

POBBN 542

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add  
 C = Change  
 D = Delete

Amendment Number

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 Program

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY  
01 9 30 914

7. ESTIMATED DATE OF OBLIGATION  
(Under 3." below, enter 1, 2, 3, or 4)

A. Initial FY 818 B. Quarter 4 C. Final FY 88

8. COSTS (\$000 OR EQUIVALENT \$1 = MK 2.60)

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

9. SCHEDULE OF AID FUNDING (\$000)

A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE 1. Grant 2. Loan	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) DFA	700	840	0		1,385		1,385	
(2) ESF	700	840	0		215		215	
(3)								
(4)								
<b>TOTALS</b>			<b>0</b>		<b>1,600</b>		<b>1,600</b>	

10. SECONDARY TECHNICAL CODES (maximum 6 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

15. SOURCE/ORIGIN OF GOODS AND SERVICES

Interim MM YY MM YY Final MM YY  000  941  Local  Other (Specify) 935

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

Financial management arrangements in Section 5 of PAAD approved by USAID/Malawi Financial Management Officer, per Lilongwe 04505 (8/12/88).

17. APPROVED BY

Signature  
Richard L. Shultz, Jr.

Title  
Acting Director,  
USAID/Malawi

Date Signed  
MM DD YY  
08 06 88

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

MM DD YY  
08 08 88

Project Authorization

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, I hereby authorize the Malawi Enterprise Development Program Support Project (the "Project") for Malawi (the "Cooperating Country") involving planned obligations of not to exceed one million six hundred thousand United States dollars (\$1,600,000) in grant funds over a period of one year from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs of the Project. The planned life of the Project is six years and one month from the date of initial obligation, except as A.I.D. may otherwise agree in writing.
2. The Project will 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.
3. The Project Agreement(s), which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.
- 4.(a) Source and Origin of Commodities, Nationality of Services: i. Commodities financed by A.I.D. under the Project with funds from the Sub-Saharan Africa, Development Assistance appropriation, shall have their source and origin in countries included in A.I.D. Geographic Code 935, except as A.I.D. may otherwise agree in writing. The suppliers of such commodities

or services shall have countries included in A.I.D. Geographic Code 935 as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project with funds from the Sub-Saharan Africa, Development Assistance appropriation shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of countries included in A.I.D. Geographic Code 935.

ii. Commodities financed by A.I.D. under the Project with funds from the Section 531 appropriation shall have their source and origin in countries included in A.I.D. Geographic Code 941 and the Cooperating Country, except as A.I.D. may otherwise agree in writing. The suppliers of such commodities or services shall have countries included in A.I.D. Geographic Code 941 and the Cooperating Country as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project with funds from the Section 531 appropriation shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of countries included in A.I.D. Geographic Code 941 and the Cooperating Country.

(b) Covenants: The Cooperating Country shall covenant that, except as A.I.D. may otherwise agree in writing, it will:

i. Undertake studies which contribute to an enhanced knowledge of the private industrial and commercial sector, especially the small and medium enterprise subsector, and to the monitoring and implementation of the Malawi Enterprise Development Program.

ii. Support monitoring, evaluation, and audit efforts under the Malawi Enterprise Development Program.



Charles L. Gladson  
Assistant Administrator  
for Africa

9-27-75

Date

*MAC for*

Drafted: AFR/PD/SA:IBiswas;ext. 7-8801;8/18/88;4410L

Clearances:

DAA/AFR:WBollinger *WB 8/26/88*

DAA/AFR:ELSaiers

AFR/PD:JGraham

AFR/SA:LPompa/TWare (draft)

AFR/PD/SA:MARiegelman (draft)

AFR/MDI:WWeinstein (draft)

AFR/DP/PAR:JWolgin (draft)

GC/AFR:MAKleinjan (draft)

AFR/CONT:RKing (draft)

PPC/PB:RMaushammer (draft)

AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D C 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, James *James Graham*  
SUBJECT: Malawi Enterprise Development Program (MED)  
(612-0233) ✓

Problem: You are requested to approve the Malawi Enterprise Development Program (612-0233) with life of program funding of \$36,600,000; to approve for obligation in FY 1988 \$15,115,000 in DFA funds in the form of cash grant nonproject assistance; and to authorize \$1,600,000 (\$1,385,000 DFA and \$215,000 ESF) in the form of grant project assistance.

Background: Until the late 1970's, Malawi experienced strong economic growth. Annual GDP rose on average six percent. The period was marked by few macroeconomic distortions and constraints on private sector growth. There were few restrictions on imports and the exchange rate was essentially market determined.

By 1979, however, the economy had reached a turning point. Malawi's balance of payments position had deteriorated sharply due to soaring oil prices, plummeting world prices for its agricultural exports, and the gradual closure of its traditional trade routes through Mozambique. To contain its growing fiscal deficit, the GOM took steps to increase its revenue through expanded duties, taxes, and tariffs, many of which had adverse effects on production. As the deficit continued to mount, the Government became the major consumer of domestic credit, crowding out further the private sector.

From 1981-86, the GOM responded to these deteriorating circumstances via a series of Structural Adjustment Loans (SAL's) with the World Bank. These SAL's resulted in noticeable improvements in the larger macroeconomy and a more efficient allocation of resources. However, they did not focus on private sector problems such as the need for expansion of industrial capacity and a more open environment for industrial development. In late 1987, the GOM began discussions with the World Bank and other donors including A.I.D. for the development of a major program focused on strengthening the private industrial and commercial sector. This led to the development of the World Bank's Industrial and Trade Policy Adjustment Credit Program (ITPAC) and the A.I.D. Malawi Enterprise Development Program.

Discussion: The purpose of the Malawi Enterprise Development Program (MED) is to stimulate the growth of the private industrial and commercial sector and to enable, in the long run, an increase in employment and incomes derived from a strong, dynamic private sector. MED is one of the first examples of sector nonproject assistance under the DFA and is supportive of the World Bank's Special Program of Assistance for Debt-Distressed Low-Income Countries in Africa.

The program purpose will be achieved through two types of interventions. The first is nonproject assistance in support of policy and institutional reforms. Certain reforms implemented by the GOM under MED will support liberalization of trade policy and flexible management of the exchange rate. These reforms, which overlap with the ITPAC program, will promote increased utilization of plant and labor resources in private industry and commerce. While some of these reforms are macro-economic in nature, the PAAD analysis clearly demonstrates that they are the reforms most vital to the sector. Other reforms will go beyond ITPAC in order to address constraints to a more open and competitive economy, with particular emphasis on expanding small and medium enterprises (SME's) and increasing employment opportunities.

The second type of intervention is project assistance which will finance technical assistance and training, studies, and evaluation in support of program objectives and the policy dialogue process. A.I.D. will fund business consultancies and workshops to address firm level production, marketing, and management problems. This technical assistance will complement the policy and institutional reforms in bringing about increased productivity and sales. Studies will be conducted to improve understanding and inform the policy dialogue in such areas as barriers to SME development, labor and capital markets, and economic linkages between agriculture and the industrial and commercial sector. Baseline data, a monitoring system, and carefully focused evaluations will enable A.I.D. to track progress in achieving program objectives and make judgments regarding the appropriateness of releasing tranches of nonproject assistance.

The intended beneficiaries of MED are private industrial and commercial firms in general and SME's in particular.

The MED program is closely aligned with other program and project activities of the Mission. It builds on prior USAID/Malawi experience with SME development gained through the Rural Enterprise and Agribusiness Development Institutions

project, which is strengthening the delivery of financial and technical assistance to SME's. The objectives of MED are also related to the ADMARC Parastatal Divestiture program which seeks to reduce concentration in the industrial and commercial sector and to broaden access to capital markets.

Total funding requested for this program is \$36,600,000. Of this amount, \$35,000,000 will be in the form of a cash grant to be disbursed in three tranches over three years upon fulfillment of the agreed upon reforms. The remaining \$1,600,000 will be in the form of project assistance which will finance technical assistance and training (\$700,000), studies (\$750,000), and monitoring, evaluation, and audit (\$150,000).

FY 1988 DFA funding of \$16,500,000 is currently available for this program. Of this amount, \$15,115,000 would be approved as nonproject assistance and \$1,385,000 as project assistance. Later in FY 1988, the Mission is expected to receive \$5,315,000 in ESF deob/reob funds. If so, an additional \$5,100,000 would be approved as non-project assistance and \$215,000 would be available for obligation as project assistance. Because normal A.I.D. practice is to authorize all project assistance funds anticipated over the LOP, the attached project authorization includes the \$215,000 in ESF deob/reob funds referred to above.

Local currency equivalent to \$35,000,000 will be generated by the program, of which 90 percent will be jointly programmed by USAID/Malawi and the GOM in support of sector program objectives to the extent that this can be accomplished. The Mission proposes that 10 percent of the local currency be programmed for an operating expense Trust Fund.

Issues: The MED ECPR took place on August 16, 1988, chaired by James Graham, AFR/PD, and attended by AFR/SA, AFR/MDI, AFR/DP/PAR, AFR/PD/SA, PPC/PB, PPC/PDPR/RP, GC/AFR, and S&T/RD/EED. The Assistant Director of USAID/Malawi represented the Mission.

The major issues discussed by the ECPR are presented below.

1. Support for SEDOM and INDEFUND. The Small Enterprise Development Organization of Malawi (SEDOM) and the Investment and Development Fund (INDEFUND) are quasi-public institutions. Their major shareholders include multilateral and bilateral donors and parastatal holding companies in Malawi. SEDOM and INDEFUND are the main sources of credit for SME's. They are also permitted to take equity positions in SME's but have not done so because of their dependence on donor loan funds for operations. The PAAD identifies the need to expand credit and equity financing for SME's and proposes to strengthen the role

of SEDOM and INDEFUND. The ECPR agreed that, given the lack of alternative sources of financing for SME's over the near term, support for SEDOM and INDEFUND cannot be avoided. However, in keeping with Agency policy toward parastatals, the ECPR determined that (a) a proposed condition that the GOM provide grants to SEDOM and INDEFUND to enable them to take equity positions in SME's should be deleted; and (b) through other conditionality, studies, and policy dialogue, the Mission should seek to increase private ownership and control of these two institutions and assist them to move toward commercial self-sufficiency.

2. Local currency uses. The GOM will deposit local currency equal to the amount of each dollar disbursement calculated at the highest legal rate of exchange on the day of disbursement. The Mission estimates that about Kwacha 81,900,000 of local currency counterpart (excluding the operating expense Trust Fund) will be available for programming. The DFA legislation requires that the local currency generated by nonproject assistance be used for development activities which are consistent with the policy directions of section 102 of the FAA. The Bureau's preliminary guidance on nonproject assistance under the DFA, dated July 12, 1988, underscores that such local currency should be used to support the sector program objectives. This is to assist in distinguishing the program from a balance of payments cash transfer and reflects the intent of the DFA legislation. However, the July 12th guidance also states that under exceptional circumstances, the PAAD may justify its use for other developmental purposes.

In the MED program, the first use of local currency, after the trust fund, will be in support of the sector program's objectives, revitalization and growth of the private commercial and industrial sector. A substantial amount of this will finance existing budget line items to support the program purpose. This will be done in such a way as to maintain compliance with the public sector investment program which limits budget expenditures as negotiated among the GOM, IMF and World Bank and within the context of the Policy Framework Paper. A portion of the local currency will also be used in support of program objectives outside the GOM budget, in the private sector directly, to the extent that the private sector has the institutional capacity to absorb the funds without creating inflationary pressures.

Regarding the July 12th guidance that 100 percent of the local currency be used in support of program objectives, this program requests an exception be made for an estimated 21 percent of the local currency (in addition to the 10 percent set aside for the trust fund). This exception is necessary because there are relatively few GOM budget line items that directly relate to the private industrial and commercial sector, and funds

obviously cannot go to the private sector beyond its institutional capacity to absorb them. Taking PFP limitations and inflationary pressures into consideration is in furtherance of program objectives.

The local currency that cannot be programmed in support of the sector program objectives will be used to finance budget items that directly support the Mission's program priorities in agriculture, health, transportation, human resource development, and economic policy reform. This is consistent with the provision of the DFA legislation cited above.

3. Delegation of authority. Nonproject assistance can only be approved in the amount actually available for obligation. Thus, although the PAAD justifies nonproject assistance in the amount of \$35,000,000 to be obligated over three years, the amount approved by you for obligation in the attached PAAD facesheet is less than that. Subsequent amendments to the PAAD facesheet will be required in future fiscal years to fully fund the program. The authority of the USAID/Malawi Director to approve amendments which increase life of project funding is limited to \$30,000,000 under DOA 551. Under this authority, one or more of the amendments would have to be approved in AID/W. The ECPR recommends that you approve an ad hoc delegation of authority to the Mission Director to approve future amendments to the PAAD facesheet. This delegation would be subject to the limitations that the approved funding may not exceed the level justified in the PAAD and that no substantive modifications be made to the terms and conditions of the program as approved by AID/W. Your approval of this delegation of authority is contained in the PAAD facesheet.

Conditions and Covenants: The conditions precedent to disbursement of the first tranche of \$15,000,000 of nonproject assistance relate to the maintenance of a flexible exchange rate, continued liberalization of the foreign exchange allocation system, streamlining of industrial licensing requirements; progress in reduction of the budget deficit, and establishment of a special account for the local currency counterpart funds.

The second tranche disbursement of \$10,000,000 will be conditioned on a reduction in the number of items for which import and export licenses are required; streamlining of the foreign exchange approval and payments process; establishment of an SME support unit in the Ministry of Trade, Industry, and Tourism; issuance of a policy statement regarding the terms and conditions for the provision of funds to financial intermediaries involved with SME's with the objective of moving

these institutions in the direction of commercial self-sufficiency; and continued progress in reduction of the budget deficit.

The conditions for the third and final tranche of \$10,000,000 are continued liberalization of foreign exchange allocations; streamlining of import and export licensing; removal of prohibitions on lending by SEDOM and INDEFUND to Malawian firms in joint ventures with a foreign partner; establishment of a SME subsector investment promotion program which maximizes private sector participation; establishment of institutional mechanisms to enable a broadening of capital markets; and continued budget deficit reduction.

In addition, the GOM will covenant to maintain a flexible exchange rate from the date of this agreement until one year after the final dollar disbursement; provide information to A.I.D. regarding foreign exchange applications to allow monitoring of program impact on industry and commerce; and conduct annual reviews jointly with A.I.D. to determine specific uses of local currency within the stipulated parameters.

The authorization for the project component contains an additional covenant by which the GOM agrees to undertake various studies and to support the monitoring, evaluation, and audit activities under the program.

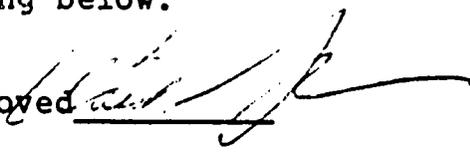
Initial Environmental Examination: A recommendation for a categorical exclusion was approved by the Bureau Environmental Officer and cleared by GC/AFR on June 7, 1988.

Twenty-five Percent Host Country Contribution: The project is expected to generate MK 91 million in counterpart funds (at the current exchange rate of U.S. \$1.00 = MK 2.60). Of this amount, approximately 62 million MK, or the equivalent of \$24 million, is intended to support private industry and commerce or other private sector activities designed to create a more open and competitive environment for expansion of enterprises. This amount amply exceeds the minimum 25 percent host country contribution of \$12.2 million, as required by FAA section 110. Local currency funds will be expended over a six-year time period.

Justification to Congress: A Congressional Notification was sent to the Congress on August 11, 1988. The 15-day waiting period expired on August 25, 1988.

Recommendations:

1. That you sign the attached PAAD facesheet and project authorization for the Malawi Enterprise Development Program, thereby approving a life of program amount of \$36,600,000, approving an initial obligation of \$15,115,000 in nonproject assistance, authorizing project assistance of \$1,600,000, and delegating to the USAID/Malawi Director authority to approve amendments up to the life of program funding level justified in the PAAD.
2. That you approve an exception to the DFA requirement that all local currency counterpart be programmed in support of sector program objectives, provided that the GOM and A.I.D. will program these local currency funds in support of sector program objectives to the maximum extent permitted within the budgetary and fiscal policy constraints negotiated with the IMF and the World Bank. Please indicate your approval or disapproval of this Recommendation No. 2 by signing below.

Approved 

Disapproved \_\_\_\_\_

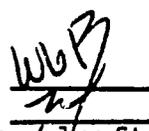
Date 8-27-88

Attachments:

1. PAAD Facesheet/Authorization
2. Project Data Sheet
3. Project Authorization
4. PAAD

<sup>MAR 15</sup>  
Drafted: AFR/PD/SA:RRoeser; ext. 7-8818; 8/17/88; 4401L

Clearances:

DAA/AFR:WBollinger   
DAA/AFR:ELSaiers  
AFR/SA:LPompa/TWare (draft)  
AFR/PD/SA:MARiegelman (draft)  
AFR/MDI:WWeinstein (draft)  
AFR/DP/PAR:JWolgin (draft)  
GC/AFR:MAKleinjan (draft)  
AFR/CONT:RKing (draft)  
PPC/PB:RMaushammer (draft)

M/FM:EOwens (draft)  
State/AF/S:JOrdway (draft)  
State/AF/EPs:CFreeman (draft)