

## PPIAF Assistance in Malawi

Since 2000 PPIAF has funded 14 activities in Malawi worth \$2.9 million. The focus sectors have been urban water supply, the development of transport corridors, universal access to telecommunications, and support to the legislative and regulatory frameworks for public-private partnerships (PPPs). In addition, one activity under the Sub-National Technical Assistance (SNTA) program provided assistance to develop a financial sustainability plan for ESCOM, the country's state-owned electricity utility.

### Technical Assistance for Malawi's Water Sector

The government of Malawi developed a privatization program in the mid-1990s with the establishment of the Privatization Commission in 1994 and the passing of the Privatization Act in 1996. In the water sector, the Water Resources Management Policy and Strategies of May 1999 stated the government's clear intention to introduce private sector participation to the sector. Within this overall policy goal, the Water Resource Management Policy and Strategies specifically called for the strengthening and reconstitution of Malawi's Water Boards to allow private sector participation and investment in the delivery of water supply and waterborne sanitation services in urban areas. Although the Lilongwe (LWB) and Blantyre (BWB) Water Boards were not immediately scheduled for private sector participation, both water companies were interested in looking to the private sector for support to increase the coverage and quality of service in water and sanitation.

PPIAF funding was requested by the government in 2000 for a study to determine potential options for involving the private sector in the provision of water in Blantyre and Lilongwe as a means of extending coverage to the urban poor at affordable prices, meeting future demand, improving efficiency and service levels, and providing for sustainability.

The private sector participation options study presented a diagnostic of the current challenges facing the water boards. LWB served an estimated 450,000 residents and non-revenue water was calculated at 26% in 2000. BWB served an estimated 615,000 residents, and non-revenue water had grown steadily from 1996, standing at 35% by 2000.

Both utilities were confronting financial challenges related to poor revenue collection, increasing operating costs, indebtedness, and relatively high tariffs that dissuaded subscriptions, and both systems had huge investment needs related to rehabilitation, new source development, and service improvements. Despite this, both LWB and BWB were committed to achieving financial self-sustainability in order to be able to carry out the government's objective of increasing service coverage, especially for peri-urban areas.

The study concluded that the problems facing LWB and BWB needed to be addressed through a dual approach of sectoral reform and private sector participation in order to stem the current decline in performance. This approach would also provide an attractive platform for the private sector, which would bring long-term benefits to the sector, including investment.

The options report delivered several recommendations to assist LWB and BWB in becoming efficient, financially sustainable water utilities and attracting private sector participation. Some of the most important recommendations are included below:

- Reconstitute the Water Boards as limited liability companies, required to operate in accordance with the principles of good governance, and given the freedom to make decisions on a commercial and technical basis.
- Develop a regulatory framework to ensure affordable service and define standards and targets for water service quality, either embodied within a contract with the private sector and/or embodied in regulations enforced by a regulator. The regime should provide for a fair return on investment, while at the same time protecting consumers from excessive profit-margins.

- The options study did not initially support a concession or lease contract due to insufficient revenues, thus private sector support should first be targeted toward commercial improvements and management contract options should be considered to support the commercialization process. The specific role for the private sector might include: reduction of non-revenue water losses; improvement of billing, metering, and revenue collection; management of outsourced functions like new construction, fleet, meter reading, laboratories, etc; and management of kiosks.
- Based on the success of the Phase I management contracts, a more in-depth form of private sector participation through a lease contract with investment requirements could be considered as part of a Phase II.

Several workshops were also held as part of this activity. The workshops were organized to build consensus on private participation options for BWB and LWB, and to provide capacity building and training on what private sector investment entails in the water sector. The following workshops were held as part of this process: Consensus Building Workshop (August 2001); Legal, Regulatory & Institutional Workshop (January 2002); Private Sector Participation Options Workshop (June 2002); and Final Private Sector Participation Workshop (November 2002).

By 2006 LWB and BWB had not implemented the recommendations from the PPIAF activity, and both utilities continued to grapple with operational efficiencies. This became a major concern for the government not only because the current system compromised public health and restrained economic growth, but also because the government believed that the funds it was committing to subsidize the inefficiencies should be spent to meet other national priorities. In addition, the government realized that the scope of the investments required to expand the infrastructure for these systems was too large for it to pay for alone and that pouring new money into a broken system would yield limited results.

It was in this context that the government of Malawi requested follow-on PPIAF support in 2006 for the development of a communications strategy to gain support from key stakeholders for the government's urban water sector reform program and related restructuring and efficiency improvements of LWB and BWB.

The main report provided data from quantitative and qualitative survey research, and key recommendations on the communications strategy to be undertaken. The survey found loud complaints from consumers about poor service and from workers who wanted to provide better service, but were hampered by unavailable or poor quality spare parts or bureaucratic systems that frustrated their best efforts.

In providing recommendations for a communications strategy, the report acknowledged that water reform is a difficult issue to deal with because water is not a luxury and is essential for life. This can make water-related issues very sensitive. In particular, the survey found that the notion of private sector participation or privatization was an abstract concept to most people, arousing fear and apprehension among workers and low-income users. Thus the report recommended that the communications strategy should emphasize the role of the regulatory authority as an impartial referee, representing both the consumers' and producers' interests and controlling against large tariff increases.

An Urban Water Sector Reform Workshop was held in February 2007 to introduce the objectives of the government's planned water sector reform program to key stakeholders, provide technical training on different private sector participation models to improve operational and management efficiency water service provision, and discuss the development of a sector strategy and roadmap to improve water service provision in Malawi. About 40 government officials and private sector participants attended the workshop.

In addition, in September 2007 a delegation from Malawi visited Mozambique to learn from its experience with private sector participation in the water sector and how these lessons could be applied in Malawi. Specifically the delegation gained useful knowledge of the ongoing lease contract in Maputo and the ongoing management contract for four cities in the north of Mozambique.

At the close of this second PPIAF-supported activity, several outcomes were achieved. In particular, the training built knowledge and capacity among key stakeholders on the possible effects of private sector participation in the water sector, an important element given the survey's analysis of anxiety surrounding what private participation could mean for jobs and water prices.

The government also adopted the recommendations of the communications strategy funded by PPIAF. As a result, a third PPIAF activity was requested in mid-2008 to assist the government in further consultation and implementation of the strategy to achieve a timely and smooth implementation of the envisaged sector reform program. Consultations with key stakeholders took place in early 2009 and led to a refined and revised communications strategy designed to guide the Public Awareness Program for water sector reform. The strategy helped build consensus on the reform agenda and the PPIAF activity facilitated the pre-testing of the messages developed in the communications strategy, which was specifically tailored to address concerns, particularly from low-income water users, that a private sector operator would raise tariffs to unaffordable levels.

In July 2009 the government of Malawi signed a contract to engage Dutch firm Vitens-Evides International as the service contractor to oversee the expansion of water supply services in Lilongwe and Blantyre. The four-year management contract, which began in November 2009, was a culmination of PPIAF's support to water sector reform in Malawi. The management contract reflected the key recommendations of the PPIAF-supported options study, and will see Vitens-Evides International work together with LWB and BWB to improve the supply of affordable, sustainable, and reliable drinking water to the residents of Lilongwe and Blantyre. The €3.85 million contract is financed by the European Union and the European Investment Bank through the Peri-Urban Water Supply and Sanitation Project for Blantyre.

During the course of the contract Vitens-Evides International will work together with the Dutch water company Waterleiding Maatschappij Limburg, engineering consultants Dwars, Heederik, and Verhey, and the international health organization Simavi to ensure the smooth operation of the project. In particular, Vitens-Evides International and Waterleiding Maatschappij Limburg will support LWB and BWB with regard to organization, finance, investment planning, water loss control, network modeling, customer administration, management and maintenance, and energy-savings. By improving both the technical situation of the water treatment and distribution network, together with the management of the company, the local water companies will be able to provide more people with safe drinking water. As a result of the project, it is foreseen that 723,000 additional people will have access to safe drinking water and 468,000 people will have access to basic sanitation.

### Results of PPIAF's Activities in Malawi's Water Sector

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>Private Sector Participation Options Study for Blantyre Water Board and Lilongwe Water Board, 2002</li> </ul>
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>Communications Strategy In Support of Urban Water Sector Reforms in Malawi, 2008</li> <li>Revised Communications Strategy for Urban Water Sector Reform in Malawi, 2008</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>Consensus Building Workshop (August 2001); Legal, Regulatory &amp; Institutional Workshop (January 2002); Private Sector Participation Options Workshop (June 2002); Final Private Sector Participation Workshop (November 2002)</li> <li>Stakeholder Workshop on Malawi Urban Water Sector Reform, February 2007</li> <li>Study tour to Mozambique to learn from Mozambique's water reform program, September 2007</li> <li>Consensus building workshop for urban water sector reform in Malawi, 2009</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> <li>Communications strategy adopted by the government, 2008</li> </ul>
<b>Project cycle-related assistance</b>	
<i>Transactions facilitated</i>	<ul style="list-style-type: none"> <li>Four-year Private Sector Service Contract for the Blantyre and Lilongwe Water Boards in Malawi, signed with Vitens-Evides International in November 2009</li> </ul>
<b>Capacity and awareness building</b>	
<i>Technical capacity enhanced</i>	<ul style="list-style-type: none"> <li>Training events held in 2007 and 2008 increased knowledge and understanding of the government's water sector reform program and the potential role of private sector participation in the sector</li> </ul>
<i>Consensus achieved</i>	<ul style="list-style-type: none"> <li>The specific recommendations of the 2002 private sector participation options study related to Phase I management contracts, as well as the broad recommendations on sectoral reform and the value of bringing private sector participation to the Blantyre and Lilongwe Water Boards were accepted by the government</li> </ul>

Category	Impacts
<i>Increased number of people with infrastructure services</i>	<ul style="list-style-type: none"> <li>It is foreseen that 723,000 additional people will have access to safe drinking water and 468,000 people access to basic sanitation</li> </ul>

## Technical Assistance for Malawi's Telecommunications Sector

In 2005 Malawi's estimated teledensity stood at 2.08%, comparing poorly with an average of 3.53% in Sub-Saharan Africa, and 8.60% in Africa as a whole. Despite rapid growth in cellular penetration, estimated at 85–90% since the introduction of competition in the market, mobile subscription lay at 1.29%, lagging behind regional averages. Internet penetration was also low and limited to the corporate and business segment, with a subscriber base of 0.34% of the population.

An ill-equipped and outdated national network meant that there was a high unmet demand for both basic services and value-added services such as Internet access. There was no fiber-optic national long-distance backbone, and the main backbone route between Lilongwe and Blantyre was operating at full capacity, with an average waiting time for connection to the telephone network of around two years. Most of the growth in the mobile sector was centered in urban areas (up to 80% of total subscribers were located in Blantyre and Lilongwe) despite the fact that the urban population made up only 20% of Malawi's population of 12 million. Meanwhile in rural areas the market was largely untapped, with only one telephone per 1,250 people, and operators perceived roll-out investment in rural areas to be risky. This resulted in a lack of telecommunications services to rural communities in Malawi, which was seen as a major constraint to private-sector led growth.

The government of Malawi recognized this access gap in 2002, and elaborated a Rural Telecom Policy that proposed the establishment of a Rural Telecom Forum and a Rural Telecommunications Development Fund. However, due to technological advances, by 2005 the draft policy was in need of revision as part of a comprehensive strategy for improving universal access to information and communications technology (ICT) services.

Consequently, the government of Malawi approached PPIAF in 2005 for support in: 1) developing a policy and strategy for universal access and rural telecommunications; 2) proposing new amendments, legislation, or secondary legislation as deemed appropriate to implement the universal access policy; and 3) developing and establishing institutional mechanisms to implement this policy.

The activity's first output was a draft universal access to ICT policy. The policy's long-term objective stated that all Malawians should have access to all forms of modern ICT services, including in rural areas. The policy recognized telecommunications as one of the most important tools in the poverty reduction struggle for the rural population, and noted that access to communications for all will support the economic, social, and political development of Malawi and its integration into the global information society. The universal access to ICT policy was adopted in June 2007.

The second part of the activity focused on preparing draft amendments to update Malawi's 1998 Communications Act, which had established the Malawi Communications Regulatory Authority and liberalized the sector through the restructuring and splitting of the Malawi Posts and Telecommunications Corporation. Two draft amendments were prepared as part of the PPIAF activity.

The first draft amendment related to the establishment of the Universal Access Fund. The Fund's primary purpose is to offer subsidies on a competitive basis to commercial operators and service providers, in order to provide them with incentives to provide service in areas that are not financially feasible or only marginally viable without subsidies. The amendment includes establishing a Universal Access Levy of 1% of licensed telecom operators' gross revenue to finance the Universal Access Fund. The second amendment related to draft regulations that laid out responsibilities for the Universal Access Fund with regards to Fund disbursement, financial provisions, ring fence accounting, and management of the universal access program. The Communications (Amendment) Act was passed into law in June 2009.

The third component of the PPIAF activity provided transaction support for the operationalization of the Universal Access Fund. A pilot project was designed to provide telephony and Internet services to the 3.2 million rural people living in ten districts, selected due to their development priority: Zomba, Phalombe, Mulanje, Nsanje, Ntcheu, Neno, Mwanza, Mangochi, Rumphu, and Chitipa. The World Bank provided a \$1.2 million subsidy funding for the pilot.

The feasibility study for the pilot projects recommended that given the two separate service components—Internet and telephony—the pilots should be split into two separate competitive tenders covering the same ten districts, in order to attract high quality operators for both services.

For the telephony component, the feasibility study recommended a tendering a service contract for a total of 1,274 public phones in the ten districts to create economies of scale and simplicity for the pilot project implementation. The contract would require one manned public phone for every 1,500 inhabitants in the rural part of the district (i.e., excluding the district center), and a uniform tariff price for all the public access phones. Capital expenditures for the project were estimated at \$1.275 million, with a maximum subsidy available of \$625,500.

For the Internet component, the feasibility study recommended tendering high-speed/broadband Internet service with a defined wireless access radius of five kilometers in the eight districts that did not have an Internet point of presence (Mangochi and Zomba already had a point of presence). The services would include a public Internet center, such as a telecenter or cyber café, and require the provision of incentives and support to schools to access the service. The public Internet centers would also offer other business services such as printing and faxing. The feasibility study also recommended that pricing should not be set by the Malawi Communications Regulatory Authority, but that a maximum ceiling—of 30% above urban pricing—should be enforced.

In addition to the pilot feasibility study, an operating manual was prepared to provide specific guidelines, principles, and detailed procedures for the governance, management, and operation of the Universal Access Fund.

Finally the PPIAF activity supported the drafting of bidding documents for the two pilot projects. The requests for applications, which served to invite qualified bidders, were issued in October 2008 by the Malawi Communications Regulatory Authority. Contracts for the two pilots were awarded based on the lowest subsidy requirement. Globe Internet Ltd bid a subsidy of \$425,300 and won a five-year contract to provide universal access Internet services. Meanwhile Zain, the sole bidder, won a five-year contract to provide universal access telephony services.

### **Results of PPIAF's Support to Malawi's Telecommunications Sector**

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>• Creating the Enabling Policy, Legal, Regulatory, and Institutional Environment for Improved Access to ICT services in Under-Served Areas, 2007</li> </ul>
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>• Operating manual and procedures for Malawi's Universal Access Fund, 2008</li> </ul>
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> <li>• Draft amendment to the Communications Act to allow for the creation of the Universal Access Fund, 2007</li> <li>• Draft Universal Access Fund regulations, 2007</li> <li>• Draft Universal Access to ICT Policy, 2007</li> </ul>

Project cycle-related assistance	
<i>Transaction support</i>	<ul style="list-style-type: none"> <li>• Pilot design and feasibility report for universal access competitive tender, 2007</li> <li>• Bidding documents for the provision of universal access Internet services, 2008</li> <li>• Bidding documents for the provision of universal access telephony services, 2008</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Policies adopted, legislation passed/amended, or regulations issued/revised</i>	<ul style="list-style-type: none"> <li>• Universal Access to ICT Policy passed, 2007</li> <li>• Revised Communications Act passed to allow for the creation and regulations of the Universal Access Fund, 2009</li> </ul>
<b>Project cycle-related assistance</b>	
<i>Transactions facilitated</i>	<ul style="list-style-type: none"> <li>• Five-year contract signed with Globe Internet Ltd to provide universal access to Internet services in the pilot areas, 2009</li> <li>• Five-year contract signed with Zain to provide universal access to telephony services in the pilot areas, 2009</li> </ul>

Category	Impacts
<i>Increased number of people with infrastructure services</i>	<ul style="list-style-type: none"> <li>• The pilot projects are expected to provide telephony and Internet services to the 3.2 million rural people living in the ten selected districts: Zomba, Phalombe, Mulanje, Nsanje, Ntcheu, Neno, Mwanza, Mangochi, Rumphi, and Chitipa</li> </ul>

## Technical Assistance to the Enabling Environment for Private Sector Participation in Infrastructure in Malawi

In the late 1990s the government of Malawi chose to pursue greater private participation in and the liberalization of its infrastructure services, with a view to increase the quality of and access to infrastructure services while minimizing the drain on public resources. A survey of the private sector conducted for the 1997 World Development Report had identified the deterioration of Malawi's infrastructure to be the principal constraint to private business. In response, the government began a process of utility reform in the telecommunications, postal, and electricity sectors.

In 2000 the government requested support from PPIAF to provide assistance to harmonize competition policies, regulatory practices, and associated institutional arrangements across key infrastructure sectors, and to evaluate the advantages and disadvantages of accomplishing these objectives through the merger of existing regulators to create one or more multi-sector entity(ies). The government believed that a transparent and harmonized regulatory framework across the various infrastructure sectors, including an independent and efficient regulator (whether multi-sector or sector-specific), would have a positive impact on the investment climate and confidence of the private sector.

The PPIAF activity was split into two phases. Phase I analyzed the utility sectors in Malawi to design an appropriate regulatory framework. A workshop was held in March 2002 to discuss regulatory options for utilities as an input to the Phase I report. The report discussed various options and recommended a multiple multi-sector regulatory framework. The report also recommended that the regulatory function be divided into three organizations, which would require the establishment of two new regulatory bodies. The two new bodies would be a combined energy and water regulator, and a transport regulator. These new

bodies would work alongside the existing communications regulator, the Malawi Communications Regulatory Authority.

Based on the recommendations of the Phase I report, Phase II aimed to design an appropriate institutional structure, draft enabling legislation, and outline an implementation plan that would lead to the operationalization of the regulatory bodies. A workshop was held in November 2002 to discuss options for the Phase II report. Consensus was achieved on the need for the establishment of independent regulators in the energy, water, and transport sectors.

The report recommended that each organization be headed by a commission-style board consisting of four part-time board members and one full-time member in the form of an executive secretary. Responsibility for regulatory decision making would lie with the board. In order to reduce costs, it was recommended that the three organizations should share support services such as administration and legal services to increase cost effectiveness.

In addition, draft legislation was prepared specifying the objectives of the commissions, their jurisdiction, and the range of its activities. For ease of implementation, it was recommended that the three bodies be created through a single piece of legislation.

Following the PPIAF activity, in 2004 the government passed a new legal framework for the energy sector, consisting of the Energy Regulatory Act No. 20 of 2004, the Rural Electrification Act No. 21 of 2004, and the Electricity Act No. 22 of 2004. The Malawi Energy Regulatory Authority was established under Act No. 20 of 2004 as Malawi's energy sector regulator. The authority's mandate is to regulate the energy sector in Malawi in a fair, transparent, efficient, and cost-effective manner for the benefit of the consumers and operators. In 2007 the first Commissioners of the energy regulator were appointed.

To date an independent transport regulator has not yet been established. The establishment of a joint energy and water authority is still under discussion.

By 2005 the government of Malawi had successfully developed a comprehensive policy, legislative, and institutional framework to serve the needs of its privatization program. However, the concept of introducing private sector participation in the delivery of public services through PPPs was new in Malawi. Thus, the government decided that the establishment of a strategic PPP framework, consisting of a clear guiding policy, appropriate legal provisions, and an institutional set-up capable of efficient implementation of PPP projects, was necessary.

In light of this, the government approached PPIAF in 2005 for assistance in developing an appropriate PPP framework. PPIAF support focused on: 1) the development of policies, laws, and regulations that would define the scope of authority within the various spheres of government to enter into PPP contracts, develop or modify and refine legislations to reflect PPP nuances, and prepare basic cross-sectoral standards that would promote essential minimum contractual provisions; and 2) the design of an institutional set-up to support and streamline PPP implementation, guided by a set of institutional development principles.

The PPIAF-funded report lays out a detailed analysis on options for the development of an appropriate PPP legal framework. The report recommended the following components as the preferred option:

- Mobilize the national PPP program through the preparation of a PPP Act/Law for government to pass at the appropriate time, if and when such an Act is deemed necessary
- While the regulations and laws are being prepared and passed, prepare related operations guidelines, standard documents, and procedures
- Develop institutional arrangements for PPP implementation through the Privatization Commission, and establish a core team of 4–5 professionals within the commission responsible for conducting the PPP program

Following the recommendations of the 2005 PPIAF activity, the government of Malawi wished to establish detailed PPP procedures and guidelines for project conception, preparation, procurement, and management. The government believed that the procedures would create the right environment for the transparent and successful development of infrastructure PPP projects due to increased investor confidence. It was in this context that an additional request for PPIAF assistance was received in 2007 to support the preparation of operating procedures and guidelines for PPP implementation, as well as a review of a draft PPP Law.

The PPP Guidelines Manual prepared under the second PPIAF activity was designed to serve as a central reference point for clear and practical steps to follow in the preparation, development, and implementation of PPP projects. The guidelines include practical advice on project conceptualization, the appointment of transaction advisors, the conducting of feasibility studies and value for money analyses, the formulation of procurement strategy, and the preparation of oversight mechanisms. The manual is designed to be used by infrastructure line ministries, the Ministry of Finance, and the Privatization Commission, as well as transaction advisors, private developers, investors, and service providers interested in bidding on PPPs, and lenders interested in financing PPPs. A PPP Stakeholders Workshop was held in December 2009 in Lilongwe to gather feedback in order to finalize the guidelines manual.

In addition, PPIAF provided funding for a review of the draft PPP Development Bill that was under preparation. Specifically, the analysis focused on making sure that the PPP project cycle guidelines and standardized provisions for PPP agreements were compliant and compatible with the proposed PPP legislation. The operations guidelines and standard documents and procedures prepared under the PPIAF activity were subsequently published on the Privatization Commission's website.

Good progress has also been made on implementing the various recommendations that came out of the PPIAF activity. In May 2011 the Public-Private Partnership Policy Framework was passed by Cabinet, laying out the government's commitment to promoting private infrastructure investment in Malawi in order to spur economic growth and improve quality of life through reduction of poverty. The PPP Policy sets out the policy framework for initiating, designing, and implementation of PPPs in Malawi and promotes PPPs as a new form of procuring and financing infrastructure projects and services in the public sector.

In November 2011 the Malawian Parliament passed "Bill No. 13 of 2011: Public-Private Partnership". The law provides the legal framework for the participation of private entities in government projects. The law is currently waiting to be assented by the Ministry of Justice.

It is expected that following the passing of the PPP Law, the Privatization Commission will be strengthened and assume new responsibilities, formally becoming the implementation agency for PPPs, and will be renamed as the PPP Commission. The new commission will be responsible for developing guidelines on best practices to assist sector ministries in the roll-out of PPP projects, and will work closely with the Ministry of Finance in the review and assessment of PPP project affordability, value-for-money, feasibility, and contingent liabilities associated with PPP projects.

**Results of PPIAF's Support to the Enabling Environment for Private Sector Participation in Infrastructure in Malawi**

<b>Category</b>	<b>Outputs</b>
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>• Study on a Potential Regulatory Framework for Malawian Utilities, 2003</li> <li>• Organizational Design and Implementation Plan for the Harmonization of the Regulatory and Institutional Framework, 2003</li> <li>• Developing PPP Process Procedures, Guidelines, and Regulation for PPP Program in Malawi: PPP Initiation and Guidelines, 2009</li> </ul>
<i>Policies prepared or legal or regulatory changes recommended</i>	<ul style="list-style-type: none"> <li>• Development of Policy, Legal, and, Institutional Framework for the PPP Program in Malawi, 2007</li> <li>• Observations on Malawi's Draft PPP Development Bill, 2009</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Consensus building workshop on regulatory options for Malawian utilities, 2002</li> <li>• Consensus building workshop on organizational design of the proposed regulatory entities, 2002</li> <li>• PPP Stakeholders Workshop, 2009</li> </ul>

<b>Category</b>	<b>Outcomes</b>
<b>Enabling environment reform</b>	
<i>Policies adopted, legislation passed/amended, or regulations issued/revised</i>	<ul style="list-style-type: none"> <li>• Energy Regulatory Act No. 20 of 2004 passed, consisting of the Energy Regulation Act, Electricity Act, and Rural Electricity Act</li> <li>• Public-Private Partnership Policy Framework, passed 2011</li> <li>• Public-Private Partnership Bill No. 13 of 2011, passed 2011</li> </ul>
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>• The Malawi Energy Regulatory Authority was established as a corporate body under the Energy Regulatory Act No. 20 of 2004</li> <li>• PPP Commission, to be created 2012</li> </ul>
<b>Capacity and awareness building</b>	
<i>Technical capacity enhanced</i>	<ul style="list-style-type: none"> <li>• PPP Guidelines Manual used by government officials to build understanding of the PPP implementation cycle, 2011</li> </ul>

**Technical Assistance for Malawi's Transport Corridors**

Malawi is a land-locked country with a total area of approximately 119,100 square kilometers of which 24,200 square kilometers is water (largely Lake Malawi). It is bordered on the North and North-East by Tanzania, to the East, South, and South-West by Mozambique, and to the West by Zambia. The Malawian economy is an open economy dependent on international trade.

By 2000 Malawi was suffering from deteriorating infrastructure, resulting in high costs of transport that contributed substantially to economic production being regionally and internationally uncompetitive. This stifled growth in the economy and discouraged new investors from investing in Malawi. To try to rectify this, Malawi supported a strategy of closer economic cooperation with its geographic neighbors as a means of catalyzing and promoting economic development within the context of the global economy through enhanced economies of scale, the promotion of competition and innovation at a regional level, and a stimulus to investment and productivity. In this regard, in September 2000 the Presidents of Malawi and Mozambique signed the Nacala Corridor Agreement, formally transforming a historic transportation corridor into a broad-based economic development area. Zambia subsequently joined the agreement.

It was in this context that the government of Malawi requested PPIAF assistance in 2001 to prepare a strategy to identify investment opportunities and develop a more investor-friendly environment to foster private sector participation in infrastructure development in the Nacala Development Corridor.

The PPIAF-supported report presented a Nacala Development Corridor Strategy, which aimed to facilitate the adoption of measures to ensure the establishment of institutional, policy, legal, regulatory, and investment frameworks to support sustainable socio-economic and environmental development of the corridor through PPPs.

The report found that participation of the private sector was critical to the success of the Nacala Development Corridor initiative, but while significant investment opportunities across infrastructure sectors were available, they had not been adequately packaged and marketed to be able to attract the required investments. The strategy thus recommended the establishment of a Nacala Development Corridor Private Sector Investor Forum to bring together project promoters, finance institutions, and key government institutions to identify specific private sector opportunities. In addition, the report recommended that the three countries should eliminate barriers to trade among themselves, which could include abolishing of all duties and taxes on corridor trade.

The Nacala Development Corridor Strategy was formally launched at an Investors Conference, held in Nacala, Mozambique in February 2003. The conference presented the economic potential of the corridor, with a view to mobilizing investment in infrastructure and other economic sectors.

Following on from the support to the Nacala Development Corridor, the government of Malawi requested PPIAF support for another development corridor in 2006. The Mtwara Corridor includes the countries of Tanzania, Mozambique, Malawi, and Zambia, and is located from Mtwara in southern Tanzania and extends westward along the border with Mozambique towards Malawi and Zambia. The Mtwara Corridor was conceived to create an economic growth zone of trans-border trade and investment, linking the four countries through a transport corridor, to be served by the seaport of Mtwara on the Indian Ocean as the gateway for international trade.

The government of Malawi requested assistance from PPIAF to review the existing legal and regulatory frameworks in order to identify enabling legislation or any other necessary policy actions that would be required to allow private participation in infrastructure within the corridor. In addition, the activity sought to identify and appraise potential projects in the corridor that could be launched as PPPs. This activity was a companion to additional PPIAF-funded Mtwara Corridor activities in Mozambique and Tanzania.

The diagnostic report reviewed the existing regulatory, policy, and legislative frameworks to identify impediments to private sector participation and proposed necessary changes. In addition, a number of potential infrastructure projects were scoped out to identify suitable projects that would be able to attract private investment and improve regional trade links, while at the same time eliminating one or more obstacles to economic development.

Based on the findings of the report, two pilot projects were selected for further appraisal: an Acquisition, Operate, and Transfer contract for ferry services between Nkhata (Malawi) and Mbamba (Tanzania), and

the upgrading of the Nkhata port through a build-operate-transfer arrangement. PPIAF supported the preparation of draft bidding documents for both projects.

A procurement action plan was also prepared to ensure that the procurement procedure for the two projects would be in accordance with a fair, equitable, transparent, competitive, and cost-effective system, and that the key criteria of affordability and technical, operational, and financial risk transfer would be applied in the evaluation of the bids. To date, neither of the projects has been competitively tendered.

In 2009 the government of Malawi again recognized the crucial role of transport in contributing to economic growth and poverty reduction in its Malawi Growth and Development Strategy. Efficient, continuous transport links were deemed a priority in the strategy and the National Transport Policy. The government realized that competition and synergy between different transport modes (rail, road, water, and air) would boost economic growth and that investment in infrastructure should be planned with full involvement and commitment of the private sector through potential single or multimodal concessions.

It was in this context that the government of Malawi requested PPIAF support in 2009 to assist with the preparation of a comprehensive Multimodal Transport Sector Development Strategy for Malawi with an emphasis on private sector participation in regional and international corridors with the aim of reducing transport and import/export costs.

An assessment and review of Malawi's transport system, regional transport corridors, and potential for engaging in PPP or private sector operations in the any or all of the transport subsectors were undertaken to prepare the multimodal transport strategy. The strategy then presented potential investment plans and assessed the scale of private investment necessary for identified projects to succeed. Based on this analysis, a prioritized list of transport projects was put forward. The final report for the strategy and investment program was presented to stakeholders at a workshop held in October 2010. The identified projects will require pre-feasibility and business case studies for it to be implemented.

### **Results of PPIAF's Support to Malawi's Transport Corridors**

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>• Nacala Corridor Initiative: Main Report Strategy Document, 2003</li> <li>• Nacala Corridor Initiative: Country and Project Profiles, 2003</li> <li>• Mtwara Corridor Initiative: Analysis and Identification of the Regulatory, Legislative, and Institutional impediments to Private Sector Participation, 2008</li> <li>• Malawi Multimodal Transport Sector Development Strategy, 2011</li> </ul>
<b>Project cycle-related assistance</b>	
<i>Transaction support</i>	<ul style="list-style-type: none"> <li>• Bidding documents for the concession of the Nkhata-Mbamba ferry services, 2009</li> <li>• Bidding documents for the concession of Nkhata Port, 2009</li> <li>• PPP Procurement Action Plan for Nkhata Port and Nkhata-Mbamba ferry services, 2009</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Nacala Corridor Initiative: Investors Conference, 2003</li> <li>• Stakeholders' workshop to discuss the findings of the multimodal transport strategy, 2010</li> </ul>

## **Technical Assistance for Malawi's Aviation Sector**

The government of Malawi's objectives for the civil aviation sector were laid out in the 2004 National Transport Policy document. The government wished to attain and maintain a self-sufficient civil aviation environment that ensured safety and enabled the provision of services in a reliable and efficient manner and facilitated the expansion of trade and tourism.

However, Malawi's civil aviation sector faced major problems, as aviation infrastructure was mostly obsolete and in need of urgent replacement, and major rehabilitation works were needed at all of the country's airports. This situation compromised the safety of the sector as dictated by the International Civil Aviation Organization, of which Malawi is a signatory.

The Department of Civil Aviation in the Ministry of Transport and Public Infrastructure maintained both regulatory and operational responsibilities for the civil aviation sector. The regulatory and safety oversight responsibilities included aircraft licensing, issuing airworthiness certificates, the economic regulation of the sector, and the collection of revenues from over-flight, landing, and passenger service fees at airports. The department was responsible for managing Malawi's major airports with the exception of Kamuzu International Airport in Lilongwe, where it shared joint operational responsibility with the government-owned Airport Development Limited, which was responsible for the management of the terminal and other related facilities.

In 2004 the government approached PPIAF for support to assess whether the institutional and legal framework governing the civil aviation sector was providing an environment conducive for it to operate as a dynamic part of the country's transport sector. The government was also interested in evaluating whether PPPs might be the best way to facilitate a competitive, safe, sustainable, and efficient air transport industry.

PPIAF supported an options report that provided: 1) a diagnostic analysis of the current situation in the civil aviation sector; 2) a review of the potential for private sector participation; 3) a matrix of options available to the government for attracting private sector management and investment; 4) a detailed assessment of their relative benefits and potential; and 5) detailed recommendations concerning changes to the legal and regulatory environment to enable private sector participation in the aviation sector.

The recommendations focused on amendments to the management of the Malawian airports, including the creation of an independent Civil Aviation Authority to regulate the airports sector. It also recommended expanding the mandate of Airport Development Limited to include all aspects of airports operations and management currently administered by the Department of Civil Aviation, while at the same time removing non-airport activities, such as ownership and management of real estate assets, from company's mandate. In addition, the report suggested expanding the shareholding of Airport Development Limited to include participation by a private-sector strategic partner.

A stakeholders' workshop was held in Lilongwe in March 2006, where the recommendations of options report were presented to the relevant government ministries, agencies, and other public and private sector stakeholders.

However, to date the government has not been able to implement the recommendations of the PPIAF report. Nevertheless, the government remains interested in possible PPP options in the aviation sector.

## Results of PPIAF's Support to Malawi's Aviation Sector

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>Privatization options report on the future of the Malawi aviation sector, 2006</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>Stakeholders' workshop to discuss recommendations on privatization options for the aviation sector in Malawi, 2006</li> </ul>

### **Technical Assistance through the Sub-National Technical Assistance (SNTA) Program**

The Electricity Supply Corporation of Malawi Limited (ESCOM) is a vertically integrated, government-owned electric utility. In 2009 ESCOM served about 175,000 customers and possessed installed hydropower capacity of 284 MW.

Prior to 2009 ESCOM had not been achieving financial sustainability and was unable to meet all cash flow requirements from its cash inflows. Some of ESCOM's cash flow requirements involved market-based borrowing from local sources for capital equipment. ESCOM was interested in extending and expanding such borrowing in order to reduce its dependence on loans backed by the national government.

As a result, ESCOM approached PPIAF's SNTA program in 2009 to request the preparation of a Financial Sustainability Plan to help ESCOM executives and national government officials understand the extent to which commercial borrowing would be possible in the near future.

SNTA provided technical support for ESCOM to undertake two key actions deemed necessary to achieve financial sustainability: development of 1) a Financial Sustainability Plan and 2) a regular monitoring and reporting system by which ESCOM shall report on the performance of its Financial Sustainability Plan to the government.

The activity provided several key recommendations on the way forward to ensure that ESCOM can achieve and maintain financial sustainability:

- The executive management team should take ownership of the financial sustainability of the utility, and implement the necessary measures to achieve financial sustainability
- A program manager or change manager should be appointed to facilitate the implementation program to improve ESCOM's financial sustainability
- The financial model developed should be used as part of the overall business planning process, to ensure that business objectives contribute towards financial sustainability
- The responsibilities established for implementing the financial sustainability plan (Responsibility Matrix) should be included in the performance contracts of the various responsible managers and employees
- More middle managers must be trained in understanding utility economics, and the relationship between utility operational actions, and the impact on cash flow

Following the activity's closure in late 2010, the Millennium Challenge Corporation signed a five-year, \$350 million Compact with the government of Malawi in April 2011. The Compact was focused on Malawi's power sector, and its objectives were complementary to the assistance provided by PPIAF's

SNTA program. In particular, the Compact aimed to reduce power outages and technical losses, enhance the sustainability and efficiency of hydropower generation, and improve service to electricity consumers. However, the Compact was placed on operational hold in July 2011, and as a result it is unclear whether the recommendations of the SNTA activity have been implemented.

**Results of PPIAF's Support to Malawi's Energy Sector**

Category	Outputs
<b>Enabling environment reform</b>	
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>• Financial Sustainability Plan for ESCOM, 2010</li> </ul>