I. Project Context

Country Context

From 2006 to 2010, Malawi averaged a solid 7 percent growth in GDP annually but this growth has not translated into higher living standards for most Malawians. The growth was largely driven by exports (mainly tobacco); relatively large FDI in a mining project in 2009; and debt relief. Agriculture still accounts for 85 percent of employment, almost one third of GDP and about 80 percent of the country's foreign exchange. Trade remains highly dependent upon a limited range of primary commodities (mainly semi-processed tobacco, tea, and sugar) which renders it vulnerable to weather and terms of trade shocks. Constraints to increasing productivity in the economy are predominantly on the supply-side in respect to insufficient power generation and supply, unreliability of transport infrastructure, high transportation costs, lack of access to finance, and weak human capital.

Malawi’s extremely low level of qualified professionals has adverse economic and social consequences of substantial magnitude. Without a minimum scientific and technological capacity Malawi will miss out on opportunities to improve its economy through more efficient agricultural production and distribution systems or by making exports more competitive through better metrology, standards, and quality testing. As observed by the 2013 World Development Report
“skills (...) are strongly related to productivity growth, more so than school attendance rates. They are also closely associated with structural transformation, especially for low- and lower-middle-income countries”. In addition, without a minimum cadre of qualified professionals and technicians Malawi will also continue to lag in realizing fundamental social and human benefits such as rising life expectancy, improved education outcomes, lower infant mortality, and improved health, nutrition, and sanitation.

With education sector expenditure accounting for the largest share of total GOM expenditure, around 18% of the total, the Republic of Malawi’s commitment to education is evident. Malawi more than doubled its primary enrolments since primary education was made free for all in 1994 but the proportion of children who master expected competencies when they complete primary remains very low, as evident from the fact that Malawi ranks among the lowest countries in Africa in the Southern African Consortium of Monitoring Education Quality SACMEQ assessments. Enrollments in Higher and TEVET in Malawi are among the lowest in the world. To improve access and quality of education Malawi has committed itself to a reform agenda set out in its National Education Sector Plan (NESP). Development partners (DFID, USAID, AfDB, EU, GDC) and other stakeholders have committed to supporting the implementation of the NESP. As a result, the total financial envelope supporting primary and secondary levels education has sustainably grown and is beginning to constitute a more proportionate response to the scale of issues and needs in Malawi. However skills development institutions (Higher Education and TEVET) have been largely ignored by the development partners.

Developing economies require various types and levels of qualified professionals, not only specialists with advanced university degrees but also professionals and technicians with middle-level vocational qualifications, as well as lower level artisans. This calls for the development of a balanced skills development system combining universities and non-university institutions, including technical and vocational training institutions, to address skills shortages in the economy at all qualification levels in a comprehensive and integrated manner. By targeting the whole continuum of skills development from higher to lower levels, the Republic of Malawi will support the production of a productive and balanced workforce for the development of Malawi’s key growth sectors.

The Government recognizes that future investment in the sector needs to focus on improving access and deepening the labour market responsiveness of skills development institutions. It is particularly important to provide the skills needed for young people to learn and adapt to different tasks in a rapidly changing world. The government has asked the World Bank to help draw up strategies to ensure more efficient and strategic use of public funds through getting skills development institutions to operate closer to the labor market, by improving curricula and infrastructure of training programs in priority areas and designing a more rational and effective model for financing training in a sustainable way.

The priority growth sectors have been identified in the MGDS I and II. The expansion of demand-driven skills development programs in sectors of importance for national development are planned by the Government of Malawi, with a particular focus in the following areas:

- Agriculture: Agriculture employs, approximately 80 percent of the total workforce. The World Health Organization (WHO) ban on burley tobacco will reduce the importance of agriculture
as an engine for economic growth. Malawi therefore plans to diversify its agricultural production with a view to increasing its agricultural export base and provide new opportunities for the small holding farmers whose livelihoods are currently dependent on tobacco. At the farm level, skills development programs in production technologies, product diversification, and value addition within value chains provided by private training institutions have shown promising results, not only in helping to increase agricultural productivity, but also to nurture a culture of “farming as a business”, particularly among the youth. More opportunities for skills development at the farm level, integrated with agricultural development programs and value chain strengthening initiatives will support the GoM’s diversification strategy. Consequently, LUANAR intends to work closely with the Ministry of Agriculture and farmer organizations to expand access, through ODL, to identified agriculture related programs, introduce new programs and review programs in line with the needs of the labour market.

• Engineering/Construction: A considerable gap in the country’s skills development structure was created when the Malawi Polytechnic became part of the University of Malawi and discontinued the technician level engineering programs. With ongoing population growth and increasing public investment in infrastructure, construction activities are expected to remain high in the future. As a result, the demand for technical skills in construction occupations is high at all levels and in a variety of specialization. Critical skills shortages are apparent at technician level training, for example of site supervisors, which are the interface between architects and engineers. After complaints of severe skills gaps by industry, the Polytechnic is now preparing to introduce new technicians programs in various construction related occupations.

• Mining: Mining is recognized in both the Malawi Growth Development Strategy (MDGS) I and MGDS II as an important growth sector. The contribution of mining to GDP increased from 1.4 percent in 2009 to 2.3 percent in 2010. Its contribution is forecast to average 3.5 percent over the next five years. A recent review carried out by the World Bank revealed that a weak skills base is one of the constraints to Malawi developing its mineral potential. There is a shortage of geologists, engineers, metallurgists, and mining technicians because currently Malawi institutions do not offer comprehensive mining related degrees. Consequently, the Polytechnic now intends to introduce mining related programmes. To support their efforts, the joint EU/IDA mining project has funded the development of the curriculum for a new mining program which will need to be implemented.

• Secondary School Teachers: In 2012 less than 40 percent of the secondary education teaching workforce was qualified to teach in secondary schools. The shortage of trained secondary school teachers in Malawi is estimated at over 12,000 with higher shortages being experienced in the science and mathematics areas. The pupil qualified teacher ratio (PqTR) in 2012 was 46 while PqTRs in for Physical Science and Biology were as high as 147 and 98 respectively, thus emphasizing the need for more trained teachers particularly in the sciences and mathematics which are now compulsory subjects for all students. This has constrained the expansion of secondary education and adversely affected its quality as evidenced by pass rates of around 50 percent at Malawi Secondary Certificate of Education (MSCE). There is also a disproportionate distribution of teachers between rural and urban areas with PqTR for rural areas are at 55 compared to 32 for urban areas. Consequently, both Chancellor College and Mzuzu University intend to expand access in their education faculties and review their curriculum in order to train more science and mathematics teachers as agreed with the Ministry of Education, Science and Technology and the private secondary education providers.
Tourism: The Tourism and Hospitality sector is a priority sector within Malawi’s Economic Recovery Plan (ERP) 2012 and the MGDS II. It contributed 2.9 percent of the GDP in 2011, and is expected to grow by 6-7% per annum over the next decade. This primarily reflects the economic activity generated by hotels, travel agents, airlines and other passenger transportation services, restaurant and leisure industries directly supported by tourists. The World Bank’s Tourism Study Malawi Travel and Tourism: Realize the Potential noted that human resources are a constraint to the Travel and Tourism sector. Graduates from the current training programs are insufficient and do not possess the range of skills required in the labour market. It is estimated that tourism sector generated 74,000 jobs in 2011 and is forecasted to account for 100,000 jobs by 2022. Consequently Mzuzu University intends to work closely with the industry to expand access the hospitality and tourism programs, introduce new programs and review programs in line with the needs of the labour market.

Sectoral and institutional Context
Access and Equity

Malawi’s enrollment in skills development institutions and programs is among the lowest in the world. The tertiary gross enrollment rate is 0.4 percent– is among the lowest in Africa. Only 35% of secondary school graduates are able to find a place in the higher education / TEVET system (32% in universities and colleges and 3% in TEVET programs). Equitable access to training programs for professional skills and technician programs is limited because of low transition rates between education cycles and extremely high dropouts’ rates in primary and secondary education of students from poor families (Table 1). Important disparities can also be seen as far as gender is concerned. The gender parity index (proportion of females over male students) was 0.34 in 2011 in Universities and 0.53 in public TEVET.

A promising avenue for improving equitable access to skilling opportunities is through scaling up private training provision with adequate financial aid. Marginalized groups, such as youth from poor households, school drop-outs and people living in the rural areas face considerable problems to access relevant skills development programs due to supply restrictions in rural Malawi and limited capacities of households to pay for training fees. A substantial private and NGO training provider segment has developed over the years, which has eased some of the constraints to access. The Government of Malawi has started to systematically invest in the private sector with funding from donor programs or public resource as a means to improve equitable access to training and as a means of offering training opportunities that respond flexibly to labor market demands. Many private sector skills development institutions indicate a high demand for training from their target groups, which cannot be matched due to capacity constraints. These constraints are caused not only by limited infrastructure, but also limited funds to subsidize program development and recurrent training costs. With additional financial resources and technical assistance to expand and develop best practice for delivery of these programs, Malawi can nurture skills relevant for the development of its priority sectors (building construction, agriculture, agro-processing, mining or manufacturing), and at the same time expand options for productive employment among the poor, mainly rural population.

The higher education system suffers increasingly from insufficient resources to address its expansion and quality improvement needs. Most of the costs of universities are subsidized by society at large, considering the low level of tuition fees paid by students and the low rate of student
loan repayment. Even though the proportion of the overall education budget received by higher
education institutions is relatively large (between 20 and 28 percent), the amounts are inadequate to
support the financial needs of the Malawian universities. The government contribution constitutes
the largest percentage of the total revenue of public institutions, ranging from 75 to 85 percent of
the recurrent budget. Tuition fees are small representing only between 4 and 14 percent of the total
recurrent cost. This emphasizes the need for diversification of the sources of funding for higher
education which includes engagement in Public-Private-Partnerships (PPPs).

Developing a student financing system that allows all Malawian students’ access to education and
training is critical to the expansion of access through the private sector and for affordable fee based
programs in public institutions. The student loan scheme has faced challenges from the outset
because of the lack of administrative and legal mechanisms for the recovery of loans. The system is
also inequitable because it excludes students in private universities. This has in turn constrained the
growth of the private universities. Government has made several attempts at improving the system
by first creating the National University Student Loan Trust (NULST) which was disbanded in
preference to using the Malawi Saving Bank (MSB). After a two year trial period, the MSB has also
withdrawn from the scheme. In the meantime the MoEST is managing the disbursement of loans to
students while looking for technical assistance to come up with a viable and efficient loan scheme
that properly targets needy students and is able to recover the loans from graduates.

Relevance

Continuous under-investments in program development such as curriculum reviews and staff
development puts skills development institutions at high risk of delivering low quality and
irrelevant programs. Most expenditures of public universities go to salaries and student services,
with less that 10 percent devoted to education and research expenditures. When additional funds are
available skills development institutions tend to focus disproportionately on the development of
new physical infrastructure while under-investing in proper program development and capacity-
building processes. There is need to take a holistic approach to supporting program development
with a particular focus on investing properly in the project design of new programs and upgrading
of ongoing programs in priority areas in order to produce students who are equipped with the
knowledge relevant to the labour market.

The overall distribution of enrolment by field of study has not been aligned with areas that are most
critical for the economic development of Malawi like the fields of science and technology,
agriculture, mining, tourism and the construction industry. Currently, as is common in many
developing countries, Malawi relies on a traditional historical/ negotiated allocation system to
distribute the annual recurrent budget among public universities and institutions. As a result
mainstream skills development institutions are not required to focus on programs for which they
have a competitive advantage in supporting the MGDS. This has resulted in duplication of
programs being introduced among institutions instead of improving the quality and relevance of
their focal programs and diversifying into new areas based on the needs of the growth sectors of the
economy.

Linking public funds to development priorities and measures of performance can incentivize
institutions to effectively design and implement high quality programs in line with national goals.
Over the years the expansion of skills development programs has been on an ad hoc basis. A
holistic approach is needed to improve the quality and effectiveness of Malawi’s skills development
programs with a focus on learning outcomes in terms of the capabilities that graduates will need in a rapidly changing world for life, work and further learning. Through the use of performance-based funding the Government can effectively incentivize institutions to expand enrollments based on labour market needs, upgrade staff qualifications, purchase appropriate technology, regularly update curricula, and ensure the appropriate quality insurance with the active participation of the private sector. Performance based funding would requires developing a compact between the Government and skills development institutions that clarify the institution’s distinctive mission, particularly the labour market areas for which each institution prepares graduates for, the scope and focus of its educational provision, and expectations of its performance. Subsequently Thus the Government can strike the appropriate balance between institutional autonomy and the necessary accountability requirements.

II. Proposed Development Objectives
The development objective of the proposed project is to increase access, enhance market relevance, and increase the results orientation of supported skills development institutions in agreed priority areas.

III. Project Description
Component Name
Performance Agreements for Improved Access and Enhanced Market Relevance
Comments (optional)

Component Name
Technical Assistance for Performance Agreements and System Strengthening
Comments (optional)

IV. Financing (in USD Million)

| Total Project Cost: | 50.00 |
| Total Bank Financing: | 50.00 |
| Financing Gap: | 0.00 |

For Loans/Credits/Others

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Total | 50.00

V. Implementation
Implementation arrangements for the Project maintain and build on the existing institutional set-up of the participating institutions. Where required, capacity building will be provided through the project. Performance based financing and use of DLIs is still new in Malawi. Therefore an Operational Manual (OM) detailing project implementation arrangements will be produced. The Project will be implemented at the national and institutional levels.

Ministry of Finance (MoF). The Ministry of Finance (MoF) will be responsible for the overall implementation, coordination, and monitoring of the Project. It will sign the Credit Agreement with
the World Bank on behalf of the Government of Malawi and the Performance Agreements with participating institutions. The MoF will submit to the World Bank their annual review of progress against DLIs. The final determination on achievement of the DLIs will rest with IDA. The Ministry of Finance in addition to input from the Steering Committee will also use the services of an independent third party to assess the achievement of the DLIs.

Steering Committee. In executing its overall responsibility for the project the Ministry of Finance will be assisted by a Steering Committee, which will include members from Ministry of Finance; Ministry of Education, Science and Technology; Ministry of Labour; four private sector and civil society representative. The Steering Committee will provide overall guidance in the implementation of the project. It will review proposals from participating institutions based on set criteria and negotiate, with the participating institutions, the DLIs and targets, which will be used for monitoring project implementation performance. It will also facilitate the removal of bottlenecks to the implementation of the Project and inform the stakeholder groups about the project and seek their support.

Technical Committee (TC). The TC will consist of the National Council for Higher Education (NCHE) one member from the MoEST and one member from Ministry of Labour and four private sector representatives. The TC will provide strategic guidance on the finalization of the Improvement Plans based on the agreed format and guidelines. The Chairperson of the NCHE, assisted by the Secretariat, will have overall responsibility for the oversight, coordination, and M&E of project activities of the Improvement Plans for the participating institutions. It will monitor achievement of the DLIs, and recommend to the Steering Committee for disbursement of funds to performing institutions.

Ministry of Education, Science and Technology (MoEST). MoEST will oversee the development and finalization of the Improvement Plans and provide support to the institutions during implementation as and when required. It will also participate in the Steering Committee and the Steering Committee Support Team at different levels.

NCHE. In addition to their role in the TC the NCHE will provide leadership in quality assurance and accreditation of higher education institutions according to their mandate.

Participating Institutions. The five supported institutions will be responsible for developing and implementing their Performance Agreements. They will follow the guidelines as described in the Project Operational Manual. Each institution will have a Project Implementation Team responsible for implementation of the approved Improvement Plan. In the implementation of the Improvement Plans TA will be provided for developing infrastructure designs and specifications; procurement; curriculum reviews; the design of M&E systems; ICT and ODL for those with ODL activities.

Capacity Development. As a result of an assessment of the key risks to effective implementation of performance based management, technical assistance will be provided to both the NCHE and the institutions to develop the required capacity. Capacity to be developed at the NCHE will include: quality assurance and accreditation of higher education institution; fiduciary management through provision of staff training and related hardware and software; monitoring program implementation at the institutions level through strengthening its M&E systems. At the institution level capacity will be developed in; program planning and implementation; fiduciary management through staff training; strengthening of M&E systems; and as determined by the NCHE in collaboration with the
institutions. All TA will work closely with the NCHE and shared among the institutions based on their expertise. The Project will begin to immediately support the required capacity building support through a Project Preparation Advance.

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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