IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

REPUBLIC OF MALAWI

FOR THE

RURAL LIVELIHOODS SUPPORT PROGRAMME

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TABLE OF CONTENTS

APPENDIXES

CURRENCY EQUIVALENTS

Currency Unit	=	Malawian Kwacha (MWK)
USD 1.00	=	MWK 80
MWK 1.00	=	USD 0.0125

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m^2)	=	10.76 square feet (ft^2)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

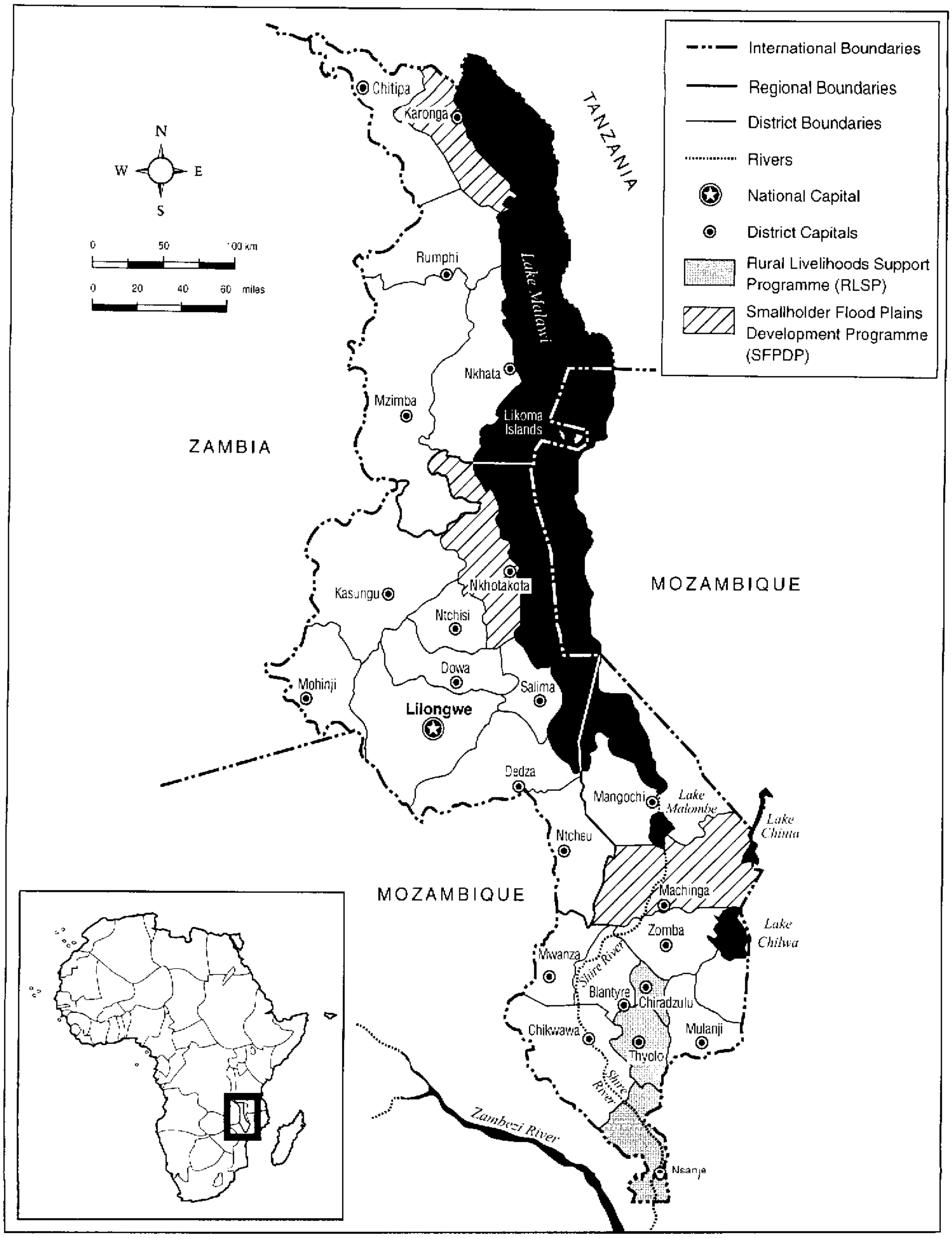
AIDS	Acquired Immune Deficiency Syndrome
AWP/B	Annual Work Plan and Budget
DDF	District Development Fund
DLG	Department of Local Government
FMST	Field Management Services Team
HIV	Human Immunodeficiency Virus
MASIP	Malawi Agricultural Sector Investment Programme
M&E	Monitoring and Evaluation
PFU	Programme Facilitation Unit
PRSP	Poverty Reduction Strategy Paper
VDC	Village Development Committee
VIF	Village Investment Fund

GOVERNMENT OF THE REPUBLIC OF MALAWI

Fiscal Year

1 July – 30 June

MAP OF THE PROGRAMME AREA



Source: World Bank

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

REPUBLIC OF MALAWI

RURAL LIVELIHOODS SUPPORT PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Malawi
EXECUTING AGENCY:	Department of Local Government (DLG), Office of the President
TOTAL PROGRAMME COST:	USD 19.64 million
AMOUNT OF IFAD LOAN:	SDR 10.70 million (equivalent to approximately USD 13.47 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	To be determined
AMOUNT OF COFINANCING:	USD 3.51 million
TERMS OF COFINANCING:	Grant
CONTRIBUTION OF BORROWER:	USD 1.71 million
CONTRIBUTION OF BENEFICIARIES:	USD 0.95 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)

PROGRAMME BRIEF

Who are the beneficiaries?

The target population encompasses some 163 000-192 000 people living in 32 000-38 000 households in villages of the Nsanje, Thyolo and Chiradzulu Districts of Malawi's Southern region. Very few households have access to sufficient land to meet their food requirements. Four out of five households are food insecure for at least three-to-four months of the year and are vulnerable to fluctuations in rainfall and household labour availability. Many poor households lack the resources to participate in conventional development activities. The programme's village-level processes have been designed to secure the active involvement of the poorest groups, including the landless, households headed by women and families affected by the Human Immunodeficiency Virus (HIV)/Acquired Immune Deficiency Syndrome (AIDS).

Why are they poor?

In addition to strong population growth, the main causes of poverty among the target population relate to past expropriation of customary land and active discrimination against smallholders, including restrictions on their freedom to engage in economic activities. Although such expropriation and discrimination have ended and poverty alleviation is now the Government's major concern, development assistance – most of which has been delivered via centralized public sector institutions – has failed to reverse the trend of widening and deepening rural poverty. The asset base of households has declined and no longer allows for a standard development approach whereby agricultural or other intensification ensure household food security and create a surplus sufficiently large to pay for purchased inputs. Off-farm income-generating activities are largely confined to seasonal labour on local estates or in other regions of the country, local food vending and marketing of farm produce, the two latter activities being constrained by limited purchasing power.

What will the programme do for them?

The programme will help improve the beneficiaries' access to resources and ensure more efficient use of available resources by village households. This will be achieved by (i) keeping the villagers better informed and encouraging their self-motivation; (ii) empowering villagers in terms of organization for resource access/production; (iii) improving the responsiveness of service providers; and (iv) reducing the hunger gap through investments in production and income-generating activities, thereby improving the dietary and nutritional status of the target population. The programme has been conceived within the country's ongoing decentralization policy and will work with emerging decentralized institutions and local line ministry staff that play a key role as service providers. Support and oversight will be provided to help achieve the programme's objectives. The programme will seek to ensure the active participation of all groups of villagers.

How will the beneficiaries participate in the programme?

Following initial assistance to help villagers map the livelihoods, living conditions and constraints and concerns of the various groups and to find feasible solutions thereto, the villagers will draw up a priority list of investments to be undertaken. Agreements will be entered into with service providers for any necessary external assistance. Villagers will control and substantially contribute to village investments. Mechanisms will be put in place to ensure that service providers become accountable to (i) the villagers in terms of obtaining the expected impact; and (ii) the programme with regard to resource use. Participatory monitoring and evaluation (M&E) and financial accountability, which will form part of regular programme reporting, will be supplemented by periodic in-depth reviews.

REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE REPUBLIC OF MALAWI FOR THE RURAL LIVELIHOODS SUPPORT PROGRAMME

I submit the following Report and Recommendation on a proposed loan to the Republic of Malawi for SDR 10.70 million (equivalent to approximately USD 13.47 million) on highly concessional terms to help finance the Rural Livelihoods Support Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY[1]

A. The Economy and the Agricultural Sector

1. Malawi is a landlocked country that encompasses a total land area of 94 000 km^2. The economy is predominantly agricultural and most of the population depends on subsistence farming. Its population of 10.8 million is growing at an annual rate of 2.6%. The average population density is 112 people per square kilometre, representing an almost twofold increase over the past 20 years, with densities of 300-400 in parts of the Southern Region. With a gross national product (GNP) per capita of USD 180 (1999), a life expectancy at birth of 40 years and an adult illiteracy rate of 40%, Malawi is considered the world's seventh poorest and ninth least developed country. Economic performance is highly susceptible to variations in rainfall and to external shocks. Over the last 20 years, the gross domestic product (GDP) has grown by an average of 3% per year, well below the 5.3% required to prevent an increase in the number of people living below the poverty line.

2. Agriculture and services each contribute about 40% to GDP; industry accounts for 20%, of which 15% involves manufacturing. Agriculture contributes 80-90% to exports, the main items being tobacco (60-65%), tea (12-15%) and sugar (2-5%). The performance of the agricultural sector is critical to the economy. The average annual rate of growth in the sector increased from 1.5% in the 1980s to 6.6% in the 1990s. The formal sector is oligopolistic and provides relatively few employment opportunities, mainly because labour-intensive manufacturing and small-scale enterprises are poorly developed.

3. After the 1994 elections, poverty reduction was placed at the top of the country's development agenda. Government monopolies and agricultural marketing and trade controls have been abolished, allowing smallholders to diversify into crops other than maize. Improvements have been achieved in tax administration and some restructuring has taken place in the public sector. However, the impact of the reforms on growth has been constrained by limited production capacity and it has not been possible to maintain macroeconomic stability, with the result that expansion of the productive capacity has been limited. In addition to droughts and external shocks, a main source of macroeconomic instability has been periodic lack of fiscal discipline.

4. The current macroeconomic programme, which formalizes the objective of poverty reduction accompanied by fiscal reform, emphasizes pro-poor expenditure. It aims at balancing the public

[1] See Appendix I for additional information.

budget by 2001 against a deficit of 5% in 1999, reducing inflation to 10% in 2001 compared with 30% in 1999, and achieving a real GDP growth of 3.0% in 2001 with an increase to 4.5% over the medium term. In 2000, based on an interim Poverty Reduction Strategy Paper (PRSP), Malawi reached the decision point for debt relief under the Heavily Indebted Poor Country (HIPC) Initiative and will receive conditional debt relief of USD 34 million until mid-2002. Thereafter**,** unconditional annual debt relief of USD 40-50 million is expected to be provided to Malawi for a period of 20 years.

5. Although the country has received substantial assistance (USD 40 per capita in overseas development assistance in 1998), about 65% of the population continues to live below the poverty line (estimated at USD 40 equivalent during the 1990s). Aid levels have been rising and increasingly provided in the form of bilateral grants. These increased levels have been associated more with growing government and private consumption than with increased productive investments. If current levels of aid are to be maintained in the future, however, there will be need for better management and more poverty alleviation. Donors are concerned about allegations of misappropriated, unpaid or potentially misused public funds in the order of several percentage points of GDP and about incentives for controlling public expenditures, which are mainly financed by aid.

6. Malawi's agriculture sector consists of distinct estate and smallholder subsectors. Estates occupy 20% of the country's 5.7 million hectares of cultivable land. Smallholders cultivate about 80% of the arable land and produce 85% of domestic food. Three out of four smallholders cultivate less than 1 ha, and many work less than 0.5 ha. Even with the emphasis on smallholders in terms of agricultural and rural development, the performance of the smallholder subsector has been insufficient to prevent rural poverty from widening and deepening. This reflects the skewed distribution of assets in favour of a small elite and the legacy of the state's past management of markets that went against the interests of smallholders, sought to ensure their availability as cheap labour on estates and repressed entrepreneurship. It is also a clear indication that smallholder support services have not been very effective. The Government is in the process of developing the Malawi Agricultural Sector Investment Programme (MASIP) to regulate agricultural and other rural services and investments. MASIP will constitute the private-sector development and growth prong of the PRSP and involve three tracks: (i) vision, strategy and rationalization; (ii) organizational development of the Ministry of Agriculture and Irrigation; and (iii) partnership for governance to support agricultural livelihoods.

B. Lessons Learned from Previous IFAD Experience in Malawi

7. The design of future poverty-reduction interventions must be based on general lessons of experience with regard to development support in Malawi. These lessons show that emphasis on investments in public-sector institutional structures and operations has led to under-investment in productive assets and contributed to greater poverty and natural resource degradation. Secondly, due to difficulties in targeting and lack of transparency and accountability, centrally administered interventions have been unable to make resources available for action at the local level. Thirdly, the asset base of most smallholders no longer allows for a standard approach whereby intensification leads to household food security and farm-level surpluses sufficient to cover the costs of intensification. Fourth, improvements in agricultural production and in the quality of life are possible but will require intense facilitation, i.e. standard participatory methods, now almost universally practised in Malawi, do not guarantee that support becomes relevant to the poor. Finally, it is imperative to monitor programme progress and provide strong supervision and guidance during implementation.

8. To date, IFAD has supported seven interventions in Malawi from which the following specific lessons have been learned: (i) due to various organizational and institutional constraints, the public sector cannot now be relied upon as the sole provider of agricultural services; (ii) previous delivery mechanisms were not sufficiently successful in reaching the poor; and (iii) rural financial services only perform well under conducive macroeconomic conditions and when they are provided in support of activities that generate a sufficient cash flow.

C. IFAD's Strategy for Collaboration with Malawi

Malawi's Policy for Poverty Eradication

9. The Government of Malawi's main development objective is to alleviate poverty through broad-based, labour-intensive growth. This is to be achieved by strengthening support services to smallholders; enhancing the role played by communities in their own development; implementing land reform; developing sustainable infrastructure - particularly in rural areas; and creating the conditions for growth of a competitive private sector. Environmental policies aim to prevent further natural resource degradation and provide a platform for sustainable growth. Social policies are aimed at extending the coverage of quality services to the poor in a gender-equitable manner. The Government is committed to combating the HIV/AIDS pandemic and to developing safety nets. Improved public sector management, macroeconomic stabilization, civil service reform and good governance are fundamental instruments in these tasks. The PRSP currently being developed is expected to unify sector-level focuses from the perspective of poverty reduction and to be organized according to the following strategic thrusts: macroeconomic stabilization; restructuring and reprioritization of the public budget towards pro-poor expenditure; creating an environment conducive to supporting private-sector development; and developing a cost-effective safety net programme.

The Poverty Eradication Activities of other Major Donors

10. Most development assistance to Malawi is aimed at the productive sector and infrastructure development, not specifically at promoting opportunities for the poorest or at decentralized social assistance targeted at the poor, i.e. it does not directly tackle their food security and income-generation challenges.

11. Key donors in the areas of natural resources management, food security and income generation, are the Department for International Development (DFID) of the United Kingdom, the United States Agency for International Development (USAID), the European Union (EU), the German Agency for Technical Cooperation (GTZ) and Danish International Development Assistance (DANIDA). Several such donors are supporting the development of MASIP and may be expected to increase their assistance to agricultural and rural development once further progress has been made.

12. A number of initiatives are going forward to support rural livelihoods, including interventions by Concern Universal (Dezda), the Oxford Committee for Famine Relief (Oxfam) (Mulanje), GTZ (Mulanje) and the Co-operative for Assistance and Relief Everywhere (CARE) (Central region). These programmes, most of which are relatively small-scale, provide resources to support the implementation of village-driven investments and involve varying degrees of involvement by - and technical support and orientation training to - local line ministry staff. It is likely that, in the near future, most of these programmes will be more closely aligned with local government institutions.

IFAD's Strategy in Malawi

13. The Fund's strategy in Malawi has been to direct assistance to serve the interests of poor farmers within the prevailing macroeconomic and political framework. This strategy has evolved from area-based interventions within a national sector framework to that of support for national institutional development in a period of transition. Increasing focus has been placed on seeking solutions that meet the needs of the poorest, mainly women. With the advent of democratic government and further macroeconomic change, assistance has been closely integrated with sector-wide interventions supported by the International Development Association (IDA) and other donors, thereby intensifying the poverty focus of national projects.

14. Malawi is now entering a new phase of transformation. This will include greater economic liberalization, further democratic reform and the adoption of a decentralization policy, each of which represents a potentially enabling factor for reducing poverty. However, such transformation poses challenges with regard to developing organizational structures to facilitate resource access among the rural poor, improving resource allocation mechanisms to serve their interests and better tailoring the nature of resources to their needs. It has become possible to improve service provision and resource access, reorient working procedures and modes of interaction between public personnel and their clientele, and nurture alternative linkage networks and channels based on the initiative of local-level organizations. The main focus of IFAD's strategy is to assist the Government to exploit these new opportunities for reducing rural poverty.

Programme Rationale

15. The form of agricultural development assistance which was feasible under the previous controlled economy led to a concentration of donor investment on capacity building in public-sector institutional hierarchies that were historically responsible for delivering goods and services to rural people. The authoritarian approach taken by these hierarchies in regulating the production of staple food and cash crops and in delivering social services led to a gross under-investment in productive assets. There is a clear justification for interventions designed to redress this investment imbalance.

16. Tackling this imbalance will involve maximizing the flow of resources to rural poor people and optimizing their use of resources. The policy and institutional expression of such an approach may be characterized as good governance. The programme has therefore been designed within the context of the Government's commitment to good governance, as expressed in its ongoing decentralization process which emphasizes democracy, local accountability, transparency, gender equability and resource use efficiency. Given the serious resource constraints faced by rural households it is imperative that available resources be used with optimal efficiency, which is arguably not the case at the present time. If rural livelihoods are to be improved, there is a need for improved practices in land management and in natural resource exploitation more generally. Rural people need help to identify inefficiencies in their resource use and to consider available options for overcoming them. Conventional participatory techniques have often failed to include the poor, who now constitute a majority. What is required is a village-level mechanism that includes the poor and less represented people in exploring, articulating and agreeing on development needs; acquiring a platform to pursue development interests; and stimulating a response from public and private-sector agencies to development requirements. This in turn calls for focusing on people rather than on economic development and maximization of agricultural production *per se*, and may lead to investments that differ markedly from those associated with conventional approaches.

PART II - THE PROGRAMME

A. Programme Area and Target Population

17. **Programme area**. The programme is to be implemented in the Nsanje, Thyolo and Chiradzulu Districts. Agricultural areas in Thyolo and the southern parts of Chiradzulu are dominated by large estates, which tend to occupy the better agricultural land. Smallholders cultivate patchy areas around the estates and often on steeply sloping land. Nsanje District mostly consists of low hills falling towards the flood plain of the Shire River, large parts of which are either swampy or seasonally inundated. The district centres are small towns and most economic activities are directly related to agriculture. Settlement is mainly in villages scattered throughout rural areas. There is little agro-processing activity and trading in inputs mainly serves the estates. Small-scale food vending in towns and along the main roads is the dominant non-farm activity. Employment opportunities are very limited and mainly take the form of seasonal labour. Thyolo and Chiradzulu District centres have good road connections to Blantyre, but Nsanje is poorly connected. There are few secondary and

tertiary roads and most villages are not easily accessible, particularly in the wet season. Public services mainly consist of primary education and health services and agricultural extension and community development services. Only about half of the established posts for field staff are filled and the number is falling due to HIV/AIDS-related deaths and non-replacement of retired older staff. Extension workers often only have operating resources if they participate in a donor-supported activity.

18. A number of Traditional Authorities will be engaged in the three Districts of the programme area, and will include a number of village development committees (VDC). All villages covered by the VDCs will participate in the programme. During the first two years of implementation, one Traditional Authority and four VDCs will be engaged in each district, and an additional Traditional Authority with two VDCs will be included in the third year. The criteria for selecting Traditional Authorities and VDCs will relate to: (i) the incidence and depth of poverty, based on the 1996 Vulnerability Assessment Mapping and the recent Integrated Household Survey; (ii) the absence of related support programmes, based on initial situation analyses carried out at the district and area levels; and (iii) commitment to programme objectives and operating procedures at the local level. Traditional Authorities and VDCs for the first two years of operations will be selected during the first year of implementation.

19. **Target population**. Livelihoods and living conditions in the programme area are fairly well documented. Most villagers are subsistence farmers. Households in many areas of Thyolo and Chiradzulu have access to landholdings of only 0.1-0.3 ha, whereas landholdings in Nsanje are slightly larger but rainfall is much less reliable. Depending on rainfall levels and landholding sizes, for most households the production of maize for self-consumption usually lasts from harvesting in April-May until September-December. Until the next harvest, people seek scarcely remunerative work on estates and reduce food intake. The poorest people, particularly women heads of household, face a human energy trap during these months as access to off-farm work is best when their own lands need to be prepared; after that, it declines, leading to reduced food intake at a time when their own fields need weeding.

20. The programme will target about 9 600 households in Nsanje, 19 200-24 000 in Thyolo and 3 840-4 800 in Chiradzulu, equivalent to an overall target population of 163 000-192 000, or about 20% of the total population in the three districts. Programme processes at the village level are designed to ensure that the priorities and concerns of all villagers will be addressed. Mechanisms will be put in place to judge the different groups' and wealth categories' satisfaction with programme performance in terms of improving their livelihoods and quality of life.

B. Objectives and Scope

21. The overall objective of the programme is to improve the livelihoods and quality of life of the target population by improving access to resources and ensuring more efficient resource use by village households. The programme will achieve this objective by: (i) keeping the target population better informed and encouraging self-motivation; (ii) empowering the target group to organize its access to resources and improve production; (iii) ensuring responsiveness of service providers; (iv) reducing the hunger gap; and (v) improving the dietary and nutritional status of the target group.

22. The overall nine-year funding commitment for the programme will be sub-divided into three programme cycles, each of three years. Related subsidiary objectives are to provide the means and opportunity for the Government to meet the conditions for obtaining access to funds for the second programme cycle, and to be in a position by programme year (PY) 6 to justify access to a final tranche of funds for expanded village coverage, based on effective commitment and demonstrated performance and impact.

C. Components

23. The three programme cycles relate to the introduction, consolidation and further expansion of the programme. The graduation from one programme cycle to the next will be based on satisfactory implementation performance, as reflected in the attainment of pre-specified milestones (Appendix V). Within these cycles, programme activities will be organized into three components: investment in human capital; village investments; and programme management and coordination.

Investment in Human Capital

24. The objective of this component is to empower communities to strengthen internal coping mechanisms and village organizational structures; create effective demand for village investments; and access guidance and support on issues of concern. Focus will be placed on developing the skills of villagers, service providers and those representing the villagers' interests at the village, VDC, Traditional Authority and district levels. Funds will be made available for three sub-components, as follows:

(a) **Community planning and implementation.** In each district, a district facilitator will be assigned to the office of the district director for planning and development and provided with transport, equipment and operating funds to introduce and oversee operations and to assist in adopting lessons learned into the districts' work practices. Funds will be made available for orientation briefings for successive levels of administration so as to familiarize staff with the programme's aims, approach and procedures. The programme will be introduced in the villages through collaborative arrangements between service providers; facilitation catalysts (students on loan from local tertiary education institutions) and a field management services team (FMST) on the basis of agreed procedures and objectives. The FMST contract will include an operations manager based in the programme facilitation unit (PFU) in Blantyre, one field officer for each Traditional Authority and necessary operating resources. District facilitators will monitor the responses from service providers to village requirements, in consultation with the office of the district commissioner and the FMST.

(b) **Support to service providers.** Change agents in public service and VDC representatives will be trained in participatory techniques relevant to implementation. Follow-up training, incorporating lessons learned from implementation experience, will also be provided. Travel expenses and field allowances will be covered to facilitate the change agents' involvement in initial situation analyses in the villages and throughout implementation, as per the terms of individual activity agreements drawn up during the activity planning process.

(c) **Monitoring and evaluation.** The PFU will oversee monitoring and reporting on programme progress and impact. In addition to satisfying the data requirements of the management information system, a series of situation analysis workshops at the district, area and VDC levels will define the initial situation and identify impact and effectiveness indicators for use in annual reviews at the VDC level.

25. To ensure that the focus on the poor is maintained and that the programme effectively influences their quality of life, local consultants will carry out a beneficiary impact assessment in each district towards the end of the first programme cycle, such assessments to form the basis for the first programme reassessment. An international institution contracted to act as a technical advisory panel will have proven practical project experience in training and research related to rural development. The panel will conduct social audits that will, *inter alia*, help to gauge the programme's effectiveness in reaching and serving the interests of the poorest people. Focused field visits will provide inputs to the annual work plan and budget (AWP/B). Additional visits will generate information to assist the

facilitation catalysts and national institutes of higher education involved in the programme on issues related to poverty and rural development.

Village Investments

26. Resources will be provided for activities responding to concerns and opportunities identified at the village level. The ceiling set for such funds will enable villagers to set in train a series of meaningful initiatives but avoid over-extending the capacity of service providers. The funds will complement, rather than compete, with other programmes. Activity proposals will be expected to meet pre-specified eligibility criteria in order to qualify for funding. There will be two categories of funds:

(a) The local initiatives fund (LIF) will be accessed by village organizations and interest groups to carry out activities on their own behalf. The estimated funding requirements for the first programme cycle are of the order of USD 0.7 million. Participating villages will have an annual budget ceiling based on eight activities each costing USD 300, increasing to USD 400 and USD 500, respectively, in the second and third year of engagement, subject to performance. Villages will contribute at least 10% of the cost of each investment. The use of the LIF will be monitored and an assessment made of performance in terms of achieving programme objectives. Any misuse of resources will lead to the discontinuation of allocations to the village concerned. Cost ceilings will be reviewed and adjusted as necessary during programme reassessments.

(b) The village investment fund (VIF) will be used to establish physical assets identified as investment priorities through the participatory process at the village level. Typically, such assets will benefit an identifiable group within the village or the village as a whole, or might conceivably serve the interests of two or more villages. The VIF will have two financing subcategories: (i) investments costing less than USD 2 000 will be considered for financing directly from a programme sub-account operated at the district level; and (ii) investments costing between USD 2 000 and USD 10 000 will be subject to formal district planning and approval and considered for financing via conditional allocations to the district development fund (DDF).

27. Work plans and budgets for VIF-financed activities will include the physical assets themselves, technical support services required to establish the assets, beneficiaries' contribution and compensation for unskilled labour provided by villagers in addition to their contributions. During the first cycle, most investments are expected to be small-scale and directly financed from the district sub-accounts. In the first two cycles, the amount made available in the DDF will not exceed 25% of a given district's overall allocation for that year under the component. During the second programme reassessment, consideration will be given to increasing the percentage of funds represented by DDF allocations, provided the conditions to access the third tranche of funds are met. For cost estimation purposes, an increase to 50% has been assumed to enable a global financing envelope to be calculated for the nine-year period. Use of VIF funds channelled via the DDF will be closely monitored.

Programme Management and Coordination

28. Funds will be provided to cover administrative and oversight functions related to implementation; contracting of services, including audits; coordination of supervision; liaison with other relevant ongoing activities; reporting to financiers; and for programme reassessments. A PFU will be established at Blantyre, and include a programme manager, financial controller, procurement officer, monitoring and reporting officer and support staff. Staff will be hired on yearly renewable contracts, initially for three years, to coincide with the first programme cycle. The PFU will operate a management information system, prepare consolidated implementation progress reports and ensure

that performance is documented in relation to specified procedures and objectives. The PFU will commission studies and surveys, as required, using local consultants or specialists from the region. Furthermore, the PFU will fund and facilitate the involvement of the Planning Section of the Department of Local Government (DLG) in the Office of the President in its capacity of overseeing the decentralization process. Funds will also be made available for DLG to commission studies and seminars on topical policy-related issues.

D. Costs and Financing

29. Subject to the pre-conditions being met (Appendix V), three tranches of funds may be accessed in three-year allocation cycles. Progress achieved during the first cycle will be reviewed in a first programme reassessment during PY 3 with a view to adjusting design as required and providing detailed costs estimates for the second cycle. A comprehensive second programme reassessment undertaken in PY 6 will establish whether there is sufficient justification for the Government to access a third tranche of funds. Assuming that the programme will continue into the third cycle, design adjustments will be made as necessary to reflect current circumstances and implementation experience acquired thus far.

30. The cost of the third cycle will be estimated as part of the reassessment process. Based on existing information and an assumed rate of expansion in the number of villages involved, the estimated overall cost of the full nine-year programme period, including price and physical contingencies, is USD 19.64 million, of which 17% (USD 3.40 million) represents the foreign exchange element. Total base costs are estimated at USD 18.26 million, with physical and price contingencies of USD 339 000 (2% of base costs) and USD 1.04 million (6%), respectively. The cost of the first cycle (Appendix IV), including price and physical contingencies, is estimated at 223 million Malawian Kwachas (MWK) (USD 4.02 million) of which one third (USD 1.34 million) represents the foreign exchange element. Total base costs of the first cycle are USD 3.87 million, with price and physical contingencies totalling USD 156 000 (4% of base cost).

31. The programme will be financed by an IFAD loan of USD 13.47 million, as well as contributions from the Government and beneficiaries of USD 1.71 million and USD 950 000, respectively, and USD 3.51 million from a cofinancier (still to be identified) in the form of a grant. The latter will cover the cost of the contracting staff for programme facilitation, residential training, the FMST, M&E and the appointment of an external development institution to act as mentor to the programme and conduct social audits. The IFAD loan will finance village investments and parts of the three sub-components under the investment in human capital component and the programme management and coordination component. DFID will review the possibility of cofinancing the programme within the framework of its planned support to MASIP.

32. Malawi is expected shortly to become a member country of the Regional Land Management Unit (RELMA), which provides technical backstopping and advice; trains service providers from the public and private sectors and civil society; prepares and disseminates technical information; and develops methodologies for effective interaction at the grass-roots level on issues of natural resources management. Within its resource allocations for Malawi and subject to other calls on its services, RELMA will make such services available to the programme free of charge.

TABLE 1: SUMMARY OF PROGRAMME COSTS[a]
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	% of Base Costs
A. Investment in Human Capital					
1. Community planning and implementation	1 658	1 040	2 698	39	15
2. Support to service providers	2 036	0	2 036	-	11
3. Monitoring and evaluation	326	909	1 235	74	7
Subtotal	**4 021**	**1 949**	**5 969**	**33**	**33**
B. Village Investments					
1. Local initiatives fund	5 261	0	5 261	-	29
2. Village investment fund	4 240	0	4 240	-	23
Subtotal	**9 501**	**0**	**9 501**	**-**	**52**
C. Programme Management and Coordination					
1. Programme facilitation unit	1 449	1 128	2 578	44	14
2. Studies and surveys	208	0	208	-	1
Subtotal	**1 657**	**1 128**	**2 785**	**41**	**15**
Total base costs	**15 179**	**3 077**	**18 255**	**17**	**100**
Physical contingencies	339	0	339	-	2
Price contingencies	718	323	1 041	31	6
Total programme costs	**16 236**	**3 399**	**19 636**	**17**	**108**

a/ Discrepancies in totals are due to rounding up of figures

TABLE 2: FINANCING PLAN[a]
(USD '000)

	IFAD		Cofinancier		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
Components	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**			
A. Investment in Human Capital													
1. Community planning and implementation	1 540.4	49.8	1 394.9	45.1	158.6	5.1	-	-	3 094.0	15.8	1 134.3	1 831.2	128.5
2. Support to service providers	1 148.0	44.9	164.1	6.4	1 244.1	48.7	-	-	2 556.1	13.0	-	2 556.1	-
3. Monitoring and evaluation	19.7	1.4	1 348.8	97.2	19.0	1.4	-	-	1 387.5	7.1	1 008.8	378.7	-
Subtotal	**2 708.1**	**38.5**	**2 907.8**	**41.3**	**1 421.7**	**20.2**	**-**	**-**	**7 037.6**	**35.8**	**2 143.1**	**4 766.0**	**128.5**
B. Village Investments													
1. Local initiatives fund	4 734.7	90.0	-	-	-	-	526.1	10.0	5 260.8	26.8	-	5 260.8	-
2. Village investment fund	3 816.0	90.0	-	-	-	-	424.0	10.0	4 240.0	21.6	-	4 240.0	-
Subtotal	**8 550.7**	**90.0**	**-**	**-**	**-**	**-**	**950.1**	**10.0**	**9 500.8**	**48.4**	**-**	**9 500.8**	**-**
C. Programme Management and Coordination													
1. Programme facilitation unit	2 060.0	72.2	603.0	21.1	189.7	6.6	-	-	2 852.7	14.5	1 256.4	1 406.6	189.7
2. Poverty analysis	147.4	60.3	-	-	97.2	39.7	-	-	244.6	1.2	-	244.6	-
Subtotal	**2 207.4**	**71.3**	**603.0**	**19.5**	**286.8**	**9.2**	**-**	**-**	**3 097.2**	**15.8**	**1 256.4**	**1 651.2**	**189.7**
Total	**13 466.2**	**68.6**	**3 510.8**	**17.9**	**1 708.6**	**8.7**	**950.1**	**4.8**	**19 635.7**	**100.0**	**3 399.5**	**15 918.0**	**318.2**

[a] Discrepancies in totals are due to rounding up of figures.

E. Procurement, Disbursement, Accounts and Audit

33. **Procurement.** For items financed by the IFAD loan, procurement will be subject to Government procedures to the extent that they are compatible with IFAD's Procurement Guidelines. Items financed by the cofinancier will be procured under procedures acceptable to the cofinancier. Each AWP/B will include a procurement plan and schedule setting out the goods and services to be procured. Procurement of equipment and materials will be bulked to the extent possible. Contracts exceeding USD 100 000 will be subject to international competitive bidding; those costing between USD 10 000 and USD 100 000 will follow local competitive bidding (LCB); those costing between USD 5 000 and USD 10 000 will follow local shopping procedures; and those costing less than USD 5 000 will follow direct contracting procedures. Contracts for rural infrastructure, which, because of scale and location will be unattractive to international firms, will be awarded under LCB. Agreed limits of responsibility consistent with financial regulations and the authority of public service staff at the district and national levels will also govern procurement.

34. **Disbursement.** The IFAD loan will be disbursed over a period of nine years divided into three funding cycles. The amount allocated for the first cycle will be disbursed over three years. Based on a successful first programme reassessment, IFAD will approve allocations for the second cycle to ensure that the means are available to deliver the expected programme impact. Success in delivery will be judged during the course of the second programme reassessment in the sixth year of implementation. Subject to the findings of that assessment, a third and final tranche of funds may be made available.

35. To ensure the ready availability of funding for programme activities, the Government will establish a special account denominated in United States dollars in a commercial bank acceptable to IFAD. The Ministry of Finance will administer the account. Upon loan effectiveness, IFAD will make an initial deposit into the special account equivalent to the expected average six-month disbursement level during the first programme cycle. The special account will be replenished on the basis of regular withdrawal applications with appropriate supporting documentation, approved by the Ministry of Finance and the cooperating institution. Withdrawals from the loan account may be made against certified statements of expenditure, in accordance with procedures agreed between the Borrower, the Cooperating Institution and the Fund, which the PFU will make available for audit and for review by the cooperating institution in accordance with IFAD's General Conditions.

36. Payments from the special account will be made into a programme account held in local currency in a bank acceptable to IFAD, to be managed by the PFU under the joint signatures of the programme manager and financial controller. As of the second programme cycle, the Government will deposit into the account its counterpart fund contribution to operating costs. The programme account will be used for direct payments by the PFU and will also feed three programme sub-accounts to be established by the PFU at the district level. The sub-accounts will be administered under the joint signatures of the district facilitator and district director of finance, with the district commissioner as alternate signatory. Funds for the DDF element of the VIF will be transferred from the programme account to the three DDF accounts as conditional allocations for activities only in those VDCs engaged under the programme. Allocations will be separately identifiable and accounted for. Disbursements to the DDF will be in accordance with requirements of approved AWP/Bs. District facilitators will endorse disbursements from the DDF for programme-related expenditures.

37. **Accounts.** Separate accounts will be required for programme-related expenditures at all levels, in a format that complies with government regulations and accounting instructions and incorporates donor requirements. The format will ensure that accounts for village activities indicate the imputed value of labour and material contributions by beneficiaries. The main elements of the accounting system will be monthly statements of expenditure returns, quarterly statements of expenditure returns and annual financial statements, the latter comprising annual income and expenditure accounts, balance sheets and statements of annual capital expenditure.

38. **Audit.** A full set of annual financial statements will form the basis of the annual audit. The audit will be based on the annual financial statements from the districts and the PFU, with reports prepared on each. The audit report will provide separate opinions on the accounts held at the level of individual districts. The PFU will engage or cause to be engaged independent auditors, acceptable to IFAD and the Government, for the required annual audit. The costs of audit will be financed from the IFAD loan. The annual audit report will be forwarded to IFAD and the cooperating institution no later than six months after the end of the fiscal year.

F. Organization and Management

39. The programme will operate under the aegis of DLG. It will be linked functionally to the local administration structures established under the decentralization and democratization policies. At the grass-roots level, the programme will be implemented on the basis of collaborative partnerships and contractual arrangements involving the public and the private sectors and civil society with a view to promoting good governance, empowering villagers and developing the interactive skills required to serve the interests of the poorest. The various stakeholders in implementation at this level are either represented on, or are themselves members of, local administrative bodies and/or their committees, that is the VDC and, at Traditional Authority level, the Area Development Committee (ADC) and Area Executive Committee (AEC).

40. The programme manager will report to the principal secretary, DLG, who will provide policy guidance and programme oversight. Programme reports and information will be copied to the planning section, DLG, which will be the programme’s routine point of contact with DLG, and passed to the National Economic Council (NEC) for information purposes.

G. Economic Justification

41. The main expected achievements of a programme of this nature relate to advocacy, to the functioning of society at the local level and to raising people’s motivation and sense of well-being. Related ongoing initiatives supported by non-governmental organizations (NGOs) have shown that even small, low-cost interventions can have a substantial impact on poor households. The types and number of activities to be financed are not yet known and there is no basis for aggregating expected benefits and calculating financial and economic rates of return. Direct and quantifiable benefits at the household level will accrue to members of organizations and interest groups as they arise from the activities supported. Some of those benefits will undoubtedly arise from investments to improve agricultural production, access to and sustainable use of natural resources, and access to means of income generation leading to enhanced food and livelihood security and improved quality of life. Depending on the activity in question, benefits may accrue at the household level among a specific sub-group within a village, or at an aggregate level.

42. The programme cost will be USD 55-65 per household per year over nine years. Of this, 85% represents investments in the village empowerment process, support to service providers, small grants for investments within the villages and participatory M&E, including impact assessment, the balance relating to the costs of programme administration. This represents a reversal of the proportionate expenditures historically achieved in development initiatives in Malawi.

H. Risks

43. There are several risks associated with the programme, most of which are of an institutional nature and relate to the capacity of service providers to contribute towards reaching the programme’s objectives. Programme implementation will demand a high level of management competence and a thorough understanding of the catalytic and brokerage role envisaged. The risks may be summarized as follows: (i) inadequate Government commitment; (ii) the adverse effects of HIV/AIDS on poor people’s ability to engage in development activities; (iii) inadequate involvement of the poorest; (iv) pre-determination of investment activities; and (v) inadequate flows of funds. In recognition of such risks, necessary mitigation measures have been incorporated in the form of operating procedures,

contracting of PFU personnel, appointment of the FMST and the training of service personnel in the districts.

I. Environmental Impact

44. There is widespread degradation of natural resources, to various degrees of severity, caused by unsustainable land-use practices and inappropriate control of water resources and poor sanitation – especially in Southern Region. The programme will assist villages to assess the nature and status of its resource base in their respective areas. The nature of the programme is such that neither the location nor the type of investments can be determined at the design stage. The programme will, from the outset, follow established procedures governing environmental management and protection and incorporate necessary mitigation measures into investment projects. These procedures have been described as part of the programme's environmental screening and scoping note, which, in accordance with IFAD's administrative procedures for environmental assessment in the project cycle, has classified the programme as category "B". The programme manager will be responsible for liaising with the authorities as necessary during implementation and for ensuring compliance of programme-supported investment activities with established environmental management guidelines.

J. Innovative Features

45. The programme's innovative features relate to (i) a reversal of typical past expenditure patterns by ensuring that resources are available for action at the local level, i.e. allocating 85% of programme funds to investment in human capital at the local level, including empowerment of the poor, and delivering investments prioritized by the poor; (ii) the mechanism developed for intensive interaction at the village level; (iii) capacity building in nascent decentralized institutions to ensure, but not fully depend on, their involvement as a means of ensuring accountability to the poor; and (iv) the application of the flexible lending mechanism as an incentive framework for Government in relation to its commitment to good governance and poverty reduction.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

46. A loan agreement between the Republic of Malawi and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

47. The Republic of Malawi is empowered under its laws to borrow from IFAD.

48. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

49. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

> RESOLVED: that the Fund shall make a loan to the Republic of Malawi in various currencies in an amount equivalent to ten million seven hundred thousand Special Drawing Rights (SDR 10 700 000) to mature on and prior to 1 September 2041 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

ANNEX

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 11 August 2001)

1. The Government of the Republic of Malawi (the Government) will ensure that the Department of Local Government of the Office of the President and Cabinet (the lead programme agency) opens and thereafter maintains, in a commercial central bank acceptable to IFAD, a current account denominated in Malawian kwacha for programme operations (the programme account). The Programme Facilitation Unit (PFU) will be fully authorized to operate the programme account, with the programme manager and the financial controller of the PFU designated as authorized signatories. Both authorized signatures will be required for any transaction relating to the programme account.

2. The Government will ensure that the PFU will, within 90 days after the date of effectiveness of the loan agreement, open and thereafter maintain in a commercial bank acceptable to IFAD, one current account denominated in Malawian kwacha for programme operations in each respective programme district (collectively referred to as the "district accounts"). The district facilitator and the district director of finance of each programme district will be designated as authorized signatories of each respective district account, with the district commissioner as alternate signatory. At least two authorized signatures will be required for any transaction relating to the district accounts. The PFU will transfer funds from the programme account into the respective district accounts, as specified in the AWP/B for each programme year.

3. The Government will ensure that the PFU will transfer funds from the programme account into the existing district development fund account of each programme district (collectively referred to as the district development fund accounts) for programme operations financed via the district development fund, as conditional allocations and in accordance with the AWP/B for each programme year. Disbursement from the district development fund accounts will follow established procedures for the district development fund.

4. The Government will take necessary action to ensure that its counterpart funds for the programme are accurately reflected in its annual public investment budget. Such counterpart funds will, in accordance with the AWP/B for each programme year, during Phase I exclusively be in the form of foregone taxes (through tax waivers issued on a case-by-case basis, as appropriate and in accordance with the AWP/Bs). As of Phase II, the Government will make provisions for the phased increases in its counterpart funding for the programme to contribute to the recurrent costs associated with district personnel involved in the programme, impact assessment and poverty analysis at the national level. The Government will fully cover such recurrent costs during the last 12 months of the programme implementation period.

5. The Government will ensure that the monitoring and reporting officer (MRO) of the PFU will, within 12 months after the date of effectiveness of the loan agreement, develop the information management system for the programme, which will be the basis for monitoring implementation progress, tracking programme expenditures and identifying operational constraints and proposing solutions. The monitoring of the programme will be based on key performance indicators agreed between the Government and IFAD and included in the programme implementation guidelines. After the information management system is set up, the technical advisory panel, the district facilitators and the FMST, working in consultation with the district commissioners and their directors of planning and development, will assist the MRO in refining the design of the system during the course of programme implementation, with input from programme beneficiaries and implementing partners. The Government will ensure that the information gathered in the information management system is in the public domain and that it is fully and transparently documented.

6. (a) The Government will ensure that a phase review is undertaken during the last six months of the first and second phases, respectively, based on terms of reference prepared by the PFU and approved by IFAD. Among other things, the phase reviews will consider the achievement of programme objectives during the respective programme phase and the constraints thereon, and recommend reorientation of activities and/or reallocation of programme resources as may be required to achieve such objectives and remove such constraints. The Government will ensure that any interested parties are invited to participate in any reviews of the programme.

(b) The results of the first and second phase reviews and resulting recommendations will be the basis for preparation of a mutually acceptable action plan and design for the second and third phases, respectively, and for conclusion of an overall evaluation of the programme. The Government will ensure that the action plan and design have been finalized, at the latest, three months before completion of the first and second phases, and that they result in reallocation of loan proceeds and modifications to loan documents. Milestones for triggering second-phase financing are set forth in the loan agreement. Milestones for triggering third-phase financing will be established by the end of the first phase in the light of actual achievement, assessed in the first phase review and included in a second phase addendum to the loan agreement.

(c) The Government acknowledges that unsatisfactory performance during the first or second phases or disagreement between the Government and IFAD on the recommendations, action plan and design resulting from any of the phase reviews, may cause IFAD to delay the commencement of the following phase or to suspend or cancel the loan.

7. Within 90 days of the date of effectiveness of the loan agreement, the Government will select independent auditors for the programme, in accordance with the procedures and criteria agreed by the Government and IFAD, to audit the accounts relating to the programme. Such selection will be subject to prior review and approval by IFAD. The Government will ensure that the annual audit report for the programme will be a long-form audit report based on financial statements which have been prepared in accordance with international accounting standards and which adequately reflect the progress and operations of the programme.

8. The Government will actively support the programme and ensure that the lessons learned from the programme are distilled and used at the level of policy analysis to feed back into the public planning processes for continued, effective decentralization of public-sector services, including its support for good governance and poverty alleviation.

9. The Government will insure key programme personnel against health and accident risks to the extent consistent with customary practice in respect of its national civil service.

10. The Government will ensure, through the recruitment of programme staff, that women are represented in the organization and management of the programme. The Government will also ensure that women beneficiaries are represented in all programme activities and that they receive appropriate benefit from the programme outputs.

11. The following are specified as conditions for disbursement of funds from the loan related to activity investment grants:

(a) the PFU has appointed the FMST; and

(b) the programme implementation guidelines have been prepared by the PFU, submitted by the lead programme agency and approved by IFAD in draft form.

12. The following are specified as conditions precedent to the effectiveness of the loan agreement:

(a) the PFU has been duly established and the programme manager and the financial controller of the PFU have been duly appointed by the lead programme agency and approved by IFAD;

(b) the Government has duly opened the special account and the lead programme agency has duly opened the programme account;

(c) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and

(d) a favourable legal opinion, issued by the attorney-general, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

COUNTRY DATA

MALAWI

Land area (km^2 thousand), 1997 1/	**94**	**GNI per capita (USD), 1999 4/**	**180**
Total population (million) ,1998 1/	**10.5**	**Average annual real rate of growth of GNP per capita, 1990-98 2/**	**0.8**
Population density (people per km^2) 1998 1/	**112**	**Average annual rate of inflation, 1990-98 2/**	**33.2**
Local currency	**Kwacha (MWK)**	**Exchange rate: USD 1 =**	**MWK 80.0**

Social Indicators		**Economic Indicators**	
Population (average annual population growth rate), 1980-98 1/	3	GDP (USD million), 1998 1/	1 688
Crude birth rate (per thousand people), 1998 1/	47	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people), 1998 1/	23	1980-90	2.5
Infant mortality rate (per thousand live births), 1998 1/	134	1990-98	3.8
Life expectancy at birth (years), 1998 1/	42		
		Sectoral distribution of GDP, 1998 1/	
Number of rural poor (million) (approximate) 1/	n.a.	% agriculture	35.9
Poor as % of total rural population 1/	n.a.	% industry	17.8
Total labour force (million), 1998 1/	5.1	% manufacturing	13.8
Female labour force as % of total, 1998 1/	48.8	% services	46.4
Education		Consumption, 1998 1/	
Primary school gross enrolment (% of relevant age group), 1997 1/	*133.5*	General government consumption (as % of GDP)	14.4
Adult literacy rate (% age 15 and above), 1998 3/	58.2	Private consumption (as % of GDP)	85.2
		Gross domestic savings (as % of GDP)	0.4
Nutrition			
Daily calorie supply per capita, 1997 3/	2 043	**Balance of Payments (USD million)**	
Prevalence of child malnutrition (height for age % of children under 5), 1992-98 1/	48.3	Merchandise exports, 1998 1/	n.a.
Prevalence of child malnutrition (weight for age % of children under 5), 1992-98 1/	29.9	Merchandise imports, 1998 1/	n.a.
		Balance of merchandise trade	n.a.
Health			
Health expenditure, total (as % of GDP), 1990-98 1/	3.3	Current account balances (USD million)	
Physicians (per thousand people), 1990-98 1/	0.03	before official transfers, 1998 1/	- 611
Percentage population without access to safe water, 1990-98 3/	53	after official transfers, 1998 1/	n.a.
Percentage population without access to health services, 1981-93 3/	20	Foreign direct investment, 1998 1/	1
Percentage population without access to sanitation, 1990-98 3/	97		
		Government Finance	
Agriculture and Food		Overall budget surplus/deficit (including grants) (as % of GDP), 1997 1/	n.a.
Food imports as percentage of total merchandise imports, 1998 1/	n.a.	Total expenditure (% of GDP), 1997 1/	n.a.
Fertilizer consumption (hundreds of grams per ha of arable land), 1995-97 1/	333	Total external debt (USD million), 1998 1/	2 444
Food production index (1989-91=100), 1996-98 1/	109.7	Present value of debt (as % of GNP), 1998 1/	77.1
		Total debt service (% of exports of goods and services), 1998 1/	14.7
Land Use			
Arable land as % of land area, 1997 1/	16.8	Nominal lending rate of banks, 1998 1/	37.7
Forest area (km^2 thousand), 1995 1/	33.4	Nominal deposit rate of banks, 1998 1/	19.1
Forest area as % of total land area, 1995 1/	35.5		
Irrigated land as % of cropland, 1995-97 1/	1.6		

n.a. not available.
Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 2000
2/ World Bank, *Atlas*, 2000
3/ United Nations Development Programme, *Human Development Report*, 2000
4/ World Bank, *World Development Indicators database*, 2001

PREVIOUS IFAD LOANS TO MALAWI

Project Name	Initiating Institution	Co-operating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan Acronym	Approved SDR
Dowa West Rural Development Project	IFAD	World Bank: IBRD	HC	08 Sep 81	12 Oct 81	30 Sep 93	70-MW	9 600 000
Smallholder Fertilizer Project	IFAD	World Bank: IDA	HC	21 Apr 83	22 Jun 83	31 Mar 89	120-MW	8 500 000
Kasungu Agricultural Development Project	IFAD	World Bank: IDA	HC	12 Dec 84	26 Apr 85	30 Apr 94	158-MW	13 650 000
Smallholder Agricultural Credit Project	IFAD	World Bank: IDA	HC	02 Dec 87	02 Sep 88	30 Jun 95	212-MW	4 950 000
Agricultural Services Project: Smallholder Food Security Sub-project	WB: IDA	UNOPS	HC	15 Sep 93	30 Jul 94	30 Jun 00	S-35-MW	9 350 000
Rural Financial Services Project: Mudzi Financial Services Sub-project	WB: IDA	UNOPS	HC	02 Dec 93	28 Apr 95	30 Sep 01	338-MW	8 650 000
Smallholder Flood Plains Development Programme	IFAD	UNOPS	HC	23 Apr 98	27 Nov 98	31 Dec 05	471-MW	9 250 000

LOGICAL FRAMEWORK

Narrative summary	Performance Indicators	Means of Verification	Assumptions
Programme Goal: Improved livelihoods and quality of life among the rural poor	- Sustained improvements in rural livelihoods - Length of hungry period of the poorest - Household perceptions of trend in well-being - Number of recorded cases of malnutrition - Infant mortality rate	- Beneficiary impact assessments, programme reassessments, health centre records, interviews with health staff	**Goal to IFAD mission:** None (outcomes relate directly to IFAD’s mandate and corporate strategy)
Purpose: Improved access to resources and more efficient use of available resources by rural communities.	- Villagers manage land, water, capital and labour resources in a more sustainable manner	- District, FMST and programme progress reports - Supervision reports - Programme reassessments	**Purpose to Goal:** Government, district assembly and village commitment to financial and institutional sustainability of decentralization, democratic reform and good governance
Main Outputs: **A. Investment in Human Capital** - Better informed and self-motivated client groups - Poor and vulnerable rural households empowered to express and act upon their genuine concerns through strengthened internal coping mechanisms and village organizational structures - Local and district administrations responsive to client concerns - Functioning links between village interest groups and range of public, private sector and NGO service providers - Clients generating access to welfare, technical and financial support services on their own behalf - Increased productivity of the poor’s land, labour and capital - Gender and equity dimensions adequately considered in village planning and activity selection - Increased capacity of public service agencies, private sector, NGOs and community-based organizations (CBOs) to recognize and respond to the genuine concerns of target population	- Village capacity to influence access to and distribution of resources - Delivery mechanisms and participatory processes employed - Responsiveness of service providers to client group needs	- Situation reports (VDC, Traditional Authority, District levels) - District, FMST and programme progress reports - Implementation partner progress reports - Beneficiary impact Assessments - Minutes of review meetings and workshops	**Outputs to Purpose:** Attitudinal change can be instilled, emphasizing responsiveness to genuine village concerns, c.f. paternalistic approach to identifying investments Beneficiaries, including the vulnerable and the poorest, actively participate in the M&E of programme activities
B. Village Investments - Good governance reflected in use of LIF/VIF - Fully accountable financial systems established at the District level responding to the concerns of the target population - Improved resource/asset base in target VDCs and among the target population - Improved productivity of land, water, labour and capital resources available to poor rural households - Increased capacity of villages/CBOs in financial management and business skills, including moves towards their own savings as basis for further investment contributions	- Funds disbursed through LIF or VIF against approved AWP/B allocations - LIF and VIF disbursements by ‘window’ (viz. Development, education, works, health, environment) - Technical performance of village investments - Village investment ‘inclusivity’	- District, FMST and programme progress reports - FMST progress reports - Implementation partner progress reports - Beneficiary impact assessments - Minutes of review meetings/workshops	Capacity to plan and manage funds for the benefit of poor and vulnerable households can be increased at the village, local government and district levels
C. Programme Management and Coordination - PFU established and operational - Situation reporting timely and capable of eliciting the genuine priority concerns of the target population - MIS system established and functioning cost-effectively with the participation of villagers	- Management capacity of the PFU - Adherence to programme principles/operating procedures in interaction at the village level - Number, timeliness and quality of reports	- Programme progress reports - FMST progress reports - Social audits - Supervision reports - Programme reassessments	It is possible to establish cost-effective systems capable of managing resources to meet the programme's goal and objectives

Narrative summary	Performance Indicators	Means of Verification	Assumptions
Activities (Programme Cycle I, three years): **A. Investments in Human Capital**			**Activities to Outputs:**
1. Community Planning and Implementation (a) Field management services (b) District-level - District facilitation - Orientation training - Publicity information programmes on gender and HIV (c) Area-level - Orientation meetings (d) VDC-level - Village facilitation - Orientation meetings - Publicity support for CBOs - VDC exchange visits (e) Village-level - Orientation meetings - Mapping of social profiles - Village participatory planning - Adult literacy training (gender and HIV) - Farmer exchange visits	- Personnel deployed and operational - Personnel deployed and operational - No. of meetings and no. of participants - No. of programmes - No. of meetings and no. of participants - No. of students on loan - No. of meetings and no. of participants - No. of programmes - No. of exchange visits/participants - No. of meetings/participants - No. of village profiles - No. of meetings/participants - No. of training of trainers courses/trainees - No. of visits/participants	- District, FMST and programme progress reports - Facilitation catalyst reports - Minutes of review meetings and workshops - AWPBs	- Districts' commitment to implement activities - Village leadership commitment to the programme - The poorest participate in initial analysis and subsequent planning, implementation and M&E of investments - Village communities and CBOs interested in collaborating in programme implementation - The poorest can become more integrated in the community and in household decision-making and benefit-sharing
2. Support to Service Providers (a) District-level - Participatory development and gender-awareness training - Support to prioritization and solution-finding in villages - Support to investment formulation and delivery (b) Area-level - Participatory development and gender-awareness training - Participatory learning and awareness for extension workers - Participatory research and extension - Literacy training for trainers (c) VDC-level - Participatory development and gender-awareness training	- No. of training courses/trainees - Size of budget and % disbursement - Size of budget and % disbursement - No. of training courses/trainees - No. of training courses/ trainees - No. of training courses/trainees - No. of training courses/trainees - No. of training courses/trainees	- District, FMST and programme progress reports - Implementation partner progress reports - AWP/Bs	- Public sector, private sector and NGO service providers committed to implement activities
2. Monitoring and Evaluation - External technical advisory services - Situation analysis workshops at the district/ADC/VDC levels - District review workshops - Participatory village reviews - Beneficiary impact assessments - Programme reassessment (PY 3)	- No. person-days by speciality - No. workshops/participants - No. reviews/participants - No. reviews/participants - No. impact assessments	- District, FMST and programme progress reports - AWP/Bs	- Beneficiaries, including the poorest, participate in M&E - Implementation supervisors competent and motivated to supervise and monitor activities - Competent local services contracted for beneficiary impact assessment

Narrative summary	Performance Indicators	Means of Verification	Assumptions
Activities (Programme Cycle I, three years): (continued) **B. Village Investments** *1. Local Initiatives Fund* - Delivery of up to eight activities per village per year, each costing up to USD 300 (increasing to USD 500) *2. Village Investment Fund* - Delivery of one village investment activity per village per year (increasing to two), each costing less than USD 2000 - Delivery of village investment activities, each costing between USD 2 000 and USD 10 000, through the DDF **C. Programme Management and Coordination** *1. Programme Facilitation Unit* - Periodic oversight of field and district activities - Specialist international services - Specialist local services - Contracted staff *2. Poverty Analysis* - Poverty studies - Policy seminars - Facilitation of DLG interaction with the programme	- No. activities funded; % disbursed - No. activities funded; % disbursed - No. activities funded; % disbursed - No. of visits of different types - No. person-days by speciality - No. person-days by speciality - No. person-months by speciality - No. of studies - No. of seminars - Disbursement of budgeted funds	- District, FMST and programme progress reports - AWP/Bs - District, FMST and programme progress reports - Financial records/audited accounts - AWP/Bs - Consultants' reports - Minutes of proceedings - District progress reports	**Activities to Outputs:** - Beneficiaries interested and committed to implementing activities - Financial accountability can be achieved at the District-level and among service providers - Timely availability of funds - Beneficiaries willing to take equity share in investments (cash/ kind) - Availability of service providers committed to providing technical support to villages/CBOs - Coordination within public services - Timely procurement of vehicles, services, equipment and materials - Timely recruitment of competent PFU staff - PFU maintains strong collaboration between public, NGO and private-sector service providers - PFU establishes effective, efficient management information system - Commitment in DLG/NEC to debate and advance policy concerning poverty alleviation among the poorest and most vulnerable rural people
Inputs (Programme Cycles I – III, USD million):	**Programme Cycle I**	**Programme Cycle II**	**Programme Cycle III**
A. Investments in Human Capital	**1.82**	**(2.47)**	**(2.74)**
- Community planning and implementation	1.09	(0.98)	(1.03)
- Support to service providers	0.31	(0.99)	(1.26)
- Monitoring and evaluation	0.43	(0.50)	(0.45)
B. Village Investments	0.98	(3.56)	(4.96)
- Local Initiatives Fund	0.65	(2.34)	(2.27)
- Village Investment Fund	0.33	(1.21)	(4.24)
C. Programme Management and Coordination	1.22	(0.95)	(0.93)
- Programme facilitation unit	1.16	(0.86)	(0.83)
- Poverty analysis	0.06	(0.09)	(0.10)
Total	**4.03**	**6.98**	**8.63**

Notes: Parentheses indicate that programme costs for the Programme Cycle in question will be subject to Programme Review.

PROGRAMME COST SUMMARY

PROGRAMME COST SUMMARY BY COMPONENT
PROGRAMME CYCLE I COSTS

Programme Cycle I Programme components	MWK ’000 Local	 Foreign	 Total	USD ’000 Local	 Foreign	 Total	% Foreign Exchange	% Total Base Costs
A. Investment in Human Capital								
1. Community planning and implementation	41 939	40 600	82 539	524	508	1 032	49	27
2. Support to service providers	21 315	0	21 315	266	0	266	-	7
3. Monitoring and evaluation	8 760	24 240	33 000	110	303	413	73	11
Subtotal	**72 014**	**64 840**	**136 854**	**900**	**811**	**1 711**	**47**	**44**
B. Village Investments								
1. Local Initiatives Fund	52 224	0	52 224	653	0	653	-	17
2. Village Investment Fund	26 368	0	26 368	330	0	330	-	9
Subtotal	**78 592**	**0**	**78 592**	**982**	**0**	**982**	**-**	**25**
C. Programme Management and Coordination								
1. Programme facilitation unit	50 510	39 121	89 631	631	489	1 120	44	29
2. Poverty analysis	4 470	0	4 470	56	0	56	-	1
Subtotal	**54 980**	**39 121**	**94 101**	**687**	**489**	**1 176**	**42**	**30**
Total baseline costs	**205 586**	**103 961**	**309 547**	**2 570**	**1 300**	**3 869**	**34**	**100**
Physical contingencies	4 735	0	4 735	59	0	59	-	2
Price contingencies	13 093	10 914	24 007	53	44	97	45	3
Total programme costs	**223 414**	**114 875**	**338 289**	**2 682**	**1 343**	**4 026**	**33**	**104**

SUMMARY OF PROGRAMME CYCLE I COSTS BY EXPENDITURE ACCOUNT

	MWK '000			USD '000				
	Local	Foreign	Total	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
I. Investment Costs								
A. Activity investment grants	78 592	0	78 592	982	0	982	-	25
B. Vehicles and motorcycles	21 350	16 400	37 750	267	205	472	43	12
C. Equipment	5 877	4 605	10 482	73	58	131	44	3
D. Technical assistance, specialist services, training, workshops and technical studies	64 382	81 600	145 982	805	1 020	1 825	56	47
Total investment costs	**170 201**	**102 605**	**272 806**	**2 128**	**1 283**	**3 410**	**38**	**88**
II. Recurrent Costs								
A. Operations and maintenance	12 252	1 356	13 608	153	17	170	10	4
B. Allowances	23 133	0	23 133	289	0	289	-	7
Total recurrent costs	**35 385**	**1 356**	**36 741**	**442**	**17**	**459**	**4**	**12**
Total baseline costs	**205 586**	**103 961**	**309 547**	**2 570**	**1 300**	**3 869**	**34**	**100**
Physical contingencies	4 735	0	4 735	59	0	59	-	2
Price contingencies	13 093	10 914	24 007	53	44	97	45	3
Total programme costs	**223 414**	**114 875**	**338 289**	**2 682**	**1 343**	**4 026**	**33**	**104**

MILESTONES TRIGGERING-OFF PROGRAMME CYCLES II AND III

	Milestone	Means of Verification
Programme Cycle II	1. Programme is operating principles and procedures under progressive implementation.	1. All programme-related reports
	2. Proven use of LIF and VIF funds in the programme sub-accounts and DDF accounts in support of village-level activity agreements.	2. Annual audit of accounts.
	3. Programme Account, Programme sub-accounts in districts, and the programme-financed element of district DDF accounts receive (separate) unqualified audit reports.	3. Annual audit of accounts.
	4. Demonstrated beneficiary satisfaction, including among vulnerable groups, with access and distribution of programme resources in relation to the needs of the different wealth categories identified in the initial, village-level situation analyses.	4. Activity completion reports, village review meetings and district review workshops.
	5. Adherence to/respect of Memoranda of Understanding (MoUs) and activity agreements on the part of service providers.	5. On a yearly basis through an inventory of activities financed and implemented using LIF and VIF, FMST reports and, in the third year, independent beneficiary impact assessments and social audits led by the external advisory panel.
	6. Demonstrated tailoring of technical content and socio-economic focus of the inventory of activities to local circumstances, as described in the situation analyses, c.f. pre-determined, supply-driven programmes.	6. LIF/VIF inventories and, in the third year, independent beneficiary impact assessments and social audits by external advisory panel.
Programme Cycle III	1. At least 75% of the expected number of villages engaged towards the end of the second programme cycle.	1. Programme progress reports.
	2. At least 70% of the villages engaged under the programme for a minimum of three years are able to demonstrate that programme-supported actions have made a difference in terms of: - improved quality of activity agreements developed under the planning process; - an increase in overall level of (economic) activity in the villages; - inclusion of the poorest during activity selection and their inclusion as beneficiaries of selected activities; - changes in organization within the villages in relation to resource access and allocation among households in different wealth rankings; - villagers being selective in their use of programme funds in relation to those of other sources – reflecting use of programme funds in complementary manner; and - evidence of empowerment and good governance in terms of villages' relationships with authorities at the VDC, ADC and district assembly levels and with service providers.	2. FMST reports, beneficiary impact assessments, social audits, minutes of district review workshops and programme progress reports.

ORGANIZATION AND MANAGEMENT

A. Programme Organization and Executing Agencies

1. The programme will operate as a discrete set of activities under the aegis of the DLG and be linked functionally to the emerging decentralized institutions. At the grass-roots level, the programme will be implemented through collaborative partnerships and contractual arrangements involving the public and private sectors and civil society. At that level, the various stakeholders in programme implementation are either represented on, or are themselves members of, local administrative bodies and/or their committees.

2. The PFU in Blantyre will report to the Principal Secretary, DLG, in Lilongwe who will in turn provide policy guidance and programme oversight. Programme reports and information will be copied to the Planning Section, DLG, as the programme's routine point of contact with the department, and for information purposes to the NEC.

B. Management and Co-ordination

3. The PFU in Blantyre will be responsible for programme planning and for implementation coordination and control. The following professional staff will be contracted to work in the PFU: a programme manager, financial controller, procurement officer and monitoring and reporting officer. The operations manager of FMST will also be based in PFU and report to the programme manager. A district facilitator will assist the programme manager in each district. Individually appointed staff will be recruited through nationwide advertising, with posts open to candidates from both the private and public sectors. Any civil servants selected will be required either to resign or be seconded, and they will be hired on a contract basis through direct recruitment following open competition procedures.

4. Tasks assigned in the PFU will include, but not necessarily be limited to: (i) programme component management and coordination; (ii) procurement of goods and services, including entering into MoUs and contracts with public-sector line agencies, training institutions, NGOs and private sector partners; (iii) guidance of field operations through the FMST; (iv) supervision of students attached to the programme as facilitation catalysts; (v) financial management and accounting, including preparation of the consolidated AWP/B for onward submission to MOF, the cofinancier, IFAD and the cooperating institution; and (vi) preparation and submission of technical, financial and physical progress reports.

5. On the basis of shortlist procedures, a suitable NGO or local consulting firm will be appointed as the FMST to provide operational guidance to the programme manager and district facilitators. The team will include field officers who will be posted in the Traditional Authorities and report to the operations manager. These officers will work in close consultation with the respective district facilitator to ensure that: (i) actions at the village level takes place as planned and in accordance with the underlying programme principles; and (ii) service providers assume an analytical, facilitation role in their dealings with organizations and village interest groups.

C. Implementation Arrangements and Responsibilities

6. The programme will operate simultaneously in the three programme districts. Based on the district situation analyses, district assemblies and programme management will agree on the Traditional Authorities and VDCs to be included. The rate at which Traditional Authorities and VDCs

become engaged in the programme will be determined on the basis of the availability of human resources to support the programme at the village level. The first year will dedicated to mobilization, institutional orientation and initial training and to the first round of analysis and planning in the villages. One Traditional Authority with four VDCs will be included in the first year. Activity investment grants will begin to flow into the villages during the second year. In the third to the sixth years, the programme will incorporate an additional Traditional Authority and two VDCs in each district each year, making a total of 15 Traditional Authorities and 36 VDCs served by the end of the second programme cycle. About 288 villages will be associated with the programme from the sixth year on. If all the conditions are met for the Government to access a third tranche of funding, it is assumed for design purposes that third programme cycle will involve a consolidation of support in villages already engaged under the programme rather than a further expansion in coverage.

Component Implementation

7. **Investments in human capital.** PFU personnel, district facilitators and the FMST operations manager will initially conduct briefings and carry out situation analyses at the district level, where Traditional Authorities to be focused on during the programme will be identified on the basis of the poverty situation and ongoing programmes. The district facilitators will thereafter undertake similar exercises in the selected Traditional Authorities in order to brief ADCs and AECs and, in consultation with them, to identify poorer VDCs for inclusion. The recent integrated household survey and vulnerability assessment mapping exercise include poverty-based indices and will form the basis for an objective selection of target locations. The programme as a whole will progress in units of entire VDCs.

8. Following initial briefings and situation analyses, the district facilitators will embark upon a programme of orientation training for ADC/AEC members. With support from the FMST, the district facilitators will assist the ADCs in designating persons at the area level, including technical staff of relevant line agencies who are members of the AEC, to receive training through a specially developed residential course. The training will be carried out under contract. Acting on behalf of the district facilitators, the PFU procurement officer will draw up a contract with a suitably qualified educational institution or consulting company in Malawi.

9. Working within the framework of the MoUs between the PFU and Government line agencies, trained AEC members will become implementing partners when dealing with activities at the VDC and individual village level in their designated areas. They will be continually involved with the villages and put orientation training into a practical context under the guidance of the FMST.

10. Initial participatory diagnosis and situation analysis, planning and activity preparation will take place at the level of individual villages that constitute a VDC. These tasks will be performed by an implementation partnership comprising the trained AEC field technicians, facilitation catalysts and an FMST field officer. The AEC will designate one of its members to act as the implementation supervisor. The district facilitator will set up collaborative and/or contractual arrangements with other service providers, as necessary, to deal with specific activities.

11. During the first year of engagement under the programme, the participatory process will involve a series of five steps, as follows: (i) preparation; (ii) planning (iii) technical appraisal and activity agreement; (iv) activity implementation; and (v) review and evaluation. From the second year on, each village will again progress through steps (ii) – (v) to plan for LIF- and VIF-supported activities.

12. **Village investments.** To facilitate future integration of programme-supported activities into the district planning and budgetary processes, activity grant applications will be referred to funding ‘windows’ within overall programme allocations to the districts. The district programme accounting

assistant will establish the windows in the programme account ledger to reflect relevant district service committees. When submitting their activity investment proposals, village will refer to the relevant funding windows. Initially, equal budgetary allocations will be made in each window. The need to adjust proportionate allocations will be assessed by programme supervision missions.

Local Initiatives Fund

13. LIF-related activities will be financed directly by the programme sub-accounts held at the district level and controlled on behalf of the PFU under the joint signatures of the district facilitator and the district director of finance. Amounts allocated to the sub-accounts will reflect the anticipated number of villages to be engaged under the programme in any given year and current LIF financing ceilings for the villages concerned. Villages will carry out up to eight activities each year for their first four years of engagement under the programme and four activities thereafter. Proposals will be submitted in the form of activity agreements developed through the participatory village planning process and endorsed by the VDC. The district facilitator will release funds to the relevant service providers in accordance with the implementation schedule built into each activity agreement. Successive releases will be subject to performance and maintenance of the schedule. The PFU will monitor overall LIF performance. Importantly, beneficiaries will make their own assessment of performance using indicators identified by the village/interest group when planning the activity.

Village Investment Fund

14. The PFU will channel funds for VIF-financed investments in two portions: (i) an allocation for investments costing less than USD 2 000 transferred to the programme sub-account operated by the district facilitator; and (ii) an allocation for investments estimated to cost in the range of USD 2 000-USD 10 000 transferred to the DDF. In either case, the funds can then be used to finance the operations of service providers and/or materials, as specified in approved activity agreements developed in villages.

15. Activity agreements proposed for direct financing from the programme sub-account will be endorsed by the ADC and passed to the district facilitator for approval and release of funds within the framework of the respective district's AWP/B for that year. Activity agreements proposed for funding via the VIF/DDF allocation will be subject to the formal planning and approval process of the district. Following completion of the necessary steps in the participatory village planning process, investment proposals will be passed successively to the VDC, ADC and district assembly for endorsement as an integral, but separately identifiable, item of the district's overall AWP/B. The district-level AWP/B will reflect an indicative amount for the VIF as a whole. As with the LIF, the amount earmarked in the AWP/B for VIF financing directly from the programme sub-account will be based on the number of villages engaged in the programme in any given year. This total will form the basis for determining the value of funds to be channelled through the DDF. The VIF and DDF allocations will be divided equally between financing windows in the first instance.

D. Participation Arrangements

16. The PFU and its district facilitators will perform a brokerage function, arranging for support services on behalf of villagers. Services will be provided in response to requirements identified through the participatory processes of village interaction and will be specified in activity agreements. Hence the PFU will form the hub of a network of collaborating partners and will not itself implement the technical components. Services will be provided under MoUs (public services) or legally binding contracts (civil-society and private-sector sources). Contracts will typically follow open tendering procedures with time-bound action plans and clauses included, thus allowing for contract termination with appropriate notice in the event of under-performance. Contracts related to training and technical assistance may be procured using shortlist procedures. MoUs/contracts will include requirements for

collaborative arrangements between service providers, as required. NGOs or private companies will thus work in partnership with the staff of relevant public services.

E. Monitoring, Evaluation and Reporting Supervision

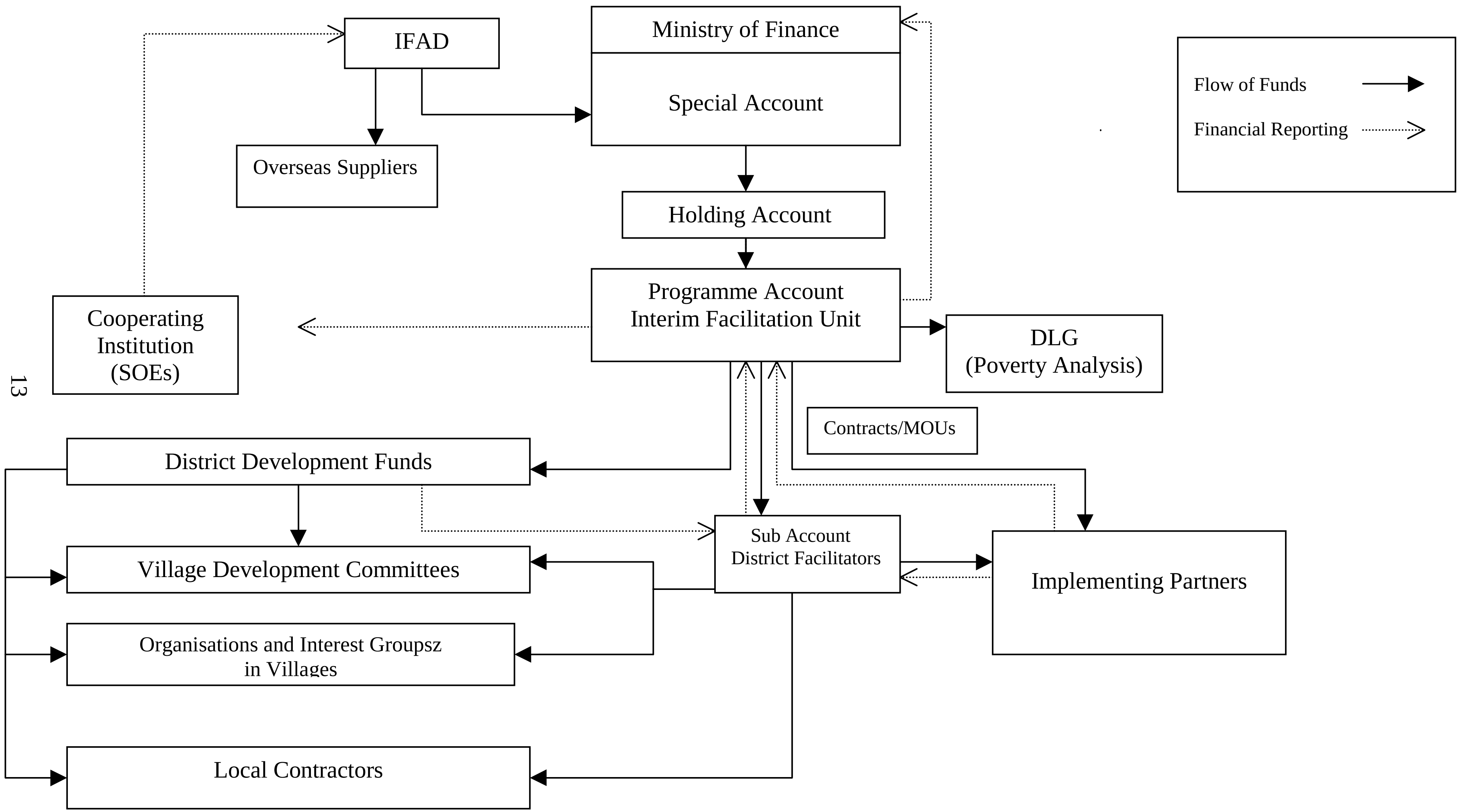
17. **Programme supervision.** IFAD will appoint the United Nations Office for Project Services (UNOPS) to supervise the programme in accordance with the terms and conditions of the loan agreement. The MOF will coordinate IFAD/UNOPS missions. UNOPS supervision missions will deal principally with aspects related to loan administration. For specialized peer review and continual guidance on the participatory process and maintenance of the programme's focus, the PFU will contract the services of a specialized external institution (university department or development institute) with experience in rural and social development. The institution will provide the services of a technical advisory panel to act as mentor to the facilitation catalysts, their parent colleges/university in Malawi and programme management.

18. **Monitoring, evaluation and reporting**. The PFU will be responsible for M&E and the reporting on progress and effectiveness. The PFU will, through its monitoring and reporting officer (MRO): (i) based on the programme's logframe, develop the programme's management information system that will be the basis for following progress, tracking expenditures and identifying constraints; (ii) coordinate any specific diagnostic studies to be undertaken in response to needs identified during implementation; (iii) on a selective basis, measure programme progress in the field (using enumerators if necessary) – especially at the individual village and VDC levels; (iv) collaborate with district facilitators and the FMST to monitor the operations of implementing partners; and (v) oversee the timely preparation of reports as required.

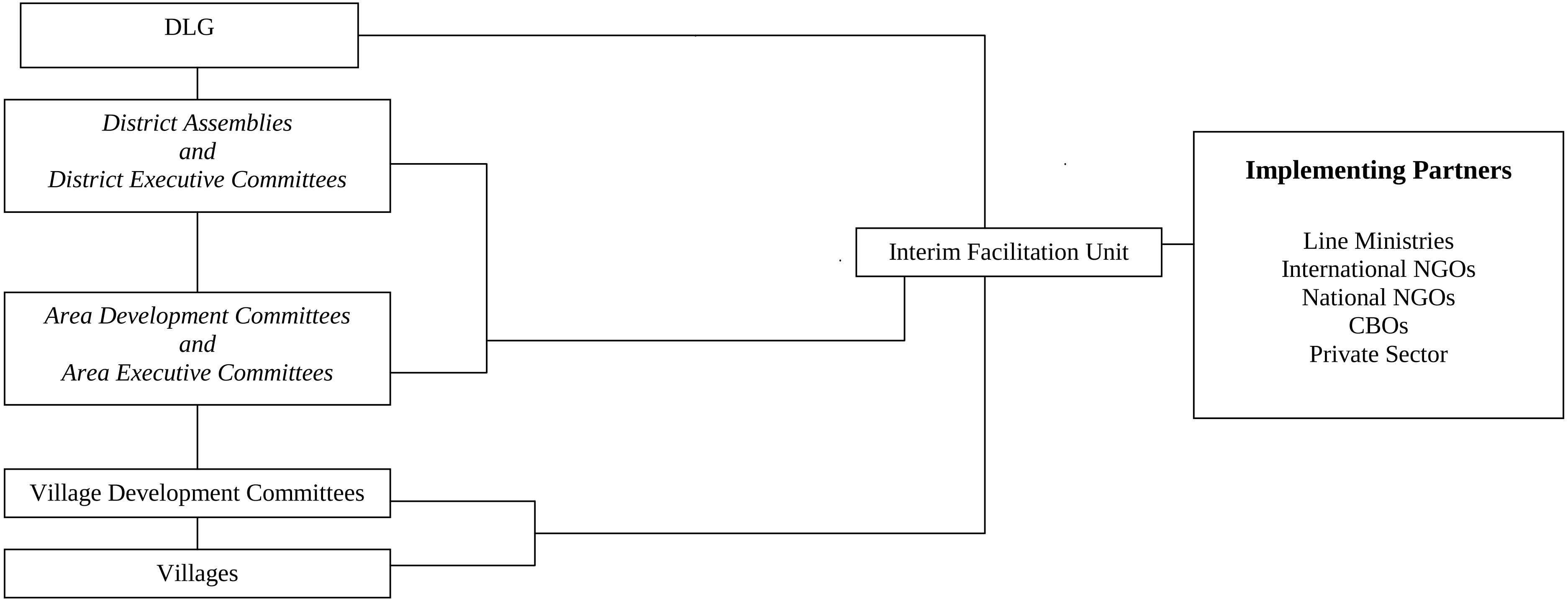
19. An initial outline of the M&E system at the overall programme level will be prepared during the pre-implementation phase. The external technical advisory group, district facilitators and the FMST will thereafter assist the MRO in finalizing the design. The system will be refined as necessary during the course of implementation. In keeping with the participatory nature of the programme, the beneficiaries and implementing partners will be supported and advised by the district facilitator and the FMST to identify their own indicators of programme progress and effectiveness, which relate to their own expectations and perceptions of priorities. These will form the basis of annual review meetings at VDC, area and district levels.

APPENDIX VII

FLOW OF FUNDS



ORGANIZATIONAL CHART[a/]



a/ Italics indicate that these institutions are expected to receive substantial support from other sources