

PD APP-479
94956

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

1

DOCUMENT CODE

3

COUNTRY/ENTITY MALAWI

3. PROJECT NUMBER 612-0233

4. BUREAU/OFFICE AFR 06

5. PROJECT TITLE (maximum 40 characters) MALAWI ENTERPRISE DEVELOPMENT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 11 23 95

7. ESTIMATED DATE OF OBLIGATION (Under "B:" below, enter L, 2, 3, or 4)
A. Initial FY 88 B. Quarter 4 C. Final FY 92

8. COSTS (\$000 OR EQUIVALENT \$1 = MK3.7)

A. FUNDING SOURCE	FIRST FY 88			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	1,200	400	1,600	1,840	400	2,240
(Grant)	1,200	400	1,600	1,840	400	2,240
(Loan)						
Other						
U.S.						
Host Country						
Other Donors						
TOTALS	1,200	400	1,600	1,840	400	2,240

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROXIMATE PRIMARY PRIORITATION/PURPOSE CODE	B. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DFA			1,385		640		2,025	
(2) ESF			215		0		215	
(3)								
(4)								
TOTALS			1,600		640		2,240	

10. SECONDARY TECHNICAL CODES (maximum 8 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To support revitalization of existing businesses and creation of new enterprises, especially small and medium enterprises, in Malawi, in the private commercial and industrial sector, through technical assistance, training and studies.

14. SCHEDULED EVALUATIONS

Interim MM YY 02 93 Final MM YY 06 95

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

Two new activities are added to the project, establishment of a unit trust and SME development strategy studies, along with additional funds to finance these activities. The PACD is extended by 15 months.

Controller Clearance: RBamin

17. APPROVED BY

Signature: *Carol A. Peasley*

Title: Mission Director
USAID/Malawi

Date Signed: MM DD YY 10/9/24 9/24

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY 1/10/17/92

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/MALAWI

Date: September 25, 1992

From: David E. McCloud, PID 

Subject: Malawi Enterprise Development Program Support Project
(612-0233)

I. Action Requested: You are requested to approve: (a) this Action Memorandum, which serves as a Project Paper Supplement for the subject project (612-0233); and (b) the attached Project Authorization amendment and Project Data Sheet amendment. These documents amend the project by increasing the Life of Project funding level by \$640,000, to a new total of \$2,240,000, and by extending the PACD by 15 months, to December 31, 1995. The funding increase will be fully obligated in FY 1992.

II. Background

The Malawi Enterprise Development Program (MED) has as primary objectives the revitalization of existing businesses and the creation of new enterprises in the private commercial and industrial sector. While the program includes a policy reform agenda which spans the entire business community, it also comprises specific activities which promote the development of small and medium enterprises (SMEs). Two developments in the area of business development have occurred which led the Mission to consider additional project activities under the Project Support component of the MED Program, and these activities are the subject of this project amendment.

The first development is the opportunity to help establish an equity market facility in Malawi. A significant detriment to the growth of the private sector in Malawi has been the lack of an equity market. An equity market allows existing businesses to raise capital through the selling of shares, capital which can be used to expand ongoing operations or to begin new enterprises. It thereby encourages businesses to sell equity and spread both the advantages and risks associated with ownership. It also allows large investors to diversify investment portfolios, and small investors to participate in overall economic development. This broadening of the economic base acts as both a stabilizing and enabling force within the economy, and thereby supports further business growth and a sense of participation in that growth.

Two types of facilities have been discussed in Malawi, a unit

trust and a stock exchange. MED project resources will be used to support the development of a unit trust. The development of a stock exchange may occur concurrently, but with Government of Malawi (GOM) resources or resources available elsewhere.

A unit trust is an equity market institution which purchases shares of firms and places those shares into one portfolio. It then sells units (its own shares) which are issued by the unit trust and which represent an investment in the overall portfolio. (In the United States, mutual funds perform a similar function.) A unit will have a fixed price, e.g. MK100, and a unit holder will earn dividends based on the overall earnings of the portfolio and the number of units owned. Dividends can be paid in cash, or can be reinvested thereby increasing the number of units an individual owns. Six large firms in Malawi, each of which has separate holdings of its own, have expressed interest in selling equity, and other firms which have large reserves of cash, in particular insurance firms and pension funds, have expressed interest in purchasing equity. With the introduction of a unit trust, these equity transactions can take place through the unit trust. In addition, given the opportunity, it is expected that small investors will participate, as long as the unit price is set at a realistic level.

The second development is the need of institutions in Malawi which support the growth of small and medium enterprises for technical assistance to develop long term operational and service strategies. A number of these institutions, many of which have been supported by A.I.D. in the past, face significant cutbacks in support by both donors and the GOM. In some cases, they have not developed independent resource bases large enough to cushion them from the changed funding environment, or, given the nature of their clientele, their revenue bases cannot grow substantially. At the same time, demand for services is increasing. It has become apparent that "business as usual" is no longer a viable strategy. If institutions are seriously weakened or collapse, SME entrepreneurs' access to advisory and credit services would be jeopardized.

Given that one of its focus areas is the SME sector, the MED Program Project Support component is an appropriate mechanism through which to provide technical assistance to the GOM and directly to the institutions so that strategies relevant to current and expected future conditions can be debated and developed. This activity has been discussed at length with both the GOM and various institutions, and all have expressed strong support for it. It also will be one topic addressed during an upcoming workshop which will have as its theme the current status and future of A.I.D.-supported SME institutions.

III. Activity Description

A. Equity Market Facility

1. Status of Project Negotiations

USAID has financed two studies of the capital market in Malawi, one in 1988 and an update in 1992, and these studies included a feasibility assessment for the establishment of a unit trust. The recent capital market study update indicates that firms are interested in selling up to MK 20 million in existing equity. About 25% of this represents a portion of holdings of the ADMARC Investment Holding Company whose formation resulted from A.I.D.'s Parastatal Divestiture Program (612-0227). Other potential participants include Malawi Development Corporation (MDC), Indebank, Press Corporation, and the GOM. Potential investors include large insurance companies and pension funds, including National Insurance Company (NICO) and Old Mutual Insurance Company, banks, other firms and individuals.

Field activities should begin in June 1993. Current economic conditions in Malawi, including the financial costs of the drought, reduced availability of foreign exchange, and recent substantial wage increases, do not support the initiation of field activities prior to that time. Because this activity will span a two year period, the PACD for the MED Program Support Project is being extended by 15 months, to December 31, 1995.

2. Project Components

Establishment of a unit trust will require long term and short term technical assistance (TA), external training, commodities, and promotional assistance. All project requirements, including commodity procurement and training, will be met through a contract with an institutional contractor. This contract will be either competed or negotiated through a centrally managed AID/W project. An appropriate central project now exists, but its PACD is 1992. A follow-on is planned, and should include provision for this type of activity. If it is in place by early 1993, it would be the preferred mechanism. It is expected that the unit trust will be managed by a private firm acceptable to the GOM, and the project-funded TA will be advisors to that firm.

Each of the specific requirements is discussed in detail below.

a. Technical Assistance

(1) Short term TA

A total of seven person-months (PM) of

short term TA has been budgeted. Initially, four PM will be required to complete the necessary company registration procedures and the design of operating and reporting procedures. Registration will take place under legislation recently passed to facilitate the establishment and operations of capital market entities. Outstanding issues related to the operations of the trust include valuation methodology, definition of the mechanism for transfer of equity ownership from the seller to the trust, and design of required financial reports.

A final three PM of short term TA will be programmed to assist with monitoring implementation and dealing with issues as they arise during the second year of the scheme's life, after the departure of the long term TA. Changing economic conditions are expected to result in changes in the unit trust's operating environment, and this will require specialized assistance to maintain the viability of the trust's operations.

Short term TA will include various skills, including accounting, financial management systems development, and investment portfolio management. Of the seven PM required, it is expected that five PM of external assistance and two PM of local assistance will be required. The external assistance is estimated to cost \$30,715 per PM, and the local assistance \$18,800 per PM.

(2) Long Term TA

Long term TA (12 pm) will be required to initiate the scheme and to assist with its first year management. The TA will work with the local unit trust management firm to assist with the purchase of equity, establishment of operating procedures, and the promotion of the trust to all potential investors. This position requires an individual who is a specialist in unit trust management, preferably in a developing country environment, and who has skills in accounting and financial/investment management.

The long term TA will have the following specific responsibilities:

- assist in negotiations for purchase of equity, including application of valuation methodology and agreement over financing terms;
- institute investment analysis systems, financial analysis and reporting systems, and overall performance monitoring system; and
- assist with design and implementation of promotional campaigns, including advertising, workshops, and individual meetings.

This position has been budgeted at \$220,000 for the 12 months.

b. Institutional Support

(1) External Training

One pm has been programmed for specific skill training outside of Malawi. It is anticipated that specific skill training will be required by the local management firm's individual who will be primarily responsible for managing the facility, and that the training will be available only outside Malawi. Most training will be on-the-job, but broader exposure to specific topics, e.g., asset valuation and investment selection, may be better achieved externally.

(2) Commodities

A modest amount has been budgeted for commodity procurement. This includes a computer, printer, and necessary software. The printer will have the capability of printing official certificates.

(3) Promotional Assistance

Promotion of the facility will be essential to its eventual success. Promotional activities include the printing of literature explaining the facility, how it operates and how one can participate, as well as organizing seminars where potential investors, journalists and others can learn about the facility and further promote it. A modest amount has been budgeted under the project for this purpose, and it is expected that the management entity will use its own funds for promotion as well.

3. Host Country Support

Project funds are to be used primarily for technical assistance, and for other incidental expenditures, as identified above, which are particularly important to the overall success of the activity. The host country institution which will be managing the facility also will be contributing substantial resources to the activity, in particular management and office staff and various operating requirements (e.g., office space and equipment and vehicles). Of course, the management entity will charge the facility a fee for provision of management services. The facility is expected to be self-supporting financially from its inception, with the exception of the external assistance provided through this project.

4. Activity Management

Within USAID, the officer in charge of private sector activities will manage this activity. On the host country

side, as is mentioned above, a unit trust is expected to be managed by a private firm. While some interested firms have been identified, no final determination has been made. One possibility is that the management firm will be owned by three or four Malawian companies. If no acceptable firm can be agreed to prior to the trust's initiation, the GOM may undertake management temporarily, until an appropriate private sector mechanism can be developed. An evaluation of the activity will be conducted nine months after the long term TA has been in place.

B. SME Institutional Strategy Development

1. Status of Project Negotiations

Upon numerous occasions and at various levels, the GOM has expressed concern about the future of its promotion of small and medium enterprises through the institutions which have been established for that purpose. Under the Rural Enterprise and Agribusiness Development Institutions (READI) Project (612-0214), USAID directly supported the development of the following institutions: Dematt, Indefund, MUSCCO, and POET. In addition, it provided support to the Ministry of Trade and Industry through the establishment and operations of the Project Coordination Unit (PCU). Of these institutions, Indefund is a private institution with minority GOM participation through one shareholder (MDC); MUSCCO is a non-governmental cooperative organization currently organized under extra-legal authority courtesy of the Minister of Trade and Industry (awaiting the passage of a new Cooperatives Act); POET has been newly reconstituted as an NGO; and Dematt remains a parastatal but aspires to NGO status.

Recent reductions in donor assistance and the uncertainty about future levels of assistance have led the GOM and the various institutions to question their long term plans for institutional development and service provision. Plans developed over the past couple years were based on now-questionable assumptions which included expectations about larger levels of external assistance. Discussions with the Ministry of Finance, Ministry of Trade and Industry, and the individual institutions have supported the need for a fresh and coordinated look at strategies for institutional development and service provision which take into account existing and future constraints as well as the desire to maintain an adequate level of services.

2. Project Components

a. Short Term Technical Assistance

This activity will involve the provision of short term technical assistance to conduct studies of issues as defined by the GOM and the participant institutions, and to develop action and implementation plans. Provision has been

allowed for six person-months, and will be complemented by additional consultancy work which will be done with MUSCCO under the WOCCU/MUSCCO grant. It is expected that the work will be organized in two stages, with the first stage being the collection and assessment of information and development of alternative proposals, and the second stage the further development of acceptable proposals with the final product being specific action/implementation plans.

Issues to be studied include:

- the relationship between the GOM and the various institutions, and the feasibility of GOM support to institutions as NGOs;
- GOM strategies for supporting the growth and development of SMEs;
- appropriate levels of service provision by the respective institutions;
- operating requirements of the respective institutions; and
- identification of target groups.

Skill requirements for this activity include an organization specialist with SME institutional experience, an SME business development specialist with a grass-roots understanding about entrepreneurs' needs and how to meet those needs, and a financial specialist with experience in the financial management of institutions which provide services to SMEs. A budget estimate of \$25,000 per person-month has been used.

3. Host Country Support

The objective of this activity is to assist host country institutions in defining future operational levels in light of current and expected financial conditions. The institutions will play an active role in the identification of issues, drafting of scopes of work, contractor selection and execution of the studies. The institutions then will be responsible for implementation of study recommendations, as appropriate.

4. Activity Management

Within USAID, the officer in charge of private sector development activities will manage this activity. The Ministry of Trade and Industry (MTI) will be responsible for overall management on the Malawian side, and will be assisted by a committee comprising MTI plus the Ministry of Finance and representatives of the relevant institutions. Because of the nature of this activity, i.e., a series of short term consultancies over a brief period of time, no formal evaluation is planned. The Mission, working with the GOM, will conduct an in-house evaluation of the work upon its completion. A mid-term

assessment, after the first set of consultancies, also will be made for the purpose of revising scopes of work as necessary.

IV. Revised Budget

Revised Illustrative Budget (US\$)

<u>Item</u>	<u>Original</u> *	<u>Revised</u>
Studies	258,900	403,900
Technical Assistance	1,094,500	1,619,500
Training	96,600	116,600
Monitoring, Eval. & Audit	<u>150,000</u>	<u>100,000</u>
Total	1,600,000	2,240,000

* As revised in PIL #41

In order to accommodate the additional activities discussed in this Supplement, the following budget revisions have been made: the Studies line item has been increased by \$145,000, the Technical Assistance line item has been increased by \$525,000, and the training line-item has been increased by \$20,000. (Included in the TA line item are all costs which would be part of the TA institutional contract and which are associated with the equity market facility, e.g., TA, commodities, training, and promotional activities. However, some additional training may be required, and has been budgeted for separately within the respective line item.) The Monitoring, Evaluation and Audit line item has been reduced by \$50,000 due to the reduced need for funds for that purpose. All necessary evaluations and audits will be funded through the Monitoring line item.

V. Procurement Plan

Procurement will be primarily that of services. A small amount of commodity procurement (approx. \$15,000) is expected under the equity market facility activity, and that will be included within the planned institutional contract.

Two contracts are anticipated, both institutional, one for the equity market facility activity and one for the SME institutional strategy development. It is likely that a centrally managed AID/W project will be in place which can be the mechanism for the required assistance for the equity market facility. If it is not

in place, the contract will be competed. The Mission plans to compete the contract for the SME institutional strategy development activity. For those contracts which are competed, a search of Gray Amendment entities will be conducted and firms which could supply the required services will be given full opportunity to submit proposals. It is expected that the contractors will be Geographic Code 000. Final decisions about contracting mechanisms will be made after consultations with relevant AID/W offices at the time that the required contracting documentation (e.g., RFP) is prepared.

It is intended to complete an RFP for the strategy development activity by the end of October, and to begin the activity by March 1993. An RFP for the equity market facility activity should be completed by January 1993, and the activity should begin by June 1993.

VI. Delegation of Authority and TN Notification

Under Section 4.A. of DOA 551 (Revised), you have the authority to amend the Project Paper and Project Authorization and to approve the PACD extension. State 189179, dated June 15, 1992, notified the Mission that the TN had expired.

VII. Recommendations

- That you sign:

A. This Action Memorandum, thereby approving the Project Paper Supplement including the increase in project funding and extension of PACD, and

B. The attached Project Data Sheet amendment and Project Authorization amendment.

Approved: Carol A. Hasley

Disapproved: _____

Date: 28 Sept. 1992

Attachments:

1. New Activity Budget Estimates
2. Project Data Sheet Amendment
3. Project Authorization Amendment

Attachment 1

Malawi Enterprise Development Program Support Project

Project Paper Supplement

New Activity Budget Estimates

Equity Market Facility Activity

Technical Assistance	
Long term (12 pm)	220,000
Short term (7 pm)	191,175
External Training (1 pm)	20,000
Commodities	15,000
Promotional Campaign	20,000
Internal Travel	10,000
Contingency/Inflation (10%)	<u>48,825</u>
Subtotal	525,000

SME Institutional Strategy Development Activity

Technical Assistance (ST, 6 pm)	<u>150,000</u>
Subtotal	150,000

TOTAL 675,000

Note: The required funds for these new activities will be met through a combination of additional funding (\$640,000) and budget realignment (\$35,000).

Project Authorization

Amendment No. 1

Name of Country: Malawi
Name of Project: Malawi Enterprise Development Program
Support Project
Number of Project: 612-0233

1. Pursuant to Sections 103-106 of the Foreign Assistance Act of 1961, as amended, with funds from the Sub-Saharan Africa, Development Assistance appropriation, and pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, the Malawi Enterprise Development Program Support Project (the "Project") was authorized on August 27, 1988, at an original life of project funding of \$1,600,000 and with a Project Activity Completion Date (PACD) of September 30, 1994.

2. Pursuant to Section 496 of the Foreign Assistance Act of 1961, as amended, I hereby authorize an additional six hundred forty thousand United States dollars (\$640,000) in grant funds for said Project, for a new authorized life of project funding not to exceed two million two hundred forty thousand United States dollars (\$2,240,000), and an extension of the planned life of the Project by 15 months, to December 31, 1995.

3. Except as hereby amended, the original authorization remains in full force and effect.

Signature:

Carol A. Peasley
Carol A. Peasley
USAID/Malawi Mission Director

Date:

28 Sept. 1992