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COUNTRY AND INTERCOUNTRY PROGRAMMES AND PROJECTS

FOURTH COUNTRY PROGRAMME FOR MALAWI*

<u>Programme period</u>	<u>Actual resources programmed</u>	<u>\$</u>
January 1987-December 1991	IPF for 1987-1991	39 932 000
	Special Measures Fund	308 000
	Other resources programmed	<u>2 802 000</u>
	Total	43 042 000

CONTENTS

<u>Chapter</u>	<u>Paragraphs</u>	<u>Page</u>
I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES	1 - 27	2
A. Current economic trends	1 - 9	2
B. National development strategies	10 - 15	4
C. Technical co-operation priorities	16 - 21	5
D. Aid co-ordination arrangements	22 - 27	7
II. THE COUNTRY PROGRAMME	28 - 61	8
A. Assessment of current programme	28 - 33	8
B. New programme proposal	34 - 60	10
C. Unprogrammed reserve	61	20
<u>Annex.</u> Financial summary		21

* Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include: (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator; (e) distribution of new country programme by sector.

I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. The Government of Malawi is strongly committed to growth with equity. However, progress towards attaining this goal has been uneven during the 1980s. After a long period of sustained, vigorous economic growth following independence, with gross domestic product (GDP) rising in real terms at an average annual rate of 5.5 per cent from 1967-1979, a rapid series of shocks in the late 1970s resulted in an abrupt economic decline. These included a sharp deterioration in terms of trade which fell 40 per cent between 1977 and 1980; rising oil prices; the effects of 1980 and 1981 droughts on food production; and the disruption of the country's principal external transport route through Mozambique. GDP growth declined to -1.1 per cent in 1980 and to -5.2 per cent in 1981, while balance-of-payments and government budgetary deficits rose to record unsustainable levels and investments and savings declined precipitously.

2. The pace and severity of the decline exposed several structural weaknesses in this land-locked, agriculturally-based country of an estimated 7.3 million persons without rich mineral resources. With a GDP per capita of \$US 210, Malawi is among the least developed countries. Inherent constraints to growth include a relatively small domestic market (aggravated by low purchasing power) and the lack of a sufficient skilled manpower base. Limited diversification of exports, low small-holder yields amid an increasing scarcity of arable land, limited research and development capacity, and problems in the pricing of products have constrained agricultural development. At the same time, the growth of the industrial sector has been hampered by heavy imports and thus foreign exchange dependence, as well as lack of sufficient investment and export incentives and shortages of capital and expertise.

3. The Government initially sought to sustain import levels during this economic crisis by increasing commercial borrowing. But ensuing high inflation and fiscal and balance-of-payments disequilibria brought about the launching of an Economic Stabilization and Structural Adjustment Programme in 1981, encompassing bold economic, financial, institutional and policy measures directed towards: (a) reduction of short-term fiscal and balance-of-payments deficits (with International Monetary Fund (IMF) assistance); and (b) institution of a longer-term Structural Adjustment Programme (SAP) supported by the World Bank (IBRD) aimed at expansion and diversification of the productive sectors' output and exports, enhanced performance of key development institutions and improved public sector resource mobilization and allocation.

4. Malawi has successfully implemented the first two phases of SAP and is currently embarking on a third. These two phases have been financed respectively, by a 1981 IBRD first structural adjustment loan (SAL I) of \$US 45 million and a 1984 SAL II credit of special drawing rights (SDR) of \$US 55 million from the Africa Facility, co-financed bilaterally with the equivalent of some \$US 45 million. The complementary Economic Stabilization Programme has been financed by a series of stand-by arrangements and a 1983 \$US 100 million, three-year Extended Fund Facility (EFF) provided by the IMF.

5. The major accomplishments of this process to date include the enhancement of small-holder and industrial producer incentives; the restructuring and strengthening of the administrative and financial management of several major parastatals, among them the Agricultural Development and Marketing Corporation (ADMARC) and the Malawi Development Corporation (MDC), as well as of the largest private sector company, Press Holdings; the liberalization of price controls; more prudent management of exchange and interest rates, external borrowing and debt servicing; and improvements in economic planning and budgeting. All these achievements were supported by extensive technical assistance.

6. Substantial economic and financial benefits from these reforms are already being realized. The country not only has regained self-sufficiency in basic food staples, but has even exported a small surplus, strongly demonstrating the responsiveness of small-holders to adequate pricing, timely supply of fertilizers, credit access and efficient marketing. Current account and budgetary deficits have been significantly reduced and GDP grew 3.3 per cent in real terms in 1984.

7. After a difficult period of adjustment, the Malawian economy thus appears on the road to recovery. But optimism must be tempered. GDP growth slowed to 2.8 per cent in 1985, as the decline in world prices of tea and sugar - among the country's principal commodities - sharply reduced foreign exchange earnings, contributing to a current account deficit of 10 per cent of GDP. Moreover, the Government has had to provide ADMARC with substantial financial support over the past year to resolve liquidity problems arising from accumulation of excess stocks of maize; a bumper harvest in Malawi raised purchases by ADMARC, while a similar situation in neighbouring countries reduced export demand. Domestic resource availability for development has thus been limited. Moreover, Malawi's high debt service ratio, projected to average about 32 per cent over the balance of the 1980s, will inevitably constrain the pace of public and private investment.

8. Rapid population growth, projected to increase at an average annual rate of 3.2 per cent during the 1980s, threatens to erode any substantial real gain in per capita income. Even assuming moderate declines in fertility and mortality, total population is expected to increase to 11.6 million by the year 2000. Social development has lagged, underscoring the difficult investment choices the Government often faces amidst rapidly increasing needs and continuing resource scarcities. Despite the impressive expansion of the education system, enrolments are still relatively low and quality insufficient to raise the average level of educational attainment rapidly. Similarly, though mortality rates have declined considerably since independence, average life expectancy at birth is only 44 years, a reflection of high infant mortality and child death rates as compared with other east and southern African countries. Though 55 per cent of the rural and some 60 per cent of the urban population are expected to have access to safe water by the end of 1986 - a notable achievement - expanding the availability of water and basic sanitation and improving general housing conditions are essential to health improvements.

9. These continuing development needs notwithstanding, the international donors present at the 1986 Consultative Group Meeting held in Paris under IBRD auspices, the first under this collaborative mechanism, unanimously commended Malawi's solid

performance under SAP and fully endorsed the country's Public Sector Investment Programme (PSIP) as a cohesive, sound development strategy responsive to existing priorities and resource availability.

B. National development strategies

10. Malawi has maintained an export-oriented development strategy since independence in pursuit of sustained economic growth and increases in its real per capita income. Though there is no formal national development plan, SAP provides a framework for major policy, institutional and investment decision-making. The principal objective of this programme, prepared in consultation with IBRD and IMF, is to re-establish a solid economic growth path within the context of a manageable and sustainable balance of payments. To this end, SAP has focused on five major interrelated areas: (a) improving producer incentives in the agricultural and industrial sectors; (b) augmenting and diversifying export earnings; (c) enhancing public sector resource mobilization and allocation; (d) improving the efficiency of central government operations; and (e) restructuring and reorganizing key development institutions.

11. The Government's commitment to growth with equity is strongly affirmed in PSIP. Formulated on a three-year, rolling basis, the PSIP covering the FY86-FY88 period presents in aggregate 606 million Malawi kwacha (MK) or approximately \$US 360 million in ongoing or proposed development expenditures. It should be noted that two sectors account for one half of projected outlays: transport (32 per cent) and agriculture (19 per cent). The capital-intensive commitments to the transport sector reflect predominantly the funding required to accelerate the development of a reliable northern corridor for Malawian goods, while continued high levels of expenditures on agriculture are aimed at the expansion and diversification of output, particularly cash crops, to fuel the transition of the economy towards industrialization. Finance, commerce and industry is also a major development priority, representing 6 per cent of projected expenditures. The social sectors, nevertheless, are being assigned increasing importance, with allocations to education and health representing 10 per cent and 5 per cent respectively, and, when coupled with water and sanitation, cumulatively 21 per cent, of expenditures over the period.

12. Within all sectors, intensified efforts are under way to expand private participation in new investments and broaden their geographic distribution. Discrete private enterprises as well as joint ventures with the Government are being actively promoted to permit divestiture of the public sector's resource-intensive holdings across all major areas of the economy. To this end, technical trade and entrepreneurial training capacity is being expanded, while credit is being increased both for small enterprises through the Small Enterprise Development Organisation of Malawi (SEDOM) and large producers through the Investment and Development Bank of Malawi Limited (INDEBANK).

13. Since independence high priority has been assigned to redressing imbalances in regional growth stemming from the historic concentration of resources in the south. Extensive public investment has been channelled to develop infrastructure

in the central region (following the relocation of the capital to Lilongwe in 1975) and, more recently, in the north, to support new economic growth poles.

14. The pursuit of desired socio-economic development will continue to present a serious financial challenge, however, to an economy still in the throes of recovery. Of the aggregate MK 606 million required to finance the current PSIP, only MK 114 million or less than 20 per cent is expected to be available from domestic resources. On the average, a striking 80 per cent will thus have to be financed from external sources. Moreover, the externally financed portion of PSIP is expected to rise from 75 per cent in FY86 to 85 per cent in FY88.

15. The Malawian economy will also require an estimated \$US 180-200 million annually over the next three years to meet other financial requirements. Even allowing for expected resource transfers during this period, an additional \$US 20 million per annum, sources for which have not yet been identified, will be needed. Unless an augmentation in external resources is achieved, major reductions in imports and hence depressed GDP growth appear inevitable and will affect the well-being of the population adversely. The Malawian development process thus stands at a crucial juncture because of the country's extreme vulnerability to changes in the international aid environment.

C. Technical co-operation priorities

16. Technical Assistance (TA) remains a corner-stone of Malawi's socio-economic development process. External TA resource flows declined during the early 1980s; the \$US 88.9 million received in 1981 contrasts sharply with the \$US 49 million provided in 1984. Aggregate TA expenditures in 1984, however, are higher when the Government's own substantial contribution in kind is added. The current level of TA, representing approximately \$US 7 in external funding per capita, is substantial and underscores the need to ensure its optimal use.

17. The lack of any recent comprehensive assessment of Malawi's overall human resource development requirements hampers an evaluation of the extent to which the present level and composition of support meets actual needs and therefore new TA programming. The last national manpower survey, undertaken in 1979, highlighted acute shortages of expertise in virtually all key technical and professional fields and an extremely limited cadre of managers for both the public and private sectors. Consequently, expatriates continued to occupy a significant proportion of key positions. Despite substantial progress in training Malawians to assume mid- and higher-level posts over the decade since this survey (as evidenced, for example, by the fact that some 75 per cent of secondary school teachers are now Malawians as compared with only 20 per cent in the early 1970s), major gaps remain in several technical fields of major development importance, such as engineering, architecture, accountancy and medicine. The Personnel Management and Training Department's planned in-depth analysis of manpower requirements, to be supported by the International Labour Organisation (ILO), will therefore be invaluable for defining national human resource development priorities.

18. TA requirements have most often been defined within the context of individual development projects. Over the past few years, however, the Government has sought

to guide the direction of such assistance efforts more systematically through conducting annual or biennial aid reviews with individual donors, including not only the major bilateral and multilateral organizations, but also the numerous private entities operating in Malawi. While most TA is linked to larger capital assistance projects, special bilateral programmes include volunteer inputs, and special arrangements to fill vacant government posts also comprise a significant share of TA inputs. Overall, the Government has channelled TA towards three broad areas consistent with the objectives of SAP and PSIP: (a) strengthening public and private sector capacity to plan, implement and evaluate appropriate economic and social development programmes; (b) accelerating the growth of agriculture and industry by identifying new technologies, while improving the use of existing ones; and (c) meeting basic needs, particularly in maternal and child health and child spacing, nutrition, water and sanitation and housing.

19. The definition of specific TA needs for financing under the fourth country programme was guided predominantly by an in-depth mid-term analysis of the ongoing programme, as summarized in the assessment below, and by a special UNDP/Government task force organized specifically for this purpose. The task force reviewed all documentation relating to the structural adjustment and economic stabilization programmes, along with relevant selected sectoral studies and plans. These evaluations, coupled with a study of Malawi's post-independence development progress, revealed two major constraints to attaining development objectives, namely, the shortage of skilled personnel and inadequacies in the planning, policy formulation, and management of the economy. While the task force recognized the urgency of addressing the nation's transport crisis, a major priority for investment in PSIP, it noted that external support requirements were almost exclusively for capital investments to which major donors were already responding. Consequently, this area was not deemed a priority for UNDP support. This led to a joint decision to concentrate UNDP TA on four major sectors: education; general development issues, policy and planning; agriculture; and industry. Subsequently, sectoral papers were prepared for each of these areas to guide the identification of priority needs and, wherever possible, formulate specific project proposals.

20. The effective utilization of TA faces several constraints. The paucity of skilled staff limits potential candidates either for long-term formal, advanced training or service as counterparts to external advisers. Indeed, experience has demonstrated that training must not drain ministries' day-to-day operational capacity, nor should projects be carried out without any counterpart and thus hamper the transfer of skills. Hence, several donors, including UNDP, have had difficulties in disbursing committed funds fully. In response, the Government is both increasing the cadre of skilled manpower and strengthening institutional capacity to use TA more effectively and efficiently.

21. To enhance TA impact, the undertaking of a formal cross-sectoral TA needs assessment, perhaps under a National Technical Co-operation Assessment and Programme (NATCAP) exercise, is being considered. Clarifying TA requirements appears particularly timely, given the pending release of a new Statement of Development Policies and the ongoing or planned preparation of several sector development plans. Such a process itself would be invaluable for institutional development and improving the allocation of the Government's own TA matching funds

towards the highest priority areas. Ideally, such an exercise should occur before the mid-term review of the fourth country programme to guide the final years of the programming cycle. Precise quantification of TA needs will, of necessity, have to await such a systematic appraisal of sector-specific requirements.

D. Aid co-ordination arrangements

22. The Government has taken major steps over the past few years to strengthen aid co-ordination and thereby reduce the potential for fragmentation and duplication of efforts among the many bilateral and multilateral public and private donors. The merger of the former Economic Planning and Development Divisions into a single Department of Economic Planning and Development (EPD) within the Office of the President and Cabinet provides a focal point for determining aid requirements and monitoring resource flows, while an increase in its staffing enhances its capacity to fulfil its mandate.

23. Following the 1984 UNDP-sponsored round table, the Government adopted the Consultative Group mode in 1985 as its principal platform for mobilizing increased levels of external assistance and co-ordinating it more effectively. The first formal Consultative Group meeting, held in Paris in 1986 under the chairmanship of IBRD, drew a large part of the international donor community. It focused on the Government's desire to channel donor assistance increasingly towards non-project, quick disbursement of programme aid in support of its structural adjustment and economic stabilization efforts. It also provided a means to broaden donor participation in the Malawian development process, both through promoting increased commitments from long-standing aid partners and, significantly, attracting non-traditional ones.

24. The participants, while unanimously endorsing Malawi's development strategy and commending the country for the often difficult political and economic decisions it has made in pursuit of growth, nevertheless recognized several key issues which warrant continued dialogue. They pledged themselves to enhanced complementarity of efforts at the country level to optimize resource use, to which end IBRD agreed to assist the Government in conducting regular aid meetings co-ordinated by EPD.

25. It is expected that the Government's Aid Co-ordination Committee, to date largely a forum for considering UNDP-assisted projects, will assume an increasingly important role within other donor activities, as originally envisaged. UNDP's ongoing support to the new aid co-ordination section in EPD should complement these efforts by enhancing national capacity to mobilize and effectively utilize external resources. The UNDP annual Development Co-operation Report, the only integrated analysis of capital and technical assistance, will continue to provide an important data base to guide more effective co-ordination of donor programmes.

26. A second Consultative Group meeting is scheduled to take place in November 1987 to reassess external financing requirements in the light of the new Statement of Development Policies. In the interim a few sector-specific working groups are being formed with joint donor and government representation, to ensure better co-ordinated programming efforts. Among the most notable of these working

groups are the National Primary Health Care Co-ordinating Committee and the Northern Transport Route. The Government has also established several standing committees with individual non-governmental organizations (NGOs) to determine appropriate programmes.

27. A strong spirit of donor co-operation is already emerging from these important initiatives. Technical assistance under IPF is being provided in support of several United Nations Capital Development Fund (UNCDF)-supported projects. UNDP has considerably strengthened dialogue with other aid organizations, and collaboratively designed and implemented projects are either under way or planned in such high priority assistance areas as: development programming (IBRD, the United Kingdom Overseas Development Agency (ODA) and the Federal Republic of Germany); formulation of a least-cost energy development programme (IBRD); export promotion and credit facility development (IBRD); restructuring and strengthening of ADMARC (IBRD and the United States Agency for International Development (USAID)); maintenance of small-holder irrigation schemes (the Danish International Development Agency (DANIDA), ODA); development of a Malawian Institute of Management (IBRD, ODA); and strengthening of the National Statistical Office (ODA).

II. THE COUNTRY PROGRAMME

A. Assessment of current country programme

28. An intensive week-long UNDP/Government mid-term review of implementation of the third country programme was carried out in October 1984. That review noted the difficult economic environment in which the country programme was operating: the third cycle began in 1982 during an unprecedented national economic crisis with only \$US 30.7 million (55 per cent of the original IPF of \$US 53 million) available for programming because of shortfalls in donor financing. These factors significantly constrained the formulation of an overall framework for programming. Therefore, new projects were developed cautiously within a mutually agreed strategy to focus available funding on ongoing projects, so as to consolidate and enhance the effectiveness of initiatives commenced under the second country programme. Within such a setting, the dispersion of resources across many sectors was inevitable and, understandably, the lost programme development momentum has been difficult to regain. Consequently, ensuring an active pipeline of technically, economically and financially sound new projects continues to command priority attention. Nevertheless, the review concluded that, by and large, activities responded to the needs and priorities of the Government and therefore that no major programme reorientation was necessary at that point.

29. The review recommended that the uncommitted \$US 12 million balance of IPF funding, much of which reflected unutilized funds in ongoing projects, be directed predominantly to the agriculture sector in accordance with national development priorities to expand food and cash crop production. In fact, as a subsequent December 1985 review of the first four years of the country programme revealed, the sectoral distribution of resources varied somewhat from this, with natural resources (19 per cent), general development issues (17 per cent), and education (17 per cent) outlays exceeding agriculture (14 per cent). It should be noted,

however, that the large commitment to natural resources reflects expenditures under just one project - the Airborne Geophysical Survey - the resource-intensive nature of which, \$US 4.4 million, skewed assistance. Further, the implementation of several large pipeline projects in agriculture was delayed by lengthy formulation and appraisal process.

30. Problems of the system itself often including large over-costing and hence under-spending within United Nations agency projects, the inherently slow, multiple-level project approval process, and unexpected savings generated from the strength of the dollar, have further contributed to the failure to fully utilize existing commitment levels over the past few years.

31. Synthesizing the overall project implementation experience, the December 1985 review recommended that institutional development objectives be enhanced over the next programme cycle by:

(a) Continuing to emphasize training within all projects, with attention to increasing Technical Co-operation among Developing Countries (TCDC) so as to provide a more balanced mix in the use of overseas, developing country, and national training facilities; focusing on the development of Malawian institutions, wherever feasible, circumscribing use of overseas fellowships to special technical fields where notable gaps in skilled personnel exist; concentrating, as appropriate, on training trainers for national institutions, so as to multiply the impact of overseas training; and, concurrently, exploring systematically alternative non-formal training vehicles such as workshops, seminars, study tours, and internships with counterparts in other developing countries;

(b) Improving the efficiency of the use of experts, carefully assessing their suitability to needs and then expediting their submission and clearance to ensure timely commencement of projects; better co-ordinating and phasing their inputs with counterpart availability to promote transfer of skills; ensuring that the length of assignment is sufficient to train counterparts; and substituting less costly associates and volunteer experts wherever feasible;

(c) Increasing the use of national staff and institutions developed under former projects in the design and implementation of new activities and subsequent phases of activities initiated in the third country programme, thus contributing to creation of a skilled pool of national consultants in key development areas;

(d) Improving the choice and use of project-financed equipment and supplies;

(e) Increasing collaboration with the private sector, including the extensive network of NGOs already active at the community level.

32. Responding to these recommendations, the Government has commenced several important actions. Experts' clearance is expected to be significantly expedited by recent changes streamlining the approval process. Major emphasis will be placed on identifying counterparts much earlier to permit them to pursue further training, as required, prior to the arrival of experts, thus maximizing the benefits of on-the-job training. In addition, incentives are being explored to encourage counterparts to remain in public service after project-related training.

33. In retrospect, given the constraints facing the third country programme, its performance has been satisfactory: more than 70 projects became operational during the cycle, representing some \$US 26 million in disbursement, the largest multilateral technical assistance contribution to the country. In general, as the December 1985 review highlighted, UNDP has continued its catalytic role within the donor community, launching innovative pilot schemes, strengthening pivotal institutions and thus increasing their capacity to absorb follow-on assistance from other donors, and conducting feasibility studies which subsequently attracted substantial external financing in such key development sectors as agriculture (e.g. tobacco research and curing), housing (e.g. developing local resource based models) water and sanitation (e.g. design and demonstration of low-cost approaches), telecommunications and transport (e.g. formulation of long-term development plans) and health (e.g. feasibility analysis for a national medical school).

B. New programme proposal

34. The fourth country programme design reflects the experience gleaned over the 20 years of UNDP assistance to Malawi, particularly that of the third country programme. It responds directly to the development priorities delineated in SAP and PSIP indicated in section I.B.

35. The programme complements projected capital and technical assistance to be provided by other donors both within and outside the United Nations system. Recognizing the importance of increasing access to basic services including education, health, food, housing and water and sanitation so as to achieve development objectives, as well as the fact that social development itself depends on economic growth, UNDP's major contribution to social welfare will concentrate on: (a) raising incomes and thus the health and nutritional status of small-holders, artisan fishermen, foresters and small-scale businessmen, and (b) expanding skill levels to enable a greater proportion of Malawians to enter the modern agricultural, industrial, trade and commercial sectors. Significantly, government execution of projects is being encouraged and co-financing of some activities is envisaged.

36. The overriding goal of the country programme is to assist Malawi to achieve national self-reliance through human resource development and through institution building. To this end, UNDP assistance will concentrate on the four principal objectives delineated below, all of which comprise training as an integral element.

First Objective: Strengthening national capacity to meet priority manpower needs

37. The paucity of Malawians trained in key technical, professional and managerial areas remains a major hindrance to the development process. At the very root of the manpower problem is the low level of educational attainment of much of the population; the 1977 census indicates a 75 per cent illiteracy rate among those 15 years of age and older. To date, redressing this problem has been hampered by limited access to primary and secondary education and its quality and the weak institutional capacity of vocational and post-secondary education. This has inevitably slowed the growth of a cadre of Malawians in diverse disciplines of

prime importance to a rapidly expanding economy, particularly in sectors of high development potential, such as fisheries and forestry. To build national infrastructure and skilled manpower, the fourth country programme will continue initiatives commenced under the third programme, while launching several new projects.

Ongoing projects

(a) Education Planning and Management: For another three years, the Planning Unit of the Ministry of Education will be assisted in assessing needs and monitoring sectoral development so as to improve the efficiency and effectiveness of the use of national education resources. UNDP's contribution will be \$US 1,300,000.

(b) Bunda College of Agriculture: For an additional 18 months, \$US 56,060 will be provided to enhance the teaching, research and administrative capacities of the College, notably through staff development programmes.

(c) Training of Engineers: UNDP will provide \$US 165,000 to train 30 Malawians for an additional three years in the fields of civil, electrical, and mechanical engineering, and architecture and quantity surveying at the professional level.

(d) Forestry Training: \$US 11,603 is earmarked to train professional staff of the Forestry Department at African universities for another 14 months.

(e) Primary Teacher Education and Curriculum Development, II: The development of curricula and relevant instructional materials for primary schools and primary teacher education, along with the training of instructors in these areas, will continue for another three years with assistance of \$US 216,630.

(f) Development of Malawian Entrepreneurs, II: Local entrepreneurial and technical training for self-employment will continue with an IPF allocation of \$US 414,700 as well as Capital Development Fund (CDF) support of \$US 60,000 for 16 months.

(g) Health Manpower Development: The provision of health care is expected to be enhanced by a nine-month extension of training health personnel below the medical officer level with an allocation of \$US 66,500.

(h) Upgrading of Hotel and Catering Supervisors, II: UNDP support of \$US 48,145 will be provided for another six months to improve the skills of hotel staff and the catering industry through specialized training at a government institute.

(i) Vocational Rehabilitation of Disabled Persons, II: Strengthening the planning and administrative capacity of the Malawi Council for the Handicapped through training and advisory services will continue for 16 months with an IPF allocation of \$US 355,900 and a CDF contribution of \$US 25,000. The project assists the disabled to acquire skills for their integration into normal economic and social life.

New projects

(a) National Adult Literacy Programme: The successful pilot project financed under the third country programme will be expanded into a national literacy programme implemented by the Government over a period of four years. The IPF contribution of \$US 500,000 will be supplemented by \$US 650,000 in CDF support.

(b) Study of Fisheries Training Needs: IPF assistance of \$US 90,000 will finance a one-year analysis of national training requirements for the fisheries sector, including all categories of personnel involved in the fishing industry.

(c) Development of Accountants, II: Malawi still faces a critical shortage of qualified accountants in both the public and private sectors. A four-year project to strengthen national academic, administrative and management systems through the training of accountants at various levels will receive IPF funding of \$US 2,120,400.

(d) Strengthening the Land Husbandry Training Centre: Improving and expanding the training capacity of the Land Husbandry Centre at Zomba to meet extension requirements in conservation over a period of three years will be supported by an IPF allocation of \$US 1,390,000.

(e) Establishment of the Malawi Institute of Management: The Government's decision to establish a Malawi Institute of Management will be supported by IPF assistance of \$US 600,000 over a three-year period. The Institute will provide advisory services to the Government in all aspects of public management and train mid- and high-level public officials, assist the Government in developing relevant curricula, provide training equipment and fellowships for the training of trainers, and conduct courses during its first years of operation.

Linkages

38. The Planning and Management project will provide an overall framework for education sector development. The projects range from developing basic skills to specialized technical and managerial training. The literacy programme should provide Malawian adults with the education necessary to enter the modern agricultural and industrial sectors. IBRD financing is envisaged for the construction of the Malawi Institute of Management, while UNDP and ODA will contribute technical assistance to launch this important initiative.

Programmed reserve

39. Given the urgency of redressing continuing imbalances between demand for and supply of key cadres and thereby reducing the current extensive and costly reliance on expatriate personnel, and in view of the commitment of the new Second National Education Plan 1985-1995 to provide more equitable access to a better balanced educational system, additional assistance will probably be required to train faculty and teachers, revise curriculum and develop new programmes to meet evolving manpower needs. \$US 3 million has been reserved for future project funding consideration in this area.

Second Objective: Strengthening the Government's capability to plan and manage the economic and social development process

40. Completing the structural adjustment process will dominate development efforts over the next five years. Despite considerable progress in policy and institutional reforms, select development areas, particularly economic policy formulation and planning and management capability, must still be strengthened. UNDP assistance will emphasize the effective and efficient functioning of the newly reorganized Economic Planning and Development Department of the Office of the President and Cabinet to enable it to fulfil its multi-sectoral planning, technical advisory and co-ordinating role. This will increase the ability of key line ministries to plan and budget their resources for the most cost-effective interventions. Priority attention will also focus on the improvement of resource mobilization, particularly for securing additional external assistance to close the development financing gap, and better co-ordination of aid use. Concomitantly, the performance of select Treasury Funds, parastatals and quasi-public entities will be enhanced to reduce their current substantial drain on the managerial capacity and financial resources of the public sector.

Ongoing projects

(a) National Statistical Office (NSO): The development of a comprehensive national statistical system is required for all planning. IPF assistance of \$US 340,555 will be provided for 15 months to strengthen the NSO's capacity to compile and analyse data and to co-ordinate its operations more effectively with other government departments involved in statistical collection and use.

(b) Aid Co-ordination: UNDP will contribute \$US 426,000 over a 27-month period to enhance national capability to mobilize and co-ordinate use of external assistance.

(c) National Water Resources Master Plan: An allocation of \$US 35,000 for four months will be provided for the elaboration of a 20-year master plan for development of national water resources.

(d) Monitoring Activities of the Ministry of Finance: Over a two-year period, IPF assistance of \$US 522,282 will enhance the capacity of the Ministry of Finance to monitor the performance of Treasury Funds, strengthening these Funds' financial management and control systems, as well as to develop an information system responsive to the needs of the Treasury and other relevant ministries and departments.

New projects

(a) Assistance to Development Planning: For a three-year period, UNDP will contribute \$US 1,181,500 to strengthen capabilities in macro-economic planning and forecasting, project monitoring and evaluation and conducting special studies. The project includes training for staff in these areas.

(b) Improvement of Operations of the Parastatal Sector: IPF assistance of \$US 700,000 will be allocated over a three-year period for the implementation of a plan to restructure the parastatal sector, provide management assistance to selected entities, and improve monitoring of those parastatals which will come under the authority of the Department of Statutory Bodies.

(c) Energy Sector Planning and Management: Pursuant to the earlier IBRD/UNDP Energy Sector Assessment Programme, an IPF allocation of \$US 1 million and an IBRD contribution of \$US 250,000 are intended to improve the Government's energy sector planning and project implementation capacity for two years. The project includes conducting a number of specialized studies, formulating a national Least-Cost Energy Sector Development Programme and strengthening key energy supply entities.

Linkages

41. The above projects, are aimed at strengthening economic and social development planning and management capacity and financial structural adjustment operations. As the newly reorganized EDP is the locus of the Aid Co-ordination, Development Planning and Energy Planning and Management projects, close interaction of macro- and sector-specific planning work will be facilitated, thereby providing projects with the authority needed to effect planned activities. As NSO is the prime source of information used in the planning process, strengthening national accounts will contribute to improved economic and social sector planning and budgeting.

42. Monitoring activities is closely linked both to Aid Co-ordination through its assistance to improve the monitoring of aid disbursements and the processing of expenditure claims and to Improvement of Operations of Parastatal Sector, which seeks to enhance the efficiency of entities operating on a commercial or semi-commercial basis.

43. Both ODA and the Federal Republic of Germany also are providing assistance to EDP. ODA's expert will primarily conduct special studies and thus will work closely with the national and international consultants to be provided under Development Planning. Concurrently, IBRD is strengthening the Energy and Transport Planning Unit within EPD.

44. NSO, an ODA-financed systems analyst is assisting the Data Processing Unit, thus providing continuity to activities initiated in earlier phases of the UNDP-assisted project. UNFPA's substantial assistance in launching the 1987 national population and housing census and in establishing a Demographic Unit at the University of Malawi will also assist efforts to strengthen NSO's data and manpower base.

45. Parastatals form an important sector of the economy, although Malawi has pragmatically limited their growth. Currently nine commercially oriented and 31 non-commercial entities exist, the latter having largely regulatory, developmental or marketing/promotional service functions, all of which are subject to the oversight of the Department of Statutory Bodies created in 1981. Though a few enterprises are entirely self-financing, most receive budgetary subventions, though the level varies significantly. IBRD is assisting the Government to identify steps

to enhance the operational efficiency of parastatals, promoting financial independence among commercially-oriented ones, so as to reduce their present substantial drain on the national budget. UNDP plans to collaborate with IBRD to improve this sector's performance under the Parastatal Sector project.

Programmed reserve

46. Because of the limited training of the majority of EPD staff in the sector-specific areas to which they are being assigned as the Department fully assumes its diverse responsibilities, support will probably be required for additional formal and informal education. Data collection and analysis capacity will also have to be enhanced at the ministerial and EPD levels. Strengthening selected ministries' capacity to deliver services to their target populations is likely to assume increasing importance as well. In the aggregate therefore \$US 3 million has been set aside for the possible funding of such new projects.

Third Objective: Expanding and diversifying the output of the agriculture sector

47. Malawi's progress will remain closely tied to the performance of the agricultural sector, which alone contributes almost 40 per cent of GDP and accounts for 90 per cent of export earnings. Key sector priorities are to provide the small-holder and estate subsectors with both the means and sufficient incentives to increase and diversify yields so as to sustain national food self-sufficiency, enhance nutritional status, expand agricultural exports and therefore foreign exchange earnings, and raise rural incomes. Intensification of land use must be undertaken with a view towards the conservation of the nation's major natural resource, its fertile soil.

48. The fisheries subsector is also expected to be a major source of economic growth over the short term. A major infusion of external assistance is under way to support fisheries development and thereby attain optimum sustainable yields, both to enhance national protein availability and expand exports.

49. The development of physical infrastructure and support services, such as data systems, research and development, and the promotion and marketing of expanded output, will also be essential.

Ongoing projects

(a) Establishment of a Tobacco Research and Development Organization: UNDP will contribute \$US 72,000 for an additional six months to further this initiative of the second country programme. The organization is developing the capacity to breed more suitable varieties of tobacco, to investigate and assist in the adoption of new methods of production, improved pest and disease control, and to foster more efficient curing systems which would reduce fuel-wood consumption.

(b) Strengthening Veterinary Laboratory and Field Services: An IPF allocation of \$US 1,900,000 for four more years is intended to enhance the technical capacity of regional and district veterinary laboratories and field veterinary services. Their contribution to disease reduction will increase livestock and poultry production.

(c) Agricultural Produce Marketing: UNDP will provide \$US 1,090,300 for an additional two and one half years to improve AGMARC's operational efficiency for support of the small-holder subsector.

(d) Agrometeorology/Data Processing: \$US 322,300 has been earmarked for another three years to strengthen the Meteorological Department by establishing a network of well-equipped and technically staffed weather stations to observe and analyse climatic data, to forecast, and to advise agriculture, forestry and other user sectors.

(e) Village Access Roads and Bridges: For an additional 15-month period, UNDP will provide \$US 56,000, supplemented by a CDF contribution of \$US 369,000, to enhance the capacity to design and construct suitable all-weather roads and bridges in the northern region at the village level, so as to increase access to markets for agricultural and industrial products and to social services.

(f) Land Resource Evaluation: An IPF allocation of \$US 2,112,900 for an additional five years is expected to strengthen and expand the capability of the Land Husbandry Branch to carry out land appraisal and to provide an inventory of land resource availability for specific agricultural development uses.

New projects

(a) Horticultural Seed Improvement: UNDP will provide technical assistance amounting to \$US 700,000 over four years to introduce, propagate and evaluate improved varieties of seeds for the diversification of horticultural crops.

(b) Reduction of Food Crop Losses: \$US 607,300 is earmarked for four years to enhance agricultural output as well as nutrition by controlling crop losses, especially of cassava and pigeon peas, caused by diseases and pests.

(c) Wildlife Control for Crop Protection: UNDP will contribute \$US 1,012,000 over a three-year period to reduce the present estimated 20 per cent crop losses from vermin and animals, particularly in areas bordering on game reserves, so as to increase both domestic food consumption and exports.

(d) Agricultural By-products for Animal Feeding: An IPF allocation of \$US 548,511 for two and one half years is expected to improve the use of agricultural by-products for animal feeding, and thus contribute directly to the development of agro-industry and the expansion of livestock production.

(e) Fisheries Research: Over a five-year period, UNDP will provide \$US 660,000 to strengthen the research capability of the Fisheries Department. Initially the project will emphasize developing a scientifically sound and optimally balanced commercial and artisanal fishing programme for the exploitation of the Chambo (Tilapia) species in the southeast arm of Lake Malawi, Lake Malombe and the upper Shire River and thus increase yields, employment, and income from these key fisheries.

(f) Animal Power Utilization: \$US 394,000 is earmarked for two and a half years for a systematic analysis of how best to promote increased use of animals within the agricultural sector. Relevant research and development activities will be conducted.

(g) Dairy Development: Over a two-year period, an IPF allocation of \$US 176,000, supplemented by a CDF contribution of \$US 390,000 will assist in establishing one mini-dairy unit at Karonga and in rehabilitating the milk collection and cooling scheme at Mzimba/Mzuzu. Local staff will be trained in machinery operation and maintenance.

(h) Village Access Roads and Bridges, II: Over a four-year period, the ongoing project's geographic coverage will be extended to the central region and establish a headquarters unit at Lilongwe. UNDP will provide \$US 684,000 and CDF \$US 1,058,000.

Linkages

50. All programmed agricultural projects have the common objective of raising production levels and rural income and therefore nutritional status, through expanding and diversifying crops; more rational and ecologically sound use of land resources; and improved promotion and marketing of products.

51. To expand export potential and thus national income, horticultural development appears a particularly promising approach and will therefore be pursued under Crop Diversification. This project complements adaptive research being undertaken with IBRD and USAID support. Concurrently, increasing the output of underdeveloped crops such as cassava and pigeon peas will receive special attention under Food Crop Production and Control, which seeks to develop genetically improved varieties more resistant to major diseases. The Wildlife Control project will also contribute to expanding output by reducing current substantial crop losses from vermin and animals. Livestock and poultry production potential should be enhanced through improved Veterinary Services, and optimal use of Agricultural By-products for Animal Feeding.

52. Reaping full economic benefits from expanded agricultural output will necessitate improved access from farm gates to market and social centres, along with a highly efficient marketing system. The former is the objective of the Village Access Roads and Bridges projects, while the latter is supported by the Agricultural Produce Marketing project.

53. The Crop Diversification, Reduction of Food Crop Losses, Wildlife Control, and Animal Power Utilization projects are closely linked in objectives and in operation to several activities funded by other multilateral and bilateral donors. Among the major complementary efforts are: (a) the National Rural Development Programme (NRDP), which receives external assistance from IBRD, EEC, the African Development Bank (AfDB), the Federal Republic of Germany, the United Kingdom and USAID; (b) the five-year National Agricultural Research Project, which is jointly funded by the Government, IBRD and USAID to restructure the country's agricultural research system through adaptive research and the development of acceptable improved

cropping techniques; (c) the Agricultural Extension and Planning Support Project to upgrade the technical capacity of the agricultural extension service and provide the Ministry of Agriculture with the insitutional capability to formulate overall agricultural policies and programmes, also supported by IBRD and USAID; and (d) the Small-holder Fertilizer Projects, co-financed by the International Development Association (IDA) and the International Fund for Agricultural Development (IFAD) to enhance small-holder productivity by ensuring reliable and timely supplies of fertilizer through ADMARC. The Dairy Development project complements ongoing assistance by the Governments of Canada, Denmark and the Federal Republic of Germany to this still small, but potentially important subsector.

54. Fish is Malawi's main source of protein and is also potentially an important export product. Fisheries Research will provide a base to guide the optimum exploitation of this natural resource. Moreover, Malawi's designated role as co-ordinator of the fisheries sector within the Southern Africa Development Co-ordination Conference (SADCC) should be enhanced by the UNDP support envisaged for this area. Similarly, the region's quest to expand agricultural and livestock production and thus increase food security, should be bolstered by the extensive experience Malawi will gain over the next five years in optimal land resource use, the introduction of new technologies and methodologies, and the improvement of key agricultural support services, such as veterinary laboratories, land appraisal and research and extension.

Programmed reserve

55. Further initiatives envisaged over the next few years to accelerate growth within this primary sector will probably take place in two principal areas: (a) conducting pilot projects to introduce new small-holder crops or to improve the output and marketability of existing ones and exploring opportunities to strengthen the performance of the estate subsector; and (b) further strengthening of the human and physical resource base. For these areas \$US 1 million is reserved for potential new projects.

Fourth Objective: Accelerating industrial growth and promoting trade and commerce

56. Fostering the growth of the nascent but rapidly expanding industrial sector is recognized as essential to meet medium and long-term economic development objectives. Industry's share of GDP is targeted to increase from its present 12 per cent to 16 per cent of GDP by 1991 through a strategy of intensified development of local resource-based industries with high income and employment generation potential, the agro-industries in particular. Diversifying industrial output to support import-substitution and provide export-oriented products has been assigned high priority. Industrialization will provide an important means to both increasing the value of exports and absorbing a large share of the rapidly expanding labour force. Moreover, import substitution holds the promise of reducing costly foreign goods, whose price is increased by the land-locked position of the country. Enhancing trade and commerce will be an essential corollary.

Ongoing projects

(a) Industrial Advisory Services: The Special Measures Fund for Least Developed Countries (SMF) will contribute \$US 53,000 for an additional seven months to strengthen the planning and managerial capability of the Industrial Development Division of the Ministry of Trade, Industry and Tourism, as well as to provide the Division with the administrative and legal framework necessary to fulfil its co-ordinating and advisory role in the sector.

(b) Malawi Bureau of Standards: An IPF allocation of \$US 612,700 for a two-year period is intended to strengthen the Bureau's institutional capacity to develop and monitor compliance with standards for imported, domestic-use and exported products. Activities will include expanding product testing and laboratory facilities, establishing a certification marking system and training staff in these areas.

(c) Trade Promotion and Export Diversification: SMF will provide \$US 254,525 for 20 months to formulate a strategy for export diversification and promotion, conduct annual promotional programmes and identify new products and markets and requisite export incentives.

New projects

(a) Industrial Planning, Management and Development: \$US 1,100,000 has been earmarked for a two-year period to strengthen the capabilities of the Ministry of Trade, Industry and Tourism, formulate a medium-term industrial development plan, develop a number of project profiles, conduct pre-feasibility studies, establish a consultancy service to the industrial sector and conduct training programmes in industrial management.

(b) Industrial Sector Study: \$US 45,000 will be provided for five months to expand the analytic base in select areas of potential technical assistance support to the industrial sector and thereby formulate new project ideas for future funding.

Linkages

57. In their totality, the programmed projects seek to provide the planning and managerial leadership, quality performance standards and monitoring, and marketing and promotional vehicles essential to achieve industrial sector growth targets. The sector study will be instrumental in identifying both potential areas for growth and factors that hamper their expansion so as to guide future sector policy and institutional and investment decision-making.

58. Export promotion is an integral part of SAP to which the UNDP-supported Trade Promotion and Export Diversification project contributes. Responding to the lack of pre- and post-shipment financing by many exporters, IBRD is providing credit assistance to the Malawi Export Promotion Council through an International Trade Centre (ITC) executed project, Development of Financial Support for the Malawi Export Sector, which will complement UNDP efforts.

Programmed reserve

59. UNDP's experience in the industrial sector has been extremely limited to date. Under the ongoing Industrial Advisory Services project a forthcoming evaluation of assistance efforts will not only assess project-specific performance, but identify continuing information gaps which the industrial sector analysis envisaged under the fourth country programme should address. This analysis should provide a base for identifying priority needs, and thus contribute to the development of a portfolio of new projects in the sector for UNDP support over the next five years. While it is not possible now to delineate precisely the total pipeline to be financed, new projects will probably focus on: (a) fostering the development of new small-scale enterprises; (b) establishing or strengthening select support services for both existing and newly emerging enterprises; and (c) developing and promoting export products further. \$US 6 million is being reserved for potential funding of new projects in these areas.

Linkage with regional programme

60. The country programme will establish formal linkages with regional and subregional programmes and will take advantage of their technical resources and accumulated experience. The National Adult Literacy project will receive supplementary technical assistance through the United Nations Educational, Scientific and Cultural Organization (UNESCO) regional Programme for Eradication of Illiteracy in Africa. Also, as women are the primary beneficiaries of adult literacy efforts, the project complements the objectives of the Lusaka-based regional project for the integration of women in development. The new project Assistance to Development Planning will consolidate the linkages already established with the regional Africa Institute for Economic Development Planning. The project to establish the Malawi Institute of Management will draw on the expertise of the East and Southern African Management Institute. Several projects in areas of agriculture, forestry and fishing support SADDC programmes in their respective areas.

C. Unprogrammed reserve

61. The fourth country programme includes an unprogrammed reserve of \$US 1.8 million. This pool of unallocated resources enhances responsiveness to the evolving development priorities to be defined by the forthcoming Statement of Development Policies and by the sector plans to be formulated over the programme period. It also enables UNDP to meet additional needs which may arise during the course of implementation of fourth country programme projects.

Annex

FINANCIAL SUMMARY

I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

	<u>\$</u>	<u>\$</u>
A. <u>UNDP administered sources</u>		
Third cycle IPF balance	2 343 000	
Fourth cycle IPF	37 589 000	
Subtotal IPF		39 932 000
Special Measures Fund for Least Developed Countries	308 000	
Special programme resources Government cost-sharing Third-party cost-sharing Operational funds under the authority of the Administrator (UNCDF)	2 552 000	
UNDP special trust funds		
Subtotal, UNDP non-IPF funds		2 860 000
B. <u>Other sources</u>		
Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise (IBRD)	250 000	
Parallel financing from non-United Nations sources		
Subtotal, other sources		<u>250 000</u>
TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		<u><u>43 042 000</u></u>

II. USE OF RESOURCES

Ongoing projects	12 400 000	
New project proposals	15 857 000	
Programmed reserve	13 000 000	
Subtotal, programmed resources		41 257 000
Unprogrammed reserve		<u>1 785 000</u>
TOTAL USE OF RESOURCES		<u><u>43 042 000</u></u>
