# Project Name
Malawi Additional Financing for Third Social Action Fund APL II

<table>
<thead>
<tr>
<th>Region</th>
<th>AFRICA</th>
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<tr>
<td>Sector</td>
<td>Other social services (46%); General education sector (30%); Central government administration (11%); General agriculture, fishing and forestry sector (10%); Sub-national government administration (3%)</td>
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<td>Project ID</td>
<td>P121065</td>
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<td>Borrower(s)</td>
<td>GOVERNMENT OF THE REPUBLIC OF MALAWI</td>
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<td>Implementing Agency</td>
<td>Ministry of Finance/ MASAF/LDF Technical Support Team Malawi Social Action Fund Area 14, Red Cross House Private Bag 352, LILONGWE 3 Tel. 265 01 775666 / 702 / 776339 Fax. 265 01 775949 / 771676 Website: <a href="http://www.masaf.org">www.masaf.org</a></td>
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<td>Environment Category</td>
<td>[ ] A [X] B [ ] C [ ] FI [ ] TBD (to be determined)</td>
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<td>Date PID Prepared</td>
<td>May 24, 2010 (updated on June 7, 2010)</td>
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<td>Date of Board Approval</td>
<td>June 29, 2010</td>
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## 1. Country and Sector Background

While Malawi was not hit as hard as other countries by the global economic crisis, it took the Country off its intended course towards fiscal consolidation and strengthening of its international reserves position. In the short run, the Government of Malawi is facing substantial macroeconomic imbalances, including critically low reserves, unfavorable terms of trade, and a potential drop in revenues. In addition, much like other affected countries, Malawi struggled to hold down the prices of food which has a disproportionately adverse impact on the poor. At the household level, rising food and fuel prices are placing pressure on poor families, which has been exacerbated by localized droughts and the recent earthquakes in Karonga and Chitipa Districts. As of January 2010, 13 districts in Malawi were considered food insecure, leaving 722,320 farm families or nearly 4 million people in need of assistance.

In response to the impact of the global financial and food crisis as well as natural calamities, the Additional Financing will assist Malawi in: (i) developing, implementing and monitoring a scaled up public works program with a corresponding savings and investment scheme, to help alleviate the poverty, social, and economic impact of the crisis; and (ii) providing financial assistance to protect core spending on education infrastructure investments through the reconstruction/retrofitting of education structures damaged in the Karonga and Chitipa earthquake.
2. Objectives

The Additional Financing will be used as an opportunity to restructure the Project as follows: (i) reword the Project Development Objective (PDO) to make it more concise and measurable without changing its substance; and (ii) revise the results framework to better reflect the targeted actions and intended outcomes of both the original Project as well as the Additional Financing; and (iii) to align it with the Bank’s monitoring requirements. The original PDO is: “to improve the livelihoods of poor households within the framework of improved local governance at the community, local authority, and national levels.” The new PDO is: “to improve the livelihoods of poor and vulnerable households and to strengthen the capacity of local authorities to manage local development.”

3. Rationale for Bank Involvement

As a result of the global crisis as well as drought-induced food-insecurity, the need for targeted safety net interventions such as cash for work and investment in the next generation’s education is significant. The unmet demand for MASAF 3 APL II safety net interventions is evidenced by the fact that access to the current public works program is rationed, as the demand for participation in public works exceeds the current maximum number of beneficiaries covered by the Program. Public works programs are known to reduce asset depletion by providing predictable incomes and smooth out decision-making by offering longer-term perspectives.

The school systems in Karonga and Chitipa Districts have been debilitated by two successive earthquakes in December 2009 and January 2010. A preliminary assessment indicates that 106 schools were damaged, comprising 376 classrooms, 268 teachers’ houses, and 233 VIP latrines. About 50,000 students have been directly affected by the damage in terms of disrupted teaching and learning. A detailed assessment of the actual work requirement and estimated costs for each school is presently underway. The Additional Financing would support reconstruction and retrofitting of the affected structures to ensure continued investment in the next generation.

Over the last 15 years MASAF has developed a credible reputation for providing access to basic services in the poorest communities, and for promoting participation, transparency, and accountability. Given that MASAF has been known to provide effective support to the poor and vulnerable quickly it has been selected to channel funds for labor-intensive public works as well as securing educational investments. The Project is organized in a decentralized manner to facilitate greater autonomy and empowerment of local government structures and communities. The same arrangement will be used for the implementation of the Additional Financing.

4. Description

In line with the original Project's components, the Additional Financing will be used to expand activities under component 1 (Community Livelihoods Support Fund), component 2 (Local Capacity Enhancement Fund) and component 3 (National Institutional Strengthening Fund):

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1 A letter to this effect from the Secretary to the Treasury to the Country Manager for Malawi is on file.
(a) Component 1: Community Livelihoods Support Fund

(i) Local Authority Window

- Public Works Sub-Projects Program (US$5.1 million). The Additional Financing will scale up and expand the original Project’s labor intensive Public Works Sub-project Program, which is a quick disbursing basic safety net mechanism that provides targeted cash-for-work assistance to poorer households in order to positively impact their wellbeing. As a result of the Additional Financing, an additional 300,000 food-insecure households with limited employment opportunities will have access to a predictable income, enabling them to reduce asset depletion and to make more productive decisions. The additional public works will further help to improve food security and create community assets.

(ii) Community Window

- Reconstruction and Retrofitting of Primary Schools in Karonga and Chitipa Districts (US$5.4 million). In the aftermath of the 2009 earthquake, the Additional Financing will help to restore disrupted access to education and improve educational outcomes through the rehabilitation and retrofitting of classrooms, teachers’ houses, and VIP latrines. Preliminary estimates suggest that about 106 schools were affected, including 376 classrooms, 268 teachers’ houses, and 233 VIP Latrines. After a review of the current lending portfolio in Malawi, it was concluded that MASAF was the most effective mechanism for restoring the disrupted education services in Karonga and Chitipa Districts in a timely fashion.

- Community Savings and Investment (US$1 million). With the Additional Financing, the community savings and investment promotion under the original project will be expanded to mobilize savings and investment in particular among the additional public works participants. The Community Savings and Investment Program, which dovetails on the public works program, aims to give poor households “a leg up” to climb out of poverty and to protect vulnerable families from falling into poverty. An estimated 15,000 households are expected to access complementary savings and investment opportunities.

(b) Component 2. Local Capacity Enhancement Fund (US$ 0.3 million). The Additional Financing will entail activities to strengthen the capacity of local authorities to ensure sustainable management of the investments under the Additional Financing.

(c) Component 3: National Institutional Strengthening Fund (US$2.2 million). The Additional Financing will support communication, technical assistance and capacity building, project management, participatory monitoring and evaluation, transparency, and accountability of the additional activities that will be implemented under the Additional Financing. A part of the Additional Financing allocated to this component will be used to finance studies to improve certain delivery mechanisms of the public works program, especially relating to targeting, duration, and timing.
5. Financing
Source: ($m.)
BORROWER/RECIPIENT (Community Contribution) 0.7
International Development Association (IDA) 14.0
Total 14.7

6. Implementation

The implementation of the Additional Financing will be managed by the MASAF/LDF Technical Support Team and will follow, for the most part, the MASAF 3 APL-II methodology of delivery. The MASAF/LDF Technical Support Team has established a reputation for quality implementation and satisfactory financial management and procurement capacity. Guidelines developed over the years and the operational procedures currently in effect and duly incorporated in the LDF operational manuals will apply, for the most part. While the Additional Financing will retain the institutional arrangements already in place for the implementation of the original project, minor improvements are required. For example, in the case of the school rehabilitation activities in earthquake-affected Karonga and Chitipa, in order to “build back better” earthquake-safe building guidelines have been prepared by the Ministry of Lands, Housing, and Urban Development. Construction and retrofitting activities under MASAF in fault line areas are required to comply with these new guidelines. The Project’s Operational Manuals will be amended accordingly. Community contractors/artisans Training will be trained in the new construction techniques and building codes, which will equip them with marketable new skills. The Operational Manuals will be amended accordingly.

At the national level, the Additional Financing resources will be channeled through the national level Local Development Fund (LDF). The main management functions at the national level lie with: the Steering Committee, National Technical Advisory Committee, Ministry of Local Government and Rural Development, the National Local Government Finance Committee, and the Technical Support Team. The national level LDF disburses funds directly to the LDF accounts of local councils for the implementation of sub-projects. Technical oversight is provided by the Ministry of Local Government and Rural Development and sector ministries.

At the local council level, the LDF is managed under the district commissioner with an appropriate support system. Funds are received directly from the Ministry of Finance in line with agreed formulae and conditions attached to each type of grant within the national LDF budget lines, using methodologies and systems of MASAF 3 APL-I. Each local council receives investment requests from the Area Development Committees, which obtain appropriate training from the local council and contracted trainers in order to improve planning processes. At the village level, Village Development Committees, which have acquired 15 years of community investment management experience under MASAF 1, MASAF 2, and MASAF 3 APL-I, will continue to have the overall implementation oversight for community-level investments.

7. Sustainability
The location of the Project in the Ministry of Finance is part of the Government’s efforts to
develop and implement a sustainable strategy for the financing of service delivery through local
authorities and other local institutions. The mainstreaming of such financing into the
Government financial system is expected to ensure that future Inter-Governmental Fiscal
Transfer Systems are not only affordable, but responsive local-level service delivery. The Local
Development Fund is a financing mechanism aimed to channel both government funds as well as
external assistance to local authorities. Each local authority a Local Development Fund account,
into which grant funding is transferred based on specific allocation formulas.

8. Lessons Learned from Past Operations in the Country/Sector

The design of MASAF 3 APL-II benefited from the experience of implementing the three prior
phases, and the Additional Financing will build on the lessons learned. To ensure technical
viability, communities will be advised to undertake sub-projects that are simple, small in size,
labor intensive, economically and socially viable, and that can be maintained and operated by
communities in a sustainable way. An Impact Evaluation conducted at the end of MASAF 3
APL-I in March 2008 concluded that sub-projects implemented by communities were technically
sound and were done according to prescribed designs.

9. Safeguard Policies (including public consultation)

The following safeguard policies are triggered:
Environmental Assessment (OP/BP 4.01)
Pest Management (OP/BP 4.09)
Involuntary Resettlement (OP/BP 4.12)

10. List of Factual Technical Documents

MASAF/LDF Environmental and Social Management Framework (EMSF)
MASAF/LDF Resettlement Policy Framework (RPF)

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