

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.  
 2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office <u>USAID/Malawi</u> (ES# <u>89-3-227-I</u> )		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY <u>89</u> Q <u>3</u>	C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>
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D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
612-0227	Parastatal Divestiture	08/15/86	08/31/91	\$15,592	\$15,592

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
1) Establishment of a Unit Trust as recommended in the Deloitte Study	R. Mahoney MOF Deloitte ADMARC	08/31/91
2) Establish a Holding Company for assets that could not be sold quickly	R. Mahoney MOF Deloitte ADMARC	08/31/91
3) Extension of technical assistance to the program	R. Mahoney	11/90
4) Strengthening of the information exchange between the Investment Coordinator and USAID/Malawi in order to keep abreast of the Divestiture Committee's decisions	R. Mahoney Investment Coordinator	08/31/91

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) (Day) (Year)  
 May 1990

G. Approvals of Evaluation Summary And Action Decisions:

Name (Typed)	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
	Roberta Mahoney	S.B. Namagowa	Indira B. Benbow	Carol Peasley
Signature	<i>Roberta Mahoney</i>	<i>S.B. Namagowa</i>	<i>Indira B. Benbow</i>	<i>Carol Peasley</i>
Date	15 May 91	15th May, 1991	5/14/91	15 May 1991

**ABSTRACT**

**H. Evaluation Abstract (Do not exceed the space provided)**

This is a summary for the mid-term evaluation of the USAID/Malawi Parastatal Divestiture Program. The objectives of the Divestiture Program are to support the rationalization of the Agricultural Development and Marketing Corporation (ADMARC), Malawi's dominant agricultural parastatal, in order to (a) restore its liquidity; and (b) enable the Corporation to focus on its basic function i.e. marketing of smallholder agriculture inputs and produce. A six-person team from USAID's Centre for Privatization (CFP) carried out the study. Extensive interviews with GOM officials, USAID/Malawi and ADMARC officers, and private and parastatal institutions were held during the evaluation. The major findings and recommendations of the study are as follows:

- a) due to a growing GOM commitment and excellent technical expertise from Deloitte Haskins & Sells (DH&S), the program has succeeded in several respects: ADMARC has improved its liquidity to a positive cashflow of K14.7 million and the Corporation's focus is now on its basic function;
- b) the pace of privatization of ADMARC investments has been relatively rapid compared with experiences elsewhere.
- c) the visible progress of the ADMARC program has led to an increased interest among GOM officials in the private sector and in the prospect of further privatization.
- d) divestiture in Malawi has been hampered by the lack of a developed capital market and a very small number of potential buyers with sufficient capital to take on ADMARC assets. This has led to some increased concentration of ownership and potential abuses of monopoly power.
- e) USAID should continue its support to the Program through the existing "carrot" financial incentive in order to sustain the GOM's commitment.

**Major lessons learned:**

- i) for the Program to be successful, political commitment at high levels is necessary and technical expertise is required to carry out privatization strategies;
- ii) financial incentives, such as the "carrot" payment for successfully divested activities, are key to Program's success; and,
- iii) short and long-term objectives should be balanced. For example, ADMARC's desperate cash situation and GOM's desire for rapid disbursement of the balance of payments financing narrowed the list of purchasers considered for buying the first few ADMARC tobacco estates. Furthermore, the process of selecting buyers was a mixture of formal and informal mechanisms. These short-term objectives resulted in concentration of ownership of assets.

**C O S T S**

**I. Evaluation Costs**

1. Evaluation Team			Contract Number OR	Contract Cost OR	Source of Funds
Name	Affiliation		TDY Person Days	TDY Cost (U.S. \$)	
1.	Alexander C. Tomlison	CFP	30 days	\$25,200	PD & S
2.	L. Gray Cowan	CFP	27 days	\$20,250	"
3.	Robert E. Laport	CFP	25 days	\$18,750	"
4.	Donald E. Greenberg	REDSO	-	-	REDSO
5.	Kenneth I. Angell	CFP	15 days	\$ 7,200	PD & S
6.	Graham N.A. Shaw	CFP	17 days	\$13,770	"
				<u>\$85,170</u>	
2. Mission/Office Professional Staff			3. Borrower/Grantee Professional		
Person-Days (Estimate) <u>5 days</u>			Staff Person-Days (Estimate) <u>10 days</u>		

## A.I.D. EVALUATION SUMMARY - PART II

### SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)

Address the following items:

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| <ul style="list-style-type: none"> <li>• Purpose of evaluation and methodology used</li> <li>• Purpose of activity(ies) evaluated</li> <li>• Findings and conclusions (relate to questions)</li> </ul> | <ul style="list-style-type: none"> <li>• Principal recommendations</li> <li>• Lessons learned</li> </ul> |
|--|--|

Mission or Office:

USAID/Malawi

Date This Summary Prepared:

04/15/91

Title And Date Of Full Evaluation Report: Evaluation of the Divestiture Program of the Agricultural Development and Marketing Corp.; April, 1989

#### 1. Purpose of the Activity:

Due to balance of payments problems, Malawi adopted an "inward looking" as opposed to "export-oriented" development strategy for most of the 1980's. Government's involvement in running the economy increased and the number of parastatal and quasi-public corporations proliferated at the expense of the private sector. One such large quasi-public corporation entrusted with various agricultural responsibilities and investment portfolios was ADMARC.

ADMARC was established in 1971 as the sole buyer of smallholder produce and the sole supplier of smallholder inputs. It also operated several agricultural estates and invested the large profits it earned in the 1970's in agricultural-related industrial and commercial holdings. Starting in the late 1970's, however, ADMARC experienced a deteriorating liquidity position.

The abnormal profits realised in the 1970's eroded as a result of losses in investment portfolios, subsidies on seed and fertilizers, and other agricultural marketing related causes. ADMARC's weak managerial and financial structures became more apparent with the economic recession which lasted up to 1982. The Parastatal's difficulties culminated in a liquidity crisis in 1985.

To redress the situation, in December, 1985, the Malawi Government began discussions to rationalize parastatal activities with the World Bank and other donors, including A.I.D., under the Structural Adjustment Program III (SAL III). This led to the development of USAID/Malawi's Parastatal Divestiture Program (Project Number 612-0227). The Program's broad objectives are: (a) to ensure a more efficient utilization of resources through the movement of resources from the public to the private sector; (b) to inject critically needed foreign exchange into the economy; and (c) to increase the amount of credit available to the banking system for lending to private borrowers. Specific objectives pertaining to ADMARC were: (i) restoration of ADMARC's liquidity; and (ii) strengthening ADMARC's capacity to manage agricultural operations.

A total of US\$15.5 million was obligated in 1986 to restructure ADMARC. Of this amount, US\$15 million was a cash grant to be disbursed conditional on the divestment of assets, and US\$500,000 was for technical assistance, studies and training.

## 2. Purpose and Methodology of the Evaluation:

The aim of the study was to assess the achievements of the Parastatal Divestiture Program and, wherever necessary, redirect the Program's objectives. In doing this, the evaluation team looked at ADMARC's liquidity position since the inception of the Program in 1986, and at the Corporation's readiness to re-focus its efforts on its basic responsibility, that is, marketing smallholder agricultural inputs and produce. In undertaking the assessment, the team compared liquidity positions at the time ADMARC divestiture program started with its position in March, 1989. The team also looked at the actual price bid by buyers vis-a-vis that estimated by the investment coordinator, the distribution of ownership of divested assets, and the speed of asset sales.

## 3. Findings and Conclusions:

- a) ADMARC's divestiture program has been successful. As of March, 1989, two years after work on the Program began, the Corporation had generated net cash proceeds of K14.7 million from total divested assets of K34.6 million. These proceeds mostly came from estate investments which were sold during a shorter period than previously anticipated. ADMARC's liquidity and profit situations have also improved.
- b) The growing GOM commitment coupled with an excellent and systematic approach taken by the investment coordinator to auction ADMARC's assets was the engine behind the Program's success. Also, acceptance of privatization at high political levels led to smooth implementation of the Program.
- c) USAID should continue the provision of the "carrot" to the GOM in order to gain continued support for the Program. This is essential considering that after giving financial assistance through a grant to support the GOM's balance of payments, the Ministry of Finance (MOF) became more interested. (Note: in this example the "carrot" was balance of payments support equal to \$1 for each MK3 of assets successfully divested).
- d) The identification of buyers was done informally for industrial and commercial ADMARC assets; most discussions were limited to well known players in the economy who were already making inquiries about the properties. Although three tobacco estates were sold early-on to the Press Group before any advertisements were run, the rest of the agricultural properties were advertised in August, 1987. There were four to twenty bids for each estate, and in all but one case, the highest bid was accepted.
- e) Efforts to divest ADMARC's assets have been, to some extent, adversely affected by the absence of a well developed capital market. The result has been concentration in asset ownership, with Press getting the upper hand.
- f) In order to discourage concentrated asset ownership resulting from lack of capital market, there is need to establish a unit trust or a holding company with a long-term objective of broad-based privatization.

Principal Recommendations:

- a) A.I.D. should continue supporting the Program through maintenance of the "carrot" payment for balance of payments support. USAID could consider adding some conditionality to influence performance standards.
- b) A.I.D. should also assist in establishing the proposed unit trust and/or holding company as an interim measure to future broad-based privatization.
- c) A.I.D. should continue to finance long and short-term technical assistance.

Lessons Learned:

- i) For a divestiture program to succeed, there is need for commitment at the highest political level. In the case of Malawi, there was resistance to the program in the Ministry of Agriculture and ADMARC in the initial stages, but this changed as a result of commitment from the highest political level and efforts through the Divestiture Committee to develop a consensus.
- ii) That divestiture programs require a high level of technical skills if privatization is to be realised. The skills of DH&S made a significant contribution to ADMARC's divestiture success.
- iii) That financial incentives, in whatever form, should be an integral part of the Program in order to gain the implementing government's support. The "carrot" support for balance of payments for Malawi was a good example of this incentive approach.
- iv) That in the absence of a well developed capital market, a unit trust and/or a holding company could bridge the gap while accomplishing divestiture of assets.
- v) That the need to implement the program quickly might have had adverse implications in terms of addressing both short and long-term objectives.
- vi) That lack of openness and competition in selecting buyers and barring other groups of people in the society reduces competition and lowers asset price.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Copy of Mid-term Evaluation report titled "Evaluation of the Divestiture Program of the Agricultural Development and Marketing Corporation" Malawi 1986-1989, April 1989.

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

The evaluation fully covered the scope of work as presented in the terms of reference for the study. The Evaluation Team was well selected with a thorough understanding of divestiture program mechanics.

The evaluators carefully analyzed ADMARC's Divestiture Program by conducting some case studies on ADMARC's investment portfolio in order to fully understand the complexity of divestiture activities within the Malawian context. As a result, their analysis was very objective, especially on buyer selection and divested assets ownership. The findings and lessons learned that are cited in the report facilitated USAID/Malawi's and GOM's understanding regarding the redirection of some of the program's activities.

While the Mission agrees that the Program has been successful in meeting its original objectives, it has decided not to extend program financing. Rather, given the slowness with which subsequent divestitures have occurred and given the Mission's continued concern about questions of concentration of asset ownership, the Mission has concentrated its attention on ensuring development of the holding company and unit trust.