 87 : OOLS 908,000 (OF WHICH OOLS 324,000 IS LCC)
- HOWEVER, WHEN EXAMINED IN RELATION TO STAFF SIZE AND PORTFOLIO VALUE, THE LEVELS HAVE ACTUALLY DECREASED INDICATING INCREASED EFFICIENCY IN THE MANAGEMENT AREA.

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COST PER U.S. STAFF PORTFOLIO O.E. RATIO

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COSTC.

FY 83 : OOLS 186,355 71:1
FY 84 : OOLS 93,555 34:1
FY 87 : OOLS 92,800 114:1

INVOLVEMENT OF PEACE CORPS VOLUNTEERS AND PRIVATE
VOLUNTARY ORGANIZATIONS (UNDERSCORE)

IN OTHER WORDS THE MISSION IS "GOING A LOT FURTHER WITH A
LITTLE MORE".

LOCAL CURRENCY MANAGEMENT (UNDERSCORE)

USAID/MALAWI PLANS TO MAXIMIZE THE USE OF NON-PROJECT
ASSISTANCE TO TACKLE THE DEVELOPMENT PROBLEMS UPON WHICH
THE MISSION'S STRATEGY IS FOCUSED. THE MISSION HAS
OPTED FOR THIS ASSISTANCE MECHANISM FOR SEVERAL
REASONS. FIRST, THERE IS A WELL ESTABLISHED NEED FOR
BALANCE OF PAYMENTS ASSISTANCE TO MALAWI TO MEET A
SEVERE FOREIGN EXCHANGE RESOURCE GAP. SECOND, MALAWI IS
A RELATIVE "GOOD USER" OF AID RESOURCES AND HAS A GOOD
TRACK RECORD OF MANAGING ASSISTANCE PROGRAMS. HOWEVER,
THE GOV IS ALREADY OVERBURDENED WITH TOO MANY PROJECTS
THAT REQUIRE AN INORDINATE AMOUNT OF MANAGEMENT TIME BY
BOTH THE GOV AND DONORS. THIRD, MANY OF THE DEVELOPMENT
PROBLEMS THAT USAID/MALAWI'S STRATEGY AIMS TO ADDRESS
CAN BE EASED WITH THE USE OF LOCAL CURRENCY RESOURCES,
MUCH OF WHICH CAN BE MARSHALLED FROM THE PRIVATE SECTOR.
CONSEQUENTLY, THE GENERATION AND UTILIZATION OF LOCAL
CURRENCY IS AN INTEGRAL PART OF OUR STRATEGY OF
EMPLOYING NON-PROJECT ASSISTANCE MECHANISMS.

CURRENT AND PROPOSED LOCAL CURRENCY GENERATING PROGRAMS
INCLUDE:

- THE OOLS 13.1 MILLION FERTILIZER SUBSIDY REMOVAL
PROGRAM (AEPRP II) IS PROVIDING LOCAL CURRENCY SUPPORT TO
THE SMALLHOLDER FERTILIZER REVOLVING FUND AND MAY ALSO
BE USED TO EXPAND THE AGRICULTURAL CREDIT SYSTEM.

- LOCAL CURRENCIES GENERATED UNDER THE OOLS 15.8
MILLION PARASTATAL DIVESTITURE PROGRAM (AEPRP II) WILL
HELP THE GOV PURCHASE THE STRATEGIC GRAIN RESERVE FROM
ADMARC WHICH, IN TURN, WILL ENABLE ADMARC TO CLEAR
SIZEABLE DEBTS TO THE COMMERCIAL BANKING SYSTEM AND
PURCHASE SMALLHOLDER CROPS.

- THE PROPOSED OOLS 11.8 MILLION HEALTH SECTOR
PROGRAM WILL SUPPORT UPGRADING AND EXPANSION OF FAMILY
HEALTH SERVICES, INCLUDING FAMILY PLANNING AND CHILD
SURVIVAL ACTIVITIES, AND EXTENSION OF SELF-HELP RURAL
WATER SCHEMES.

- THE PROPOSED OOLS 16.3 MILLION CAP FOR PRIVATE
ENTERPRISE DEVELOPMENT WILL GENERATE LOCAL CURRENCIES
FOR EXPANSION OF CREDIT AND BUSINESS ADVISORY SERVICES
CRITICALLY NEEDED FOR SME AND AGRIBUSINESS DEVELOPMENT.

THUS, THE MISSION BELIEVES THAT THE PROGRAM APPROACH IS
WELL SUITED TO THE TYPE OF PROBLEMS OUR STRATEGY SEEKS
TO ADDRESS. AND SINCE LOCAL CURRENCY GENERATION IS
CRITICAL TO ATTAINING OUR OBJECTIVES, THE MISSION HAS
AND WILL CONTINUE TO BE DEEPLY INVOLVED IN THE
PROGRAMMING AND MONITORING OF THESE RESOURCES. THE
MISSION PLANS TO ESTABLISH AN AUTOMATED TRACKING SYSTEM
TO ENSURE GOOD MANAGEMENT OF THIS IMPORTANT AND GROWING
ASSISTANCE MECHANISM.

FRUIT FINANC GENERATED THROUGH THESE NON-PROJECT
ASSISTANCE SCHEMES WILL BE USED BY THE MISSION FOR SUCH
OPERATING ITEMS AS SALARIES OF FOREIGN CONTRACT
EMPLOYEES, HOUSING AND OTHER NECESSARY OPERATING

THERE ARE CURRENTLY TEN PVO'S WORKING IN A.I.D.-FUNDED
CHILD SURVIVAL AND SME DEVELOPMENT ACTIVITIES. THE
MISSION AND PEACE CORPS/MALAWI APPRECIATE THE MUTUAL
BENEFITS TO BE HAD FROM THIS COLLABORATION AND ARE
COMMITTED TO EXPANDING PCV INVOLVEMENT IN A.I.D.
PROJECTS. IN ADDITION TO THE CURRENT AREAS WHICH COULD
ACCOMMODATE ADDITIONAL VOLUNTEERS, PEACE CORPS IS
PLANNING ON RECRUITING FINANCIAL MANAGEMENT EXPERTS AND
AGRICULTURALISTS TO ASSIST IN A.I.D. PROGRAM
IMPLEMENTATION.

PVO'S HAVE ALSO PLAYED AN IMPORTANT ROLE IN THE
MISSION'S CHILD SURVIVAL AND SME DEVELOPMENT ACTIVITIES,
AS WELL AS GENERAL RURAL DEVELOPMENT. THERE ARE
CURRENTLY SIX PVO'S RECEIVING A.I.D. FUNDING. HOWEVER,
AS THE MISSION CONTINUES TO CONSOLIDATE ITS PROGRAM WE
ANTICIPATE THAT THERE WILL BE FEWER DIRECT RECIPIENTS OR
STAND-ALONE PVO PROJECTS.

6. GRAY AMENDMENT CONTRACTING (UNDERSCORE)

USAID/MALAWI IS STRONGLY COMMITTED TO INVOLVING GRAY
AMENDMENT ENTITIES IN PROGRAM IMPLEMENTATION. THE
LEVELS OF FUNDING, THROUGH TECHNICAL ASSISTANCE
CONTRACTS, OPG'S OR COOPERATIVE AGREEMENTS, HAVE BEEN
SIGNIFICANT DURING THE PAST SEVERAL YEARS:

- FY 83 : OOLS 498,000
- FY 84 : OOLS 2,560,000
- FY 85 : OOLS 4,473,000
- FY 86 : OOLS 2,300,000
- FY 87 : OOLS 1,500,000

REGARDING FUTURE OPPORTUNITIES THE MISSION IS EXAMINING
WAYS OF INVOLVING GRAY AMENDMENT ENTITIES IN THE
EXECUTION OF THE NEW HUMAN RESOURCES AND INSTITUTIONAL
DEVELOPMENT PROJECT. OTHER OPPORTUNITIES WILL INCLUDE
SPECIAL STUDIES AND EVALUATIONS AS PART OF THE MISSION'S
ON-GOING PROGRAMS.

7. ISSUES REQUIRING BUREAU ACTION (CAPS AND UNDERSCORE)

THE MISSION BELIEVES THAT THE ACTION PLAN REVIEW WILL
IDENTIFY THOSE MAJOR ISSUES REQUIRING BUREAU ACTION.
THESE ARE LIKELY TO INCLUDE:

- THE LOCAL CURRENCY GENERATING MECHANISM TO CONTINUE
AND EXPAND OUR PRIVATE SECTOR DEVELOPMENT ACTIVITIES
AND WHEN THE NEW PROGRAM WILL BE INITIATED;

- CONSIDERATION OF FY LOAN FORGIVENESS BY A.I.D. IN
EXCHANGE FOR LOCAL CURRENCIES TO BE PROGRAMMED FOR
PRIORITY DEVELOPMENT ACTIVITIES

- PRIORITIES AND ALLOCATIONS UNDER THE SOUTHERN
AFRICA INITIATIVE

- OPERATING EXPENSE LEVELS; AND

- IDENTIFICATION AND PLACEMENT OF A HEALTH-POPULATION
IOT.

END TEXT/ACTION PLAN

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AIDAC

FOR AFR/SA, AFR/DP AND AFR/PD

E.O. 12356: N/A
SUBJECT: USAID/MALAWI PROGRAM WEEK: HUMAN RESOURCES
STRATEGY STATEMENT

REF: STATE 63219

1. SUMMARY: MISSION STRATEGY AS OUTLINED IN 1987 ACTION PLAN IDENTIFIES FOUR MAJOR PROBLEM AREAS UPON WHICH THE STRATEGY FOCUSES. THESE ARE LOW PER CAPITA INCOME; CRITICAL SHORTAGE OF FOREIGN AND DOMESTIC FINANCIAL RESOURCES; HIGH RATES OF MORBIDITY, MORTALITY AND POPULATION GROWTH; AND INSUFFICIENT AND INADEQUATE HUMAN RESOURCES. WHILE THE FOURTH PROBLEM AREA IS CONSIDERED AS A SEPARATE STRATEGIC FOCUS, IT IS THE ONE ON WHICH THE OTHERS CRITICALLY DEPEND. USAID'S HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT ASSESSMENT RECOMMENDED THAT THE MISSION'S HUMAN RESOURCES STRATEGY CONCENTRATE ON THREE PROBLEMS.

A. CRITICAL SHORTAGE OF TRAINED AND EXPERIENCED MALAWIAN MID-LEVEL AND SENIOR-LEVEL MANAGERS, ADMINISTRATORS AND FINANCIAL SPECIALISTS AS WELL AS TECHNICAL AND PROFESSIONAL PERSONNEL IN FIELDS SUCH AS ENGINEERING, ARCHITECTURE, QUANTITY SURVEYING, ECONOMICS, ACCOUNTING, DEVELOPMENT PLANNING, MEDICINE AND HEALTH, AND AGRICULTURE AS THEY AFFECT THE PRIORITIES OF THE MISSION'S AND GOM'S STRATEGIES;

B. INSUFFICIENT INSTITUTIONAL CAPACITY TO MEET THE DEMANDS FOR PRE-SERVICE AND IN-SERVICE TRAINING LARGELY DUE TO ABSENCE OF SUFFICIENT TRAINING PERSONNEL AND INSTRUCTIONAL PROGRAMS AND APPROACHES; AND

C. INEFFICIENT UTILIZATION OF SCARCE HUMAN RESOURCES WHICH REDUCES PRODUCTIVITY AND RESULTS IN SUBOPTIMAL ALLOCATIONS OF HUMAN RESOURCES.

HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT PROJECT (612-0230) IS TARGETTED ON THESE PROBLEMS AND WILL BE THE MISSION'S MAJOR ACTIVITY TO SUPPORT ITS HUMAN RESOURCES STRATEGY.

2. BACKGROUND:

A. AMONG THE COUNTRIES OF EAST AND SOUTHERN AFRICA, MALAWI IS ONE OF THE POOREST. AT INDEPENDENCE IN 1964, ITS ECONOMY WAS VIRTUALLY DEPENDENT ON EXTERNAL SOURCES OF FINANCE AND TRAINED MANPOWER. LITTLE HAD BEEN DONE TO DEVELOP AND PROMOTE BASIC EDUCATION WHICH IS SO ESSENTIAL TO INCREASING AGRICULTURAL PRODUCTIVITY, IMPROVING HEALTH STATUS, AND REDUCING POPULATION GROWTH

RATES. ALSO POST-SECONDARY TECHNICAL, PROFESSIONAL AND MANAGEMENT TRAINING INSTITUTIONAL CAPACITY WAS VIRTUALLY NON-EXISTENT. THE FOLLOWING STATISTICS DRAWN FROM THE 1960'S UNDERSCORE THESE POINTS: 12.3 PERCENT ADULT LITERACY RATE (1966); 44 PERCENT (1965) OF THE PRIMARY SCHOOL AGE CHILDREN IN SCHOOL AND ONLY 2 PERCENT (1965) IN SECONDARY SCHOOL.

B. OVER THE NEXT 15 YEARS, MALAWI'S EDUCATION AND HUMAN RESOURCES STRATEGY WAS GUIDED BY FOUR OBJECTIVES WHICH WERE EMBODIED IN THE 1973 TO 1983 FIRST EDUCATION PLAN. THESE WERE:

- 1. TO BASE EDUCATIONAL DEVELOPMENTS, PARTICULARLY POST-PRIMARY EDUCATION, ON THE NEEDS OF THE LABOR MARKET;
- 2. TO DEVELOP CURRICULA WITH GREATER RELEVANCE TO SOCIO-ECONOMIC AND ENVIRONMENTAL NEED;
- 3. TO ENSURE THE EFFICIENT UTILIZATION OF EXISTING FACILITIES AND RESOURCES; AND
- 4. TO ACHIEVE A MORE EQUITABLE DISTRIBUTION OF EDUCATIONAL FACILITIES AND RESOURCES.

C. ESSENTIALLY MALAWI OPTED FOR A GRADUALIST APPROACH TO THE DEVELOPMENT OF ITS HUMAN RESOURCES WHICH BALANCED THE NEEDS OF THE LABOR MARKET AGAINST THE LIMITED RESOURCES AVAILABLE TO THE PUBLIC SECTOR FOR INVESTING IN EDUCATION AND TRAINING GIVEN THE OTHER COMPETING DEVELOPMENT PRIORITIES.

D. BY THE FIRST HALF OF THE 1980'S, MALAWI'S LITERACY RATE HAD INCREASED TO 32.8 PERCENT (1983), PRIMARY SCHOOL ENROLLMENT HAD REACHED 65 PERCENT WELL ABOVE THE

50 PERCENT TARGET IN THE FIRST PLAN. ON THE OTHER HAND, SECONDARY ENROLLMENT OF 4 PERCENT WAS CONSIDERABLY UNDER THE PROJECTED 15 PERCENT. THE PUBLIC SECTOR RESOURCE COMMITMENT TO EDUCATION HAD CLIMBED FROM LESS THAN 3 PERCENT OF THE RECURRENT BUDGET (MK 2.4 MILLION) IN 1964 TO 9.5 PERCENT IN 1985 (MK 42.9 MILLION).

E. MALAWI HAD ALSO ESTABLISHED A SMALL BUT IMPRESSIVE CROSS-SECTION OF POST-SECONDARY TRAINING INSTITUTIONS WHICH INCLUDED THE UNIVERSITY OF MALAWI (CHANCELLOR COLLEGE, BUNDA COLLEGE OF AGRICULTURE, THE POLYTECHNIC, AND KAMUZU COLLEGE OF NURSING), THE MALAWI COLLEGE OF ACCOUNTANCY, THE LILONGWE SCHOOL OF HEALTH SCIENCES, THE NATURAL RESOURCES COLLEGE, AND THE STAFF TRAINING COLLEGE AT MPENBA. THE LIST IS NOT INTENDED TO BE EXHAUSTIVE BUT RATHER INDICATIVE OF THE PROGRESS MADE IN THE CREATION OF IN-COUNTRY TRAINING CAPACITY.

F. DURING 1985 THE SECOND EDUCATION DEVELOPMENT PLAN (1985-1995) WAS LAUNCHED. THE PLAN CONTINUES THE MAJOR EMPHASES CONTAINED IN THE FIRST. ESSENTIALLY FIRST PRIORITY FOR EXPANSION IS GIVEN TO PRIMARY EDUCATION. MORE ATTENTION IS DIRECTED AT EFFICIENT USE OF SCARCE RESOURCES AND FOR THE FIRST TIME THE BROADER CONCEPT OF HUMAN RESOURCES DEVELOPMENT HAS BEEN INCORPORATED INTO NATIONAL PLANNING IN EDUCATION.

G. THE GOM HAS RECENTLY FORMED THE CENTRAL TRAINING ADVISORY BOARD (CTAB) TO ASSIST IN FORMULATION OF A TRULY NATIONAL HUMAN RESOURCES TRAINING POLICY COMPLEMENTING THE SECOND EDUCATION PLAN AND THE DEVELOPMENT POLICY (DEVPOL). THE CTAB HAS REPRESENTATIVES FROM BOTH THE PUBLIC AND PRIVATE SECTORS. THE POLICY BEING DEVELOPED BY CTAB PUTS

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EMPHASIS ON LOCALIZATION OF SENIOR POSITIONS IN THE PRIVATE AND PUBLIC SECTORS AND STRENGTHENING OF IN-COUNTRY TRAINING INSTITUTIONAL CAPACITY.

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DEVELOPMENT PLANNING, MEDICINE AND HEALTH, AND AGRICULTURE AS THEY AFFECT THE PRIORITIES OF THE MISSIONS AND GOM'S STRATEGIES.

3. ESTABLISHING MISSION STRATEGIC PRIORITIES:

A. MALAWI CONTINUES TO BE DEPENDENT ON EXPATRIATE LABOR TO FILL KEY PROFESSIONAL, TECHNICAL, MANAGERIAL AND ADMINISTRATIVE POSITIONS. THESE SAME OCCUPATIONAL CATEGORIES ARE ALSO CHARACTERIZED BY HIGH VACANCY RATES. FOR EXAMPLE IN THE MEDICAL FIELD 43.9 PERCENT OF THE POSITIONS IN THE CIVIL SERVICE ARE FILLED BY EXPATRIATES AND THE VACANCY RATE IS 29.3 PERCENT. OTHER FIELDS WHERE THERE ARE CRITICAL SHORTAGES INCLUDE ENGINEERING, ARCHITECTURE, QUANTITY SURVEYING, VETERINARY SCIENCE, AND ACCOUNTING. IN THE AREA OF MANAGEMENT, THE CIVIL SERVICE IS PLAGUED BY A SHORTAGE OF EXPERIENCED AND TRAINED SENIOR MANAGERS. ON THE OTHER HAND, THE PRIVATE SECTOR HAS ADDRESSED THIS PROBLEM THROUGH A HEAVIER DEPENDENCY ON EXPATRIATES.

B. THE SHORTAGES OF TECHNICAL, PROFESSIONAL, MANAGERIAL, AND ADMINISTRATIVE MANPOWER SERIOUSLY ERODE MALAWI'S ABILITY TO PLAN AND EFFECTIVELY IMPLEMENT ITS DEVELOPMENT PROGRAM. IT ALSO AFFECTS HOW DONORS STRUCTURE THEIR OWN PROJECTS AROUND ADDITIONAL TECHNICAL ASSISTANCE TO LESSEN LIKELIHOOD OF IMPLEMENTATION DELAYS AND PROBLEMS CAUSED BY SCARCITY OF APPROPRIATE MALAWIAN STAFF.

C. THE SHORTAGE PUTS FURTHER PRESSURES ON INEXPERIENCED STAFF AT LOWER LEVELS AND LEADS TO INEFFICIENT UTILIZATION OF RESOURCES AND OVER BURDENED AND COMMITTED SENIOR STAFF. IT ALSO REINFORCES THE TENDENCY TOWARD OVER CENTRALIZATION OF DECISION MAKING AND LESS WILLINGNESS TO DELEGATE RESPONSIBILITIES WHICH ONLY COMPLICATES THE PROBLEM OF INEFFICIENT HUMAN RESOURCE UTILIZATION.

D. ANOTHER DIMENSION TO THESE PROBLEMS IS THE CONTINUED PROLIFERATION OF DONOR PROJECTS. AS A COUNTRY WHICH HAS TAKEN POLICY REFORM AND DEVELOPMENT POLICY SERIOUSLY, MALAWI HAS WITNESSED A DOMESTIC INCREASE IN RECENT YEARS IN DONOR FUNDED ACTIVITIES. EACH OF THESE ACTIVITIES ADDS TO THE MANAGERIAL, FINANCIAL, AND ADMINISTRATIVE PROBLEMS ASSOCIATED WITH A SHORTAGE OF TRAINED AND EXPERIENCED PERSONNEL.

E. THE GOM IS KEENLY AWARE OF THESE PROBLEMS AND

WISHES TO MAKE SIGNIFICANT PROGRESS IN OVERCOMING THEM. HOWEVER, THE MAJOR CONSTRAINT IT FACES IN TACKLING THEM IS THE SEVERE LACK OF FINANCIAL RESOURCES AND THE NEED TO CONTAIN EXPANSIONARY PRESSURES ON THE BUDGET. THEREFORE, THE PROBLEM TO A LARGE EXTENT MUST BE ADDRESSED MAKING BETTER USE OF EXISTING RESOURCES.

F. USAID'S STRATEGY IS DESIGNED TO ADDRESS THE PROBLEMS ASSOCIATED WITH THE SHORTAGE OF PROFESSIONAL, TECHNICAL, MANAGERIAL AND ADMINISTRATIVE MANPOWER WITHIN THE BUDGET CONSTRAINT TAKING INTO ACCOUNT THE PLANS AND ACTIVITIES OF OTHER DONORS. THE MAIN FEATURES OF THIS STRATEGY ARE DESCRIBED BRIEFLY BELOW:

1. THE MAIN FOCUS OF THE STRATEGY IS ON THE CRITICAL SHORTAGE OF TRAINED AND EXPERIENCED MALAWIAN MID-LEVEL AND SENIOR LEVEL MANAGERS, ADMINISTRATORS AND FINANCIAL SPECIALISTS AS WELL AS TECHNICAL AND PROFESSIONAL PERSONNEL IN FIELDS SUCH AS ENGINEERING, ARCHITECTURE, QUANTITY SURVEYING, ECONOMICS, ACCOUNTING,

2. THESE SHORTAGES ARE TO BE ADDRESSED BY CONCENTRATING ON INCREASING THE LOCAL INSTITUTIONAL CAPACITY TO MEET THE NEEDS FOR PRE-SERVICE AND IN-SERVICE TRAINING. SINCE MALAWI HAS A FAIRLY WELL DEVELOPED PHYSICAL TRAINING CAPACITY THE EMPHASIS IS ON MORE EFFICIENT USE OF EXISTING INSTITUTIONS AND THE UPGRADING AND TRAINING OF STAFF AND GREATER RELIANCE ON PRIVATE SECTOR TO SUPPORT TRAINING.

3. THE STRATEGY IS ALSO DIRECTED AT OVERCOMING INEFFICIENCIES IN UTILIZATION OF SCARCE HUMAN RESOURCES BOTH IN THE PUBLIC AND PRIVATE SECTOR.

6. THE PLANNED FY 87 HUMAN RESOURCES AND INSTITUTIONAL DEVELOPMENT PROJECT (612-0220) IS THE MISSION'S PRIMARY VEHICLE FOR ADDRESSING THESE STRATEGIC AREAS. ALSO A MORE DETAILED JUSTIFICATION FOR THE STRATEGY IS FOUND IN THE DECEMBER 1986 ASSESSMENT.

4. RELATIONSHIP TO OTHER DONOR PRIORITIES:

A. BOTH IDA/WORLD BANK AND AFRICAN DEVELOPMENT BANK HAVE TAKEN THE LEAD IN THE DEVELOPMENT OF PRIMARY AND SECONDARY EDUCATION. SUFFICIENT ASSISTANCE FROM THESE DONORS TO THIS AREA OF EDUCATION AND HUMAN RESOURCES WILL LIKELY CONTINUE IN THE FUTURE. THIS COUPLED WITH RESOURCE CONSTRAINTS AND RELATIVE PRIORITIES EXPLAINS THE MISSION'S DECISION NOT TO EMPHASIZE THIS LEVEL OF EDUCATION.

B. THE PRIMARY DONORS INVOLVED IN TRAINING ARE GREAT BRITAIN, UNDP, EEC AND USAID. IN 1986, 377 MALAWIANS WERE SCHEDULED TO TAKE PART IN DONOR FINANCED EXTERNAL TRAINING PROGRAMS. OVER HALF OF THESE WERE SPONSORED BY THE BRITISH COUNCIL. SINCE 1982/83 THE EEC HAS PUT INCREASED EMPHASIS ON IN-COUNTRY TRAINING COURSES AND OTHER DONORS ARE AMENDING THEIR PROGRAMS TO INCREASE SUPPORT FOR IN-COUNTRY TRAINING.

C. ALONG WITH USAID OTHER DONORS INVOLVED IN POST-SECONDARY TRAINING INSTITUTIONAL DEVELOPMENT INCLUDE CANADA, ADF, WORLD BANK, AND EEC.

D. DONORS SUCH AS GREAT BRITAIN, UNDP, AND WORLD BANK WITH STRATEGIES THAT FOCUS ON TRAINING AND INSTITUTIONAL DEVELOPMENT ARE ATTEMPTING TO IMPROVE COORDINATION AND INFORMATION SHARING. THESE EFFORTS ARE BEING COORDINATED BY THE WORLD BANK. THE KEY DONORS ARE SENSITIVE TO THE NEED TO COMPLEMENT AND REINFORCE EACH OTHERS HUMAN RESOURCES PROGRAMS AND TO INCREASE LOCAL INSTITUTIONAL CAPACITY.

5. OTHER ITEMS REQUESTED REFTEL ARE BEING TRANSMITTED BY SEPTEL. JETT

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