REPORT AND RECOMMENDATION
OF THE
PRESIDENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED DEVELOPMENT CREDIT
TO THE
REPUBLIC OF MALAWI
FOR THE
LILONGWE AGRICULTURAL
DEVELOPMENT PROJECT

January 22, 1968
1. I submit the following report and recommendation on a proposed Lilongwe agricultural development credit in an amount in various currencies equivalent to US $6 million to the Republic of Malawi.

PART I - HISTORICAL

2. In January 1967, the Government applied for IDA assistance for the financing of an agricultural improvement scheme, situated near Lilongwe, a major agricultural center in the Central Region. The project submission was prepared for the Government by the IBRD/FAO Cooperative Program and the Agricultural Development Service (ADS) with financial assistance from the United Nations Development Program (UNDP). The project was appraised by an IDA mission in May 1967.

3. Formal negotiations took place in Washington during the second half of November 1967. The Malawi negotiating team was led by The Honorable John Tembo, Minister of Finance, and included Messrs. K. J. Barnes, Secretary to the Treasury, R. J. Dewar, Secretary of the newly created Ministry of Economic Affairs, R. Katengesa, General Manager of the Farmers Marketing Board and C. R. Nottidge, Chief Agricultural Development Officer.

4. Previous IDA lending in Malawi consisted of a US $490,000 equivalent highway engineering credit (S2-MAI, signed October 4, 1966) of which $169,000 was undisbursed as of December 31, 1967, and a US $6.3 million equivalent credit for an education project (102-MAI, signed May 4, 1967), which is in the design stage and for which disbursements are not scheduled until later this year.

5. I am submitting this project simultaneously with separate proposals for a US $11.5 million equivalent highway credit which includes the proposed refunding of the US $490,000 equivalent engineering credit S2-MAI mentioned above, and a US $3.7 million equivalent credit for another agricultural development project in the Shire Valley in Southern Malawi. No further credit proposals are expected to be submitted to the Executive Directors in the near future; a power project might be next in line, possibly in the second half of 1968.

6. There have been no IFC investments in Malawi.
PART II - DESCRIPTION OF THE PROPOSED CREDIT

7. **Borrower:** Republic of Malawi.

**Purpose:** To help-finance a first 4-year phase of a 13-year integrated agricultural development program, aiming at production increases of maize and groundnuts in an area of ultimately 500,000 acres.

**Amount:** Various currencies equivalent to US $6 million.

**Amortization:** 50 years, including a 10-year period of grace, in semi-annual installments beginning on April 1, 1978 and ending on October 1, 2017.

**Service Charge:** 3/4 of 1 percent per annum.

PART III - THE PROJECT

8. A report on the proposed project, entitled "Lilongwe Agricultural Development Project" (TO-610a dated January 3, 1968), is attached.

9. The Lilongwe proposal, together with the Shire Valley proposal, which is submitted separately, would represent the Association's first financial assistance to agriculture in Malawi, the sector which offers the main potential for economic growth. In the densely populated areas of Central and Southern Malawi, where these two projects are located, the continued long-term growth of cash crop production by African smallholders can no longer be maintained, as in the past, by an expansion of the area under cultivation, but must be based to an increasing extent on higher yields per acre. Successful pilot schemes have demonstrated the economic viability of more intensive agriculture, which requires a highly concentrated extension effort supported by investment in soil conservation, access roads, water supplies, marketing and storage facilities, and the provision of credit for the purchase of farm inputs and simple agricultural equipment. This integrated approach is considered an effective way of promoting increased production in Malawi where more technically advanced capital intensive projects cannot be undertaken yet on a widespread basis.

10. The proposed credit consists of the partial financing of a first 4-year phase, involving 163,000 acres, of a 13-year integrated agricultural improvement program ultimately covering 500,000 acres near
Lilongwe. The aim of the program is to raise the present production of maize and groundnuts while maintaining the output of tobacco. The growth in production will be achieved by increasing yields per acre and by making effective use of all suitable land. Yield increases are expected to result from the application of fertilizers, together with improved cultivation and weeding practices. The introduction of these techniques through extension will be supported by the closely integrated development of rural infrastructure, the provision of supervised farm credit service, reorganization of holdings and registration of titles to land.

11. About one-third of the proposed credit would be directed towards the financing of extension staff whose qualifications and experience will be of vital importance for project implementation. Because of the shortage of trained Malawian staff, it will be necessary to employ a high proportion of non-Malawians initially. However, specific provision has been made for in-service training of local staff.

12. The credit scheme for farm inputs will be partly administered by the Farmers Marketing Board (FMB). The FMB is a semi-autonomous public corporation charged with buying and selling smallholder crops for which it maintains and operates organized markets. In the project area, farmers are obliged to sell their crops at these markets, which will enable the FMB to collect farmers' credit repayments as a deduction from the proceeds of their crop sales.

13. Overall responsibility for the implementation of the project would be assumed by a newly created Agricultural Development Branch set up within the Department of Agriculture of the Ministry of Economic Affairs. The Branch is headed by a Chief Agricultural Development Officer recruited from the Agricultural Development Service (ADS) in Nairobi.

14. The cost of the project is estimated at US $7 million equivalent. The estimate includes an additional contingency provision which allows for cost variations as a possible result of the recent devaluation of the Malawi pound. The foreign exchange component is estimated at $3.6 million or 51 percent. The proposed credit of US $6.0 million equivalent would cover 86 percent of the estimated total cost. I consider that Malawi's poverty and the efforts it is making in managing its resources justify the financing of this proportion of the project's costs.

15. Contracts for the construction of housing, the purchase of vehicles, major equipment and farm inputs will be awarded on the basis of international competitive bidding. Imports made specifically for the project will be exempt from import duties. The project is expected to be completed by January 1972.
16. The project has been economically evaluated as the first phase of the whole 13-year development program, as well as on the basis of its own merits. Costs and benefits relating to the entire 500,000 acre, 13-year program would result in a rate of return to the economy of about 13 percent. If lack of funds should prevent the continuance of the program beyond the first 4-year phase, the rate of return from this reduced area would still represent about 9 percent. This is judged satisfactory, especially since much of the initial investment of phase I will also serve subsequent phases of the 13-year program.

17. Among the non-quantifiable, indirect benefits of the project and of the expected continuation of the development program until the thirteenth year is the value added to economic activities in other sectors. Other benefits would be realized by land reorganization and registration designed to encourage farmers to regard their land as a productive asset to be maintained and improved rather than merely a plot of soil to be exploited for the minimum means of existence. It is from the training of Malawian agriculturalists within the extension service, however, as well as from the spreading transformation of attitude of the Malawian farmers, that the most important benefits of the development program are expected to result.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

18. The draft Development Credit Agreement between the Republic of Malawi and the Association and the Recommendation of the Committee provided for in Article V, Section 1(d) of the Articles of Agreement, are being distributed to the Executive Directors separately.

19. The draft Development Credit Agreement includes, among others, the provisions that Malawi shall relend a part of the proceeds of the Credit to FMB on terms and conditions satisfactory to the Association (Section 4.02(a)) and that Malawi shall continue to carry out the extension services and the credit scheme for a period of four years after the completion of the Project (Section 4.06).

PART V - THE ECONOMY

20. A report entitled "Current Economic Position and Prospects of Malawi" (No:AF-68a) was distributed to the Executive Directors on November 22, 1967. Brief comments on the economy and the justification for lending by the Association are contained in my report, dated January 22, 1968, on a proposed development credit for a highway project.
PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

21. I am satisfied that the proposed development credit would comply with the Articles of Agreement of the Association.

PART VII - RECOMMENDATIONS

22. I recommend that the Executive Directors adopt the following Resolution:

Resolution No. IDA

Approval of a Development Credit to the Republic of Malawi in an amount equivalent to US $6,000,000.

RESOLVED:

THAT the Association shall grant a development credit to the Republic of Malawi in an amount in various currencies equivalent to Six Million United States Dollars (US $6,000,000) to mature on and prior to October 1, 2017, to bear a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum, and to be upon such other terms and conditions as shall be substantially in accordance with the terms and conditions set forth in the form of the Development Credit Agreement (Lilongwe Agricultural Development Project), between the Republic of Malawi and the Association, which has been presented to this meeting.

George D. Woods
President

Attachment:

Washington, D.C.
January 22, 1968