

PROJECT DATA SHEET

1. TRANSACTION CODE

C A = Add
C = Change
D = Delete

Amendment Number

2

DOCUMENT CODE

3

COUNTRY/ENTITY
Malawi

3. PROJECT NUMBER
612-0214

4. BUREAU/OFFICE
USAID/Malawi

5. PROJECT TITLE (maximum 40 characters)
READI

DDBBQ 343

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
MM DD YY
1 | 2 | 3 | 1 | 90

7. ESTIMATED DATE OF OBLIGATION
(Under "B." below, enter 1, 2, 3, or 4)
A. Initial FY 84 B. Quarter 3 C. Final FY 89

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

A. FUNDING SOURCE	FIRST FY 84			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total	1560	985	2545	6700	2170	8870
(Grant)	(1560)	(985)	(2545)	(6700)	(2170)	(8870)
(Loan)	()	()	()	()	()	()
Other U.S.						
1. Africare				200	150	350
2. WOCCU/CUNA				150	90	240
Host Country						
Other Donor(s)					5311	5311
TOTALS	1560	985	2545	7050	7721	14771

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. 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) FNX				5800		320		6120	
(2) DFA				359		2391		2750	
(3)									
(4)	270	840							
TOTALS				6159		2711		8870	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
111 150 811 812

11. SECONDARY PURPOSE CODE
260 240

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code BI BF PVOU COOP
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)
Expand the economic activities of small and medium scale Malawian entrepreneurs, especially for: (A) Agricultural production, processing, marketing and the manufacture of agriculture related inputs; (B) Rural employment-generating activities; (C) Import substitution of foreign exchange types of light industry and manufacturing activities which benefit rural consumers.

14. SCHEDULED EVALUATIONS
Interim MM YY 0 | 3 | 8 | 6 | MM YY 0 | 8 | 8 | 8 | Final MM YY 1 | 2 | 9 | 0

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)

This amendment adds additional funding, extends the project completion date by one year and modifies project activities based on the August 1988 evaluation.

17. APPROVED BY
Signature: Carol A. Peasley
Title: Mission Director
Date Signed: MM DD YY 1 | 9 | 0 | 1 | 9 |

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

RURAL ENTERPRISES AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS

(612-0214)

PROJECT PAPER SUPPLEMENT

USAID/MALAWI

April, 1989

Table of Contents

Rural Enterprises and Agribusiness Development
Institutions Project (READI)

Project Paper Supplement

	<u>Page</u>
I. Executive Summary	1
II. Project Amendment Description	
A. Background	2
B. Project Revisions	4
III. Revised Cost Estimates and Financial Plan	
A. Summary Financial Plan.....	14
B. Detailed Illustrative Budget.....	15
IV. Waivers.....	16
V. Procurement.....	17
VI. Additional Covenants.....	17
VII. Annexes	
A. Revised Logframe	
B. GOM Extension Request	
C. Procurement Plan	

I. Executive Summary

The Rural Enterprises and Agribusiness Development Institutions Project (READI) was authorized in 1984 and is designed to provide lending capital, technical assistance, commodities and operational support to financial and business advisory intermediaries in order to promote the development and expansion of small and medium-sized enterprises (SME) in Malawi. Assistance is provided through the Government of Malawi (GOM) to three Malawian financial and business advisory intermediaries (INDEFUND, MUSCCO and DEMATT) and two U.S. PYO's (Africare and WOCCU/CUNA). This amendment will add \$2,711,000 to the LOP funding level bringing the total to \$8,870,000 and will extend the project completion date until December 31, 1990. In addition, approximately \$4.0 million in local currency (MK10.8 million) will be provided to this project by the MED Program. The need for this amendment has been documented in an evaluation completed in August, 1988. The evaluation team recommended and USAID/Malawi agrees that additional time and resources will be required to enable the READI Project to achieve its objectives.

This amendment will continue project activities as originally designed with some modifications based on the evaluation team's recommendations. Key changes include combining two of the Project's eight components (institutional support and technical assistance to DEMATT), restructuring the private sector support component, increasing short-term technical assistance through the addition of another U.S. PYO (VOCA), increasing program promotional activities, and improving the administrative/management capacity of INDEFUND, DEMATT, and MUSCCO.

It is expected that the original project objectives and purpose will be achieved by the new PACU. The Mission currently is anticipating that future A.I.D. support to the SME sector will come from the HRID and SHARE Projects as well as through the local currency generations from the MED Program. This decision will be reviewed, however, during preparations of the FY 91-95 CDSS which is currently underway.

II. Project Amendment Description

A. Background

The READI Project, a \$5.1 million grant from the Agriculture, Rural Development, and Nutrition account, was authorized on August 17, 1984. It provides technical assistance, training, commodities, support for operating expenses, and lending capital to two Malawian intermediate financial institutions (the Investment and Development Fund (INDEFUND) and the Malawi Union of Savings and Credit Cooperatives (MUSCCO)) which furnish credit to SMEs. Additionally, the Project since March 1987 has provided technical assistance, training, commodities, and support for operating expenses to the Development of Malawian Traders Trust (DEMATT), a GOM assisted institution that provides business and technical advisory services to SMEs.

The life-of-project (LOP) funding was initially estimated at \$5.1 million and the original Project Assistance Completion Date (PACD) was June 30, 1988. These estimates were adjusted when the companion Management Assistance to Rural Traders Project (MART, 612-0219), which had assisted DEMATT, was crippled in late 1986 by the financial demise of its cooperating agency, Partnership for Productivity. To avoid serious disruption to its program in the SME sector, USAID/Malawi amended the READI Project Authorization on March 11, 1987 to add DEMATT to the group of institutions participating in READI, increase READI's authorized LOP funding to \$6.159 million, and extend its PACD to December 31, 1989. Subsequent decreases in the amount of funds available for reobligation from MART to READI limited actual obligations to READI to \$5.8 million. In January 1989, however, an additional \$359,000 was obligated thereby bringing the Project to its total authorized level.

An evaluation of the amended project conducted in August 1988 concluded that "The READI Project has made a positive contribution towards the institutional development of INDEFUND, MUSCCO, and DEMATT." It added that READI has also exerted a "notable...impact on other agencies working in SME by improving the information base about SMEs and by sharing that information...with the wider community." The evaluation emphasized the Project's key role in focusing the attention of the GOM and, in particular, of its Ministry of Trade, Industry, and Tourism (MTIT), on the SME sector. The evaluators pointed out that the Project's Coordinating Unit (PCU) had led the effort to set up a Project Implementation Committee chaired by MTIT, a forum they termed "the first of its kind in Malawi..." The team found that "The opinion of the agencies interviewed was unanimously in favor of the more active role being played by MTIT in the development of the SME sector in Malawi. They believe that this role is extremely positive, and they even would like to see MTIT's coordinating role enhanced."

The evaluation also documented READI's impact on another group of beneficiaries, the small and medium-sized entrepreneurs and their employees who have received credit and business and technical advisory services (BAS/TAS) from the Project. INDEFUND alone has provided (or committed itself to provide) credit totalling over 2.0 million Kwacha (U.S. \$800,000) to 24 enterprises with a total of 472 employees. Over 43% of the value of these loans will be devoted to enterprises in the less-developed Northern and Central regions of Malawi, and loan recipients there will account for over 62% of the jobs supported by the credit. Sixty-eight percent of the long-term loans extended by MUSCCO are also targeted toward these regions, though no data is available on their employment impact. For all these reasons, the evaluation recommended that USAID proceed with its plans to obligate additional funds to READI to continue its activities.

USAID/Malawi has long recognized the importance of the SME sector to the country's development, and has taken several steps in addition to READI to shape its portfolio to assist the growth of this sector. For example, a major component of the Human Resources and Institutional Development Project (HKID, 612-0230), authorized in July 1987, will complement and in some cases ultimately supplant services now being provided by READI. This support will include the provision of long and short-term technical assistance and training to the institutions participating in READI. Similarly, sector assistance being furnished by the Malawi Enterprise Development Program (MED, 612-0233) is generating a significant amount of local currency, much of which will be programmed to fund services now financed with foreign exchange from READI. The MED Program also should lead to significant policy reforms in the SME sector. The Services for Health, Agriculture, and Rural Enterprises Project (SHARE, 612-0232), an umbrella PVU project slated for design and authorization in FY 1990, is also expected to play a key role in supporting the SME sector.

None of these new activities, however, has yet come fully on-stream. This confronts USAID with a critical choice. As envisioned, the funds presently available to READI are nearing exhaustion. Total accruals to date are estimated at \$6.0 million against an overall available total of \$6.16 million. The Project thus does not have sufficient funds to continue through the end of its current PACD. Therefore, USAID must decide whether to proceed with plans to add funds to enable READI to continue operations through the present PACD of December 31, 1989, whether to authorize continued activities beyond that date, or whether to bring READI to a close in anticipation that some of its functions will soon be taken up by the projects and programs cited above.

USAID/Malawi has reviewed these options, and believes that it would be a crucial error to suspend READI's assistance before these new activities become fully operational. Such an action would risk causing a hiatus in USAID's assistance to the SME sector, which would, in turn, place at risk the substantial progress toward institution building and sector expansion already engendered by READI. The Government of Malawi and the READI Project Implementation Committee it chairs share this view. The GOM's Ministry of Finance has requested USAID to extend READI through the end of calendar year 1990. A copy of the letter is included as Annex C. USAID/Malawi also believes that there are certain functions now performed by READI, notably its institution-building activities within the three core organizations it assists, that are unique to the Project and not likely to be supplanted by any other element of USAID's portfolio within the next two years.

It is therefore recommended that the READI Project's authorized LOP funding level be raised to \$8,870,000, that the Project's PACD be extended to December 31, 1990, and that an additional \$2,711,000 (\$2,391,000 from DFA account and \$320,000 in deobligations) be obligated in FY 89 to allow READI to continue activities through the end of CY 1990. While maintaining the original project purpose, these actions, taken in concert with USAID's other projects, will enable READI to maintain the most successful elements of its program in a more effective manner, and will send a strong positive signal to the GOM and to the participants in Malawi's SME sector as to the importance USAID attaches to the sector. Further, extending READI as described below will contribute to two important sectoral objectives. First, it will promote sector rationalization, in that the amended project will encourage MTIT to take up its proper role of sector coordination and will develop the capacities of DEMATT as well as INDEFUND to provide business and technical advisory services (BAS/TAS) and business promotional services. Second, by providing on-line technical assistance to the core institutions, it will help them continue their demonstrated progress toward financial and institutional sustainability.

B. Project Revisions

The READI Project now consists of eight components. This PP Supplement proposes that two of these (institutional support and technical assistance to DEMATT) be combined, and that one (Private Sector Support by Africare) be concluded on December 31, 1989. Additionally, this supplement assumes that as of April 1989, the majority of READI's local currency costs will be financed with local currency generated by the MED Program. These design changes will streamline project management and relieve much of the burden on READI's foreign exchange resources. The End-of-Project Status (EOPS) indicators have changed in accordance with the revised components as described below.

1. Provision of Credit through MUSCCO

From its inception, READI has provided funds to MUSCCO to on-lend to SMEs through MUSCCO's member credit unions (which it terms societies). The Project originally called for \$300,000 of credit to be provided in this manner. Through a series of amendments made necessary by various financial demands, this amount was reduced to \$268,000. All these funds have been committed, and by the end of March 1989 all funds will have been expended.

The August 1988 evaluation concluded that the credit extended through MUSCCO has largely been well used. Sixty-eight percent of MUSCCO's long-term loans have gone to SMEs in Malawi's Northern and Central regions. Sixty-four percent of these loans have gone to enterprises directly involved in the agricultural sector, with the balance allocated to ancillary rural activities such as brickmaking, hotels, tailoring, and retailing. Sixteen percent of MUSCCO's long-term loans have been extended to women. No loan made by MUSCCO with funds from READI was to exceed the equivalent of \$5,000; the average size of a long-term loan from MUSCCO under the Project is MK3,743 (\$1,497). Independent observers describe MUSCCO's existing credit mechanisms as working very well despite a somewhat higher than expected level of delinquent loans. The evaluation team, for example, wrote that "It is encouraging to note that more than 98% of the amount approved has been disbursed" and Deloitte, Haskins, and Sells' (DHS) Fifth Monitoring Review of the Project, submitted in November 1988, described MUSCCO's loan procedure as "sensible and pragmatic".

To enable MUSCCO to continue this successful activity, local currency generated by the MED Program will be programmed to provide funds (approximately MK1 million) for on-lending while taking into account the public sector expenditure ceiling which the GOM agreed to with the IMF. Additional local currency will be made available in ensuing years in amounts to be determined as the size of the sector's demand for this type of credit becomes clearer.

2. Provision of Credit through INDEFUND

Credit extended to SMEs through INDEFUND has accounted for a larger proportion of project funds than has credit extended through MUSCCO. However, this component has proven more difficult to implement in relation to the expectations in the Project Paper. The PP budgeted \$1.2 million and several amendments and PILs reduced that total to \$474,098. These funds are now virtually exhausted. The entire amount has been committed, and accruals against these commitments total \$472,848. Even these figures do not tell the entire story, for, as the evaluation reported, "the READI-funded segment of INDEFUND's portfolio has almost MK1.1 million (\$440,000) in projects that have been approved, but have

yet to draw down." These loans were approved by both INDEFUND and USAID in recognition of USAID's plans to add funds to READI in FY 1989, and that some of those funds would be available for disbursement against these approved loans.

INDEFUND responds to a different portion of the SME sector's demand for credit than does MUSCCO. Its loans under READI vary in size from K 25,000 to K 268,500 (\$10,000 to \$107,200). The average size of a READI-funded loan from INDEFUND is K 83,917 (\$33,567). As noted, 43% of the credit is allocated to enterprises in the Northern and Central regions, and loan recipients there will provide 62% of the jobs supported by this component. Over 50% of INDEFUND's credit under this project is committed to agro-industrial and fishing enterprises (three fisheries, 2 maize mills, a cotton gin, a rice mill, and a tannery). Twenty-four percent is committed directly to farming (three tobacco farms, one coffee farm, one poultry farm, and one vegetable farm). The balance is devoted to ancillary rural and urban activities such as light manufacturing, hotels, and wholesaling. However, the evaluation pointed out that, over time, the focus of INDEFUND's loans has shifted away from the earlier ancillary businesses such as hotels and toward "agricultural and agribusiness ventures."

In implementing this component, INDEFUND has experienced significant difficulties both in identifying and attracting qualified clients and in disbursing loans to them. Also, it encountered long delays in obtaining foreign exchange from Malawi's Reserve Bank for clients who intend to use their loans to finance imports. The reasons for these problems were multiple: a limited capacity to seek out new lending opportunities, a lengthy approval process, an unduly complicated disbursement process, etc. However, over the past year this situation has improved and there have been fewer delays. In USAID/Malawi's judgment, while these implementation problems are important, they do not vitiate the positive impact credit from INDEFUND has exerted on the SME sector.

It is therefore recommended that this component be retained, and that \$613,000 be allocated to INDEFUND for lending capital. This brings the dollar LOP total for this component to approximately \$1,087,100, and thereby moves toward compliance with the evaluation's recommendation that the full amount (\$1,200,000) originally budgeted for this component be restored. USAID does not believe it is necessary to budget this amount because, at present rates of disbursement, it is anticipated that the addition of \$613,000 will be sufficient to meet INDEFUND's foreign exchange needs through the end of CY 1990. INDEFUND will also continue that portion of its local currency lending program heretofore partly financed by READI; however, the required local currency (MK2.1 million) as of April 1989 will be provided through the MED Program LC generations. While this credit component proceeds, technical assistance financed by the Project will enable INDEFUND to address the problems identified by the evaluation and to implement solutions to them.

In recommending that READI continue to provide funds to INDEFUND for on-lending, USAID is cognizant of the issues regarding the size of the spread between the 3% lending rate the GOM charges INDEFUND and the 16.5% rate that INDEFUND charges its clients. The Mission believes that this 13.5% spread is consistent with AID's policy articulated in its September 6, 1988 Financial Markets Development Policy Paper and is justified in order to 1) compensate for the high risk nature of much of the READI Project lending, 2) cover the extremely high administrative costs of handling these largely rural and non-traditional loans, and 3) provide an incentive to reach out to new borrowers. However, USAID will conduct a special review of this situation during the extension period to determine the actual costs to INDEFUND to carry out its credit activities, including the costs of analyzing and monitoring loans and of maintaining a bad debt reserve. Once these costs are documented, USAID will be able to determine whether the current spread is appropriate and, if not, what adjustments in rates are necessary. The results of this review will be discussed with the GOM should any rate adjustments be needed.

3. MUSCCO Institutional Development

In addition to extending credit through MUSCCO, READI also seeks to develop the former's managerial and administrative capacity. Assistance toward these ends has taken several forms: purchase and refurbishment of physical facilities, procurement of commodities, training, support for operating expenses, and provision of a two-person technical assistance team (a Financial Management Specialist and a Field Training Advisor) under an Operational Program Grant (OPG) with the World Council of Credit Unions/Credit Union National Association (WOCCU/CUNA). The U.S. PVO Africare has also provided on a less-than-full-time basis the services of a long-term technician, an Agricultural Advisor, to MUSCCO under a separate READI-funded OPG. The original component budget of \$740,000 was increased substantially; it now stands (not including technical assistance from Africare) at \$1,224,500. Accruals against this total a little over \$1,000,000.

With assistance from READI, MUSCCO's financial position and its capacity to administer its portfolio have improved significantly. The evaluation praised the steps MUSCCO has taken toward financial sustainability; it found that MUSCCO "has made considerable progress in recent years" toward this end. "From 1986 to 1987," the evaluators wrote, "the portion of operating expenses covered by non-grant income rose from 18.2 to 23.8 percent." (DHS's November 1988 report concluded that this trend in increased savings generations has continued; in the first nine months of calendar year 1988, it found the proportion of operating expenses covered by revenue had risen to 25%.) The recent evaluation was also enthusiastic about MUSCCO's capacity to provide business and technical advisory services to its clients. "MUSCCO's field staff," it said, "...is doing a truly commendable and remarkable job of assisting member societies (79 of them) in a variety of fields."

The evaluation was, however, critical of some aspects of this component. For example, it 1) recommended that MUSCCO's Central Finance Department (CFD) computerize its loan records to improve its monitoring capacity, 2) criticized the Project for not allocating more funds to the purchase of commodities for MUSCCO, and 3) suggested that the technical advisor attached to the CFD should have more financial management experience than the Africare Agricultural Advisor has been able to provide.

This PP Supplement, therefore, proposes that READI continue institution-building assistance to MUSCCO through the end of calendar year 1990, and budgets \$823,000 for this purpose. This would bring the dollar LOP funding for this component to \$2,047,500.

In response to the recommendations of the evaluation, assistance to MUSCCO under the extended project will differ somewhat from that heretofore provided. Both technical assistance positions under the WOCCU/CUNA OPG will be continued through December 31, 1990 and a third position, a Credit/Investment Management technician, will be added. Funds will be added to the OPG for this purpose. The statement of work included in the WOCCU/CUNA OPG will direct the three experts to work directly with the CFD to improve its capacity to appraise and monitor loans, and will specify that the team will continue to report to MUSCCO's General Manager. The amended grant also will provide funds for the procurement of needed commodities and will continue to provide funds for operating expenses. As of April 1989, local currency costs (MK1.1 million) will be funded with local currency generated by the MED Program.

4. INDEFUND Institutional Development

READI provides institutional support to INDEFUND to develop the latter's managerial and administrative capacity, in particular, its capacity to provide business and technical advisory services (BAS/TAS) to its clients. Assistance under this portion of the Project has been similar in kind to that provided to MUSCCO; INDEFUND has received commodities, support for its operational costs, and long-term technical assistance furnished through the Africare OPG, albeit less than full time. However, this component has been considerably less extensive than its analogue at MUSCCO; the original budget of \$200,000 was reduced by almost half in 1988 to \$101,742. Accruals against this budget are estimated at \$95,000.

As discussed above, the evaluation noted that INDEFUND has encountered considerable difficulty in disbursing approved loans promptly and in obtaining access to foreign exchange. USAID/Malawi believes that these problems are at least as much ones of institutional orientation as of institutional capacity. Implicit in the evaluation's findings is the suggestion that technical assistance under READI might have been (and still could be) more effectively targeted to address both the questions of orientation and capacity. The Mission will take a more active role in encouraging INDEFUND and its Board to take on more high risk, high cost rural agribusiness enterprises.

The Project will finance the purchase for INDEFUND of commodities, training, operations and salaries, studies and short-term technical assistance. The local costs will be financed with local currency generated by the MED Program (MK529,000.) The dollar budget for this component during CY's 1989 and 1990 will be \$144,000 for commodities and technical assistance, thereby bringing its dollar LOP total to \$246,742.

5. DEMATT Institutional Development

Unlike READI's other core institutions, DEMATT is not a financial institution. It does not extend credit. Rather, its principal function is to provide BAS/TAS services to small and medium-sized entrepreneurs. To help DEMATT develop its ability to do so, Amendment No. 2 to the READI Project Agreement (March 1987) budgeted \$225,000 for institutional assistance. That amount grew in three increments to \$703,712, against which commitments of \$689,782 have been made. Technical assistance to DEMATT was budgeted as a separate component totalling \$220,000. Accruals under these two components, which will henceforth be combined, are estimated at \$789,000 against a total available of \$923,712. These funds have been used for operating expenses; the purchase of vehicles, motorcycles, spare parts, office supplies, and computer equipment; and the services of two experts, a Senior Technical Advisor and a Training Advisor, under host country contracts.

The evaluation noted approvingly the changes that have occurred within DEMATT since READI's involvement began in early 1987, describing this event as "a watershed in DEMATT's history". With assistance from the READI-funded experts, DEMATT issued in October 1987 its first-ever institutional plan. The process of producing this document, said the evaluation,

"...clarified DEMATT's goal and mission, set out who should be brought into the organization to achieve the institutional plan's objectives, brought about changes in the organization's structure, and focused DEMATT's attention on its role within the overall SME sector. The institutional plan proved to be an invaluable exercise insofar as it showed the links necessary to go from planning to operational performance."

The evaluation also lauded the work plan that ensued from the institutional plan, the new client methodology (needs-driven rather than target-driven) set forth in the work plan, and DEMATT's staff "re-tooling" program. DIS's most recent report on READI sounded a similar note: "We have seen DEMATT make major improvements since it came within the READI Project."

Given the relatively brief length of DEMATT's direct involvement in the Project, it is to be expected that the various changes introduced under the Project have not yet fully established themselves within the organization's culture. Indeed, the evaluators believed that "It is not clear...that management views DEMATT's current focus as what the organization should be doing." The course corrections inspired or occasioned by the Project may also have left the broader SME sector in some doubt as to DEMATT's role: "DEMATT has undergone so many fundamental changes over the past two years," suggested the evaluators, "that it faces a skeptical audience of donors and counterpart agencies.... Until management makes it clearer to its own field staff and the outside community that it has bought into the new client methodology...that audience will remain skeptical about what DEMATT can truly provide..." (It should be noted that the READI-funded T.A. team and DEMATT management take exception to these comments. USAID/Malawi recognizes that there are differences of opinion on these issues, and recommends simply that the team pay close attention to them over the remaining life of the Project.)

In light of the evaluation's favorable overall assessment of the support role READI has played at DEMATT, and in recognition of the need to solidify the accomplishments achieved under the Project, this PP Supplement provides continued funding for this component. Support during CY 1989 and CY 1990 will consist of commodities, training, and technical assistance; local currency support (MK4.1 million) will be provided beginning in April 1989 by the MED Program. The present Training Advisor will continue to be funded under a host-country contract until December 1989, and the services of a successor will be financed by the HRID Project beginning in December 1989. A new 2-year position, Agro-Industries Advisor, will be financed by the HRID Project beginning in July 1989. This individual also will report to DEMATT's General Manager.

To completely fund the present Training Advisor position, the PP Supplement budgets \$45,000 for the remainder of 1989. This will raise the dollar LOP budget for this component to \$968,712.

6. Private Sector Support (Africare OPG)

The OPG with Africare will be extended only until December 31, 1989. During the extension period, Africare will continue the services of its long-term advisors to MUSCCO and INDEFUND based on Africare's revised OPG amendment request received in March, 1989. Africare also will provide BAS/TAS services to Malawi's SME sector by providing technical assistance through U.S. or locally-hired specialists for private sector promotional and project development activities. Additionally, Africare will conduct up to three technical training workshops with INDEFUND. Access to this assistance will be made available to small and medium-sized entrepreneurs. The extended READI Project also will finance a number of local cost components of Africare's original grant through the MED Program local currencies.

To accomplish the above, Africare's OPG will be amended to extend its completion date to December 31, 1989, and to increase its funding by \$300,000. Therefore, this amendment will bring the LOP costs of this component to \$1,775,000. No MED program local currencies will be provided to Africare.

7. Project Coordinating Unit

The final component of the extended project will finance the continued operation of the Project Coordinating Unit (PCU). The Unit is headed by a U.S.-hire host-country contractor, the Project Coordinator, who reports to the Ministry of Trade, Industry, and Tourism (MTIT). The PCU and its activities have grown substantially since the Project was designed, with its budget expanding in several increments from the PP's figure of \$600,000 to the present total of \$1,691,947. Of this amount, \$1,576,045 has been committed and estimated accruals are approximately \$1,502,000.

The evaluation praised the diverse contribution the PCU has made to the Project's implementation. For example, it described the PCU's assistance to MUSCCO in developing that organization's first institutional plan as "One of the READI Project's greatest contributions to MUSCCO..."; noted with approval the key leadership role played by the PCU in facilitating contact between MUSCCO and other SME institutions, notably DEMATT; and concluded that the PCU "has been instrumental in assisting INDEFUND in developing its first institutional development plan and its annual work plans." The evaluation noted that, under the PCU's leadership, READI had completed the first national survey of SMEs in Malawi, thereby "providing an information base for policy and sectoral planning." Of perhaps greatest significance, however, was the evaluation's comments about the catalytic influence the PCU has exerted on Malawi's SME sector as a whole:

"Another effort led by the PCU has been the formation of a Project Implementation Committee chaired by MTIT and composed of READI-funded institutions and other cooperating organizations. This forum has proved invaluable for information sharing and coordination among intermediary agencies working in the sector. It is the first of its kind in Malawi and has gained universal approval among its members."

In assessing these accomplishments, it is important to point out that most likely none of them would have occurred without the PCU. The mid-term evaluation demonstrated clearly that one of READI's most significant outputs has been the planning, coordinating and facilitating role the PCU has played in the SME sector at large. Without it, most of the participating institutions would have no institutional plans to guide their strategies, no annual workplans by which to determine their activities, and little or no ability to coordinate their mutually-supportive functions.

For these reasons, the extended project provides funds to continue the PCU's operations. In accordance with the evaluation's recommendation, however, the PCU will over the course of this extension gradually turn over its coordinating role for the SME sector as a whole to MTIT. As the team pointed out, "it is now important to transfer this function to the MTIT and institutionalize it more fully during the extension period of the Project."

Three aspects about the proposed structure of the PCU during the extended period bear notice here. First, the Project Promotion Subproject, launched by the PCU in January 1988, will very likely be transferred from the PCU to a permanent home in DEMATT when DEMATT has the capacity to manage this activity. This activity was initiated in response to three factors: the unexpected slowness in disbursement of credit by INDEFUND, the declining number of loan applications being received by INDEFUND despite the generally high level of demand for credit by the SME sector, and the perceived inability of other components of the Project to identify bankable projects or to assist INDEFUND in doing so. The Subproject employed four full-time staff members and since its inception trained 25 Malawians as short-term consultants and identified 100 possible projects for INDEFUND financing.

The evaluation team agreed with PCU management "that active project promotion should be a part of SME development in Malawi. We also recognize," they added, "that this was not being adequately addressed by Africare as originally intended under the READI Project." Nonetheless, they expressed their doubts as to the cost-effectiveness, and thus the financial sustainability, of this activity as presently structured. They recommended therefore that the project promotion aspect of READI be retained, but noted that "It is...paramount that such an effort be developed gradually within the context of an existing SME intermediary."

In mid 1989 the GOM will be conducting an SME Institutional Study in an effort to improve coordination and avoid duplication among SME organizations. The role of project promotion will be included in this study so that the results of this study may affect the PCU's plans for transferring project promotion.

A second aspect of the revised structure of the PCU concerns the addition of a short-term technical assistance sub-component. Volunteers in Overseas Cooperative Assistance (VOCA), a U.S.-registered PVO, has received a core grant from A.I.D.'s Bureau for Food and Voluntary Assistance to provide short-term T.A. to A.I.D.-funded activities in Africa. Under their grant, VOCA can provide specialized assistance to entrepreneurs in a variety of fields, for example, commercial fisheries, irrigated vegetables, poultry farming, cattle feedlots, and grain milling. These services could be of enormous benefit to applicants for loans from READI's participating credit institutions. USAID will therefore issue a PIO/T in order to "buy in" to this centrally-funded grant. The PIO/T will provide \$105,000 for the services of three to five experts for approximately 30 to 60 days each. If this system of technical assistance is successful, additional project resources may be added to increase VOCA's assistance.

Finally, funds will be provided under this component to continue to finance project monitoring services already being provided by Deloitte, Haskins, and Sells. DHS's reports have proven to be invaluable to USAID, the PCU and participating organizations in tracking the progress of this complex project and in making important mid-course corrections. The evaluation team recommended that DHS's contract be extended.

To finance these activities, this PP Supplement budgets \$734,700 for the PCU, thereby bringing its dollar LOP total to \$2,426,647. MED Program local currencies totaling MK2 million will be utilized to finance a number of major studies and PCU operational support costs.

The following is a table summarizing the long-term technical assistance to be provided under the extended project:

READI TA STAFFING, CY 1989 - 1990

Unit:	Position:	Incumbent:	Mechanism:	ETD:
PCU	Project Coordinator	Don Henry	HCC	12/90
MUSCCO	Financial Management Specialist	Chris Hansen	WOCCU OPG	12/90
MUSCCO	Field Training Advisor	Joe Thomas	WOCCU OPG	12/90
MUSCCO	Financial Advisor	TBD	WOCCU OPG	12/90
MUSCCO	Agribusiness Specialist	Joe Enos	Africare	12/89
DEMATT	Training Advisor	Doug McLean	HCC	12/89
DEMATT	Training Advisor	TBD	HCC (HRID)	12/91
DEMATT	Agro-Industries Advisor	TBD	HCC (HRID)	07/91
INDEFUND	Small Business Specialist	Laurin Banner	Africare	12/89

III. Revised Cost Estimates and Financial Plan

On the following pages are the Summary Financial Plan and Detailed Illustrative Budget. Included in the Detailed Budget is a local currency element which indicates funding levels that the READI Project will receive from the MED Program.

A. Summary Financial Plan
(\$000s)

<u>Component</u>	<u>Present Budget</u>	<u>This Amendment</u>	<u>Revised Budget</u>
1. Credit - MUSCCO	\$ 268.0	- 0 -	\$ 268.0
2. Credit - INDEFUND	474.1	\$613.0	1,087.1
3. Inst. Dev. - MUSCCO	1,224.5	823.0	2,047.5
4. Inst. Dev. - INDEFUND	101.7	144.0	245.7
5. Inst. Dev. - DEMATT	703.7	265.0	968.7
6. Private Sec. Support	1,475.0	300.0	1,775.0
7. Coord. Unit/Studies/ Monitoring	1,692.0	786.0	2,478.0
8. Tech. Assist. - DEMATT	220.0	(220.0)	-0-
Totals	\$6,159.0	\$2,711.0	\$8,870.0

B. Detailed Illustrative Budget

COMPONENT	PREVIOUS	I E X T E		M S I O		FY89/90 -FY90/91		TOTAL	LOP
	TOTALS	USD	MK	USD	MK	USD	MK		GRAND TOTAL
	(0000)	(0000)	(0000)	(0000)	(0000)	(0000)	(0000)	(0000)	(0000)
A. MUSCCO CREDIT	268.0		235.0		158.0		385.0	385.0	653.0
B. INDEFUND CREDIT	474.1	413.0	537.0	200.0	240.0	613.0	777.0	1390.0	1964.1
C. MUSCCO- Inst. Dev.									
1. Training	48.3		13.0		15.0		28.0	28.0	76.3
2. Commodities	252.4		30.0		72.0		102.0	102.0	354.4
3. Operations/Salaries	488.8		127.0		147.8		274.8	274.8	683.6
4. Studies									
5. Technical Assistance (BOCCU)	515.0	392.0		431.0		823.0		823.0	1338.0
Sub-Total MUSCCO	1224.5	392.0	170.0	431.0	234.8	823.0	404.8	1227.8	2452.3
D. INDEFUND - Inst. Dev.									
1. Training	44.4		7.5		6.0		13.5	13.5	57.9
2. Commodities	36.6	28.0	7.5		5.0	28.0	12.5	40.5	77.1
3. Operations/Salaries	5.4		25.0		15.0		40.0	40.0	45.4
4. Studies			88.0		58.0		138.0	138.0	138.0
5. Technical Assistance	15.3	28.0		96.0		116.0		116.0	131.3
Sub-Total INDEFUND	101.7	48.0	120.0	96.0	76.0	144.0	196.0	340.0	441.7
E. DERATT - Inst. Dev.									
1. Training	57.7		29.0		76.0		105.0	105.0	162.7
2. Commodities	110.0				168.0		168.0	168.0	270.0
3. Operations/Salaries	536.0		566.0		670.5		1236.5	1236.5	1772.5
4. Studies									
5. Technical Assistance	220.0	45.0	8.0		8.0	45.0	16.0	61.0	281.0
Sub-Total DERATT	923.7	45.0	603.0		914.5	45.0	1517.5	1562.5	2486.2
F. PRIVATE SECTOR SUPPORT (Africare OP6)									
Sub-Total AFRICARE	1475.0	300.0				300.0		300.0	1775.0
G. COORDINATING UNIT									
1. Training									
2. Commodities	111.0	124.0		50.0		174.0		174.0	285.0
3. Operations/Salaries	420.0		54.0		85.0		139.0	139.0	559.0
4. Studies	531.0	15.0	305.0		200.0		385.8	600.8	1131.8
5. Technical Assistance (Proj. Coordinator)	430.0	92.0	6.0	132.0		224.0	6.0	230.0	660.0
6. Short-Term T.A. (VOCA)		58.5		46.5		105.0		105.0	105.0
7. Monitoring (GIS Contract)	100.0	140.0		128.0		268.0		268.0	368.0
8. Evaluation	100.0								100.0
Sub-Total CU	1692.0	429.5	445.0	356.5	285.8	786.0	730.8	1516.8	3208.8
TOTALS	6159.0	1627.5	2116.0	1083.5	1901.1	2711.0	4011.1	6722.1	12881.1
TOTAL USD	6159.0	1627.5		1083.5		2711.0			8878.0
TOTAL MED FUNDS IN USD			2116.0		1901.1		4011.1		
CONVERTED TO KWACHA @ 01-KW2.7			KW 5697.0		KW 5133.0		KW10830.0		

IV. Waivers

USAID/Malawi considered whether any competition or single source negotiation waivers would be required to extend the OPG's with Africare and WOCCU/CUNA and believes that such waivers are not required. Handbook 13, Chapter 2, Section 2B.3., which outlines the circumstances under which competition in the issuance of A.I.D.-funded grants is not required, states in part that "Competition is not required for:

- b. assistance awards for which one recipient is considered to have exclusive or predominant capability, based on experience... or based on an existing relationship with the cooperating country or beneficiaries;
- c. amendments to existing assistance awards;
- d. follow on assistance awards intended to continue or further develop an existing assistance relationship."

All these factors apply here. Both Africare and WOCCU/CUNA have existing relationships with Malawi and with the proposed beneficiaries of their grants; both proposed grants would be issued in the form of amendments to existing assistance awards; and both proposed procurements are intended to continue or further develop existing relationships.

Chapter 2, Sections 2B.4.a and b of Handbook 13 requires that the issuance of noncompetitive awards be justified in writing by the relevant technical office (in this case, USAID/Malawi's Project Development Office) with reference to the criteria cited above. This written justification is to be submitted to the "cognizant grant officer" for review and approval prior to the issuance of the award in question. A.I.D. Delegation of Authority No. 462 of May 15, 1985, redelegated to Mission Directors or A.I.D. Principal Officers in the field the authority to execute "U.S. Government grants (other than grants to foreign governments or agencies thereof) in an amount not exceeding \$5 million." Neither proposed grant amendment exceeds that ceiling. As "cognizant grant officer," the USAID/Malawi Mission Director has the authority to execute and the justification for executing Operational Program Grants to WOCCU/CUNA and Africare without competition.

In the case of the DHS monitoring contract, the planned extension will exceed the USAID/Malawi Director's contracting authority, which per Section 701.601, Paragraph (b)(5) of the A.I.D. Acquisition Regulations is limited to \$100,000 for contracts other than personal services contracts. USAID/Malawi will be assisted in mid-April by a REDSO/ESA Regional Contracting Officer regarding this contract.

V. Procurement

This extension also includes funds to purchase a limited amount of commodities such as motor bikes, vehicles, computers, copy machines, office equipment and related spare parts. These commodities will be provided to INDEFUND, MUSCCO, DEMATT and the Coordinating Unit to be used in support of Project activities. A detailed procurement plan is included as Annex D.

USAID/Malawi and the Coordinating Unit will be responsible for all commodity procurement. Project Implementation Orders and Purchase Orders will be issued by the Mission, and the Coordinating Unit and USAID will monitor the procurement process. Receiving Reports will be prepared by the Unit and submitted to USAID for processing of the respective invoices.

VI. Additional Covenants

In light of the recommendations of the August 1988 evaluation and discussions with participating institutions, the following or similar covenants will be included in the amended Project Grant Agreement:

MUSCCO

1. The Grantee shall actively assist in the execution of a new Cooperative Societies Act to replace the current Chapter 47:02 of the Laws of Malawi by the end of 1989. Pending Parliamentary approval of the new Act, the Grantee shall provide an official exemption to the savings and credit cooperatives in Malawi from sections of the current Act which are currently inconsistent with the cooperatives' Standard By-Laws.
2. Savings and credit cooperatives are non-profit organizations which are an integral component of Malawi's development policy for capital formation in the informal sector. Consequently, the Grantee shall take the necessary steps to resolve the tax withholding issues currently impeding the growth and development of savings and credit cooperatives.
3. The Grantee shall authorize the use of payroll deductions for savings deposits and/or loan payments by members of Government or parastatal employee credit unions.
4. To enable MUSCCO to provide certified annual audits of member societies, the Grantee shall provide the necessary endorsements required by MUSCCO's Audit Department.

DEMATT

The Grantee shall permit the change of DEMATT's Trust Deed and name to accurately reflect the role it plays in providing business and technical advisory services and promoting the small and medium-scale business sector.

INDEFUND

1. The Grantee shall encourage and facilitate suitable new local shareholders to permit the restructuring of INDEFUND's equity base in order to ensure it remains a Malawian-owned institution.
2. The Grantee shall permit INDEFUND's establishment of an external credit account to be operated by INDEFUND management through the commercial banking system in order to reduce program implementation costs and time.

Ministry of Trade, Industry and Tourism

The Grantee shall permit and encourage the expansion of the Ministry of Trade, Industry and Tourism's Small Scale Industry Unit to a Small and Medium Scale Enterprise Sector Coordination Unit. The Unit shall be encouraged to take an active role in coordinating with other key primary production ministries to promote and coordinate the manufacturing and secondary processing of Malawi's resources.

ANNEXES

50

**PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK**

Life of Project:
From FY 84 to FY 90
Total U.S. Funding \$8.87 Million
Date Prepared: 06/01/89

Project Title & Number: Rural Enterprises and Agribusiness Development Institutions (612-0214)

Annex A

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS																
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>To increase the productivity and incomes of Malawi's rural population.</p>	<ul style="list-style-type: none"> - 700 new jobs created in rural areas or with agriculture related businesses - 150 - 200 smallholders with expanded, and diversified incomes - 40 new businesses started in priority economic areas 	<ul style="list-style-type: none"> - GOM employment data - Industrial Reports - Project Monitoring Reports - Special studies 	<p>Increased opportunities for off-farm employment will allow small-holders to undertake higher risk production activities.</p>																
<p>Project Purpose: To strengthen, diversify, and expand the economic activity of small and medium scale Malawian entrepreneurs in the following areas:</p> <ul style="list-style-type: none"> - Agricultural production, processing, marketing and manufacturing - On or off-farm rural employment generating activities - Import substitution or the development of light industry/manufacturing 	<ul style="list-style-type: none"> - 3 Malawian financial/business intermediaries strengthened - GOM small and medium sized entrepreneur strategy defined - 600 SME loans provided (500 MUSCCO, 100 INDEFUND) 	<ul style="list-style-type: none"> - GOM Economic Reports - GOM Development Plan - World Bank Reports - Project Monitoring Reports - Special Studies 	<p>The economy of Malawi is sufficiently diverse to permit increased expansion. The flexible project design will permit coordination by the project coordinating unit. A substantial portion of entrepreneurial activity will be in the non-service area.</p>																
<p>Output:</p> <ul style="list-style-type: none"> - Financial and business advisory intermediaries serving small scale entrepreneurs are strengthened. - Small and medium scale entrepreneurial economic activities expanded. - Better coordinated and more effective support services provided by the private sector 	<p>- Self sufficiency of intermediaries increased (INDEFUND-90%, MUSCCO-35%)</p> <p>-75 existing businesses expanded</p> <p>-5-10 areas of potential investment identified having moderate to high levels of profitability and favorable macro-economic impact. - 1 investment study completed. - Investment guidelines prepared. - Audit needs assessment - Credit survey completed</p>	<ul style="list-style-type: none"> - MUSCCO, INDEFUND, DEMATT Management Reports - Technical Advisor Reports - DHS Monitoring Reports - Promotional Program Plans 	<ul style="list-style-type: none"> - GOM policy environment favors SME development - Intermediaries will have sufficient financial research to maintain long term viability - operational and managerial weaknesses of intermediaries can be corrected. - SME will be receptive to promotional programs and advisory services. 																
<p>Inputs:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;"></td> <td style="text-align: right; vertical-align: bottom;">LOP(\$000)</td> </tr> <tr> <td>Credit</td> <td style="text-align: right;">1,355</td> </tr> <tr> <td>Technical assistance</td> <td style="text-align: right;">2,500</td> </tr> <tr> <td>Training</td> <td style="text-align: right;">245</td> </tr> <tr> <td>Commodities</td> <td style="text-align: right;">375</td> </tr> <tr> <td>Operational Costs</td> <td style="text-align: right;">2,725</td> </tr> <tr> <td>Other Costs</td> <td style="text-align: right;">1,670</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">8,870</td> </tr> </table>		LOP(\$000)	Credit	1,355	Technical assistance	2,500	Training	245	Commodities	375	Operational Costs	2,725	Other Costs	1,670		8,870	<ul style="list-style-type: none"> -Credit funds established and functioning at MUSCCO and INDEFUND -Technical advisors in place -Promotional Programs (DEMATT) established -Participants trained -Commodities ordered, delivered and -Coordinating unit established and functioning 	<ul style="list-style-type: none"> - Financial reports from MUSCCO, INDEFUND - DHS, monitoring reports - MACS Reports - Delivery orders and contracts performance reports - Training Program/Workshop reports - Special Studies 	<ul style="list-style-type: none"> - USAID funds will be allotted as planned - Project implementation proceeds as planned - Qualified training candidates are available - Sufficient number of loan applications will be received - Loans will be approved in a timely manner - Technical assistance personnel are available to work in Malawi.
	LOP(\$000)																		
Credit	1,355																		
Technical assistance	2,500																		
Training	245																		
Commodities	375																		
Operational Costs	2,725																		
Other Costs	1,670																		
	8,870																		

Telegrams: FINANCE, Lilongwe
Telephone: Lilongwe 731 311

Communications should be addressed to:
The Secretary to the Treasury



In reply please quote No. USA/21.....

MINISTRY OF FINANCE
P.O. BOX 30049
LILONGWE 3
MALAWI

13th March, 1989.

The Mission Director,
USAID,
P.O. Box 30455,
LILONGWE 3.

Dear S Madam,

RURAL ENTERPRISES AGROBUSINESS
DEVELOPMENT INSTITUTIONS (READI)
PROJECT

In December, 1988 the Government of Malawi granted the Government of Malawi US\$2.7 million for the READI Project until December, 1989. In view of recent project developments, we would like to request that the project be extended until December 31, 1990 to allow the READI orderly transition from the READI Project Coordination Unit to the Ministry of Trade, Industry and Tourism.

The Project extension plans are being reviewed and approved by the Ministry of Finance and READI Project PIC Committee.

The total resources required for the project from 1989 to December 31, 1990 will be US\$2,660,000. We are therefore grateful if you would provide new grant funds which will be added to the December 88 grant, bringing the total project component to US\$2,660,000. We also request the use of the Malawi Kwacha equivalent of the Malawi Enterprise Development funds.

Yours faithfully,

B.B. Mawindo
for: ACTING SECRETARY TO THE TREASURY

cc : The Secretary for Trade, Industry and Tourism,
Lilongwe 3.

ANNEX C

PROCUREMENT PLAN

ITEM	QUANTITY	EST. TOTAL COST	SOURCE	WAIVER	PLANNED ORDER DATE	ETA
Motor Bikes	43	\$55,000	Japan/RPSO	Blanket	5/89	9/89
Motor Vehicles	4	55,000	Japan/RPSO	Blanket	5/89	9/89
Computers/ Printers	4	15,000	USA	None Req'd	5/89	7/89
Copy Machines	4	10,000	Shelf/USA	None Req'd	5/89	7/89
Office Equip.	Misc.	5,000	Shelf	None Req'd	-	-
Office supplies	Misc	47,000	Shelf	None Req'd	-	-
Spare Parts	Misc.	<u>15,000</u>	Various	None Req'd	-	-
Total		202,000				