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Report No: 28188-MAI

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF SDR 18.1 MILLION (US$ 27 MILLION EQUIVALENT)

TO THE

GOVERNMENT OF THE REPUBLIC OF MALAWI

FOR THE

COMMUNITY-BASED RURAL LAND DEVELOPMENT PROJECT

MARCH 15, 2004

Environment and Social Development Unit - AFTS1
Country Department 3, Malawi
Africa Regional Office

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CURRENCY EQUIVALENTS

(Exchange Rate Effective December 31, 2003)

Currency Unit = Malawian Kwacha
I MK = US$106.0500000
US$1 = MK106.0500000

FISCAL YEAR
July 1 -- June 30

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
CAS	Country Assistance Strategy
CBOs	Community Based Organizations
CBRLDP	Community-Based Rural Land Development Project
CDD	Community Driven Development
CDP	Community Development Projects
CPAR	Country Procurement Assessment Report
CCA	Credit Ceiling Authority
DC's	District Commissioners
DEC	District Executive Committee
DFID	Department for International Development
DPD	Directors of Planning and Development
EDO	Environmental District Officers
ESA	Environmental and Social Analysis
ESSR	Environmental and Social Screening Review Process
EMS	Environmental Monitoring System
EMA	Environment Management Act
EU	European Union
FAO	Food and Agricultural Organization
FARAH	Financial Reporting and Auditing Handbook
FDP	Farm Development Plan
FMR	Financial Monitoring Report
FDP	Farm Development Plan
GPN	General Procurement Notice
GTZ	Deutsche Gessellschaft fur Technische Zusammenarbeit
Ha	Hectares
IDA	International Development Association
IFMIS	Integrated Financial Management Information System

INTOSAI	International Organization of Supreme Audit Institutions
IPM	Integrated Pest Management
LAFD	Land Acquisition and Farm Development
MASAF	Malawi Social Action Fund
MASIP	Malawi Agricultural Sector Invest
M & E	Monitoring and Evaluation
MES	Monitoring and Evaluation System
MLPPS	Ministry of Lands, Physical Planning and Surveys
MOF	Ministry of Finance
NACCEA	National Advisory Committee for Community Empowerment and Accountability
NAO	National Audit Office
NEP	National Environment Policy
NASFAM	National Smallholder Farmers Association of Malawi
NTAC	National Technical Advisory Committee
OED	Operations Evaluation Department
PBS	Paper Based System
PSR	Project Status Report
PRSP	Poverty Reduction Strategy Paper
PMC	Project Management Committee
PIM	Project Implementation Manual
PMP	Pest Management Plan
PMU	Project Management Unit
SA	Special Account
SAC	Structural Adjustment Credit
SOE	Statement of Expenditures
SPA	Strategic Partnership for Africa
SPN	Specific Procurement Notice
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	World Bank

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MALAWI
COMMUNITY-BASED RURAL LAND DEVELOPMENT PROJECT

CONTENTS

	Page
A. Project Development Objective	
1. Project development objective	2
2. Key performance indicators	2
B. Strategic Context	
1. Sector-related Country Assistance Strategy (CAS) goal supported by the project	3
2. Main sector issues and Government strategy	4
3. Sector issues to be addressed by the project and strategic choices	7
C. Project Description Summary	
1. Project components	9
2. Key policy and institutional reforms supported by the project	11
3. Benefits and target population	11
4. Institutional and implementation arrangements	12
D. Project Rationale	
1. Project alternatives considered and reasons for rejection	16
2. Major related projects financed by the Bank and/or other development agencies	18
3. Lessons learned and reflected in the project design	19
4. Indications of recipient commitment and ownership	19
5. Value added of Bank support in this project	20
E. Summary Project Analysis	
1. Economic	20
2. Financial	21
3. Technical	21
4. Institutional	21
5. Environmental	22
6. Social	25
7. Safeguard Policies	27
F. Sustainability and Risks	
1. Sustainability	28

2. Critical risks 29
3. Possible controversial aspects 30

G. Main Conditions

1. Effectiveness Condition 30
2. Other 30

H. Readiness for Implementation 30

I. Compliance with Bank Policies 31

Annexes

Annex 1: Project Design Summary 33
Annex 2: Detailed Project Description 37
Annex 3: Estimated Project Costs 46
Annex 4: Cost Benefit Analysis Summary 47
Annex 5: Financial Summary 55
Annex 6: (A) Procurement Arrangements 56
(B) Financial Management and Disbursement Arrangements 63
Annex 7: Project Processing Schedule 72
Annex 8: Documents in the Project File 73
Annex 9: Statement of Loans and Credits 74
Annex 10: Country at a Glance 76
Annex 11: Environmental and Social Analysis 78
Annex 12: Detailed Description of MASAF 3 Community Development Projects Component 90
Annex 13: Choice of Pilot Districts and the Costs of Scaling Up 100
Annex 14: Social-cultural Appraisal Summary 104
Annex 15: Pilot Districts - MAP 107

MAP(S)
Annex 15: Pilot Districts Map (IBRD-32815)

MALAWI
Community-Based Rural Land Development Project

Project Appraisal Document

Africa Regional Office
AFTS1

Date: March 15, 2004	**Team Leader:** Rogier J. E. Van Den Brink
Sector Manager/Director: Richard G. Scobey	**Sector(s):** General agriculture, fishing and forestry sector (100%)
Country Manager/Director: Hartwig Schafer	
Project ID: P075247	**Theme(s):** Land management (P), Rural markets (P), Participation and civic engagement (S)
Lending Instrument: Specific Investment Loan (SIL)	

Project Financing Data

[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Amount (US$m): $27.00

Financing Plan (US$m): Source	**Local**	**Foreign**	**Total**
BORROWER/RECIPIENT	1.50	0.00	1.50
IDA	25.30	1.70	27.00
LOCAL COMMUNITIES	1.28	0.00	1.28
Total:	28.08	1.70	29.78

Borrower/Recipient: GOVERNMENT OF MALAWI
Responsible agency: MINISTRY OF LANDS, PHYSICAL PLANNING, AND SURVEYS
Address: PRIVATE BAG, 311, CAPITAL CITY, LILONGWE 3, MALAWI
Contact Person: MR. PATRICK A. YASINI
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Estimated Disbursements (Bank FY/US$m):

FY	2005	2006	2007	2008	2009				
Annual	5.10	5.10	7.30	6.00	3.50				
Cumulative	5.10	10.20	17.50	23.50	27.00				

Project implementation period: 2004-2009
Expected effectiveness date: 07/01/2004 **Expected closing date:** 06/30/2009

OPCS PAD Form: Rev. March, 2000

A. Project Development Objective

1. Project development objective: (see Annex 1)

The project development objective is to increase the incomes of about 15,000 poor rural families by implementing a decentralized, community-based and voluntary approach to land reform in 4 pilot districts in southern Malawi. The approach to land reform piloted under the project includes (i) voluntary acquisition by communities of land sold by willing estate owners, transferred to communities by government, or donated by private individuals); (ii) on-farm development, including the establishment of shelter, and the purchase of basic inputs and necessary advisory services; and (iii) land administration, viz. the regularization, titling, and registration of beneficiaries' property rights in land.

Malawi, a landlocked country with a current estimated population of 11 million and an average population growth rate of 3.3% per year, is significantly dependent on agriculture. Agriculture contributes about 36 % to GDP, employs 85% of the work force, and contributes 90% of foreign exchange earnings. Total cultivated area in the past five years has been on average about 2.7 million hectares. About 84 % of agricultural value-added comes from about 1.8 million smallholders who on average own 1 ha. of land. Land pressures are particularly severe in the south of Malawi (where average holdings can be as low as 0.1 ha) and much less in the North and Center, where average holdings are 10-15 ha and 5-10 ha, respectively. About 1.1 million hectares of land is held in some 30,000 estates, with an average size of landholding ranging between 10 to 500 hectares.

Malawi's agriculture is dualistic. At independence in 1964, it inherited an agriculture sector comprising a few, large foreign-owned, export-oriented estates and a smallholder sector of mostly poor, subsistence farmers. Colonial laws allowed estates to obtain the full value of export sales, but prevented smallholders from producing burley tobacco, the most lucrative export crop and forced smallholders to sell through the parastatal, the Agricultural Development and Marketing Corporation (ADMARC). The situation has improved though much still needs to be done with respect to improved distribution and more efficient utilization of land, and more effective support to the smallholder. Although smallholder agriculture is mainly subsistence oriented, dominated by maize and other food crops, smallholders are now also contributing significantly to cash crop and export production in burley tobacco, cotton, tea, paprika, groundnuts and chillis. The proposed project is designed to make a start in addressing emerging social conflicts related to unequal access to land by piloting a market-assisted, community-driven land transfer program to land-deprived small scale farmers. The project is a flagship operation of the Malawi Land Reform Programme Implementation Strategy (2003-2007).

2. Key performance indicators: (see Annex 1)

The key outcome or impact indicators by which success of the project will be measured are: (i) incomes of participating families compared to control groups ("with-without") and pre-project income levels ("before-after"); (ii) increased and sustainable agricultural productivity on participating farms ("with-without" and "before-after"); and (iii) the effective evaluation of the piloted approach.

Project outputs are: (i) providing access to resources for land acquisition and farm development to about 15,000 poor beneficiary families; (ii) providing beneficiaries with secure title to the land acquired through the piloting of decentralized land administration; (iii) building capacity at community, district and national levels to implement a community-driven and market-assisted approach to land reform; and (iv) implementing a monitoring and evaluation system to assess project inputs, outputs, and outcomes, and provide a sound basis for the decision to scale-up the project.

The proposed project's key performance indicators are the: (i) number of rural families benefited; (ii) quantity, speed and cost (per beneficiary family and per hectare) of land acquired; (iii) agricultural production established; (iv) number of beneficiary groups or beneficiaries which received appropriate documentation of land ownership; (v) number and quality of land acquisition and farm development proposals reviewed, approved and fully disbursed; and (vi) timeliness and content of reports generated by the monitoring and evaluation system.

The Monitoring and Evaluation (M&E) framework also include an intensive focus on the qualitative aspects of project implementation, in particular, in relation to group processes and social integration issues, with communities themselves, District Assemblies and the Ministry being able to access resources to mobilize special assistance for monitoring purposes. The evaluation will start in the first year of project implementation and will be undertaken annually by an independent institution, selected on the basis of international competitive bidding.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)
Document number: 25906 **Date of latest CAS discussion:** June 10, 2003

Poverty in Malawi is widespread and deep: about 65 percent of the population lives below the poverty line (Integrated Household Survey, 1998). Agriculture provides 85 percent of employment, but land distribution is sharply unequal, and overcrowded arable land exist next to under-used ones. It is estimated that one third of arable land is under-utilized, while household surveys demonstrate a direct link between poverty and access to land. In addition, Malawi's history of the carving out of large-scale farms (estates) from customary land, combined with increasing land pressure, has led to the emergence of localized tensions around land, sometimes expressing themselves through encroachments and invasions. The project would pilot a transparent, voluntary, legal and resource-supported approach to land reform, which, if scaled-up, would help to avoid a possible escalation of these tensions, before they find an organized political expression, at which point in time the land issue may become intractable. At the same time, the redistribution of unused arable lands to the poor would make a direct contribution to increasing economic growth and reducing poverty.

Malawi's first full Poverty Reduction Strategy Paper (PRSP) of 2002 sets as its overall goal to promote the type of broad-based growth that reduces poverty. The PRSP emphasizes sustainable pro-poor growth and structural transformation, human capital development, improving the quality of life of the most vulnerable groups, and promoting good governance. The PRSP argues that land is the sole source of livelihood for the majority of Malawians and notes that inadequate access to land has been identified as one of the critical factors contributing to poverty in the country. Therefore, increasing secure access to land is a key component of the Government's strategy to reduce poverty.

The 2003 Country Assistance Strategy supports the PRSP and is built on three pillars: (i) strengthening economic management and achieving macroeconomic stability; (ii) establishing a platform for sustainable poverty-reducing growth; and (iii) improving service delivery and expanding the safety net. The proposed project falls under the second pillar and is identified as an operation with high strategic rewards. It is also one of the few projects to be implemented even in the low case, defined as a situation of macroeconomic instability and problematic governance. Finally, the 2004 Structural Adjustment Credit (SAC) has a land component, underlining its importance for sustainable agriculture and improving the policy environment. The SAC will support the project through the wider dissemination of the Government's Land Policy

(adopted by Cabinet in 2002), the drafting of a new Land Bill based on that policy, and by providing incentives for the release of unused land to the market (rental or sale) through the raising and improvement of collection of leasehold rents, and the future implementation of a land tax on freehold land.

The project's main community-driven component (i.e. land acquisition and farm development) will be implemented through the financial, procurement and disbursement mechanisms of the Malawi Social Action Fund (MASAF), which has successfully implemented community-driven development for nearly a decade. The project will be governed by the Environmental Management Act (1998), and linkages will be established with the Malawi Agricultural Sector Investment Program (MASIP). The central role of District Assemblies in the project is based on the National Decentralization Policy of 1998, which was given legal status through the Local Government Act, also of 1998. This Act, *inter alia*, increases the powers of the 40 District Assemblies to administer land (including valuation, taxation, surveying, and enforcing leasehold contracts). The project will pilot an approach to decentralized land administration consistent with Malawi's 2002 Land Policy.

2. Main sector issues and Government strategy:

Malawi's dualistic agriculture is the result of the history of expropriation of customary lands in order to establish large farms (as leasehold estates, freehold or state land), combined with the impact of other market distortions which favored large farmers at the expense of small farmers (e.g. by imposing restrictions on smallholders to grow cash crops, marketing). These trends have resulted in an unequal distribution of land, and tenure insecurity for the poor living on customary land. However, substantial numbers of large-scale farms are now un- or under-utilized due to the so-called "estate crisis". The juxtaposition of unused land on large estates, on the one hand, and overcrowded customary lands, on the other, is creating localized tensions in certain rural areas. Already, these tensions sometimes express themselves in encroachments of estates, protected areas, and Government-administered lands.

There is a risk that these sentiments and tensions would at some future point find a more organized political expression, at which time the land issues would be much more difficult to resolve than at the present time. Currently, the government is committed to pro-actively undertaking properly resourced and assisted land redistribution and land tenure reform. It prefers this approach, as opposed to dealing with the land issues on ad-hoc basis, and often under considerable local political pressure (e.g. by accommodating squatters and encroachers as part of a negotiated settlements).

These and other issues are described in the findings of, and background studies prepared for, the Presidential Land Commission of Inquiry for Land Reform (1999), with support from FAO, UNDP, DFID, USAID, the EU and the Bank. These and other studies provided the groundwork for the Land Policy, adopted by Cabinet in 2002, and translated in 2003, with support from DFID and the EU, in the Malawi Land Reform Programme Implementation Strategy (2003-2007). This strategy incorporates the Community-Based Rural Land Development Project as a key component. The Bank is well-placed to assist the Government in implementing this project, given its international experience with community-driven development and market-assisted land reform, its previous support to implementing land titling and registration, and its past assistance to the development of Malawi's Land Policy.

Given the development objectives of the project, and following the analysis of the 2003 CAS, OED's Malawi Country Assistance Evaluation (Report No. 21395, 2000), the "Growth Prospects Study", OED's "Impact Evaluation Report: The World Bank and the Agricultural Sector", and DFID's Sustainable Livelihoods Approach for Malawi, the following issues are the most relevant:

Highly Unequal Distribution of Land, Land Degradation and Rural Tensions.
There are basically four forms of land tenure in Malawi:

i. There are some 1.8 million smallholder families, who live on about 6 million ha. of land under "customary" rules of tenure (i.e., land allocated to them by village headmen and traditional authorities). About 60 % of these households cultivate less than one hectare of land.
ii. Some 1.1 million ha. of land belong to approximately 30,000 farmers under leasehold tenure created by Government allocations of customary lands over the last three to four decades, and ranging in size from 10 ha to over 500 ha.
iii. About 34,000 ha. belong to large estates (mostly tea companies in the South, some local, some foreign) under freehold tenure granted during colonial times.
iv. There are about 1.8 million ha. of public lands reserved for parks, urban areas and other purposes.

In the southern region of the country particularly, rural population density is among the highest in Africa and combined with extreme poverty, has led to soil erosion and nutrient depletion. The acute land scarcity in parts of the southern region occurs next to abandoned, underutilized or idle lands belonging to medium and large estates or Government agencies. The resulting rural tensions (often described as "chronic but subdued") over the unequal distribution of land in many areas are increasing, as reflected in the encroachments of certain private estates and government-administered lands, sometimes accompanied by violence. There is also evidence of political manipulation of these tensions which, if not addressed, may lead to increased rural violence.

Land Market Failure.
Malawian rural land markets are constrained by the dualistic nature of its agricultural sector. Whilst, there is a growing supply of land from the medium and large-scale farm sector, the so-called "estate crisis" is characterized by the collapse of unprofitable, poorly-managed tobacco estates due to the decline in international prices and liberalization of the marketing system in the last half of the 1990s. However, in any given area, there are few buyers if any. A 1998 study estimated that commercial banks held unsaleable mortgages of farms covering over 23,000 ha. Of the 1.1 million ha. belonging to medium to large estates, only about 600,000 ha. were under cultivation at the time. Even if a significant part of this land would not be suitable for cultivation, this leaves a substantial area of agricultural land which could be transferred to poor landless or land-poor farmers through rental or sale, without having any impact on production of the existing commercial farms. The benefits would be substantial; several studies estimate that even small amounts of additional land, i.e. one hectare, could significantly reduce the poverty of a typical rural family in the southern region. Alternatively, rapid urbanization is exerting pressure on rural communities to transfer some lands for urban development. By transferring secure property rights to land to the poor, land reform would contribute to increased valuation of rural lands and thus of the main asset owned by the poor.

The conversion of customary land into private, normally targeted prime land leaving smallholders to work on the marginal unproductive land. On the other side of the dual divide, demographic pressure has been forcing increased subdivision of customary lands, with already low productive potential, to the point that most rural families in (Southern) Malawi today cannot earn enough income out of agricultural activities to feed themselves. However, this increasing need for land, mostly for young families, does not get translated into effective demand due to lack of finance (both for purchase and investments) and related opportunities to enter into transactions with willing sellers of underutilized estate lands. And given that ground rents on leasehold land are very low and poorly collected, estate lease holders have little incentive to rent out unused land, and instead may hold onto the land for speculative purposes. In addition, land owners are reluctant to

rent out land to smallholders given the history of dispossession, which may lead to restitution claims and difficulties ending rental contracts. As a result, failing estates are often surrounded by land-starved neighboring communities, which sometimes leads to encroachment.

Government has so far handled these challenges through ad-hoc solutions under pressure. However, the Government's new Land Policy and the Land Reform Programme Implementation Strategy (2003-2007) intends to address the land redistribution issues described above by developing a number of effective and transparent mechanisms which will enhance the equity and the efficiency of Malawi's land distribution. Current high real interest rates (above 30 percent) and the estate crisis, combine to keep land values low so the cost of transferring lands, through market mechanisms, from failing estates to asset-poor but able farmers, is not a very high one. The project will pilot a promising approach to do so, based on voluntary transactions between suppliers and beneficiaries. In addition, the planned increase in ground rents and the introduction of a land tax on freehold land would make both the sale and rental markets for land more buoyant.

Community-Driven Development and Decentralization.
Malawi has had a long history of failed top-down and centralized approaches to development. However, since the late 1990s, the Government is committed to a more decentralized model, under which development is driven by communities themselves. The success of this new paradigm is best demonstrated by the Malawi Social Action Fund, which has been in operation for 8 years. A third version of the program (MASAF 3) is now effective, using highly effective, open, transparent and participatory implementation processes to create communal infrastructure at the village level. However, using participatory rural appraisal techniques, MASAF received numerous and repeated requests from civil society for a MASAF-type mechanism to also fund individually productive investments, including in land, as complements to the social and economic communal infrastructure funded under MASAF. The Community-Based Rural Land Development Project would respond to this demand. Instead of putting new institutions in place, the project can start implementation immediately through the already operational MASAF system, while Ministry staff benefit from "on the job" training in the decentralized and community-driven development approach.

Land Administration.
Finally, outdated land registration systems, inaccurate surveying and limited enforcement of covenants of private leaseholds, and corrupt administrative practices by village headmen, chiefs, and government officials have often led to dispossession of customary lands, encroachment on private and public lands, illegal development of lands, and tenure insecurity. The new Land Policy supports a move towards a decentralized, transparent and democratic land administration system. This is made possible by the 1998 National Decentralization Policy and Local Government Act, under which local authorities (District Assemblies) are given increasing powers and responsibilities for land administration, including valuation, taxation, surveying, and enforcement of lease agreements.

Designing a land administration system which is fiscally affordable and responds efficiently to community demand for the formalization of property rights, will take time and considerable effort. International experience shows that this is best achieved through a gradual approach, based on pilots. This is the strategy adopted by the government in this and related projects. The project will directly support institutional capacity-building in land administration, by providing resources for tenure regularization, titling and registration of participating settlement schemes. Due to the fact that development of institutional capacity for land administration at the District level will take time, it is proposed that this be implemented in a phased manner, starting with providing services to the beneficiary communities, and then to communities on demand.

Programmatic Approach and Partnership.
In the past decade, the land policy reform process in Malawi has enjoyed broad support from all the key donors. There is broad agreement among donors to support implementation of the new land policy under a programmatic approach. For instance, the AfDB, DFID, EU, FAO IFAD, GTZ, and USAID have all expressed an interest in supporting the implementation of the new Land Policy. The proposed pilot project will be an important component of a broader land reform program, supported by the donor community. In particular, DFID has expressed interest in parallel financing of the project through starter packs and its contribution to MASAF. The EU is supporting capacity-building for land administration and the African Development Bank is preparing a pilot project for land titling and registration of customary land. It would operate in three different districts, but would benefit the proposed project by developing decentralized and least-cost approaches to land registration.

3. Sector issues to be addressed by the project and strategic choices:

International experience demonstrates that a community-based approach to facilitating access to land offers the best chance for effectively transferring assets to some of the poorest groups in Malawi. The project will finance the development of transparent mechanisms that empower rural communities in their ability to identify beneficiaries and establish new farms on underutilized lands and to increase their security of tenure. These mechanisms will reduce rural tensions, minimize the incidence of encroachment on either private lands or protected public areas, and encourage productive investments on the newly established farms.

The project supports the efforts of the decentralization process in strengthening the capacity of Districts to plan, organize, and manage funds. By using the operational arrangements and systems already existing and tested under MASAF, the project avoids duplicating an already successful community-driven implementation mechanism. Using the same methods of community participation and the community development capacity created by MASAF, the project will empower local communities and strengthen their organizational capacity to interact with landowners, local governments, and NGOs. At the same time, the project complements MASAF's activities, which are geared towards the creation of communal infrastructure, because the Community-Based Rural Land Development Project targets benefits of an individual nature. The project would allow beneficiary communities to have immediate access to financing to make their newly acquired farms productive. Matching grants, based on a per beneficiary household ceiling and requiring in-kind contributions by communities, would be made available to beneficiaries.

During a first phase, the aim is to show that the proposed mechanisms can work. To launch the project, significant external technical support to the districts will be needed but over time, local capacity will be built based on the lessons learned during the early phase of project implementation. To further minimize operational risks, project design will be flexible to allow for adjustments in the course of project implementation.

Project implementation will be in four pilot districts, which were selected on the basis of their potential for land redistribution (within districts and between districts), the severity of land pressures and the existence of social tensions resulting from the unequal land distribution. The pilot districts are all located in the Southern Region, which has the lowest size of smallholder land holding, the highest incidence of poverty, and the most pressing land issues of the three regions in Malawi. The AfDB and the EU are funding land projects in the North and the Center.

Within the Southern Region, the choice of districts was guided by the principles of high opportunity and

high need. This resulted in the selection of Mulanje and Thyolo, which have some of the highest population densities in the country (208/km2 and 268/km2, respectively) and have been most affected by tensions over land issues and encroachments. They also have under-utilized estates that could be used of resettlement. Machinga and Mangochi were chosen because they have significant numbers of land-poor households and also have an ample supply of idle estates., with relatively low population densities (97/km2) and an ample supply of un- and under-used estates. While it is expected that the majority of farms acquired by beneficiaries will be in their "home" district, the choice of the four districts also opens an opportunity for limited inter-district migration. Some flexibility would exist during project implementation to include additional districts, within the agreed framework and budget constraints.

A scaled up project would expand into land stressed districts in the Center (for example, Nkhotakota and Mchinji) and other priority districts in the South (for example, Chiradzulu, Zomba and Chikwakwa). The estimated number of potential beneficiaries of a scaled-up project is in the order of 100,000. If the uniform ceiling currently proposed in the pilot project is proven to be appropriate, scaling up the project would cost around $120 million over, say, 20 years, i.e. around $6 million a year, suggesting that a scaled-up version of the project would be financially feasible. See Annex 14 for a full description of the choice of pilot districts and an estimate of the costs of scaling-up.

The Government and the Bank have agreed that project design and implementation will be based on certain "Basic Principles", which are the outcome of the strategic choices made. The basic project design principles are the following:

1. In implementing the concept of Community-Driven Development, beneficiaries will be given grants to acquire farms and establish sustainable livelihoods on them.
2. Land redistribution will only take place on un-encroached lands acquired from willing sellers, those already under Government administration, or from private donations.
3. Project explicitly excludes lands in protected or fragile areas, or unsuitable for agricultural purposes.
4. Ground rents on leaseholds and land taxes on freehold will be used as the policy instrument to control land prices.
5. Beneficiaries will be self-selected, formed in groups on a voluntary basis, subject to certain eligibility criteria, and using participatory methods.
6. Beneficiary eligibility will be assessed in beneficiaries' "home" district, while land acquisition and farm development proposals will be assessed in the district where the farm to be acquired is located.
7. Participatory rural appraisal techniques will be used throughout the implementation of the project.
8. Specially-targeted assistance will be provided for marginalized groups.
9. Specially-targeted assistance will be provided for resolving social issues arising from the need to ensure integration of new settlers into receiving communities, to integrate farm workers, if any, into the project, and to address any other social issues arising from project implementation.
10. After proper orientation, beneficiaries will decide themselves on: (i) the legal entity under which they will hold the land (e.g. association/club, trust, company, individual sub-divisions); (ii) the specific property rights regime (e.g. freehold, leasehold, or, when the new Land Law is passed, "customary estate"); (iii) sub-divisions, demarcation of individual lots and common areas; and (iv) the level of precision required (traditional markers, surveying) and level of formalization/registration of property rights.
11. The combined grant assistance per beneficiary family will be subject to a "Uniform Ceiling" equal to the combined sum of resources spent on land acquisition and on-farm development for reasons of equity and for evaluation purposes.

12. MASAF3 will support sub-projects that deliver a community good, rather than an individual benefit. MASAF's indicative positive list consists of: (i) social infrastructure (health centers, classrooms, boreholes for community water supply, construction and rehabilitation of rural roads, energy efficiency improvements, community kiosks); (ii) labor-intensive works (afforestation, terracing, community roads, community bridges, valley tanks, flood control structures, contour ridging, composting, drainage systems, gravity-fed water schemes, community water reservoirs); and (iii) the establishment of community savings and loan group schemes (micro-credit).
13. CBRLDP will finance activities which deliver an individual benefit, rather than a communal good. CBRLDP will use the following indicative positive list of activities which will allow the beneficiary family to finance: (i) land; (ii) basic settlement costs (shelter, basic amenities, and settlement allowance); and (iii) the establishment of agricultural production (agricultural inputs, tools, livestock, training, technical assistance).
14. CBRLDP discourages encroachments and invasions by making encroached farms ineligible to be acquired under the project; and providing a better alternative under the project: a legal, transparent, and resource-backed mechanism for the poor to access land.
15. No farm will be acquired where there are still unresolved labor disputes between the owner and farm workers.
16. Farm workers will be encouraged to participate in the project.
17. Implementation will be decentralized through existing District Assembly Structures, augmented for screening purposes with key stakeholders (including Chiefs and NGOs).
18. There will be targeted public information campaigns that will contribute to good governance and the transparency of the project's principles, methodology, processes and outcomes.
19. Financial management, procurement and disbursement will be implemented through existing MASAF 3 systems and using the MASAF Management Information System.
20. A business standards time line will be established to ensure speedy processing of beneficiaries' grant proposals.
21. The project will support institutional capacity building at grassroots, civil society, local and national government levels.
22. The M&E system will track changes along two dimensions: beneficiaries' welfare, and the productivity of the land and its environmental condition.
23. Communities, Districts and the Ministry of Lands will hire NGOs to monitor implementation of the project and undertake beneficiary assessments.
24. The Ministry will, in addition to operating its own monitoring system, also contract out the evaluation of the pilot project to an independent organization.

The project's basic design ensures that (i) the productivity of the land acquired is improved; (ii) distortions in the land market are addressed; (iii) resources will be disbursed directly to communities using an existing financing mechanism (MASAF), which is transparent, efficient and has adequate fiduciary controls; (iv) potential risks are adequately addressed; and (v) an acceptable Monitoring and Evaluation (M&E) framework is put in place, which will, *inter alia*, track the costs of land acquisition. Based on these conditions, Management has approved an exception to the Bank's prohibition on disbursement against land under para. 2(b) of OP 12.00 on Disbursement.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

The indicative total project cost of the Community-Based Rural Land Development Project (CBRLDP) and Bank grant financing is given in the Table below. Government financing would be in the form of

counterpart contributions (including Government-administered land made available to the project, and taxes); and beneficiary communities would contribute the remainder, mostly through in-kind contributions.

The table below shows the distribution of project resources among different project components, including project management and monitoring and evaluation.

Component	Indicative Costs (US$M)	% of Total	Bank-financing (US$M)	% of Bank-financing
Land acquisition and farm development	16.50	55.4	15.00	55.6
Land administration	2.97	10.0	2.95	10.9
Capacity building	3.39	11.4	3.29	12.2
Project management and M&E	6.92	23.2	5.76	21.3
Total Project Costs	29.78	100.0	27.00	100.0
Total Financing Required	29.78	100.0	27.00	100.0

The project would finance four components:

1.1. **Land Acquisition and Farm Development.** This component will be implemented with direct community involvement in identification and negotiation of land acquisition and the preparation of farm development proposals. Community proposals for acquiring land and farm development would be reviewed and approved – taking into account legal, technical, environmental, and poverty reduction criteria-by a district-level multi-stakeholder entity (the existing District Executive Committee, augmented with key stakeholders, which is a technical sub-committee of the District Assembly) and the National Technical Advisory Council, established under MASAF. The sources of land include: (i) leasehold or freehold land offered by willing sellers; (ii) Government-administered land (e.g. the so-called "re-entered estates": estates which failed to comply with leasehold covenants); and (iii) private donations. Farm development costs will finance individual benefits, consisting of settlement costs and the establishment of agricultural production. Communal infrastructure will not be eligible for financing under this component, but will be eligible for financing under MASAF.

1.2. **Land Administration.** Under the project, secure title will be provided to the beneficiaries. The communities will decide under what property rights regime they wish to register their land and how to distribute land among participating households, which could include the registration of individual plots, if requested by the community. The Regional Land Registry in Blantyre will be strengthened to provide the necessary land administration services in the four pilot districts.

1.3. **Capacity-building**. The component would finance public information campaigns, community mobilization, participatory rural appraisal, training and technical support to communities, district and national participating institutions and stakeholders. This will include financing environmental and social impact assessments and action plans. Policy analysis, and some basic infrastructure refurbishing at the district and national levels would also be supported.

1.4 **Project Management and Monitoring and Evaluation (M&E).** This component finances project administration, coordination, supervision, monitoring and evaluation. The existing Management Information System of MASAF will be used for tracking the inputs and outputs, including processes. Qualified NGOs and/or private firms will be contracted to assist project monitoring and evaluation in each of the districts. Communities themselves, District Assemblies, and

the Ministry of Lands will be able to contract NGOs to assist them in monitoring project implementation. An independent evaluation will be implemented by a specialized organization, selected through international tendering. The M&E system will measure changes "before and after", and "with-without" along two dimensions: (a) the welfare of beneficiaries; and (b) the productivity and the environmental condition of the land.

2. Key policy and institutional reforms supported by the project:

The project seeks to: (i) assist the Government in designing an efficient and effective approach to land reform, based on voluntary transactions; (ii) apply the Community-Driven Development approach, successfully established during 8 years of MASAF implementation (estimated to have benefited 3 million people) to land reform; (iii) support on-going decentralization of key Government functions in a cost-effective and fiscally affordable manner; and (iv) assist in the piloting of a decentralized land administration system appropriate for the Malawian context.

3. Benefits and target population:

3.1. Benefits The goal of the project is to pilot a new approach to land redistribution, based on market-assisted transactions and community-driven processes, that can be scaled-up across the country. A scaled-up version of a successful pilot project would reduce the negative externalities associated with tensions around the land issue. The pilot project would benefit an estimated 15,000 poor rural families in the four pilot districts through increases in their income. New family farms covering about 30,000 hectares would be established. The project design, based on community participation, will allow communities to start sustainable production immediately during the next season or within one year of establishing their new farms. In addition to these direct income effects, the project would generate economic benefits in the form of increased agricultural production on previously underutilized lands within the established farming regions ("efficiency" gains). The project would contribute to reduced social tension in the pilot districts by reducing inequality in access to land ("equity" benefits) and providing a legal, transparent and resource-backed alternative to encroachments and invasions. Following the same logic, the project is also expected to generate some environmental benefits by discouraging encroachment on protected or otherwise fragile areas ("environmental" benefits).

3.2. Target Population. The project will target poor, land-poor and food insecure families from the four pilot districts. Beneficiaries will be self-selected according to democratic and local customary principles, and with the capability to farm. Errors of inclusion will be reduced by requiring in-kind or labor contributions for farm development, and the screening of beneficiary eligibility by the community from which the potential beneficiaries originate, following specific eligibility criteria specified in the Project Implementation Manual. The screening will include adequate provisions to prevent "elite capture" and ensure that women have equal access to land as men. Random audits, to complement the appraisal processes, would be carried out to ensure that project beneficiaries meet the key eligibility criteria. Although it is expected that most beneficiary communities would identify lands in their immediate vicinity, the project would not exclude inter-district migration on a demand-driven basis. In those cases, eligibility of beneficiaries will be assessed in their home districts, while the proposals for farm acquisition and development will be assessed in the district where the farm is located.

4. Institutional and implementation arrangements:

The implementation period of the project would be five years (2004-2009).

The current legal and institutional framework is generally adequate for launching the proposed project. Nevertheless, the project will have flexible implementation arrangements to allow for adjustments to be made in the course of project execution, particularly taking into account that a new land law is likely to become effective in the near future.

For a detailed description of the project cycle, specifying the executing agencies and implementation arrangements see **Annex 2.** A summary follows below.

The project would finance the establishment of farms (land acquisition and farm development) up to a certain maximum grant amount (the Uniform Ceiling) for reasons of equity and for purposes of evaluation. The ceiling will be regularly reviewed.

At the local level, the project will be implemented by beneficiary communities themselves. A self-selected rural beneficiary community (poor, landless or land-poor, and willing to farm) will: (i) identify the farm which it proposes to acquire; (ii) draw up a general farm plan; and (iii) directly negotiate the acquisition of the land, resulting in a Letter of Agreement. Beneficiary group formation and farm purchase will be facilitated by a Community Oversight Committee, which will be established in both the originating and receiving community to ensure fairness, transparency and social integration. Vulnerable and marginalized groups can benefit from up-front special assistance paid for by the project.

The beneficiary community presents a Land Acquisition and Farm Development proposal (including the Letter of Agreement and a general farm plan) to the Lands Officer in the district, who issues a public notice announcing the intended sale and leads a Field Appraisal Team to appraise the proposal. If a proposal passes appraisal, it is submitted to the District Executive Committee (DEC) for approval.

DEC is responsible for reviewing and approving community proposals for land acquisition and farm development and would confirm that: (i) the potential beneficiaries meet the eligibility criteria; (ii) title to the land (freehold or leasehold) is clean; (iii) no other condition threatens the effectiveness of the land acquisition; (iv) the negotiated price is consistent with market conditions; (v) the farm plan is realistic and the intended use of the land is compatible with land potential; (vi) the community understands the implications of the choice they have made with respect to the legal entity (association, company, trust, individual, etc.) and specific property rights regime (leasehold, freehold, sub-divisions, etc.) under which they propose to hold the land; (vii) the environmental checklist is met, or whether an environmental impact assessment is needed; and (viii) the farm is free of encroachers, no unresolved disputes with farm workers exist, and the integration of the new settlement into the existing, surrounding communities will not pose significant problems. If necessary, DEC seeks the assistance of the Project Management Unit at the national level or other specialized assistance to complete this review, and conduct additional assessments (e.g. environmental and social impact assessments). Such assistance would be financed by the project. The procedures for appraisal and approval by DEC are specified in the Project Implementation Manual.

Upon approval, the beneficiary community signs a "Land Acquisition and Farm Development Grant Agreement", which specifies the conditions for implementation of the LAFD Sub-project, including the establishment of a Project Management Committee, the elaboration of a detailed Farm Development Plan, the disbursement schedule with tranche release conditions, and other responsibilities of the community (e.g. community contributions, environmental management plan). Once the LAFD Grant Agreement is entered into by the beneficiaries and the MASAF-MU, the MASAF-MU effects the payment for the farm and the beneficiary communities would be granted title to the land acquired.

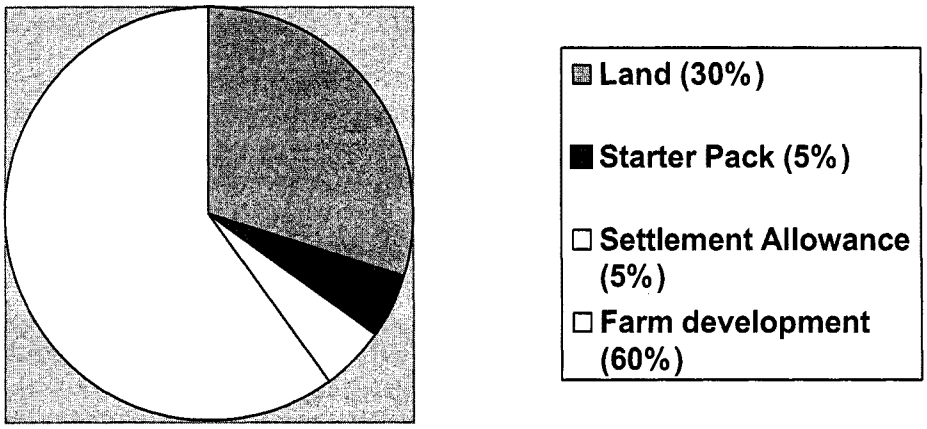
If the acquired land is leasehold, beneficiaries will now start paying the ground rent, which is currently a small nominal fee, but which will be increased in the next few years. If the acquired land is freehold, beneficiaries will start paying the land tax, which will be introduced over a similar time frame, following agreements reached under the Fiscal Management and Accelerating Growth program, an adjustment credit (2004). This will provide the community with an incentive to immediately start agricultural production, while the gradual raising of rents and taxes will put downward pressure on land prices, counteracting the potential upward pressure on land prices caused by the project.

After the transfer of the land has taken place (either through direct purchase by communities or transferred from government or a third party), beneficiary communities would become eligible for funding of communal infrastructure under MASAF. CBRLDP, on the other hand, only finances activities which deliver an individual benefit, rather than a common good. The project will use the following positive list of activities which allow the family to settle on the farm and start agricultural production: (i) basic settlement costs (shelter, basic amenities, and a small, one-time settlement allowance); and (ii) agricultural production costs (inputs, tools, livestock, and technical assistance).

Communities immediately receive the settlement allowance and the DFID-financed Starter Pack. Beneficiaries then prepare a detailed Farm Development Plan (FDP) with the assistance of the Lands Officer, who will mobilize the necessary technical assistance for its preparation. Participatory Rural Appraisal techniques will be used in providing this assistance.

The actual distribution of resources among different cost categories (land acquisition, farm development, technical assistance, etc.) would vary from initiative to initiative. Figure 1) shows an example.

Figure 1) Indicative cost shares of a typical land reform project (approximate shares)



First, the cost of land would probably represent about 30% of cost of the initiative. Second, immediately established upon establishment of the farm, beneficiary communities will receive a one-time settlement allowance (of approximately 5% of total cost) to assist them settling in. They will also receive a farmer Starter Pack (also valued at about 5% of total cost, to be provided through parallel financing by DFID). Third, the grant balance under the Uniform Ceiling can then be spent on farm development (basic settlement costs and the establishment of agricultural production).Under the Uniform Ceiling, the greatest trade-off would occur between the value of the land and the amount spent on farm development. So, use of a Uniform Ceiling for all beneficiaries would automatically mean that for farms that are fairly expensive (as a result of high per hectare cost, with good infrastructure, or large farm size), fewer resources would be available for basic farm development. And vice-versa, for relatively inexpensive farms, more funds would be available for on-farm development. Communities would see this inherent trade-off explicitly once they are familiarized with the project rules.

At the district level, Lands Officers (one for each district) would be hired, financed by the project. They will function as team leaders of appraisal teams of community proposals and as secretaries to the DEC review and approval meetings. These officers will essentially be "systems developers", piloting this position for future scaling-up.

At the national level, a Project Management Unit (PMU) has been established, responsible for overall management of the project, including the running the Management Information System, conducting periodic performance and procurement audits (and taking remedial action), organizing and facilitating public information campaigns to disseminate information about the project, and facilitating access to the capacity-building activities. The already existing Policy Planning Unit will facilitate manage and coordinate policy analysis activities and the monitoring and evaluation system, ensuring its integration in the overall M&E systems of the Ministry and the Government. The project's overall guidance will be provided by a Project Steering Committee, with membership drawn from key stakeholders (relevant

ministries, donors and civil society).

The M&E framework includes an intensive monitoring of social development issues, with communities, District Assemblies, and the Ministry, being able to access resources to mobilize special assistance. A community will, for instance, have access to project funds to engage an NGO specifically for monitoring purposes.

The monitoring of the Land Acquisition and Farm Development component will be done as part of the MASAF MIS, augmented by intensive on-site monitoring by the Lands Officer and specialized NGOs, which, depending on the hiring entity, will report to communities, the DEC or the Ministry. NGO monitoring will include undertaking regular beneficiary assessments.

MASAF's system is based on information collected by District-level staff on community activities, submitted to the MASAF Monitoring Unit for aggregation, and then shared with the National Advisory Committee for Community Empowerment and Accountability, chaired by the Ministry of Economic Planning and Development. The CBRLDP MIS will monitor the project's output indicators as described in the log frame (see Annex 1: Project Design Summary). To ensure adequate process monitoring, each District will hire an NGO to monitor project implementation, using Participatory Rural Appraisal techniques. These assessments will be of a qualitative nature (e.g. targeting effectiveness, community development, satisfaction, inclusiveness, relations with surrounding communities, incorporation of farm workers, relations with local government structures and other stakeholders, self-evaluations). Reports will be submitted for review and action to the District and the PMU on a regular basis.

The Policy Planning Unit, as part of the M&E framework, will set up a land market database to monitor and analyze land market transactions (prices and quantities). This is needed to: provide good information to potential beneficiaries; provide "early warning" for land price increases; compare "with" and "without" project situation; assess whether the program is improving overall land market activity (e.g. sales, sub-divisions); and assess land distribution impact at district levels.

Evaluation will be executed by an independent organization, selected on the basis of international tendering. Evaluation will be based on a sampling framework, which, by use of base-line surveys and control samples, will be able to assess the following:

i. What are the absolute outcomes—before/after?
ii. What are the relative outcomes—with/without?

The key questions to assess the outcomes of the land reform pilot program are the following:

Beneficiaries:

i. Who benefits? Are we targeting and reaching the right people? Does the screened self-selection of potential beneficiaries result in the inclusion of the poor and land-poor, and the exclusion of better-off and "landed" households?
ii. Note that beneficiary families may bring in additional family members and/or workers later- these add to the "who benefits?" list.
iii. Welfare measures (household income/expenditures, well-being objective and subjective, quantitative and qualitative).

Land:

i. Productivity measures; and.
ii. environmental conditions.

Potential for Scaling-Up the Pilot by Measuring Key Project Performance Indicators:

i. Land transfers—area, speed and cost of transfers;
ii. Fiscal cost per sustainable beneficiary livelihood created—do the above economic benefits justify the overall fiscal costs?

Evaluation will be carried out annually, starting with a Baseline Survey upon project effectiveness. The evaluation data will be generated from beneficiary surveys and control groups. The quantitative data would be collected from household surveys, stratified to land reform beneficiaries and agricultural areas, and the MIS. Qualitative data would be supplied by the NGOs monitoring the project, using beneficiary assessments and participatory rural appraisals.

Three sample surveys will be conducted;

i. Beneficiary household and farm panel;
ii. Control household panel; and
iii. Control farm panel ("area survey").

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

1.1. To wait until a new Land Law is passed. Generally, the current legal and institutional framework is adequate for launching the proposed project and project design would be flexible enough so that when the new law becomes effective, project implementation would be expected to continue without disruption. The project would pave the way for the formulation and implementation of a scaled-up land reform program under the new policy and law by piloting community-driven approaches to land redistribution and land administration.

1.2. To use compulsory, instead of voluntary, acquisition of land. International experience shows that this would not result in any cost-savings. Moreover, designated farms would need immediate protection to prevent asset-stripping and vandalization. Finally, a badly-executed expropriation program will result in loss of confidence, leading to loss of investment and currency devaluation.

1.3. To build the Ministry's own capacity to handle procurement, disbursement and financial management of community-driven components, instead of relying on MASAF. This would delay the effectiveness of the project, unnecessarily replicate an already existing, mature and successful system, and risk not benefiting from cross-sectoral and stakeholder oversight ("horizontal accountability").

1.4. To transform part of the community grant into a loan. The objective of adding a loan component would be to provide beneficiaries a strong incentive to immediately start using the land productively. However, Malawi's experience with agricultural credit schemes has been negative--low

repayment rates are the rule, rather than the exception. No credit system appropriate for the beneficiaries targeted by the project exists at the moment, so this would need to be created first, leading to possibly costly delays. In addition, prevailing real interest rates are very high (30 percent plus), while subsidized rates would lead to unwanted distortions. A strategic choice was made to achieve the production incentive objective by, after a grace period, insisting on the payment of leasehold ground rents or freehold land taxes, as envisaged by the Government. MASAF3 does promote community savings and investment schemes, in which the land reform beneficiaries can participate. While no external resources would be injected into these schemes, making them unsuited to finance the large up-front costs associated with land acquisition and farm development, the increased agricultural incomes generated by the land reform beneficiaries would serve as important sources of local savings to be mobilized in these community savings and loans institutions.

The general rationale for providing grants for land purchase to the poor is based on two main arguments. First, a grant targeted towards the poor is justified from an efficiency point of view to compensate for distortions in land, credit and agricultural markets that bias against them. These market imperfections cause land prices to exceed the capitalized value of the agricultural income, the only source out of which the poor could repay the loan. Because small-scale family farmers are in general more efficient producers than large farmers or absentee landlords, a targeted grant to purchase the farm and make it productive would be justified from an economy-wide efficiency perspective. Second, a targeted grant is justified because the resulting reduction in the inequality in land holdings would alleviate social and political tensions. If unresolved, these tensions can have severely negative economic consequences, as international experience demonstrates.

1.5. To use IDA credit instead of an IDA grant. Five criteria have been set out by IDA donors as part of the IDA 13 replenishment framework: (i) HIV/AIDS, (ii) natural disaster, (iii) post-conflict, (iv) poorest IDA-only country, or (v) particularly debt-vulnerable poorest IDA-only country. Malawi qualifies under the fifth criterion. As such, the CBRLDP has been allocated 100% grant financing from IDA. The 2003 Country Assistance Strategy supports the PRSP and is built on three pillars: (i) strengthening economic management and achieving macroeconomic stability; (ii) establishing a platform for sustainable poverty-reducing growth; and (iii) improving service delivery and expanding the safety net. The proposed project falls under the second pillar and is identified as an operation with high strategic rewards. It is also one of the few projects to be implemented even in the low case.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed			
Social Fund	MASAF 1 (closed 1998)	S	HS
	MASAF 2 (closed 2003)	S	S
	MASAF 3 (became effective Nov. 2003)		
Structural Adjustment	Fiscal Management and Accelerating Growth (2004)		
Agriculture	Agricultural Marketing and Estate Development Project (closed 1995)	S	S
	Agricultural Services Project (closed 1999)	U	U
	Agricultural Sector Adjustment Credit (closed 1997)	S	S
Other development agencies			
European Union	Productivity and Soil Conservation Project--on-going, being scaled-up		
	Capacity-building for decentralization of Land Administration in pilot districts (planned, Mzimba in the North, Salima in the Centre, and Mwanza in the South.		
DANIDA	Land Administration (closed 2001)		
DFID	Targeted Inputs Programme (on-going)		
USAID	Smallholder Support Project		
AfDB	Land Administration project for customary lands in pilot districts (planned, Rumphi in the North; Kasungu in the Centre; and Chiradzulu in the South)		

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

The international experience on unsuccessful and/or delayed land reform programs is quite large. Some of the important lessons learned from these experiences include:

i. Land reform is a highly political issue. Therefore, the Government's willingness and commitment to the process is a fundamental condition for success.
ii. Central government identification of targeted lands, as well as expropriation and land acquisition directly by Government, tend to create legal disputes, delays, high administrative costs, and they often breed corruption.
iii. It is much better to involve beneficiaries from the outset in a process of voluntary transactions with landowners.
iv. Centralized administrative designation of program beneficiaries is not very effective. Direct community participation in the selection of beneficiaries is preferred.
v. When unresolved land issues are allowed to fester for too long, popular sentiments will at some point become organized politically. When that happens, the issue will become extremely difficult to resolve in a developmental and planned fashion. Whereas it is difficult to predict how and when this will happen, the key lesson from international experience is to try to resolve land issues before they become organized politically.

The evaluations of the Land Reform and Poverty Alleviation Pilot Project in Brazil (4147-BR), which relies on community initiatives to land reform, have yielded the following lessons:

i. A community-based approach to land distribution is considerably more expedient and less costly than the traditional administratively-led process. For example, in that project the process of land acquisition, from identification of lands to purchase, typically has taken less than 90 days. On average, the actual total cost of land redistribution (including the land acquisition price, litigation, administrative, and other costs) of the traditional approach is close to three and half times that of a market-assisted approach.
ii. Communities have consistently chosen good quality land at costs that represent savings of 40% or more, relative to traditional land reform and without upward pressure on land prices.
iii. Self-selection of project participants has proven effective in pin-pointing the landless rural poor; the vast majority of beneficiaries have household incomes and characteristics consistent with the target population. The requirement of own contributions for investment sub-projects ensures effective self-selection.
iv. Streamlined approval of complementary investment sub-projects, such that funds are immediately deposited with the beneficiary community and disbursed once a sub-project proposal is presented and approved, eliminates unnecessary delays.
v. Concurrent and ex-post monitoring and evaluation are critical to identify bottlenecks and make adjustments in the course of project implementation.

4. Indications of recipient commitment and ownership

i. Since the presentation of the Presidential Commission's Report in October 1999, Government has adopted a new Land Policy (2002); and designed a Land Reform Implementation Strategy (2003).
ii. Government is currently drafting a new Land Bill to be finalized in 2004.
iii. Government has negotiated a land component as part of the policy matrix of the Financial Management and Accelerating Growth credit (2004).
iv. Government has taken decisive actions to control land encroachments when these have erupted.

5. Value added of Bank support in this project:

Internationally, the Bank has obtained considerable experience in implementing the concept of Community-Driven Development and market-assisted land reform (e.g. Brazil). In Malawi, the partnership between the Government and the Bank has been instrumental in formulating a new Land Policy and catalyzing other donor support. Finally, successful implementation of the project would have positive regional demonstration effects and externalities which the Bank could help materialize for other countries in Africa.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

● Cost benefit NPV=US$4.1 million; ERR = 15 % (see Annex 4)
○ Cost effectiveness
○ Other (specify)

Detailed economic and financial analyses were prepared to quantify the economic benefits of the project. The primary economic benefits as a result of the project are the increased agricultural productivity from the redistributed land that is currently under-utilized, and the distributional benefits gained from increasing the incomes of about 15,000 poor and land-poor rural families. The analysis is based on three representative farm models – based on agro-climatic zones within the four pilot districts – anticipated to be established by smallholders under the project:

i. a subsistence model in which 80% of target beneficiaries are assumed to grow food crops for their own consumption, and a small quantity of cash crops;
ii. a semi-commercial model in agro-climatic zones that support the cultivation of a higher proportion of cash crops such as rice, cotton, chilies or paprika; and
iii. a tea model in which smallholders sell tea to the local estates as out-growers.

In each farm model, beneficiaries are expected to buy approximately 2 ha of land on which they build a shelter, some local infrastructure and begin cultivation. Full production is expected to be reached by year 3 in models 1 and 2 and year 5 in the model 3. Family labor is assumed, and a small amount of off-farm labor is assumed in model 1, to supplement family income during the dry season.

The farm models produce internal economic rates of return ranging from 22% to 59%. The NPV of net benefits is significantly positive for all models. Model 2 produces about 5 times the net benefits than model 1, model 3, about 3 times the benefits. The analysis aggregates from the individual farm models to determine project benefits, based on a project benefit build-up as beneficiary households enter the project. The NPV for the overall project is $4.1 million (ERR = 15%). If we just consider the land administration and farm development component (57% of total costs), the NPV rises to $15.1 million (ERR = 30%). Farm incomes rise substantially over the project life compared to the without project scenario, from 138% in year 3 to 213% in year 15 for model 1.

The sensitivity analysis demonstrates the robustness of the analysis for the following variables: land prices, crop yields (most sensitive), input and output prices, cropping patterns, "capture" by non-poor, impact of linkage effects on nonfarm economy, proportion of beneficiaries in the three models, assumptions around benefits accruing from asset accumulation and beneficiary entry into the project.

2. Financial (see Annex 4 and Annex 5):
NPV=US$ 0.7 million; FRR = 13 % (see Annex 4)
See E2 and Annex 4 for discussion. Economic benefits are greater than financial benefits for two reasons: the increased tax revenue (relatively minor) and the linkage effect from increased farm incomes on the nonfarm economy (substantial, particular in model 2).

Previously, the key financial issue was to secure commitment from another donor to provide funding for land acquisition. However, the project has obtained an exception to Bank practice of not funding land acquisition (see Section B.3).

Empirical evidence for Malawi demonstrates that household incomes are positively correlated to access to land. In addition, even though an unfinished policy agenda exists, the financial profitability of smallholder farming has increased as a result of liberalization of the marketing environment during the 1990s.

Fiscal Impact:

The direct fiscal cost per family of community-based land reform will be subject to a Uniform Ceiling, which will be subject to regular review. The current estimate compares favorably to the cost of *ad hoc* solutions, viz. the regularization of squatting, which entails no cost savings on compensation for the original owner or subsequent infrastructure provision, but has an additional fiscal cost, stemming from the negative impact on governance and the investment climate. Additional cost-savings would be achieved due to the empowerment of communities in the implementation of the project (as opposed to a central bureaucracy), resulting in (i) lower cost of land acquisition caused by the negotiations between willing buyers and sellers; and (ii) lower farm development costs due to community participation in design and implementation.

The primary fiscal impacts are: the impact of reducing poverty of 15,000 poor families, increase in agricultural productivity, and the moderate gains in employment and tax revenue. The most important unquantified fiscal and economic benefits of the pilot project and its scaling up result from the reduction of political and social tensions around the land issue and the associated negative economic consequences.

3. Technical:
Empirical research of smallholder farming in Malawi confirms the feasibility of establishing sustainable rural livelihoods centered around family farming.

Most of the technical features of the proposed project have been adopted from the highly successful experience of MASAF in Malawi and from similar experiences in other countries. The project would support only simple, appropriate, and environmentally sound technologies, corresponding to the needs and capabilities (for construction of shelter, as well as for the establishment of agricultural production) of the population. The design and standards of Land Acquisition and Farm Development Grant proposals will follow the MASAF procedures and guidelines, which conform to the norms and standards of the appropriate technical ministries, consistent with Malawi's environmental policy and the Bank's safeguards.

Farm prices will be compared to prevailing market-conditions. Costs for farm development (inputs, tools, livestock, training and technical assistance) will be based on prevailing market unit costs, with appropriate allowance for inflation, and, whenever applicable, a reasonable level of physical contingencies.

Communities will be allowed to request special assistance from the project for group formation, farm identification and price negotiations. They can also allocate part of the LAFD Grant for technical

assistance for the preparation of detailed farm development plans, including community development training, organization and social capital formation, management of natural resources, and farming practices.

4. Institutional:

The project would use existing mechanisms for project implementation and avoid the creation of new institutional structures. In particular, the project will make use of existing MASAF financing, procurement and disbursement modalities and procedures. This has the added advantage of capacity-building through on-the-job training by MASAF counterparts. Project preparation has taken place in close collaboration with the MASAF team.

4.1 Executing agencies:

The Ministry of Lands' PMU will be the main executing agency. It will be complemented by the MASAF Management Unit. The National Technical Advisory Committee (NTAC) of MASAF will approve all proposals under the Land Acquisition and Farm Development component, after approval by the District Executive Committees (DECs).

4.2 Project management:

Project management for the Land Administration, Capacity-Building and Project Management and M&E components will be implemented by the Ministry of Lands PMU. The PMU will be supervised by the Community-Based Rural Land Development Project Steering Committee, which will be responsible for monitoring project implementation. Project management for the Land Acquisition and Farm Development will be out-sourced to the MASAF MU. See Annex 6.A and 6.B for details.

4.3 Procurement issues:

Procurement of the Land Acquisition and Farm Development Component will go through the existing MASAF systems and use the Community Participation Procurement method. While the development of robust procurement plans is the basis of project implementation in most World Bank operations, it will be difficult to develop the same in as far as the Land Acquisition and Farm Development aspects are concerned, as these are community-driven and depend on market conditions. However, attempts will be made to ensure that the relevant procurement framework is updated regularly (periods of six months) to reflect projected procurements for the ensuing periods. Other procurement will be done by the Ministry of Lands PMU. See Annex 6.A for details.

4.4 Financial management issues:

Financial management and disbursement of the Land Acquisition and Farm Development Component will go through the existing MASAF systems. Financial management of the other components will be done by the Ministry of Lands PMU. The only issue coming out of a financial management capacity assessment of MASAF and the Ministry of Lands points to weak capacity in the Ministry of Lands. An appropriate action plan mitigating against such a risk has been developed to ensure that the project runs smoothly. In addition, less than half of the credit sum will be disbursed through the Ministry of Lands. See Annex 6.B for details.

5. Environmental: Environmental Category: B (Partial Assessment)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

The proposed CBRLDP represents a novel pilot approach to land reform, whereby a significant number of poor households will have access to farmland through a voluntary and market-driven land acquisition process. The project will be undertaken on estates previously used for agricultural purposes, but now largely under-utilized. Any protected areas and ecologically or culturally vulnerable sites will be excluded from acquisition and resettlement, while only those beneficiaries who form their groups on a voluntary and inclusive basis will be eligible. Similarly, land will only be acquired from a willing seller, an existing government-administered farm, or a private donation.

Qualifying beneficiaries will be given grants to buy land that is either available on the market, free of any encumbrances, or land which is already Government-administered. Moreover, the Land Acquisition and Farm Development Grant to be provided by the project (capped by the Uniform Ceiling), will include a portion that would be used for settlement expenses, basic shelter and amenities, as well as the purchase of basic tools and inputs to start farming.

Although the project will not finance or support any communal infrastructure, and will focus mainly on individual household benefits (which may include, shelter, drinking water, pit latrines, and livestock *kholas*, as well as agricultural inputs and basic technology), it has been classified as "B" (according to World Bank OP/GP 4.01) with the requirement that an Environmental and Social Analysis (ESA) would be prepared. This classification has been assigned largely to enhance the potential positive impacts, and to ensure that: (i) the acquisition of farms does not encroach on national parks or protected areas, wetlands, and sensitive ecosystems, or any sites of cultural or archeological value; (ii) farms acquired through the project incorporate sustainability principles and the new farmers take advantage of the capacity-building support available through the project, including a pilot program on integrated pest management; (iii) on-farm renovation/construction of household shelter and other amenities are undertaken in accordance with sound environmental and social principles; and (iv) that the capacity for dealing with safeguard issues is built among public institutions in charge of implementing the project, particularly at the level of the local District Executive Committees and District Assemblies (DECs and DAs), and communities, thus enhancing the capacity of local institutions and the government's decentralization program.

The ESA concluded that the project was not expected to have any significant environmental or social impacts, and will, in fact, contribute to the sustainable development of the rural sector in Malawi through piloting an approach to land reform which would: (i) increase the income of poor households; (ii) improve agricultural productivity and sustainable land management practices; (iii) strengthen community empowerment, inclusion, and social cohesion; and (iv) mitigate the localized tensions around the land issue.

The ESA covers: (i) baseline conditions in the districts where the project will be implemented (Mulanje, Thyolo, Machinga, and Mangochi); (ii) policy and institutional issues; (iii) potential social and environmental issues (related mainly to community development, human health and farming); and (iv) a process framework to identify and mitigate the potential risks and enhance the potential benefits of project activities.

Potential issues identified by the ESA relate to the possible location of farms to be purchased near natural habitats or critical ecosystem areas, environmental health of project beneficiaries and their communities, and sustainability of land use and agricultural management practices on all newly-acquired farms. More specific risks identified by the ESA include: (i) the acquisition of farms that may encroach (or border) on national parks or protected areas, wetlands, or other sensitive ecosystems; (ii) impacts that may arise from individual shelter rehabilitation or setup (including location, access to drinking water, and sanitation for the new farm owners); (iii) increased use of agro-chemicals, either as part of a "Starter Pack" or, over time,

through improved incomes and access to information and extension services; and (iv) land use and cropping practices that may exacerbate land degradation, lead to the loss of biological diversity, or result in poor water management, that may already be ongoing on farms to be purchased through the project.

The ESA recommendations for social and environmental issues (described above) resulted in the preparation of an Environmental Management Plan comprised of an Environmental and Social Screening and Review Process (ESSRP), a Pest Management Plan (PMP), a Monitoring and Evaluation System (MES), and institutional strengthening, all funded and implemented as part of the project.

Consultations. Despite the fact that the project would not have any significant environmental impacts, and would not involve any resettlement or restriction of livelihoods, the preparation of the ESA used a participatory process, conducted in three stages: during preparation of the Terms of Reference of the ESA, at community level during field surveys, and at district level to review the draft report. The consultations were aimed at facilitating a broad-based dialogue and transparency in project development and identifying key environmental and social issues.

Disclosure. The ESA (including consultations) was prepared from December 2002 to October 2003, and reviewed by the Bank in November 2003. The Executive Summary was disclosed starting November 18, 2003 in two local languages and in English in the country's capital Lilongwe and at the offices of the four District Assemblies, the relevant Wards, Traditional Authorities, and Group Village Headmen, as well as in the World Bank's Infoshop. The entire project documentation in English is also available in the country and in the World Bank's files.

Finally, it is important to note that the ESA was prepared in accordance with Government of Malawi's *Environmental Management Act (1996)* and its *Guidelines for Environmental Assessment (1997)*, and that the project was reviewed and cleared by the Director of Environmental Affairs. Annex 11 provides a summary of the findings and recommendations of the ESA.

5.2 What are the main features of the EMP and are they adequate?

Given the demand-driven nature of the project and the types of issues and risks identified in the ESA, the EMP is comprised of an Environmental and Social Screening and Review Process (ESSRP), a Pest Management Plan (PMP), a Monitoring and Evaluation System (MES), and institutional strengthening, all funded and implemented as part of the project. Furthermore, because the project uses a demand-driven process for acquiring farms, both as part of appraising their viability (at the time of purchase), and later, as part of preparing their Farm Development Plans (FDPs), using rapid rural appraisal techniques, a farm-level environmental assessment will be conducted and—if need be—more specific mitigation measures would be incorporated in the FDPs. This screening process will be mainstreamed in the overall project process framework and will be fully integrated in the project implementation manual (PIM).

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft: ESA start date: December 13, 2002
ESA Final Draft: November 18, 2003

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

Extensive consultations conducted helped inform the final project design. In addition to consultations with

the local communities, technical officers from government, nongovernmental organizations and members of the private sector were also consulted in each district, including District Commissioners (DC's), Environmental District Officers (EDO), Directors of Planning and Development (DPD), NGO representatives with an interest in environmental issues, staff responsible for Lands, Land Husbandry Officers, staff from the Ministries of Fisheries and Forestry, Agriculture, the Meteorological Department and tea estates' representatives. Opinion leaders' views were also sought during the process, including traditional leaders, local politicians and religious leaders, and other key informants.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

Given the nature of impacts and issues to be encountered during project implementation, an Environmental Monitoring System (EMS) has been designed based on two principles:

1. The EMS will not focus on monitoring and reporting on either general environmental and social conditions in the four pilot districts, nor on the impact from individual farm activities (this would be neither feasible nor effective). Rather, the EMS will track a small number of indicators related to: (i) the sustainability of the FDPs and adoption of sound land use practices, and (ii) the environmental health conditions of the beneficiary households and their communities; and (iii) other process indicators.
2. The Environmental Monitoring Plan will be an integral part of the Project Monitoring and Evaluation System. The EMS has initially been designed to carry out monitoring and evaluation of the trends in the adoption of processes and practices of the beneficiary groups and their host communities in relation to environmentally and socially important issues that might arise.

Through the Environmental and Social Screening and Review Process (which is fully integrated in the Project Implementation Manual), a number of processes have been put in place to ensure that appropriate environmental management practices are followed in the project. These processes are essential at all levels of the project. The EMS covers three groups of indicators: (i) process indicators at the village, district, and national levels; (ii) socioeconomic and well-being indicators (part of the core indictors to be monitored by the project as a whole); and (iii) the adoption of management practice indicators.

Furthermore, periodic supervision missions will also monitor progress achieved and the effectiveness of the EMS.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

The net social effect of the project is expected to be positive, since it will significantly reduce rural poverty among the beneficiaries and is likely to encourage increased Government and donor support for a community-based approach to land acquisition and farm development. Specially targeted assistance will be provided to mobilize vulnerable and marginal groups and ensure their inclusion into the project.

In addition to advancing the Bank's work in the areas of community participation and collaboration with NGOs and civil society organizations in Malawi, the project's decision-making processes are expected to contribute towards strengthening the capacity of local governments and the traditional village system to serve as effective mechanisms for active participation by marginalized groups (women, landless, youth).

Good relationships will need to be fostered between the settlers and the surrounding communities in those cases where the beneficiaries do not originate from the surrounding communities. Specially targeted

assistance will be provided to ensure the successful resolution of such issues, if necessary. The project will support the establishment of Community Oversight Committees to ensure transparency in beneficiary selection, facilitate the integration of beneficiary groups into the community and resolve social problems, if they were to arise.

While the project will support the purchase of farms available on the market or in the public sector for the benefit of poor/landless farmers and other vulnerable groups, the project will involve no involuntary land acquisition, or any form of restriction of livelihoods or loss of access to protected areas or other natural resource reserves. However, the acquisition of new land by poor and vulnerable groups, particularly in an area where the new farm owners may be outsiders (e.g., from a different district or area where they currently live) may result in social tensions. Thus, the important emphasis in the project—as a fundamental design feature—on community development in order for beneficiaries to access project funds, all through the initial phase of information dissemination, group formation and application submissions (pre-qualification), until the preparation, appraisal, and approval of a detailed Farm Development Plan (FDP).

A Resettlement Framework will not be necessary, because community sub-projects are screened and financed by MASAF, which prohibits involuntary land acquisition. In addition, no farm will be acquired where there are still unresolved labor disputes between the owner and farm workers, and farm workers will be encouraged to participate in the project. Finally, the CBRLDP discourages encroaching by:

i. making encroached farms ineligible to be acquired under the project; and
ii. providing a better alternative under the project: a legal, transparent, and adequately funded mechanism for the poor to access land.

6.2 Participatory Approach: How are key stakeholders participating in the project?

Key stakeholders include poor rural communities, estate owners, local level organizations—including NGOs, and district-level entities, and small farmer organizations. In addition to the consultations already conducted during the preparation of the project and the ESA (see Section 5 above), involving the project concept and development objectives, eligibility criteria, and geographical location, structured and more detailed consultations will be undertaken as a fundamental project design feature in order to enable poor and vulnerable communities to access project benefits, on a demand-driven and widely transparent basis.

Furthermore, rural communities will be in the driver's seat throughout project implementation. They will identify the lands, negotiate with the seller, and prepare and implement their Farm Land Development Plans (FLDPs) (focused on private household benefits, and not communal sub-projects--which fall under the purview of Malawi Social Action Fund (MASAF). Estate owners will be active voluntary participants in the project, as they will be approached directly by rural communities and will interact with the appropriate local level district administration entities supporting the project.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

NGOs were involved in public consultations from the very beginning, both at national and district level. The preparation of the ESA involved a number of NGOs (such as members of the National Smallholder Farmers Association of Malawi, NASFAM) from all four pilot districts, during all the three phases of consultations conducted.

It is expected that NGOs will play a major role during the launch phase of the project, during which an extensive communication campaign will be launched at the national and local levels, in order to identify

eligible communities and help them access project funding to present their applications, identify farms available on the market, negotiate a price, and meet the requirements for land acquisition through the project.NGOs will also be active participants on a demand-driven basis, as rural communities and district-level entities will contract out some technical assistance services from them, particularly in relation to the initial phase of community formation and application submission, detailed farm appraisal, and FLDP preparation and implementation.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

The project implementation arrangements will be based on the highly successful experiences of MASAF in Malawi and other community-based land development programs. Although this project will not fund community sub-projects (since its focuses on market-driven land acquisition and household benefits), it will use essentially the same institutional arrangements as MASAF, adapted to the specific needs of the project. Local institutions, particularly District Executive Committees (supported by other local government technical entities and NGOs, as needed), will be the main counterparts of communities, and will be in charge of information dissemination, application screening and appraisal, including capacity-building support and M&E. At the national level, the National Technical Advisory Committee (NTAC) provides a final review before the land transactions are sanctioned by the Lands Minister (as required by the legislation in place). In turn, NTAC is monitored by the National Advisory Committee for Community Empowerment and Accountability (NACCEA). The PMU plays a role of managing the capacity building support and M&E for the project as a whole.

6.5 How will the project monitor performance in terms of social development outcomes?

It is expected that through the combination of an effective management and information system compatible with that of MASAF that generates periodic implementation progress reports at the district level, periodic Bank supervision missions, random audits, beneficiary assessments, and independent evaluations, project performance in terms of social development outcomes will be effectively monitored. Details of the monitoring and evaluation arrangements are included in the Project Implementation Manual.

7. Safeguard Policies:

7.1 Are any of the following safeguard policies triggered by the project?

Policy	Triggered
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	● Yes ○ No
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	○ Yes ● No
Forestry (OP 4.36, GP 4.36)	○ Yes ● No
Pest Management (OP 4.09)	● Yes ○ No
Cultural Property (OPN 11.03)	○ Yes ● No
Indigenous Peoples (OD 4.20)	○ Yes ● No
Involuntary Resettlement (OP/BP 4.12)	○ Yes ● No
Safety of Dams (OP 4.37, BP 4.37)	○ Yes ● No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	○ Yes ● No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	○ Yes ● No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

The project does not present any major safeguard issues. The net social and environmental effects of the project are expected to be positive, since the project will significantly reduce rural poverty among the beneficiaries and is likely to discourage encroachment on private and public lands. The only safeguard policies triggered are OP 4.01 and OP 4.09.

Compliance with Environmental Assessment (OP 4.01) is ensured through the implementation of the Environmental Management Plan which includes, an Environmental and Social Screening and Review Process (ESSRP), a Pest Management Plan (PMP), Monitoring and Evaluation (M&E), and institutional strengthening, all funded and implemented as part of the project. In addition, through ESSRP, the project will specifically screen potential farms to be purchased by poor communities for the existence of, or connection to, potential natural habitat issues, and will promote sustainable land use practices as part of the Farm Development Plans. Finally, the appraisal phase of the Farm Development Plans will use a safeguards screening checklist and will promote sustainable practices at the household and agricultural production level, by providing capacity-building resources to the new communities, as needed.

Compliance with Pest Management (OP 4.09) is ensured through the Pest Management Plan. Since one of the key aims of the project is to help poor and vulnerable groups in Malawi own farmland and improve their livelihoods, the Farm Development part of the Land Acquisition and Farm Development Sub-projects Grant is designed to enable beneficiaries to acquire basic production technology, that may involve agro-chemicals, seeds, tools and implements, etc. Therefore, the Pest Management Policy is triggered and a Pest Management Plan has been developed and incorporated into the Environmental Management Plan of the project.

The PMP, as designed, has a dual objective: i) to enhance the capacity of the project beneficiaries to use pesticides in an economic and safe way (ensuring that banned pesticides or agro-chemicals in WHO classes IA, IB and II will not be acquired by farmers), and introduce them to Integrated Pest Management (IPM) on a pilot basis--for which technical capacity will be established in project districts through training of trainers; and 2) to identify key strategic and institutional issues at the national and local government levels, in order to promote movement towards the development and implementation of a pest management policy.

Finally, it is important to note that while the project will support the purchase of farms available on the market for the benefit of poor/landless farmers and other vulnerable groups, the project will involve no involuntary land acquisition or any form of restriction of livelihoods, or involuntary restrictions of access to legally designated parks and protected areas. This is ensured through the following project design features:

i. farms purchased from the market will be unencumbered and free of any legal and financial claims or any other liens;
ii. farms with encroachers or subject to any form of unresolved labor disputes will not be eligible for purchase and payment by the project;
iii. the Farm Development part of the Land Acquisition and Farm Development Grant will be used for individual benefits only, allowing farmers to setup shelter, and basic amenities, and to enable them to start agriculture production; and
iv. the project will not fund any community infrastructure. Instead, if they express the need, communities will be supported in the preparation of proposals to MASAF (which uses a community-driven approach to support a variety of community socioeconomic and infrastructure sub-projects).

F. Sustainability and Risks

1. Sustainability:

Sustainability of community-based land acquisition and farm development activities is highly likely due to:

i. the high degree of community participation in identification, preparation, contracting, implementation, and supervision;
ii. the ownership by beneficiaries as evidenced by cash or in-kind contributions;
iii. the use of the existing and tested MASAF procedures; and
iv. the involvement of other sectors, local NGOs and other stakeholders ("horizontal accountability").

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

Risk	Risk Rating	Risk Mitigation Measure
From Outputs to Objective		
Government does not use ground rents and land tax policy instrument to suppress speculation in land prices	M	Policy instrument supported by adjustment operation with land component
Property rights allocated to beneficiaries do not provide sufficient tenure security to encourage on-farm investment	M	Project will provide secure title to beneficiaries, including individual sub-divisions if demanded Acceptance of land sale by neighboring community is part of approval process
Decentralization policy in pilot districts is not implemented	S	Both MASAF and CBRLDP provide capacity-building support to local government institutions in pilot districts Resources are directly controlled by beneficiary groups, creating strong effective demand on local government performance
Social issues (within the group and with respect to the receiving community) are not resolved satisfactorily.	M	Group cohesion and prevention of elite capture will be facilitated through specialized assistance. If beneficiaries have identified a farm in a different district than where they live, both originating and receiving districts will be supported to work with beneficiaries and receiving communities to resolve potential conflicts. Project will hire a social development specialist.
From Components to Outputs		
Insufficient land, at excessive prices, is available for acquisition in participating districts	M	If land market supply is not sufficient or too costly, Government can increase ground rents and land taxes, as agreed under parallel adjustment operation with land component. Strengthening of ground rent collection will be financed under the project.

Decentralization of Land Administration in pilot districts is not effective	M	Project finances decentralization, including a Land Administration Manager who reports to the Ministry's land administration line function management
Support to local government institutions in pilot districts is ineffective	M	Targeted and specialized assistance has been programmed into the project, to be provided by public and private agencies at the community and district levels. If technical assistance is not sufficiently available at the local level, the participating district would seek supplemental technical and financial support from the Project Management Unit at the national level.
Beneficiaries do not have sufficient access to technical and financial assistance to prepare and implement profitable land acquisition and farm development proposals.	S	Project finances special capacity-building support to beneficiaries and local NGOs
M&E system is ineffective	M	Readiness of M&E system is condition for effectiveness
Financial management and procurement capacity of project implementation structures is weak.	S	Financial management and procurement assessments undertaken, including formulation of action plans. Land Acquisition and Farm Development component will use existing MASAF systems, with low financial management and procurement risks.
Overall Risk Rating	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects:

Given the voluntary nature of the land redistribution approaches being proposed, the project is not expected to engender resistance from either estate-owners or potential beneficiaries.

Voluntary movement of beneficiaries between districts may sometimes be problematic, but, under the pilot project, will take place within the same socio-ethnic regional grouping. Movement between regions, under a scaled-up operation, would be controversial, however.

Given the high degree of landlessness in Malawi, non-pilot districts might feel excluded. An Information-dissemination Education, and Communication campaign will be mounted to inform the nation

of the pilot-nature of the project, and, if successful, its scaling-up.

The project obtained an exception to the Bank's policy on tobacco, as set out in OP 4.76: "The Bank does not lend directly for, invest in, or guarantee investments or loans for tobacco production, processing, or marketing." CBRLDP includes no specific activities targeted to tobacco production, processing, or marketing. However, under this community-based approach to land reform, project beneficiaries would be empowered to make their own decisions on the purchase and development of their farms -- and it cannot be ruled out that some farmers would choose to use the grants that they receive under the project to purchase inputs to raise small amounts of burley tobacco. The exception was granted on the basis that:

i. Malawi is heavily dependent on tobacco as a source of income (accounting for about 60 percent of merchandise exports, 23 percent of total tax base, and 10 percent of GDP);
ii. the proposed land reform activities are highlighted in the Malawi Poverty Reduction Strategy Paper, the FY03 Country Economic Memorandum, and the FY04 Country Assistance Strategy as core elements for promoting pro-poor growth;
iii. the beneficiaries of the proposed measures would be poor smallholder farmers, who account for 70 percent of total production; and
iv. the Bank program includes a number of activities designed to help Malawi diversify away from tobacco.

G. Main Grant Conditions

1. Effectiveness Condition

i. Key project management staff in place and Terms of Reference acceptable : Project Manager, Finance Manager and Procurement Specialist.
ii. Position of independent evaluator advertised.

2. Other [classify according to covenant types used in the Legal Agreements.]

i. MASAF-Management Unit with the appropriate project staff to be maintained until completion of the project to implement the Land Acquisition and Farm Development component;
ii. Project Management Unit with the appropriate staff to be maintained until completion of the project to implement the other components of the project;
iii. Steering Committee to be maintained until completion of the project to oversee the overall implementation of the project;
iv. Project to be carried out in accordance with the Project Implementation Manual and the Environmental Management Plan;
v. Land Acquisition and Farm Development (LAFD) component to be implemented in accordance with the procedures set out in the Project Implementation Manual and the LAFD Sub-Project Grant Agreements.
vi. Annual procurement plan to be submitted by May 15 of each year of project implementation;
vii. Semi-annual and annual financial audits to be carried out under the project;
viii. Mid-term Review to be carried out by December 31, 2006; and
ix. An Independent evaluator appointed within six months of the effectiveness date.

H. Readiness for Implementation

☐ 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
☒ 1. b) Not applicable.

☐ 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
☒ 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
☐ 4. The following items are lacking and are discussed under loan conditions (Section G):

I. Compliance with Bank Policies

☒ 1. This project complies with all applicable Bank policies.
☐ 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

for Rogier J. E. Van Den Brink	for Richard G. Scobey	for Hartwig Schafer
Team Leader	**Sector Manager/Director**	**Country Manager/Director**

Annex 1: Project Design Summary

MALAWI: Community-Based Rural Land Development Project

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
ector-related CAS Goal: • Reduce poverty by increasing broad-based economic growth	**ector Indicators:** • Poverty and extreme poverty headcount	**ector/ country reports:** • Comparison of rural household survey data	**from Goal to Bank Mission)** • Selected poverty indicators are relevant for measurement of actual poverty
roject Development bjective: • To increase the incomes of about 15,000 poor rural families by implementing a decentralized community-based approach to land acquisition and farm development in four districts.	**utcome / Impact ndicators:** • Incomes of participating families, compared to control groups and pre-project income levels. • Increased agricultural production. • Pilot program evaluated and decision to scale-up positive	**roject reports:** • Annual project M&E reports by Ministry of Lands, Physical Planning and Surveys according to M&E framework • Annual independent evaluation reports • Bank supervision reports • Mid-Term Review	**from Objective to Goal)** • Scaling-up of pilot project is feasible • Localized tensions around land issue do not escalate before pilot is scaled-up • Macroeconomic and governance situation do not markedly deteriorate • Progress in the unfinished agricultural policy reform agenda through adjustment programs is effective and enhances the profitability of smallholder farmers • HIV / AIDS pandemic is significantly mitigated

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Output from each Component:	**Output Indicators:**	**Project reports:**	**(from Outputs to Objective)**
1. Land acquired, number of beneficiary families, and agricultural production achieved	• Number of family farms established on lands acquired through the project • Amount, speed and cost of land acquisition (per beneficiary family and per hectare) • Speed and cost of establishment of agricultural production (per beneficiary family and per hectare)	• MIS implementation progress reports • Progress Reports by Land Acquisition and Farm Development Manager • Annual independent evaluation reports	• Government uses groundrents and land taxes to suppress speculation in land prices
2. Decentralized, transparent land administration system in place	• Number of beneficiary groups or beneficiaries which have received appropriate documentation of land ownership. • Number, speed and cost of titles, cautions and hectares registered, and sketch maps completed	• MIS implementation progress reports • Annual independent evaluation reports	• Property rights allocated to beneficiaries provide sufficient tenure security to encourage on-farm investment
3. Capacity to implement community-driven land acquisition and farm development program exists or is created	• Number and quality of land acquisition and farm development proposals by eligible beneficiary communities (and/or hectares of land) (i) received; (ii) reviewed; (iii) approved; and (iv) fully disbursed.	• MIS implementation progress reports • Annual qualitative group monitoring of selected beneficiary groups • Community monitoring reports • Annual independent evaluation reports	• Decentralization policy is effectively implemented • Social issues are resolved satisfactorily (within beneficiary groups and between beneficiary groups and receiving communities).
4. Monitoring and evaluation system provides appropriate information for effective project management and scaling-up decision after project completion	• Timeliness and content of reports generated by M&E system	• MIS implementation progress reports • Annual independent evaluation reports	• Government makes effective use of M&E results

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Project Components / Sub-components:	**Inputs: (budget for each component)**	**Project reports:**	**(from Components to Outputs)**
1. Land acquisition and farm development	US$ 15.00 m	• MIS implementation progress reports generated at district-level • MIS aggregated implementation reports prepared and coordinated by the Ministry of Lands • Independent evaluation reports	• Sufficient land, at reasonable prices, becomes available for acquisition in participating districts (on the market or as counterpart contribution)
. Land administration	JS$ 2.95 million	• Periodic random audits and field supervisions by Ministry of Lands • MIS reports	• Support to decentralization of land administration is effective
.Capacity building	JS$ 3.29 million	• MIS reports • Beneficiary assessments • Independent evaluation reports	• Support to local government institutions through MASAF and CBRLDP is effective • Beneficiaries have sufficient access to technical and financial assistance to prepare and implement profitable lanc acquisition and farm development proposals.
·. Project Management and M&E	JS$ 5.76 million	• Disbursement reports • Procurement records, contracts, audits, etc. • Periodic Bank supervision reports • Timeliness and quality of MIS reports • Timeliness and quality of independent evaluation	• Use of resources for project management is effective • Financial management and procurement capacity is adequate. • Use of resources for M&I system is effective

		report	

Annex 2: Detailed Project Description
MALAWI: Community-Based Rural Land Development Project

By Component:

Project Component 1. Land Acquisition and Farm Development - US$16.50 million
This component covers the voluntary acquisition of land by eligible communities, basic settlement costs and the establishment of agricultural production. The sources of this land acquisition are:

i. land (leasehold or freehold) sold by willing owners;
ii. land transferred to communities by Government (so-called "re-entered" estates, which failed to comply with development covenants); and
iii. land donated by private individuals and entities for resettlement purposes.

A business standards timeline has been developed in the PIM to ensure speedy project processing. The timeline will be communicated as part of the initial information package to the potential beneficiaries. During the public dissemination campaign, the project information, including a detailed description of application and approval procedures, will be made available in local languages in each district by the District Commissioner. The campaign will be conducted with the assistance of MASAF and NGOs. A special dissemination and mobilization program will be targeted to marginalized groups (e.g. destitute people, women, orphans).

Potential beneficiary groups will first undertake to pre-qualify. Group formation will be facilitated by Community Oversight Committees (COC) which will be formed by both originating and receiving communities. The committees would ensure fairness and transparency at community level and certify that self-selected beneficiaries qualify; participate during field appraisal meetings; and facilitate integration of beneficiary groups with the receiving communities. A group submits names and the relevant proof of eligibility of each member of the group to the Lands Officer in the District, using a standard application form. The Lands Officer receives the form and does a desk appraisal. He communicates to the group whether the form has been filled out correctly or not.

When the form has been correctly filled out, the Lands Officer explains the standard proposal forms and supplies the information of available farms to the beneficiaries. This information is contained in a Land Data Base which will be established by the Department of Lands at the Ministry of Lands Physical Planning and Surveys. Beneficiaries can also obtain information themselves using real estate agents, the Districts, advertisements in local newspapers, and other sources, but the Policy Planning Unit in the Ministry of Lands will assist by collating such information in a monthly District newsletter, produced by MASAF.

A potential beneficiary group identifies a farm and provisionally negotiates the price with the existing leaseholder or freeholder. The group can ask the assistance of a valuer, NGOs, or a registered estate agent. The group verifies that no unresolved labor disputes exist, involving farm workers, and that no encroachment problems exist. The group then draws up a general farm plan, using a standard template, which describes: (i) the agricultural production envisaged (short and medium-term); (ii) a basic land use and environmental plan; (iii) the legal entity under which the group proposes to acquire the farm initially (e.g. as an association/club, trust, company, individuals each holding sub-divisions); and (iv) the property regime under which they will hold the land (leasehold, freehold, or, when the new Land Law is passed, "customary estate").

After negotiations, the group obtains a letter of agreement from the seller. The group presents the letter of agreement and a general farm plan to the Lands Officer in the District. The Land Officer issues a Public Notice, announcing the intended sale of the land, and inviting anyone with an interest in the land to step forward within twenty-one days of issuing the notice. However, even if someone steps forward after the twenty-one days, and the land has already been transferred to the beneficiary group, disbursements under the remainder of the LAFD Grant will be stopped until the issue is resolved.

The Land Officer leads a Field Appraisal Team to *inter alia* (i) confirm beneficiary eligibility; (ii) review the provisional sale agreement, farm purchase price and farm plan; (iii) review the environmental and social aspects affecting the proposed land purchase; analysis, and (iv) carry out a preliminary determination as to whether the land title is free of any encumbrances and not subject to any prior claims. This appraisal will be guided by practical checklists and use Participatory Rural Appraisal techniques. The composition of the team will be flexible, given the specific characteristics of the group and the farm.

If the farm identified for acquisition by the group is in a different district than that from which the group originates, the Lands Officer contacts his or her counterpart in the group's home district for the appraisal of the eligibility of beneficiaries.

The Field Appraisal Team decides on-site whether the proposal (i) passes field appraisal as is; (ii) fails appraisal; or (iii) merits further evaluation. The Lands Officer explains the decision to the group. If further evaluation is needed, the Lands Officer mobilizes special assistance (public and/or private, financed by the project).

If the appraisal is positive, the Lands Officer submits the proposal to the District Executive Committee (DEC) where the farm is located for approval. This proposal will now be known as the "Land Acquisition and Farm Development Sub-project". The DEC is an existing local government institution and the implementing agency of MASAF at the District Level. If the appraisal is negative, the group is advised of the decision and given a copy of the appraisal report.

The DEC is composed of Heads of relevant departments and, for the purposes of this project, augmented by relevant civil society representatives, including the Traditional Authorities. The appropriate composition of the augmented Committee will be decided on by each District, in consultation with the Ministry of Lands. The DEC meets regularly to approve MASAF and CBRLDP proposals, but will meet at least once a month for the purposes of this project, given the market-based characteristic of the land acquisition process.

The DEC of the "home" district of the group evaluates whether beneficiaries meet the eligibility criteria, as specified in the Project Implementation manual, including confirmation that the members of the beneficiary group are: (i) Malawian citizens; (ii) poor (according to a predefined list of criteria and the Field Appraisal's own assessment); (iii) land-poor (no land, or less land than needed for own subsistence in particular agro-climatic zone); (iv) willing to farm (as demonstrated by their farm plan and their understanding of this plan); and (v) capable to undertake this project as a group. However, DEC can make exemptions to the eligibility criteria to accommodate vulnerable groups (e.g. orphans, disabled).

The DEC evaluates whether the farm price is fair and reflects prevailing market-conditions. If needed, it hires an independent valuer to check the price paid (fee paid by project).

The DEC evaluates the agricultural and legal aspects of the proposal, by assessing whether: i) the intended use of the land is compatible with its potential; ii) the group understands the farm plan and has (or will

acquire) the capacity to execute it; and iii) the group understands the implications of the different legal entities and property rights regimes.

The DEC evaluates the environmental soundness of the proposal, by assessing whether: i) the environmental checklist is met (zoning, protected area, bordering protected areas or water bodies, fragile ecosystems); ii) an Environmental Impact Assessment is needed; and iii) the proposed land use conforms to the District Environmental Plan.

The DEC evaluates whether the social issues are properly addressed: i) the farm is free of encroachment; ii) no unresolved disputes with farm workers exist, or, if special assistance is needed (financed by the project); and iii) the integration of the new settlement into existing, surrounding communities does not pose significant social problems, or, if special assistance is needed (financed by the project).

The DEC checks that: (i) the title to the land (freehold or leasehold) is unencumbered and clear of legal claims; and ii) no other condition threatens the effectiveness of the land acquisition.

The DEC assesses which key, priority communal infrastructure could be financed under MASAF as a matter of priority.

If necessary, the DEC may seek the assistance of the Project Management Unit at the national level to complete the review of the proposal, and such assistance will be financed under the capacity-building component of the project (e.g. assistance for Community Development, Environmental Impact Assessments, Social Impact Assessments).

If the project has met all criteria, the project is approved by the District Executive Committee. The DEC abides by the rules of the District Assembly; and the existing sector norms and standards. The DEC then sends the project to the Project Management Unit of the Ministry of Lands. The PMU sends it to the members of National Technical Advisory Committee (NTAC) for approval, in batches. For Community-Based Rural Land Development projects the NTAC will convene special meetings because market transactions cannot afford long delays. The NTAC is chaired by the Ministry of Finance and comprises representatives from the MLPPS; Ministry of Education, Science and Technology; Ministry of Health; Ministry of Water Development; Ministry of Transport & Public Works; Ministry of Commerce & Industry; Ministry of Agriculture, Irrigation & Food Security; Ministry of Gender and Community Services; Ministry of Local Government; the National Local Government Finance Committee; and the Executive Secretary of Council for Nongovernmental Organizations in Malawi. The NTAC in turn is monitored by the National Advisory Committee for Community Empowerment and Accountability, composed of seven members, including the Centre for Social Research, DFID, and UNICEF.

After the NTAC approval, the beneficiary community signs a "Land Acquisition and Farm Development Grant Agreement" with the MASAF-MU. The LAFD Grant Agreement will include *inter alia* the following terms and conditions include: (i) details of the proposed land purchase; (ii) the establishment of a project management committee; (iii) the elaboration of a detailed Farm Development Plan; (iv) the disbursement schedule (40-30-30) with tranche conditions; and (v) the responsibilities of the community in implementing the agreement (e.g. beneficiary contribution of at least 10% of the farm development portion of the LAFD Sub-project Grant in cash or in kind, environmental management conditions).

After the signing of the LAFD Grant Agreement, MASAF issues the cheque to the seller of the farm and the MLPPS transfers the land ownership to the beneficiary group in its selected legal form. MASAF sends information to the DEC and Ministry of Lands on a monthly basis. The District Lands Officer transfers

the property to the new owners in the specific regime requested.

If the land is leasehold, beneficiaries will now start paying ground rent (MK50/ha currently, to be increased in the next years). If the land is freehold, beneficiaries will start paying land tax, when introduced in next years. This will provide them with an incentive to immediately start agricultural production.

After the transfer of the land, beneficiary communities will become eligible to receive funding for communal infrastructure through MASAF through procedures established under MASAF 3.

CBRLDP will finance activities which deliver an individual benefit, rather than a community good. CBRLDP will use the following indicative positive list of activities which allow the family to settle and start agriculture production: basic settlement cost (shelter, basic amenities, settlement allowance) and agricultural production (agricultural inputs, tools, livestock, technical assistance). In addition, through parallel financing, the group will receive Starter Pack provisions (through NGOs, DFID-financed). Beneficiaries immediately: (i) receive the settlement allowance (cash, 5% of grant), and the Starter Pack; and (ii) are informed of the balance remaining per beneficiary (uniform ceiling minus costs of land acquisition).

Beneficiary groups then prepare a detailed Farm Development Plan (FDP), detailing the use of the grant balance for basic settlement cost and agricultural production, based on a detailed farm and land use plan. To prepare the detailed FDP, the group will use technical assistance coordinated by the Lands Officer. The proposal specifies community contributions in cash, labor or in-kind (10% of the Farm Development part of the LAFD Grant), replicating the MASAF3 model.

The FDP is appraised by the Field Appraisal Team, led by the Lands Officer and composed of Technical Specialists as relevant. The Field Appraisal Team i) uses a detailed checklist for the evaluation of the proposal, and the existing MASAF checklists for economic, environment and social aspects and; ii) can call on specialized agencies if further review is necessary, and this will be paid for by the project (e.g. environmental impact assessment, social impact assessment).

The Field Appraisal Team authorizes the disbursement of tranches by the MASAF-MU. Procurement follows IDA's Community Procurement rules. Tranche releases are governed by the conditions spelled out in the signed Land Acquisition and Farm Development Grant Agreement (see above).

The Lands Officer, with specialists as needed, monitors implementation. The Lands Officer will use the Local Assembly Management Information System of MASAF.

Project Component 2. Land Administration - US$2.95 million

This Component will support the Ministry of Lands, Physical Planning and Surveys in carrying out land administration tasks required by the project. There are currently several important change processes underway in land administration in Malawi, including implementation of the decentralization of land administration to districts mandated by the Local Government Act, 1998. The European Union is currently funding a revision of relevant land laws, and will be supporting a broad effort to strengthen land administration. This component focuses much more narrowly on the land administration tasks needed to ensure that those purchasing land under Component 1 receive secure titles.

The legal framework for the land acquisitions and titling is satisfactory, and no legal changes are required to allow this project to achieve its objective. But the Ministry of Lands, Surveys and Physical Planning has large numbers of unfilled posts and Ministry staff lack training and equipment for simpler, labor-saving

technologies such as GPS. The Ministry's capabilities must be both strengthened and supplemented. This will be done through training for existing staff, contract hiring of key project staff, and reliance on the private sector, including lawyers, valuers, and surveyors. These private sector service suppliers are available to people in the pilot districts due to their relative proximity to Blantyre, the commercial center of the country.

The land purchased under the project will be registered as freehold and leasehold land. It is anticipated that most of the land purchased by the beneficiary groups will be retained in those tenures. In the case of leaseholds, the un-exhausted term of the lease will be purchased by the buyers but the Ministry will then renew or extend the lease for the purchasers so that they will enjoy a term of ninety-nine years. After reviewing the first transactions under the project, the Minister will facilitate these transfers by providing a general consent under the Land Act 1965 to all transfers of land financed by this project. The purchases would be registered under the Registered Land Act 1967, a title registration law which will provide secure title. Purchasers will have the option, if they wish, to take the land purchased under the customary land tenure system of the area. If the new Land Law carries out the intention of the 2002 Land Policy, that law will allow for registration of customary estates, and any beneficiaries who took their land under customary tenure would then have this option.

In order to provide secure tenure to project beneficiaries, the Ministry will need to (i) advise and assist District authorities implementing Component 1; (ii) provide advice and assistance to communities obtaining land, including advice on physical planning and accessing private sector services; (iii) provide quality control of services provided to project beneficiaries by private surveyors, conveyancers, valuers, and lawyers; (iv) facilitate the transfer of purchased properties currently registered in the older Deeds Registry to the Land Registry, and e) process and register both the initial transfers to the groups purchasing the land and any subsequent partition of that land among the members of the groups.

The number of parcels to be purchased is estimated to be in the order of 600 over the life of the project. The land administration work required will phase in as parcels are purchased, over the life of the project. They number of parcels which may ultimately be surveyed and registered on the initiative of the beneficiaries will depend on the number of groups which elect formal partition of the purchased land among their members, at their own cost, but it could be on the order of 20,000 parcels.

Implementing these processes will require (i) the posting of a Land Officer to each of the four Project Districts; (ii) strengthening the capacity in the Regional Land Survey Office and Land Registry in Blantyre to carry out functions detailed above; and (iii) strengthening the capacity of the Headquarters to supervise the land administration tasks under the project. The Ministry is currently seriously understaffed at regional level and it has no officers in the Districts.

The project will support the hiring of key staff under contract, who will be dedicated to work under this project. These include the four district land officers and an administrative assistant for each officer; an assistant registrar, a valuer, a physical planning officer, and a supervising surveyor for the Regional Office; and a lands officer for the PMU, at Headquarters. The project will fund necessary vehicles, office equipment, communication equipment, furniture and operating expenses for the central, regional and the four district offices. In the districts it will also fund office renovation (where the district has office space available) or office rental and renovation (where district office space is not available). The Ministry will undertake a study of lessons to be learned from past experience in land acquisition and distribution, including Makande and other relevant cases. The project may support other studies and international technical assistance as requested by the Ministry, within the budget figures specified.

As implementation of the project proceeds, further strengthening of district and regional land administration will be needed. The increased number of registered titles created under the project will increase the demand for land registry services in the pilot districts. Partitions of land purchased seem likely to increase the number of registered parcels in the pilot districts by a factor of ten to twenty, and after five years the beneficiaries will be able to engage in transactions concerning those parcels.

In the course of the periodic reviews of progress in achieving the objectives of the project, if the Ministry and the Bank find that those objectives are being achieved and funding is available in the budget over and beyond what is needed for that purpose, then they may agree to reprogram that funding to more broadly strengthen land administration at regional and district levels. Any such strengthening would be closely coordinated with assistance being provided by the European Union, and if such an adjustment in use of the component budget is contemplated, international TA will be provided to advise on the most strategic use of such funding

Designing a Land Administration system which is fiscally affordable and responds efficiently to community demand for the formalization of property rights, will take time and considerable effort. International experience shows that this is best achieved through a gradual approach, based on pilots. At the local level, activities under this component will be focused on providing beneficiaries of land acquisitions with secure rights, understanding their needs for tenure security and their preferences regarding tenure in the acquired land, then working with the Ministry of Lands to meet those needs. This "learning-by-doing" will inform project inputs into land policy and law reform taking place at national level.

Project Component 3. Capacity building - US$ 3.39 million

The project will support capacity-building at:

National level:

i. MLPPS' Project Management Unit, Policy Planning Unit and relevant Directorates and
ii. MASAF-MU

District level.

i. District Executive Committees and
ii. Traditional authorities, civil society organizations, professional associations.

Community level.

i. Eligible beneficiaries;
ii. Vulnerable groups and
iii. Communities overseeing beneficiary selection and integrating beneficiary groups.

These activities include:

1. **Dissemination Campaigns**.
   (Project information, detailing application and approval procedures, to be made available in local languages).
   i. in each District by the District Commissioner, using public information campaign, with assistance from MASAF
   ii. special dissemination and mobilization program will be targeted to marginalized groups (e.g. destitute, women).

2. **Land Database**.

i. collated from local newspapers, from District, and from real estate agents;
ii. coordinated by the Ministry's Lands Department and
iii. it will send, every month, this information to MASAF to produce a district newsletter covering the four districts.

3. Special Technical Assistance.

This would be provided for the development and appraisal of proposals, including:

i. community mobilization and building, farm assessments, negotiations, farm plans;
ii. participatory Rural Appraisal;
iii. assessment and addressing of social issues (e.g. community integration);
iv. preparation of detailed farm development proposal;
v. Environmental Impact Assessments; and
vi. Pest Management and use of pesticides.

Project Component 4. Project Management and Monitoring & Evaluation - US$6.92 million

The CBRLDP will be implemented through a decentralized framework. Using the Community Driven Development approach, the project will work directly with beneficiaries, communities, district-level institutions, NGOs, and line ministries. The Project Management Unit of the CBRLDP will ensure the overall supervision of the project, including the effective coordination between the various stakeholders. While the financial management of the Land Acquisition and Farm Development Component rests with the MASAF-MU, the financial management of the other components will be executed by the PMU.

The Community-Based Rural Land Development Project has the development and implementation of a rigorous M&E framework as one of its key project outcomes. Market-assisted land reform is a relatively new concept and will need a better evaluation of impact than "standard" projects (e.g. housing) to justify the use of public resources, in particular because an exception to the Bank rule to use IDA resources for land acquisition would be given. In addition, the land reform target group is largely self-selected—an evaluation will need to estimate the errors of inclusion and exclusion. Importantly, project benefits will be evaluated along two dimensions, the beneficiaries *and* the land. This is because the project not only intends to raise the living standards of the beneficiaries, but also the sustainable productivity of the land. And finally, because this is a pilot project, the M&E effort itself is defined as a project outcome.

To monitor project performance and evaluate the impact of the activities financed, the project will support the design and implementation of a monitoring and evaluation (M&E) system which is compatible with that of the Malawi Social Action Fund (MASAF) implemented by District Assemblies, communities and NGOs/CBOs. The M&E framework will include an intensive monitoring of social development issues, with communities, District Assemblies, and the Ministry being able to access resources to mobilize special assistance. A community will, for instance, have access to project funds to engage an NGO specifically for monitoring purposes. The evaluation will be undertaken by an independent institution, selected on the basis of international selection.

Monitoring will be based on the MASAF MIS, augmented by intensive on-site monitoring by the Lands Officer and specialized NGOs, which, depending on the hiring entity, will report to communities, DEC or the Ministry. NGO monitoring will include undertaking regular beneficiary assessments. For the Land Acquisition and Farm Development component, the MIS will be operated by MASAF, but ultimate responsibility rests with the PMU at the Ministry of Lands.

The MIS will monitor the inputs and outputs of this component, in particular: (i) the number of family farms established on lands acquired through the project, the speed of land acquisition (from first

beneficiary screening to land transfer); (ii) the cost of land acquisition (per beneficiary family and per hectare); (ii) the speed and cost of establishment of agricultural production (per beneficiary family and per hectare).

Process inputs and outputs will include: (i) number of land acquisition and farm development proposals by eligible beneficiary communities (and/or hectares of land) reviewed and approved by participating local government in participating districts; and (ii) number of beneficiary communities which enjoy secure tenure and have received appropriate documentation of land ownership (based on prevailing legal framework at time of land acquisition).

To ensure adequate process monitoring, each district will hire an NGO to monitor project implementation, based on the MIS and using Participatory Rural Appraisal techniques. These assessments will be of a qualitative nature (e.g. targeting effectiveness, community development, satisfaction, inclusiveness, relations with surrounding communities, incorporation of farm workers, relations with local government structures and other stakeholders, self-assessments). Reports will be submitted for review and action to DEC and the PMU every four months.

The Department of Lands will set up a land market database to monitor and analyze land market transactions (prices and quantities). This is needed to:

i. provide good information to potential beneficiaries;
ii. provide "early warning" for land price increases;
iii. compare with and without project situation;
iv. assess whether the program is improving overall land market activity (e.g. sales, sub-divisions); and
v. assess land distribution impact at district levels.

Evaluation will be executed by an independent organization, selected on the basis of international tendering. Evaluation will be based on a sampling framework, which, by using of base-line surveys and control samples, will be able to assess (i) what are the absolute outcomes—before/after? and (ii) what are the relative outcomes—with/without?

Key questions to assess the outcomes the land reform pilot program are the following:

Beneficiaries:

i. Who benefits? Are we targeting and reaching the right people? Does the screened self-selection of potential beneficiaries result in the inclusion of the poor and land-poor, and the exclusion of better-off and "landed" households?
ii. Note that beneficiary families may bring in additional family members and/or workers later--these add to the who benefits?" list.
iii. Welfare measures (household income/expenditures, well-being—objective and subjective, quantitative and qualitative).

Land:

i. Productivity measures; and the environmental condition.
ii. Potential for scaling-up the pilot by measuring key project performance indicators; (a) land transfers—area, speed and cost of transfers; (b) fiscal cost per sustainable beneficiary livelihood

created- do the above economic benefits justify the overall fiscal costs?

Evaluation will be carried out annually, starting with a Baseline Survey upon project effectiveness. The evaluation data will be generated from beneficiary surveys and control groups. The quantitative data would be collected from household surveys, stratified to land reform beneficiaries and agricultural areas, and the MIS. Qualitative data would be supplied by the NGOs monitoring the project, using beneficiary assessments and participatory rural appraisals.

Three sample surveys will be conducted:

i. Beneficiary household and farm panel;
ii. Control household panel; and
iii. Control farm panel ("area survey").

Importantly, the M&E results will need to assess the feasibility of a scaled-up program, based on the pilot project. For instance, how much financing the government and the donors would be willing to put into a 20-year land reform program will depend on the economic return and the poverty impact measured in the pilot. But other factors, outside the scope of this project, are equally important. For instance, Malawi has experienced low growth rates in recent years. If the adjustment efforts are successful, the macroeconomic, agricultural and lands policy environment will accelerate the growth rate, which would make the program more affordable over time.

The poverty impact will not be measurable in the short run by looking at the income and production on the farms in the first years, but will depend on the rate of savings and capital accumulation, in kind and in cash, of the beneficiaries over a longer period. The pilot project, since it has a timespan of five years, will generate therefore only partial information on the long-run poverty impact. This makes it imperative to also obtain evaluation results from land reform programs which have a longer time series measuring beneficiaries poverty and production levels. These experiences include the Brazil program, and the results of Zimbabwe's earlier land reform efforts (1980-83). Finally, increased agricultural production and beneficiaries will have multiplier effects, which need to be estimated for the scaled-up program, but will not be generated by the results of the pilot project.

Potential fiscal cost savings for a scaled-up program would be identified under the pilot project. In particular, the gradual increase of ground rents on leasehold contracts and a land tax on freehold during the pilot project period would provide a basis to estimate the potential additional fiscal revenues under a scaled-up program. Other potential cost savings which can be imputed from the pilot project stem from the fact that the pilot will develop and test the implementation systems, so that a scaled-up subsequent program would not need to finance this systems development cost. This will include some modest economies of scale in the overhead. Finally, the pilot project would investigate whether farmers associations could manage parts of the project at a lower cost than government employees or NGOs.

Annex 3: Estimated Project Costs

MALAWI: Community-Based Rural Land Development Project

Project Cost By Component	Local US $million	Foreign US $million	Total US $million
Land Acquisition and Farm Development	14.50	0.00	14.50
Land Administration	1.66	1.29	2.95
Capacity Building	2.69	0.52	3.21
Project Management and Monitoring and Evaluation	4.42	0.50	4.92
Total Baseline Cost	23.27	2.31	25.58
Physical Contingencies	2.00	0.10	2.10
Price Contingencies	2.00	0.10	2.10
Total Project Costs[1]	27.27	2.51	29.78
Total Financing Required	27.27	2.51	29.78

Project Cost By Category	Local US $million	Foreign US $million	Total US $million
LAFD Sub-projects	16.50	0.00	16.50
Goods	0.50	1.50	2.00
Consultants, Studies	1.62	1.00	2.62
Training and Workshops	3.08	0.00	3.08
Operating Costs	5.58	0.00	5.58
Total Project Costs[1]	27.28	2.50	29.78
Total Financing Required	27.28	2.50	29.78

[1] Identifiable taxes and duties are 0 (US$m) and the total project cost, net of taxes, is 29.78 (US$m). Therefore, the project cost sharing ratio is 90.66% of total project cost net of taxes.

Annex 4: Cost Benefit Analysis Summary
MALAWI: Community-Based Rural Land Development Project

[For projects with benefits that are measured in monetary terms]

	Present Value of Flows		Fiscal Impact	
	Economic Analysis	Financial Analysis[1]	Taxes	Subsidies
Benefits:	17.1	13.7		
Costs:	13.0	13.0		
Net Benefits:	4.1	0.7	0.2	
IRR:	15%	13%		

[1] The difference between the present value of financial and economic benefits are primarily due to the linkage effects between farm incomes and the nonfarm economy.

[1] If the difference between the present value of financial and economic flows is large and cannot be explained by taxes and subsidies, a brief explanation of the difference is warranted, e.g. "The value of financial benefits is less than that of economic benefits because of controls on electricity tariffs."

Summary of Benefits and Costs:

A detailed economic and financial analysis has been prepared to quantify the economic benefits of the project. The primary economic benefits as a result of the project are the increased agricultural productivity from the redistributed land that is currently under-utilized, and the distributional benefits gained from increasing the incomes of about 15,000 poor and land poor rural families. Two important benefits not valued in the analysis are the relieving of the negative externalities associated with tensions around the land issue, and the value in piloting new approaches to land redistribution, in particular, market-assisted transactions, and community-driven approaches, that can be scaled-up across the country.

The analysis is based on three representative farm models – based on agro-climatic zones within the four pilot districts – anticipated to be established by smallholders under the project. The internal rate of return of each of these farm models is calculated, taking into account all financial and economic costs and benefits. The change in household income, due to own-consumption and cash sales of crop surplus are examined. The analysis aggregates from the individual farm models to determine project benefits, based on a project benefit build-up as beneficiary households enter the project, considering financial and economic rates of return. The project costs are based on the cost estimates that result from the detailed project costing. The sensitivity of results to changes in key assumptions are analyzed to test the robustness of the results. Finally, the fiscal impact of the project is assessed.

1. Cost-benefit Analysis Summary:

Three farm models are considered:

i. **Subsistence model**: 80% of targeted beneficiaries are expected to grow primarily food crops for their own consumption and a small proportion of cash crops. The crops and cropping pattern will differ between agro-climatic zones, however the average smallholder, based on aggregate data from the four districts, is assumed to include some quantities of local and hybrid maize, groundnuts, sweat potatoes, pigeon peas (in between the maize), cassava and sorghum;
ii. **Semi-commercial model**: 10% of beneficiaries are expected to grow a higher proportion of cash crops in agro-climatic zones where this is possible, in addition to some food crops. Expected crops are: hybrid maize, sweet potato, cassava and rice, however, cotton, sugar, chilies and paprika are plausible substitutes (while tobacco is also a likely substitute, it is not considered in this analysis);
iii. **Tea model**: 10% of beneficiaries (in Thyolo and Mulanje) are expected to grow tea (and some food crops) on an out-grower basis with the local tea estates.

The major **assumptions** include:

i. Where data is significantly divergent or unreliable, conservative assumptions have been made. This is particularly significant with data on crop yields and input and output prices of agricultural production.
ii. A 20 year time horizon is considered for the full project build-up of costs and benefits based on an individual farm-level horizon of 15 years.
iii. Current income levels (and assumed "without project" incomes) are assumed to be $100 per family per year, of which own consumption is a component.
iv. Beneficiaries in the subsistence model derive a small proportion of their income from off-farm employment (mainly as *ganyu* labor, as is the current situation) which will come into affect by year 3, once shelter and basic infrastructure has been constructed.
v. It is assumed that no credit is available for smallholders.
vi. Smallholder production yields of all crops are expected to increase by 2% per year as productivity performance and technology adoption increase.
vii. Input costs include fertilizer, seeds, establishment costs and farm implements. Output prices assume low quality, farm gate prices. Yields assume low fertilizer use.
viii. Family labor is valued at the *ganyu* labor rate (informal labor) of MK10/day, the opportunity cost
ix. The land price is assumed to be fixed throughout the four districts at $175/ha. The project is assumed not to affect the price of land. Adjustments in land tax and ground rents (expected to be part of the new Land Policy when it gets codified into law) are expected to contain any possible price escalation.
x. A discount rate of 12% is used, in line with the figure recommended by the Ministry of Economic Planning and Development.
xi. Significant distortions in the economy in input costs (e.g. fertilizer) and output prices are assumed to be minimal. Therefore, financial and economic costs and prices are assumed to be virtually the same (except for a minor taxable proportion of input costs).
xii. The nonfarm multiplier from the linkage effect of a change in farm cash on the local economy is assumed to be 1.5.

Costs accruing at the family level include the grant for land acquisition ($350), agricultural support (starter pack, $60), and basic settlement costs (shelter, amenities and settlement allowance, $640) i.e. total of $1050.

Benefits included in the analysis include: the net cash derived from crop sales (i.e. sold output less purchased inputs), family consumption of own production and a nominal valuation of the asset

accumulation from the sweat equity in the shelter and basic infrastructure.

Overall project costs include the total per family grant (15,714 beneficiaries at $1050 = $16.5 million) and "overhead costs" of land administration ($2.1m), capacity building ($3.5m), project management and M&E ($5.8m). $100,000 per year is estimated as the ongoing overhead cost after the project is completed. Therefore the total direct project cost is $27.9m.

The following **benefits** have been **ignored** in the analysis as they are either difficult to value, or due to data shortages: (i) value of land improvements expected, for example, it is likely that some smallholders will plant fruit trees which will yield benefits; (ii) value contributed by social infrastructure constructed under MASAF i.e. schools, clinics, roads. It is not clear what number of these activities will be completed and it is difficult to include them in the analysis; (iii) expected health improvements (lower morbidity and less health costs) associated with improved nutrition, water supply and sanitation; (iv) other benefits associated with increased security of tenure, for example, increased investments in home and consequent capital accumulation; (v) livestock production, in particular, goats and chickens (and possibly cattle and pigs in certain districts) is likely and should lead to substantial production benefits.

Beneficiaries are anticipated to enter the project evenly across the districts in the proportions given in table 1.

Table 1: Beneficiary build-up

	year 1	year 2	year 3	year 4	year 5	Total
	7%	20%	33%	27%	13%	100%
Mangochi	262	786	1310	1048	524	3929
Machinga	262	786	1310	1048	524	3929
Mulanje	262	786	1310	1048	524	3929
Thyolo	262	786	1310	1048	524	3929
Total	1048	3143	5238	4190	2095	15714

The net financial and economic benefit from the individual farm models represent the net benefit stream for the land acquisition and farm development component as shown in Table 2. The breakdown of the overhead costs are as developed in the project costing. Project net benefits then subtract out the overhead cost from the net benefit stream from the farm models.

Table 2: Benefit build-up for project

Year	Net financial benefit from land and farm dev.	Net economic benefit from land and farm dev.	Overhead costs					Project net financial benefit	Project net economic benefit
			Land admin.	Cap. Build.	Proj. Man. & M&E	Ongoing overheads	Subtotal		
1	(0.8)	(0.8)	1.38	0.56	1.87		3.8	(4.7)	(4.6)
2	(2.4)	(2.4)	0.50	0.76	1		2.3	(4.7)	(4.6)
3	(3.6)	(3.5)	0.50	0.9	0.87		2.3	(5.9)	(5.8)
4	(1.8)	(1.7)	0.50	0.78	0.99		2.3	(4.1)	(3.9)
5	0.9	1.1	0.50	0.7	0.99		2.2	(1.3)	(1.1)
6	3.3	3.7				0.1	0.1	3.2	3.6
7	3.7	4.2				0.1	0.1	3.6	4.1
8	4.0	4.5				0.1	0.1	3.9	4.4
9	4.1	4.7				0.1	0.1	4.0	4.6
10	4.2	4.9				0.1	0.1	4.1	4.8
11	4.4	5.1				0.1	0.1	4.3	5.0
12	4.5	5.2				0.1	0.1	4.4	5.1
13	4.6	5.4				0.1	0.1	4.5	5.3
14	4.7	5.5				0.1	0.1	4.6	5.4
15	4.8	5.7				0.1	0.1	4.7	5.6
16	5.0	5.9				0.1	0.1	4.9	5.8
17	5.1	6.0				0.1	0.1	5.0	5.9
18	5.1	6.1				0.1	0.1	5.0	6.0
19	5.1	6.1				0.1	0.1	5.0	6.0
20	5.1	6.1				0.1	0.1	5.0	6.0
Total	60.1	71.9	3.4	3.7	5.7	1.5	14.3	45.8	57.6
NPV	11.9	15.1	2.9	3.0	4.8	0.7	11.1	0.8	4.1

Table 3 shows the summary results of the cost-benefit analysis. Financial and economic costs are assumed to be the same (see assumptions), however economic benefits include a small component of incremental taxes (derived from tax on agricultural inputs) and the linkage effects of changes in farm income. These economic benefits have little impact on the subsistence model, however are much greater in the semi-commercial and tea models.

Table 3: Summary cost-benefit analysis results

	Farm models			Total Project
	Subsistence	Semi-commercial	Tea	($ millions)
Proportions of households (hh)	80%	10%	10%	100%
Number of hh	12,571	1,571	1,571	15,714
Uniform grant ceiling	$1,050	$1,050	$1,050	
Area per hh	2	2	2	
Total area	25,142	3,143	3,143	31,428
Land price	$175	$175	$175	
Area under cultivation	1.5	1.8	1.5	
Annual revenue per ha planted	$120	$392	$415	
Financial analysis				
NPV of total costs	$1,050	$1,050	$1,050	$13.0
NPV of total benefits	$1,578	$3,411	$2,544	$13.7
NPV of net financial benefits	$528	$2,361	$1,494	$0.7
Economic analysis				
NPV of incremental taxes	$10	$12	$15	$0.2
NPV of linkage effects	$24	$1,239	$805	$3.1
NPV of net economic benefits	$563	$3,611	$2,314	$4.1
FRR	22%	45%	34%	13%
ERR	22%	59%	43%	15%

As the project is piloting new approaches to land redistribution, in particular, market-based land transactions (willing buyer and willing seller) and community-driven approaches, a high proportion of the total project costs (43%) are for "overhead costs" i.e. costs not in the land acquisition and farm development component. If we were to analyze the project net benefit for just this component, the economic benefits are much higher. This is arguably the more realistic net present value.

Land acquisition and farm development component

Financial	NPV	$11.9
	FRR	27%
Economic	NPV	$15.1
	ERR	30%

If we assume 50% of the overhead costs will be needed in a scaled-up project, and thus, the project overhead cost are reduced by 50%, the overall project FRR is 18% and the ERR is 20%. Similarly, at 70%, FRR = 15%; ERR = 18%.

2. **Farm Income Analysis:**

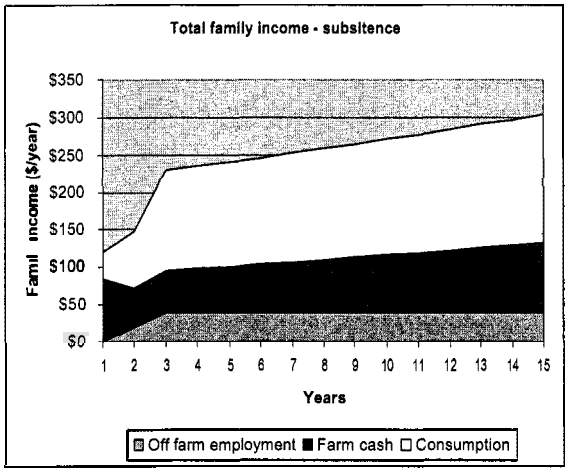
Farm incomes in all three models are expected to rise substantially. This is due to a rise in consumption (currently target beneficiaries do not consume enough all year round for an adequate subsistence quantity) and a rise in cash income. Consumption figure have been valued at the same price as outputs, and are assumed to level off at a subsistence level of 600-700 kg of maize per family. Cash income is derived from primarily from crop sales with a small proportion from off-farm labor.

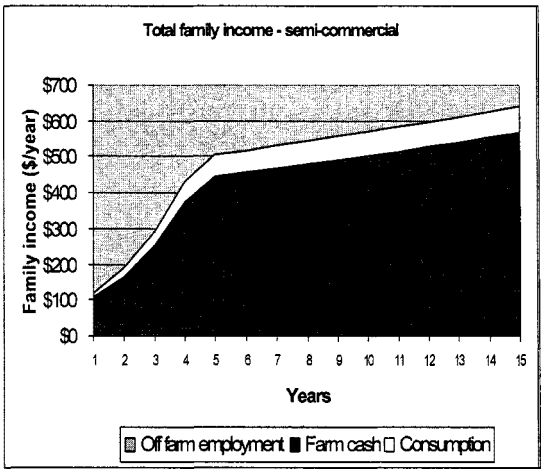
Table 4 Family income

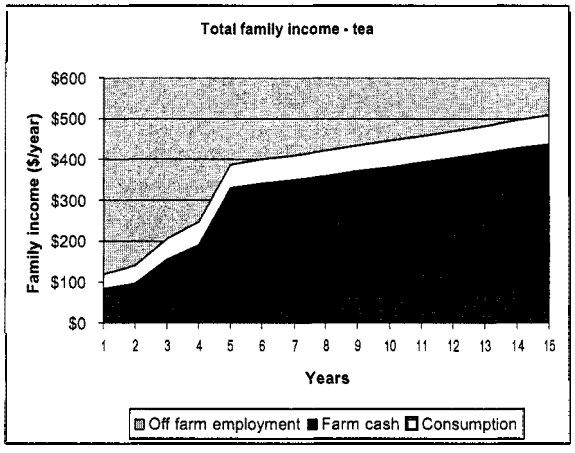
Family Income Compared to base year	Model 1	Model 2	Model 3	(weighted average)
Year 3	138%	211%	120%	143%
Year 6	155%	451%	319%	201%
Year 15	213%	579%	433%	272%
Household consumption of own maize (kg)	617	108	390	
Annual days family labor per farm (year 5)	116	145	232	

Figure 1 graphically presents the rise in family income due to cash income, consumption and off-farm employment over the project life.

Figure 1: Family income over project life







3. **Sensitivity Analysis:**

The net present value of net economic benefits is positive ($4.1 million) and has been calculated using conservative assumptions, therefore, the positive economic rationale for the project should be robust. The sensitivity of this assertion on key assumptions is analyzed below:

i. **Land prices**: An increase in the land price – due to an increase in demand for estate land (assuming the market mechanism for controlling the price through increased ground rents and land taxes does not to work, or is not implemented) – will have little impact on project benefits as it will not impact agricultural productivity. Less grant will be available for shelter and infrastructure, however it is assumed that the beneficiaries will still purchase 2 ha. for agricultural production.

ii. **Crop yields**: While conservative assumptions have been made, it is possible that even lower crop yields could be achieved due to drought, or exceptionally low performance of beneficiaries. If yields are reduced by 10%, project NPV drops to -$0.2. At 20% lower yields, NPV for the project is -$4.4, however the NPV for the land acquisition and farm development component is still positive until yields are reduced by 33%.

iii. **Input and output prices**: Increasing input costs by 50% will lower project rate of return to 13%. Subsistence smallholders will not experience an increase in cash income until year 12, however they will still have a large increase in consumption. If output prices, for each commodity, were to drop by 10%, the ERR would still be above the rate of capital (12%), however at 20%, this would drop to 9%. Conversely at, prices 20% higher than current prices, the overall project ERR would rise to 20%, with FRR's for the three models at 29%, 53% and 41% for the subsistence, semi-commercial and tea models respectively.

iv. **Cropping pattern**: Changes in the crops grown and area cultivated will clearly have a large difference on the overall returns of individual farmers. While all the possible scenarios are impractical to model, the following are worth noting (i) If subsistence farmers grow 1.5 ha of just local maize (and nothing else) and the semi-commercial and tea models are as given, the ERR for the project is 3%, however the ERR for land acquisition and farm development component is still above cost of capital. Smallholders experience a decrease in income until year 8 and (ii) If subsistence farmers grow 1ha of just hybrid maize, the project ERR = 12%.

v. **"Capture" by non-poor:** If the targeting mechanism of the project fails, and non-poor, or non-land poor beneficiaries qualified for the grant, in economic terms, this is represented by an increase in the estimate of the existing income levels of target beneficiaries. If we assume we have under-estimated annual cash incomes by 100% i.e. beneficiaries actual incomes are $165 per year, NPV for the project drops from $4.1m to $0.6 (ERR = 13%), and incomes do not increase as dramatically as estimated in Table 4, however increased incomes still range from 26% (year 3) to 288% over the project life.

vi. **Linkage effects:** The analysis assumes a nonfarm multiplier of 1.5. The linkage effect at project level results in a NPV of $3.1 million (most of which is derived from the semi-commercial and tea models). If we assume no linkage effects, the project NPV drops to $0.9 million, however, if we assume the multiplier is 2, our NPV rises to $7.2 million. Obviously, there is no impact on farm incomes.

vii. **Proportion of beneficiaries in each model**: If we assume that 100% of beneficiaries are in the subsistence model, the NPV is -$2m (with IRR of 10%), however still strongly positive NPV for component 1 ($7.7m with ERR of 23%). However, increases in income (the primary objective of the project) are still very high (103% in year 3). If we assume 20% of tea model (and 0% semi-commercial), ERR = 15% and if we assume 20% semi-commercial (and 0% tea), ERR = 18%.

viii. **Valuing asset accumulation:** The analysis has considered a small component (20%) of the

infrastructure cost as a benefit accrued to the family through sweat equity (see project costs and benefits). However, if we do not value this benefit at all, the impact on the rate of return is negligible (15% to 14%).

ix. **Beneficiary build-up**: If we assume that the initial demand for the project is weak, and beneficiaries only join in the following proportions: 0%, 10%, 20%, 30% 40%, this has little impact on the overall ERR (14%). Indeed, even if we assume there is no beneficiaries in the first 4 years, and all in the last, project ERR is 12%. Higher beneficiary demand early on the project increases project net benefits.

4. **Fiscal Impact**:

The following fiscal impacts are considered:

i. Agricultural production: agricultural production will increase in the four pilot districts which adds to the national aggregate production and enhances national self-sufficiency in food crops.
ii. Tax revenue: NPV of the incremental tax increase as a result of the project is not significant ($168,000).
iii. While it has not been fully quantified, the project should have a positive impact on the rate of employment.
iv. Poverty reduction: while the impact of lifting 15,000 poor families (currently under subsistence level) has not been explicitly quantified, this clearly has national level significance on the drain on the economy, for example, in food hand-outs and health care.
v. Scale-up: the cost, and fiscal impact, of a scaled-up project is considered in a separate annex.
vi. Without project scenario: the potential economic consequence of not doing the project, and not addressing the increasing social tension arising from the land issue could have potentially dramatic economic consequences.

Main Assumptions:

i. Increased access to land increases incomes of beneficiaries
ii. Progress in the unfinished agricultural policy reform agenda through adjustment programs is effective and enhances the profitability of smallholder farmers
iii. Existing land law provides sufficient tenure security to encourage on-farm investments
iv. Localized tensions around land issues do not intensify because of political interference
v. Beneficiaries have sufficient access to technical and financial assistance to prepare and implement profitable land acquisition and farm development proposals.

Sensitivity analysis / Switching values of critical items:

Annex 5: Financial Summary

MALAWI: Community-Based Rural Land Development Project

Years Ending

	IMPLEMENTATION PERIOD						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Total Financing Required							
Project Costs							
Investment Costs	5.5	5.5	7.7	6.2	3.6	0.0	0.0
Recurrent Costs	0.2	0.3	0.3	0.3	0.3	0.0	0.0
Total Project Costs	5.7	5.8	8.0	6.5	3.9	0.0	0.0
Total Financing	5.7	5.8	8.0	6.5	3.9	0.0	0.0
Financing							
IBRD/IDA	5.1	5.1	7.3	6.0	3.5	0.0	0.0
Government	0.4	0.5	0.5	0.4	0.2	0.0	0.0
Central	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-financiers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Beneficiaries	0.2	0.2	0.2	0.2	0.2	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Project Financing	5.7	5.8	8.0	6.6	3.9	0.0	0.0

Main assumptions:

Annex 6(A): Procurement Arrangements
MALAWI: Community-Based Rural Land Development Project

Procurement

General:

Malawi has a new Procurement Law which was passed by Parliament on May 22, 2003 and became effective on August 21, 2003. The Law establishes the Office of Public Procurement. However, this office is not yet operational because the Director and his Deputy are yet to be appointed and procurement regulations are yet to be finalized. A Country Procurement Assessment Report (CPAR) for Malawi has been carried out and the first draft has been produced.

The procurement of goods, works and consultant services will be governed by the Development Grant Agreement and procurement plans prepared by the Project Management Unit (PMU) in the Ministry of Lands, Physical Planning and Surveys (MLPPS) in close collaboration with MASAF, and approved by IDA. Procurement for all IDA financed goods and works will be carried out in accordance with IDA's *Guidelines for Procurement under IBRD Loans and IDA s published in January, 1995 and revised in January and August, 1996; September, 1997 and January, 1999.* The IDA's Standard Bidding Documents (SBD) and Standard Bid Evaluation Forms will be used.

Consultant services contracts financed by IDA will be procured in accordance with IDA's *Guidelines for Selection and Employment of Consultant by World Bank Borrowers published in January, 1997 and revised in September, 1997 and January, 1999 and May, 2002.* IDA's Standard Request for Proposals (RFP) will be used for Quality and Cost Based Selection (QCBS) and Standard Form of Contract as needed and also the Sample Form of Evaluation Report for the Selection of Consultant.

In addition to complying with IDA's Guidelines, procurement will also comply with the new Procurement Act. However, in the event of a conflict between IDA Guidelines and the Act, the former will prevail and failure to adhere to the Guidelines and detailed procedures as described in the Procurement Procedures Manual may result in the activities being declared ineligible for IDA funding.

Procurement Arrangements:

Procurement for the Project's community-demand-driven component--the Land Acquisition and Farm Development component--will be implemented by MASAF, utilizing existing MASAF 3 procedures and institutional setup. The PMU will implement procurement under the Land Administration, Capacity Building, and Project Management and M&E components.

Procurement of goods, works and services for the project will follow IDA procedures and Guidelines referred to above. The land acquisition portion of the Land Acquisition and Farm Development Component will follow the detailed procedures as set out in the Operational Manual, having due regard to economy and efficiency. The first two land acquisitions made in each district will be subject to prior review by IDA. The farm development portion will follow Community Participation procurement as described below. The Project Management Unit (PMU) in the MLPPS will implement the Land Administration, Capacity Building, and Project Management and M&E components. Under this arrangement Project Management Committees (PMCs), Community Based Organizations (CBOs), and Nongovernmental Organizations (NGOs) will take primary responsibility for procuring goods, civil works and services, but will receive support from the MASAF Management Unit (MU). The exact mix of goods, civil works and services to be financed in the Land Acquisition and Farm Development sub-projects of the Grant will depend on the

results of demand-driven identification and appraisal process. The relationship and specific procurement responsibilities of the MASAF MU, District Assemblies, NGOs, CBOs and PMCs will be already spelt out during the orientation and training that precedes each sub-project proposal's implementation.

Procurement Capacity:

There are two main executing agencies for this Grant, MLPPS and MASAF. An agency procurement capacity assessment has not been carried out for MASAF 3 which is to implement the community demand-driven (CDD) components. However, the implementing agencies to be assessed are well-known to IDA through experience with them on MASAF I and II and these should be retained to implement the CDD components of the project. IDA's experience through closely following up the implementing agencies under the last two MASAF projects has shown that there were no major procurement or contract administration issues that affected the successful implementation of the projects. PMC's, NGO's, CBO's and staff at MASAF MU have all been trained in IDA procurement procedures. Based on the above, overall procurement risk to implement CDD components of this project through MASAF III is considered **average**.

A procurement capacity assessment of the MLPPS was carried out in accordance with OPCPR Instructions of July 15, 2002. The capacity of the Ministry to plan, implement, monitor and evaluate procurement has gradually been declining due to lack of procurement training and high staff turnover. The Ministry has, therefore, limited capacity to implement the project. The procurement risk is considered **high**. As already mentioned, the CBRLDP's components which are not community-demand-driven, will be implemented by a Project Management Unit to be specifically established for the project. The PMU will be composed of seven key personnel: Project Manager who will report to the Controller of Lands, a Land Acquisition and Farm Development Manager, a Finance Manager, a Land Administration Manager, a Capacity-Building Manager, a Monitoring and Evaluation Specialist and a Procurement Specialist who will be highly experienced in IDA projects, to organize all the procurement under Land Administration, Capacity Building, and Project Management and M&E components. Individuals with qualifications acceptable to IDA will be recruited to fill these positions.

Procurement Plans:

Goods, works and services will also be procured in accordance with annual procurement plans prepared by MASAF and the PMU and approved by IDA. MASAF and PMU are in the process of preparing these plans. The plans from PMU and MASAF will be reviewed and finalized at negotiations and will form part of the Project Implementation Plan. The Procurement Plans will be reviewed every six months during implementation.

Procurement Procedures Manual:

A Procurement Manual has been drafted by the MLPPS as part of the Project Implementation Manual. In further refining and reviewing these manuals, MLPPS should solicit participation of all stakeholders, set out the procurement plans, assess local counterpart fund requirements, specify responsibilities for commitment and implementation, and the risks that need to be controlled.

Procurement monitoring and audit procedures for the community demand driven components will follow the guidelines established under MASAF and are described in the Project Implementation Manual.

Procurement Monitoring:

During implementation, the PMU will provide quarterly reports on progress of procurement highlighting difficulties encountered in the past, and how these would be addressed in the future to ensure timely project completion. There will be procurement supervision every six months which will include special procurement supervision for post reviews. During these missions, IDA will review one in every five randomly selected contracts which are below the prior review threshold specified below.

Procurement Methods:

Procurement methods for goods and works will include International Competitive Bidding (ICB), National Competitive Bidding (NCB), National Shopping (NS), International Shopping (IS), Direct Contracting and more importantly Community Participation procurement methods which include local shopping, local bidding, community force account and direct contracting (paragraph 3.15 of the Guidelines).

Procurement methods for consultant services will include Quality and Cost Based Selection (QCBS), Least-Cost Selection, Selection Based on Consultants Qualification, Individual Consultants Selection method and Single Source Selection.

A General Procurement Notice (GPN) and Specific Procurement Notice (SPN) will be published in the United Nations Development Business and local newspapers for all ICB and QCBS. Notice is required to be given in sufficient time to enable prospective bidders to obtain pre-qualification or bidding documents and prepare and submit their responses. The draft GPN will be submitted to IDA for prior review and approval. The GPN will be updated annually, showing all outstanding ICB for goods and QCBS for consultant contracts, and submitted to IDA.

1. **International Competitive Bidding (ICB).** Goods estimated to cost US$150,000 equivalent or more shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines. To the extent practicable, contracts for goods shall be grouped in bid packages.
2. **National Competitive Bidding (NCB).** Goods estimated to cost more than US$30,000 equivalent and up to US$150,000 per contract may be procured under contracts awarded in accordance with the provisions of paragraph 3.3. and 3.4 of the Guidelines. NCB Bidding Documents for goods currently being used by IDA projects and previously cleared by IDA, will be used.
3. **International Shopping (IS) or National Shopping (NS).** Goods estimated to cost less than US$30,000 per contract may be procured under contracts awarded on the basis of International or National Shopping procedures, in accordance with the provisions of paragraph 3.5 and 3.6 of the Guidelines.
4. **Direct Contracting.** Goods which should be procured as an extension of an existing or must be purchased from the original supplier to be compatible with existing equipment or are of proprietary nature or must be procured from a particular supplier as a condition of a performance guarantee and costing US$1.0 million equivalent or less in aggregate, may with the Association's prior agreements, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.
5. **Community Participation.** Goods and works required under the Land Acquisition and Farm Development component will be procured under MASAF through Community Participation utilizing a combination of methods which include Local Shopping, Local Bidding, Direct Contracting and Community Force Account as described below. Land shall be acquired with due attention to economy and efficiency, through cost and competitive assessment based on prevailing prices in the market, and in accordance with procedures set forth in the Project Implementation

Manual.

6. **Local Shopping.** This is a simple version of National Shopping and is the most commonly used procurement method. In this process, communities will solicit at least three price quotations for the purchase of goods, materials or services (other than consulting services) in order to make a cost comparison. Quotations will be submitted in writing and opened at the same time in the presence of community members. As a general rule, the supplier who offers the lowest price should be awarded the contract. Factors such as quality, availability and transportation costs should be taken into account when comparing the potential suppliers. In relation to works, contractors may be hired to carry out a particular part of an activity that is technically or physically beyond the community's capacity. Again, at least three quotations are submitted on the basis of simplified quotation forms. The forms would describe the scope of the works, detail specifications and where possible include drawings. Goods estimated to cost not more than $10,000 equivalent per contract may be procured through this method.
7. **Local Bidding.** This is a simplified version of NCB (with local or regional competition and simplified contracts and bidding documents) and is used for larger contracts. This process requires a level of procurement expertise on the part of the community. Communities are often interested in open competition in order to enhance the economy, a perception of fairness and equal opportunity to suppliers and contractors. Open tendering procedures would be limited to local advertising using local newspapers, community radio stations, posting notices on trees at strategic places or announcements in churches and community/public meetings. The request for bids spells out the work or goods needed, the criteria for selection, and the deadline for submission of bids. Bids are opened in a public ceremony. The bids are evaluated by a committee appointed by the community. Bids are examined to determine whether they meet the minimum specifications mentioned in the bidding documents (experience, quality of works, equipment, services offered and delivery dates). Bids that meet the minimum requirements specified in the bid invitation are retained for further evaluation and the bidder who meets the minimum requirements and offers the lowest bid is selected. The award and amount of the contract should be announced to all bidders. A contract should be signed within five days of the announcement. Goods and works estimated to cost more than $10,000 equivalent per contract, but not exceeding $50,000 equivalent per contract, may be procured under this method.
8. **Direct Contracting.** This method may be used when the cost to the community of another procedure would be disproportionately high relative to the value of the procurement itself and where only one supplier or contractor is available locally. Other reasons for direct contracting could be urgency, the need to adopt certain technology or a repeat order. The supplier can thus be chosen without going through either the bidding or shopping procedures described above, provided the cost are in line with local market rates (using an updated Unit Cost Database). Direct contracting should be one case that requires approval of the community committee in order to remove the inherent risk of comparison. This method may be used for items estimated to cost not more than $3,000 equivalent per contract.
9. **Community Force Account.** Under a community force account, the community may implement the sub project using its own resources (skilled and unskilled labor, materials, equipment) and may sub-contract part of the sub-project. Works under the Land Acquisition and Farm Development component estimated to cost $2.0 million equivalent or less may be carried out through this method.
10. **Quality and Cost Based Selection (QCBS).** Consultant services contracts estimated to cost US$ 100,000 or more equivalent per contract shall be procured in accordance with the provisions of paragraph 3.13 through 3.18 of the Consultant Guidelines. Where QCBS is used for consultants services estimated to cost less than US$100,000 equivalent per contract, the shortlist may comprise entirely national consultants in accordance with provisions of paragraph 2.7 of the Consultant

Guidelines.

11. **Least Cost Selection.** Services for audits and technical services estimated to cost less than US$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraph 3.1 and 3.6 of the Consultant Guidelines.
12. **Selection Based on Consultants' Qualifications.** Services of firms estimated to cost less than US$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraph 3.1 and 3.7 of the Consultant Guidelines.
13. **Individual Consultants.** Services of individual consultants estimated to cost less than US$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.
14. **Single-Source Selection.** Services which are estimated to cost less than US$100,000 equivalent per contract, may, with IDA's prior agreement, be procured under contracts awarded in accordance with the provisions of paragraph 3.8 through 3.11 of the Consultant Guidelines.

Prior Review Thresholds:

For goods, all contracts estimated to cost the equivalent of US$150,000 and US$200,000 respectively, will be subject to prior review of IDA in accordance with procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines. The first two Land Acquisition and Farm Development sub-project proposals in each of the four pilot districts will also be subject to prior review by IDA. The first two contracts awarded under NCB, the first three contracts awarded under NS or IS and all contracts awarded under direct contracting by the PMU shall be subject to IDA's prior review.

Consultant services contracts estimated to cost US$100,000 equivalent per contract or more shall be subject to IDA's prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 of the Consultant Guidelines. Consultant services contracts procured under Selection Based on Consultants' Qualifications and Individual Consultants estimated to cost more than US$ 100,000 and US$50,000 equivalent per contract respectively, shall be subject to IDA's prior review.

All services contracts procured through Single Source Selection shall be subject to IDA's prior review.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements
(US$ million equivalent)

Expenditure Category	Procurement Method				Total Cost
	ICB	NCB	Other[2]	N.B.F.	
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods Equipment and supplies	1.70 (1.70)	0.25 (0.25)	0.05 (0.05)	0.00 (0.00)	2.00 (2.00)
3. Services Technical Assistance, Studies, Training, Workshops	0.00 (0.00)	0.00 (0.00)	5.50 (5.50)	0.17 (0.00)	5.67 (5.50)
4. LAFD Sub-projects	0.00 (0.00)	0.00 (0.00)	15.00 (15.00)	1.50 (0.00)	16.50 (15.00)
5. Operating Costs	0.00 (0.00)	0.00 (0.00)	4.50 (4.50)	1.11 (0.00)	5.61 (4.50)
Total	1.70 (1.70)	0.25 (0.25)	25.05 (25.05)	2.78 (0.00)	29.78 (27.00)

[1/] Figures in parentheses are the amounts to be financed by the Bank Grant. All costs include contingencies.

[2/] Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Prior review thresholds (Table B)

Table B: Thresholds for Procurement Methods and Prior Review[1]

Expenditure Category	Contract Value Threshold (US$ thousands)	Procurement Method	Contracts Subject to Prior Review (US$ millions)
1. Works	<US$ 200,000	NCB	First Two
	<US$ 50,000	Price Comparison	First Three
	All values	Direct Contracting	All
2. Goods	=>US$150,000	ICB	US$ 150,000
	<US$ 150,000	NCB	First Two
	<US$ 30,000	NS or IS	First Three
	All values	Direct Contracting	All
3. Services			
Firms	=>US$ 100,000	QCBS	US$ 100,000
	<US$ 100,000	LCS, SBCQ	-
	<US$ 100,000	Single Source Selection	All
Individuals	=>US$ 50,000	IC	US$ 50,000
	<US$ 50,000	IC	-
	<US$ 100,000	Single Source Selection	All
4. Sub-projects	>US$ 10,000=< 50,000	Community Participation-Local bidding	1st 2 in each district
	=<US$ 10,000	Community Participation-Local shopping	
	=<US$ 3,000	Community Participation-Direct contracting	
	=<US$ 50,000	Community Force Account	
5. Miscellaneous			
6. Miscellaneous			

Total value of contracts subject to prior review:

Overall Procurement Risk Assessment: **High**

Frequency of procurement supervision missions proposed: One every 6 months (includes special procurement supervision for post-review/audits)

[1] Thresholds generally differ by country and project. Consult "Assessment of Agency's Capacity to Implement Procurement" and contact the Regional Procurement Adviser for guidance.

Annex 6(B): Financial Management and Disbursement Arrangements
MALAWI: Community-Based Rural Land Development Project

Financial Management

1. Summary of the Financial Management Assessment

The Project will be implemented in a moderate to high risk environment. This is derived from the just concluded Malawi Country Financial Accountability Assessments Country Financial Accountability Assessments: a collaborative assessment by the Government of Malawi, the World Bank and a Select Group of Strategic Partnership for Africa (SPA) donors, issued on September 15, 2003. The report outlines problems of budget execution in ensuring that the allocated resources are utilized efficiently for the intended purposes and in obtaining comfort that value for money has been achieved. Inadequate linkage between policies and budget processes have made it impossible to measure outputs from activities where resources have been utilized. Lack of compliance with established financial regulations have rendered ineffective all forms of internal control in the public sector making the existing systems even weaker.

The specific risk related to the project stems from the fact that the major project components deal with communities, which have limited capacity to manage funds of the magnitude being envisaged in this operation. Naturally, Community Driven Development (CDD) activities are risky owing to multiplicity of actors, including the geographic dispersal of community activities, making control of activities difficult.

A Financial Management Capacity Assessment of the two main implementers of the program (MLPPS and MASAF) was carried out using Bank Guidelines issued by the Financial Management Sector Board on October 15, 2003. The capacity of the MLPPS, the main Bank interlocutor on the project, was assessed as weak in terms of human capacity and strength of government systems. The capacity of the MASAF MU, which is going to disburse and manage over 63% of the proposed grant, was assessed as strong.

The major risks arising from the assessment are low capacity in MLPPS, and at community level, the risks of beneficiary groups' project management committees not to be accountable to the group members they serve. It is also expected that teething problems on the development of proposals for Land Acquisition and Farm Development will occur, which, if approved by the District Assemblies, could give rise to problems of under/over costing of the activities. Full and transparent accounting for the use of sub-project funds at community would also pose challenges.

Being a first operation with the MLPPS, and the fact that its capacity is weak, the assessment recommended that a new system should be designed and used for this project. This system will be outside government financial accounting systems, but with an acceptable interface with the Integrated Financial Management Information System (IFMIS) project module. The generic design of such an accounting system was discussed and agreed to during appraisal. Once designed, the system will be computerized to facilitate timely and accurate production of accounts and other requisite reports which will be consolidated with similar reports from the MASAF-managed component of the project to be shared with stakeholders.

Since the project total costs are above $20 million, the project needs a qualified Director of Finance, who is already in place, two Assistant Accountants at the Ministry, and two Senior Accountants, one seconded to the MASAF MU. The Senior Accountant at MASAF will be responsible for processing transactions relating to the Land Acquisition and Farm Development component. The Director of Finance for the project based at MLPPS will be responsible for managing transactions relating to project management, capacity-building for the Ministry and managing transactions relating to consultants. A detailed action plan to strengthen financial management of the Project Management Unit in the Ministry is contained in the

Capacity Assessment Report to the Task Team Leader whose copy is to be shared with the Government of Malawi, specifically the MLPPS. This annex contains salient features of such a report .

Besides developing a specific chart of accounts for the project in its Financial Management Accounting Handbook (currently in place) and in the MASAF Financial Management System to reflect this particular project's transactions, Budget Codes to reflect project expenditures through IDA and government contribution will be reflected in the Government Budget. The project accounts, once consolidated, will have to comply with International Accounting Standards and Bank requirements for accounting, auditing and reporting. The budget codes developed will provide a linkage between the cost elements of the Project to outputs and outcomes as defined in the monitoring indicators of the operation.

A Community-Based Rural Land Development Project Steering Committee will be responsible for monitoring overall project implementation, while the National Technical Advisory Committee (NTAC) of MASAF will approve all proposals under the Land Acquisition and Farm Development component, after approval by the District Assemblies. Besides this, the Steering Committee will also be responsible for reviewing financial management matters of the project on a quarterly basis. The two project Accountants will be responsible for preparing books of accounts for the project and coordinating and facilitating the audit of the project semi-annually and the end of each fiscal year and ensuring that it is submitted to the Bank six months after the end of the fiscal year. Description of such reports is contained in the finalized version of the Project Implementation Manual and will be again discussed during negotiations.

Action Plan to mitigate against the major risks:

Risks identified during the Financial Management Capacity Assessment have been discussed with the PMU and the Director of Finance. During appraisal findings of the capacity assessment were discussed with the Project Manager, the Principal Secretary, Controller of Lands, Commissioner of Lands and the in the Ministry for them to support an action plan to correct observations made therein in before negotiation. To mitigate risks and strengthen controls as well as overall accountability at all levels within the project, the following interventions are planned:

i. At the level of MASAF, a Senior Accountant will be engaged to help the current, very qualified, and diligent accounts' team lead the process of processing of transactions and consolidating the requisite reports required for the project. Development of terms of reference for this post were done by December 31, 2003.
ii. Because of the weak systems observed in MLPPS and the low levels of internal controls, the bulk of disbursements will be done at the MASAF management unit owing to their strength of their financial management systems and internal controls besides their experience in dealing with communities. MASAF has developed a chart of accounts for this project to be integrated into their system and determined the number of signatories and levels.
iii. A separate financial management system will be developed outside government system for the components managed by MLPPS. The manual describing this system is in place. This financial management system should be computerized by December 31, 2004. It will be manned by a qualified Director of Finance (already in place), assisted by one Senior Accountant and two Assistant Accountants. By December 31, 2003 the project developed terms of reference for the two Assistant Accountants and is yet to advertised the posts in the most popular newspapers in the country.
iv. An internal audit unit will be established within the project unit to check on the levels of internal controls at district level as well as check on accountability at community level. Terms of reference and structure of the unit and its reporting lines have been determined and included in the projects

financial management manual.

v. It has been agreed that owing to these weaknesses, the project shall follow the traditional disbursement method and will be converted to report based disbursement when the project is assessed by the Bank to be ready.
vi. Semi-annual audits will be conducted by the office of the Auditor-General to check on operation of the systems at community, district, MASAF and Ministry level. These reports will help in putting together an action plan for the strengthening of such systems, monitored by the Steering Committee (on-going).
vii. Usage of Project Rural Appraisal techniques and further scrutiny by the District Executive Committee through use of the District Lands Officer to be engaged in the pilot districts will help deal with issues of over/under costing (on-going).
viii. The project has developed the format for reports which has been shared with the Bank.These reports will be the ones to be sent to stakeholders at district and Ministry level every quarter which should include the Steering Committee. This format of reports will be discussed and finalized at the negotiation meeting.
ix. The project has developed terms of reference for the audit of the project whose report should be submitted to IDA six months after the fiscal year end.
x. To promote accountability, groups of communities benefiting from the project will call for monthly meetings for their groups where they shall present a simple financial report and state how much the group still has in their Bank account. The tranches made available to groups of communities will be posted on trees, school bulletin boards and any other form of media upon receipt to promote transparency.

Institutional Arrangements:

The project will be coordinated and implemented by two parties: the PMU in MLPPS, and the MASAF MU. While MLPPS is the major beneficiary of the project, it will be directly responsible for managing and disbursing just over 40% of the grant, while the MASAF MU will be responsible for disbursing just over 60%. While MASAF 3 will finance infrastructure and other items as articulated in its PAD, what the MASAF MU will finance under this project is specifically land acquisition and farm development whose criteria is clearly developed in the operational manual. While the financial management system to be used for processing and recording transactions for the two projects will be the same, there will be a separate Senior Accountant to ensure that funds being paid out of this project relate to this project. The internal control system and the coding of transactions relating to this project will ensure that there is no overlap of items to be funded.

In MLPPS, a Project Manager (already in place) manages the project. He reports to the Principal Secretary of the Ministry on the operations of the project and every quarter to the Steering Committee. This Committee will discuss all reports from MASAF and the PMU on the progress of the project and make recommendations on next steps. An Operational Manual has been developed which clearly spells out the various job descriptions. Reporting to the Project Manager will be a Director of Finance and two Assistant Accountants.

At MASAF, the overall governing body will be the NTAC. An official from the MLPPS will be a member of this Committee. Beneficiary proposals for Land Acquisition and Farm Development sub-projects will first be appraised by the Field Appraisal Team, headed by the Lands Officer in the District, before being submitted to the DEC for approval. It is at this level where issues of valuation and pricing will be resolved through the use of qualified valuers on a retainer basis by the Local Assemblies. The District Lands Officer will be utilized to help resolve any problems at that level. DEC-approved proposals will then be

sent to the NTAC which will approve such purchases and payments made directly from the project account maintained by MASAF to the owner of the land (willing seller). Disbursements for farm development will follow the conditions specified in the Sub-Project Agreement.

Accounting System:

The new Public Finance Management Act was adopted in May 2003. Guidance for budgeting of GOM entities is currently governed by the Finance and Audit Act Chapter 37"01 assisted by Treasury circulars. The Act stipulates accounting and audit requirements from government entities and government-managed projects in general. The instructions define responsibilities and levels of authority within the Ministry. The Treasury instructions and circulars require all Government Ministries to submit expenditure returns at the end of each month outlining expenditures incurred during the month, commitments made and cash balances in their holding accounts at the Reserve Bank at the end of such months. The Project will follow a blend of instructions emanating from the newly designed system and instructions from government, including the need to submit monthly expenditure returns.

A Financial Management Accounting Systems Manual has been drafted which spells out the procedures to be followed for accounting transactions of the project at the PMU in MLPPS. MASAF already has a Financial Management Accounting Systems Manual. Accounting aspects to do with this project will be incorporated into the existing computerized accounting systems through introduction of account codes that reflect transactions of this project.

The accounting system at MLPPS is not yet in place. Consequently, a manual system will be established which shall use ledgers and cashbook for recording transactions. Reports from such a system will be done on spreadsheets. Such reports will be consolidated with reports from MASAF. It is expected that a computerized accounting system will be in place twelve months after the project will have been declared effective.

Communities that wish to buy or develop land after acquisition will organize themselves into a Project Management Committee (which is a group of willing buyers/land developers). This PMC will be responsible for the preparation of an action plan with their communities. After approval of their development plans for their farms by DEC, the plans will be eligible for funding. The PMCs will open a bank account for their investment sub-projects to which funds from the project management unit will be deposited and all eligible sub-project expenditures will be paid. These bank accounts are supposed to be opened in the same locality where most of the purchases will be made to avoid the danger of carrying large amounts of cash over long distances or keeping cash overnight. Signatories to this bank account will be Chairperson, Treasurer, the Secretary, and any one committee member. Funds to PMCs will be paid in tranches. The first tranche will be 40%, the second one will be 30% and the last one will be 30%. Eligibility for the second and third tranches will be only after submission to the District Assembly and requisite justification of 75 percent of each of the tranches by the internal audit unit of the assembly. When PMCs wish to apply for another tranche from the project management unit, the PMC should attach a bank statement showing the balance of the current account and deposits or cheque returned and bank reconciliation. This will be attached to a progress report which for the period which shows the expenditures made, the physical progress achieved and the procurement status for the period. Failure to do so will result into withholding of the requisite tranche.

Payments by communities are supposed to be by cheque to lessen abuse of cash. The PMC must maintain a cashbook in which is listed cheque by cheque the expenditure from the current account. The amount of expenditure will be listed once in a summary column and again under the appropriate expenditure

categories. The expenditure categories will be those listed in the project agreement. In case of cash cheques that cover more than one expenditure category, the breakdown of expenditure must be done and allocated in as many columns as necessary.

The PMC will submit the Project Progress Report to a District Assembly office when seeking the next tranche. The report needs to be accompanied by all original receipts, invoices as well as the most recent bank statement which would be sent to the PMU. These will be reviewed and upon satisfactory justification will enable the project coordinating to send the next tranche.

Counterpart Contribution:

Counterpart contributions for the Land Acquisition and Farm Development component of the project will be in the form of Government-administered farms contributed to the project. An assessment of the exact number and value of these farms (already existing and for the project period) has been made to estimate the Government's counterpart contributions. No additional cash contributions need to be made by the Government for this component. Any person making cash contributions from the community for the project will be issued with a receipt. Community contribution in form of labour will be valued by costing the hours spent on a task at a task rate for predetermined (which is at 20% less of the market rate determined by government). This will be recorded using the MASAF MIS already established at district level.

For all other project components, the Government counterpart contribution will be provided in cash in accordance with the disbursement percentages agreed upon for each expenditure category. For consultant services, the applicable disbursement percentage is the Standard Disbursement Percentage agreed between the Government of Malawi and the IDA of 100% for foreign consultants and 80% for local consultants. IDA shall make disbursements against the eligible expenditures based on the invoices submitted for payment, inclusive of taxes.

Management Information System:

The project will use the MASAF Integrated Management Information System for the Land Acquisition and Farm Development component. For the other components a procurement tracking system will be developed within the project to track the major acquisitions in as far as they relate to project outputs. The details of this will be discussed during appraisal.

2. Audit Arrangements

Audits of Public Enterprises, which include Government projects, are the responsibility of the National Audit Office (NAO). The NAO uses International Organization of Supreme Audit Institutions (INTOSAI) standards when carrying out its audits. Annual audits of the CBRLDP will be carried out by the NAO or by an external auditor suitable to the World Bank. The Terms of Reference for the annual audit of the project have been agreed upon and are included in the Project Implementation Manual, ensuring that the auditors assess whether: a) the information is fairly presented for the specified period and cumulatively for the period with regard to project accounts and statement of sources and application of funds; and b) reported disbursements were made in accordance with the Development Grant Agreement and the Project Appraisal Document.

Based on the change in audit policy, the World Bank would accept a single audit opinion on the annual financial statements for this project instead of requiring separate opinions on statements of expenditure and special accounts, provided such statements reflect the transactions and balances associated with any such

statements of expenditure and special accounts. Bank staff will not be required to undertake SOE reviews on projects where the audit scope, auditor quality and audit report are considered acceptable. However, the Bank will retain the right to conduct SOE reviews.

Communities will not be subject to direct audits. Their expenditures will be checked through justification and internal audit processes. The supporting documents from communities will be retained at District Assembly level and, where necessary, sent to the MASAF Management Unit for checking and audit purposes.

Owing to the number of components and the fact that it will operate in four pilot districts and the fact that we are dealing with community transactions, it shall also be a requirement that separate semi-annual audits be carried out for purposes of checking on internal controls compliance with financial covenants, operations of statements of expenditures and special accounts. These semi-annual audits will be carried out for a six month period as agreed with the Association and audit reports will be furnished to the Association no later than two months after the end of the relevant six month period, as agreed with the Association. The separate semi-annual audits may be carried out by NAO, or, if it is jointly determined or shown that NAO cannot carry out the separate semi-annual audits in a timely fashion, they may be carried out by private auditors.

Internal Audit. An Internal Audit Unit will be established in the Project Management Unit. Their function will be to go around and check on the authenticity of transactions conducted by communities.

3. Disbursement Arrangements

Funds Flow. The flow of funds for this project has been agreed as follows:

Once funds have gone into each one of the Special Accounts, one managed by MASAF and another by the Project Management Unit, the two managing entities will transfer such funds into each one of their operating accounts to be opened at local commercial Banks. For project components to be managed by the PMU in the MLPPS, such funds will be used to pay for capacity building initiatives, project management, M&E, computers, vehicles, supplies, supervision, consultants and any other form of technical assistance envisaged under the project. In addition to these activities, the funds will also be used to pay for fees relating to land valuation at district level and development of plans for land development by communities.

There will be two classes of signatories on the local account to be managed by MLPPS.

i. Class A will consist of accounting staff who will be responsible for initiating payment for transactions in the project.
ii. Class B will constitute administrative staff which include the Principal Secretary, the Controller of Lands, the Commissioner for Lands, the Finance Manager, Senior Accountant and Chief Accountant in the Ministry.

For the MASAF-managed component, funds will be transferred into a local account from a Special Account when required. These funds will be used for payment of land being purchased by communities and financing of individual farm investments. For purchases of land, a group of willing buyers will come together, identify land and negotiate with the land owner. They will submit a Land Acquisition and Farm Development sub-project proposal, appraised by a team led by the District Lands Officer, to the District Commissioner who will table the issue to the District Executive Committee for approval. Once approved, the proposal will be forwarded to NTAC at MASAF for final approval. Payment for such land will be made directly to the seller's account from the local bank account. If the amount is large, arrangements will be made to pay the owner either from the Special Account or from the grant account through direct

payment.

The signatories on the MASAF-managed local bank account will be the Executive Director, the Acting Director of Finance in MASAF, the Senior Accountant, the Director of Sponsored Sub-Projects and any other officials deemed necessary.

Agreed Financial Reporting Formats:

The Project will use financial management, disbursement and reporting arrangements that are consistent with the guidance provided in the "Financial Monitoring Reports" guidelines issued by the Operations Policy and Country Services in November 2001 for the entire life of the project, the World Banks' Disbursement Handbook in conjunction with the Financial Reporting and Auditing Handbook (FARAH) issued in 1985 for the period prior to conversion to report-based disbursement. The MLPPS and the MASAF have agreed on producing Financial Monitoring Reports (FMRs) in the required reporting formats, though the basis of disbursements will be based on traditional methods. It is only when the project is assessed by the Bank to be ready that the projects disbursements will be converted to report-based.

Prior to conversion to report-based, the MLPPS and MASAF components will use traditional disbursement methods. Despite this methodology, the financial information will be consolidated in a Financial Monitoring Report (FMR) format and submitted to the Steering Committee and shared with the World Bank. In this manner, the PMU will practice consolidating and preparing FMR reports which will be used for purposes of disbursement when conversion is deemed appropriate.

The project will prepare and produce quarterly FMRs. The FMRs will comprise a financial report, a physical progress report and a procurement report. These reports will provide information on the progress of the project in terms of financial activity, key output measures and procurement for the relevant quarter. As for financial reports, they will include a statement showing for the period, and cumulatively, cash receipts by sources and expenditures by main expenditure classification; beginning and ending cash balances of the project; and supporting schedules comparing actual and planned expenditures. The reporting line items in the FMRs will follow the project's chart of accounts.

The cumulative FMRs over the project year will be used as the project's annual financial statement. This will result in a more cost-effective reporting.

A physical progress report will include a narrative write-up and output indicators, linking financial information with physical progress and highlight any issues that require attention. In procurement reports under the FMRs, such reports will provide information on the procurement of goods, work and related services, and the selection of consultants, as well as compliance with agreed procurement methods. This report will compare procurement performance against the plan agreed at negotiations or subsequently updated and highlight key procurements issues such as staffing and building capacity.

The currency used in the FMRs will be the Malawi Kwacha with the equivalent in dollars as a parallel column. This will become beneficial because the books of accounts for the project will be kept in Kwacha while those of the special account will be in US Dollars which will give rise to issues of translation. The FMR preparation and submission will be done on a quarterly basis. These will be used as a basis of disbursements. These will be submitted to the Task Team Leader within 40 days of the reporting period. Late submission may result in the application of legal remedies for noncompliance.

Since configuration of the finalized FMRs will take some time, the project will maintain accounts in

spreadsheet format, awaiting computerization of the automated accounting system at the Ministry. During this period, initially the project will disburse under the traditional disbursement methods. During this time, the accounting system will produce a summary Statement of Expenditures (SOEs) and a statement of withdrawal schedule, a balance sheet if deemed necessary, a Special Account statement and notes to the accounts. Each quarter the accountant will produce: (a) financial statements showing a summary of sources and uses of funds, and uses by project activity; (b) procurement monitoring reports; and (c) physical progress reports. These reports will be consolidated with the reports from MASAF and produce the FMRs.

Allocation of grant proceeds (Table C)

Table C: Allocation of Grant Proceeds

Expenditure Category	Amount in US$million	Financing Percentage
LAFD sub-projects	13.50	95% of amounts financed
Goods	1.80	100% of foreign expenditures, 80% of local expenditures
Consultant services	2.15	100% of foreign expenditures, 80% of local expenditures
Training and Workshops	2.37	100% of foreign expenditures, 80% of local expenditures
Operating Costs	4.00	85% in FY 2004/2005, 80% in FY2005/2006, and 75% thereafter
PPF Advance	0.48	
Unallocated	2.70	
Total Project Costs with Bank Financing	27.00	
Total	27.00	

Use of statements of expenditures (SOEs):

In the case of this project, the SOE methodology of disbursement will be used until the project is assessed by the Bank to be ready to utilize report based disbursement.

The SOE procedure is used in cases where the Bank is satisfied that acceptable financial management and accounting controls are in place to assure eligibility of expenditures. In this methodology, the Bank will reimburse the borrower for eligible expenditures for which supporting documentation, including evidence of payment has been retained by the borrower. The borrower will have to certify that in paragraph D of the Application for Withdrawal (Form 1903) that goods and services covered under the statement of expenditure have been provided and the relevant documents are available for inspection by the Bank. The SOE limits as articulated in this Annex in procurement will apply and will guide prior review on procurement.

SOEs will be used for reimbursements or Special Account replenishments against contracts for: (i) goods costing less than US$150,000; (ii) services of individual consultants costing less than US$50,000 for individuals; (iii) services of consulting firms costing less than US$100,000; (iv) training and workshops; (v) operating costs; and (vi) the Land Acquisition and Farm Development Sub-projects. This methodology will be used until the Project is assessed by the Bank to be ready to utilize report based disbursement. Mechanisms for disbursement will be clearly laid out in the Disbursement Letter.

Special account:

The project will have two Special Accounts (SAs) which will be opened through a commercial bank. While the Special Account levels will be determined by the level of advance made into them based on six monthly projection of activities from the time the project is assessed by the Bank to be ready to convert to report based disbursement, the level for the first Special Account to be operated by the PMU in MLPPS under transaction based disbursement is suggested to be set at $700,000, while the second one, suggested to be set at $1,200,000, will be managed by the MASAF MU. All requisite disbursement documentation, whether relating to reimbursement through statement of expenditures, direct payments, special account replenishments, or special commitments documentation will be initiated and kept by the PMU and MASAF MU. IDA should be informed of the two related accounts opening in the commercial bank and will deposit funds with the accounts once the project is declared effective.

Withdrawal applications for reimbursement, direct payment instructions and other disbursement requests will originate from the PMU and MASAF MU and will be endorsed by the Ministry of Finance (MOF) Claims Unit to the World Bank. Payment instructions direct to suppliers will be sent through the same route through commercial banks, as pursuant to World Bank instructions.

Upon review and approval of submitted withdrawal applications, or payment instructions, the World Bank's Treasury Department will pay grant funds being reimbursed into the project's two Special Accounts at a commercial bank. Such funds will then be transferred from the Special Account. The bank where the project accounts are maintained shall submit a letter of comfort on Bank funds from its headquarters to the World Bank.

Upon receipt of such funds by the commercial bank from the World Bank through the Special Accounts, the bank shall immediately notify the MOF about the receipt. The MOF shall immediately issue a note called Grant Ceiling Authority (CCA) to the project's banks totaling the sums received. The purpose of the note is to inform the local commercial bank that the project is allowed, for the period, to issue out cheques not exceeding the amount advised -pending receipt of some more funds which would necessitate issuance of another grant limit increasing the limit for expenditure for the project.

Payments paid through the local accounts, all related documentation, will be maintained by the CBRLDP PMU and MASAF MU for review by auditors and World Bank implementation support missions. Upon receipt of the commercial bank statements, the project's Special Accountants shall reconcile the accounts before submitting the withdrawal application to the MOF for onward transmission through the commercial bank to the World Bank. When the project begins to implement report-based disbursements, the procedure described under agreed reporting formats for report based documents shall apply.

The project will be audited by an independent auditor acceptable to IDA who would be appointed prior to grant effectiveness based on an audit scope as contained in terms of reference acceptable to IDA. Only one overall opinion will be issued on the overall project financial statements . The audited accounts will be submitted to the Bank six months after the end of each fiscal year from review.

Annex 7: Project Processing Schedule
MALAWI: Community-Based Rural Land Development Project

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	17	35
First Bank mission (identification)	05/01/2001	05/01/2001
Appraisal mission departure	02/11/2002	12/02/2003
Negotiations	07/15/2002	02/09/2004
Planned Date of Effectiveness	12/30/2002	

Prepared by:
Ministry of Lands, Physical Planning and Surveys

Preparation assistance:

Bank staff who worked on the project included:

Name	Speciality
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Jorge Munoz	first TTL, Agricultural Economist
Stanley Hiwa	second TTL, Agriculture and Land Reform
Shem Migot-Adholla	third TTL, Land Policy and Administration
John W. Bruce	Land Law, Policy and Administration
Kanagasabai Loganathan	Financial Management
Jayne Kwengwere	Processing
Melanie Jaya	Team Assistance, Processing
Meseret Kebede	Team Assistance, Processing
Francis M'Buka	Social Development
Caesar Chidawanyika	Agriculture and Land Reform
Nginya Mungai Lenneiye	Institutional Development
Hope Phillips	Operations
P.C. Mohan	Development Communication
Johnstone Nyirenda	Procurement
Tesfaalem Gebreiyesus	Procurement
Tijan Sallah	Agricultural Economic and Rural Development
Michael John Webster	Economic and Financial Analysis
Aziz Bouzaher	Environment
Donald Mphande	Financial Management and Analysis
Muthoni Kaniaru	Legal
Rajat Narula	Disbursement
Sylvester Kofi Awanyo	Procurement

Annex 8: Documents in the Project File*
MALAWI: Community-Based Rural Land Development Project

A. Project Implementation Plan

1. Malawi Community-Based Rural Land Development Project: Pilot Project Document. Ministry of Lands, Physical Planning, and Surveys. May, 2003.
2. Malawi Community-Based Rural Land Development Project: Project Implementation Manual.
3. Malawi Community-Based Rural Land Development Project: Land Development Handbook.
4. Malawi Community-Based Rural Land Development Project: Land Acquisition Handbook.
5. Malawi Community-Based Rural Land Development Project: District Land Administration Handbook.
6. Malawi Community-Based Rural Land Development Project: Capacity-Building Handbook.
7. Malawi Community-Based Rural Land Development Project: Financial Management Systems and Procedures Manual.
8. Malawi Community-Based Rural Land Development Project: Procurement Manual.
9. Malawi Community-Based Rural Land Development Project: Administration and Management Handbook.
10. Malawi Community-Based Rural Land Development Project: Environmental Impact Assessment Report (Vol. 1-4)
11. Malawi Community-Based Rural Land Development Project: Baseline Poverty Assessment Report.
12. Malawi Community-Based Rural Land Development Project: Rural Public and Private Land Supply Report.
13. Malawi Community-Based Rural Land Development Project: Monitoring and Evaluation Framework.
14. Malawi Community-Based Rural Land Development Project: Draft Resettlement Policy Framework Paper.
15. Malawi Community-Based Rural Land Development Project: Logframe.
16. Malawi Community-Based Rural Land Development Project: Environment and Social Analysis Report.

B. Bank Staff Assessments

Mission Aide-memoires, Appraisal Meeting Aide-memoire December 2-12, 2003

C. Other

1. Government of Malawi : Malawi National Land Policy, January 17, 2002.
2. Government of Malawi: The Presidential Commission of Inquiry on Land Policy Reform, 31 March 1999 (Vol. I).
3. Government of Malawi: The Presidential Commission of Inquiry on Land Policy Reform, 31 March 1999 (Vol. II).
4. Government of Malawi: Malawi Land Reform Program Implementation Strategy (2003 - 2007).
5. Government of Malawi: Chapter 57:01 Land Laws of Malawi.
6. Consultant Report for the Socio-cultural Appraisal December 2-12, 2003 by Pierson Ntata.
7. Consultant Report on Development of M & E System for the Project by Michael Aliber.

*Including electronic files

Annex 9: Statement of Loans and Credits

MALAWI: Community-Based Rural Land Development Project

27-Oct-2003

			Original Amount in US$ Millions					Difference between expected and actual disbursements[a]	
Project ID	FY	Purpose	IBRD	IDA	GEF	Cancel.	Undisb.	Orig	Frm Rev'd
P073821	2004	Multi-Sectoral AIDS Project (MAP)	0.00	0.00	0.00	0.00	36.26	0.00	0.00
P075911	2003	MASAF III	0.00	32.80	0.00	0.00	63.37	0.91	0.00
P078408	2003	FIN. MGMT, TRANSPARENCY, ACCOUNTABILI	0.00	23.70	0.00	0.00	21.75	-2.58	0.00
P080368	2003	EMERGENCY DROUGHT RECOVERY PROJECT	0.00	29.00	0.00	0.00	19.35	-8.28	0.00
P070235	2001	Regional Trade Fac. Proj. - Malawi	0.00	15.00	0.00	0.00	12.05	4.69	0.00
P073832	2001	TA - ADJUSTMENT (FRDP III)	0.00	3.00	0.00	0.00	2.27	1.95	0.00
P035917	2001	Mulanje Mt. Biodiversity Conservation Pr	0.00	0.00	6.75	0.00	6.97	4.76	0.00
P063095	2000	Privatization and Utility Reform Project	0.00	28.90	0.00	0.00	25.03	16.92	0.00
P036038	1999	Pop./Family Planning	0.00	5.00	0.00	0.00	2.25	2.10	0.34
P001666	1999	ROAD MAIN. & REHAB	0.00	30.00	0.00	0.00	14.15	12.49	0.00
P049599	1999	MASAF II	0.00	66.00	0.00	0.00	2.73	3.59	0.00
P001670	1998	Secondary Education	0.00	48.20	0.00	0.00	19.00	18.40	0.00
P001667	1995	NAT WATER DEV	0.00	79.20	0.00	0.00	4.93	13.51	0.00
		Total:	0.00	360.80	6.75	0.00	230.09	68.45	0.34

MALAWI
STATEMENT OF IFC's
Held and Disbursed Portfolio
June 30 - 2003
In Millions US Dollars

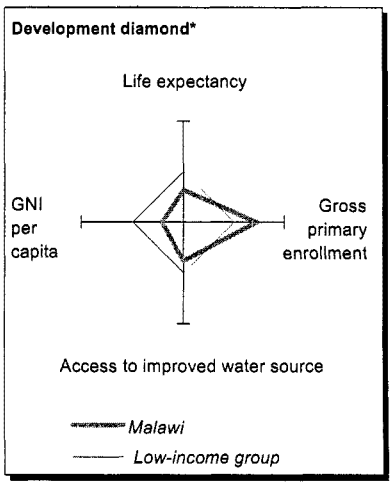
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Part
1999	AEF Kabula Hotel	0.64	0.00	0.00	0.00	0.64	0.00	0.00	0.0
1997	AEF Maravi	0.21	0.00	0.00	0.00	0.21	0.00	0.00	0.0
1996	AEF Mwaiwathu	0.00	0.81	0.00	0.00	0.00	0.81	0.00	0.0
1998	AEF Ufulu Garden	0.20	0.00	0.00	0.00	0.20	0.00	0.00	0.0
2000	NICO	0.00	1.04	0.00	0.00	0.00	1.04	0.00	0.0
	Total Portfolio:	1.05	1.85	0.00	0.00	1.05	1.85	0.00	0.

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic
	Total Pending Commitment:	0.00	0.00	0.00	0.00

Annex 10: Country at a Glance

MALAWI: Community-Based Rural Land Development Project

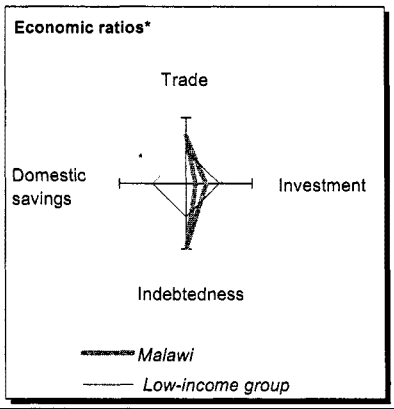
POVERTY and SOCIAL	Malawi	Sub-Saharan Africa	Low-income
2002			
Population, mid-year *(millions)*	10.7	688	2,495
GNI per capita *(Atlas method, US$)*	180	450	430
GNI *(Atlas method, US$ billions)*	1.9	306	1,072
Average annual growth, 1996-02			
Population *(%)*	2.2	2.4	1.9
Labor force *(%)*	2.0	2.5	2.3
Most recent estimate (latest year available, 1996-02)			
Poverty *(% of population below national poverty line)*	65	..	..
Urban population *(% of total population)*	15	33	30
Life expectancy at birth *(years)*	38	46	59
Infant mortality *(per 1,000 live births)*	112	105	81
Child malnutrition *(% of children under 5)*	25	..	..
Access to an improved water source *(% of population)*	57	58	76
Illiteracy *(% of population age 15+)*	38	37	37
Gross primary enrollment *(% of school-age population)*	137	86	95
Male	139	92	103
Female	135	80	87



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

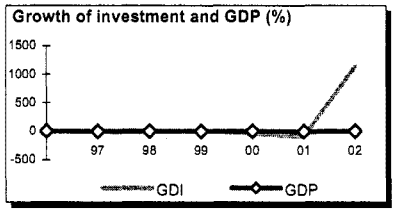
	1982	1992	2001	2002
GDP *(US$ billions)*	1.3	1.8	1.7	1.9
Gross domestic investment/GDP	26.4	19.9	0.9	12.4
Exports of goods and services/GDP	21.1	23.2	28.6	25.6
Gross domestic savings/GDP	20.5	0.7	-10.3	-5.8
Gross national savings/GDP	16.5	4.1	-5.3	5.6
Current account balance/GDP	-10.1	-15.8	-12.6	-24.0
Interest payments/GDP	2.6	1.7	0.8	1.5
Total debt/GDP	68.6	95.0	169.1	151.7
Total debt service/exports	40.9	21.5	14.9	17.4
Present value of debt/GDP	..	..	88.0	..
Present value of debt/exports	..	..	289.2	..

	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	2.9	3.5	-4.2	1.8	5.6
GDP per capita	-0.2	1.4	-6.2	-0.2	3.6

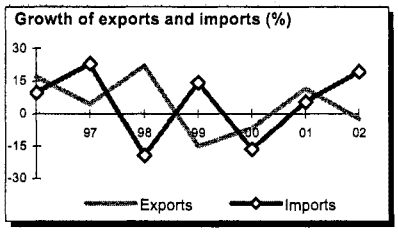


STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	41.1	38.8	36.2	36.5
Industry	21.1	31.5	16.3	14.8
Manufacturing	13.6	21.2	11.3	9.9
Services	37.9	29.7	47.5	48.7
Private consumption	63.1	85.2	92.0	86.9
General government consumption	16.4	14.1	18.3	19.0
Imports of goods and services	27.0	42.5	39.8	43.8

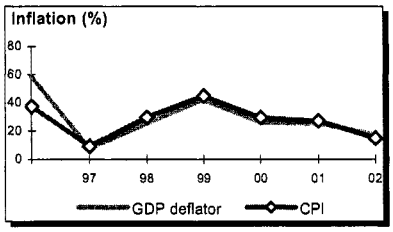


	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	1.1	7.9	-6.3	2.7
Industry	4.3	0.5	-10.8	-7.4
Manufacturing	4.4	-1.4	-14.2	-11.4
Services	3.8	2.5	-0.7	4.3
Private consumption	3.9	5.2	2.2	-3.1
General government consumption	5.8	-1.0	9.1	8.0
Gross domestic investment	0.5	-14.9	-88.7	1,125.7
Imports of goods and services	3.4	-0.4	5.5	19.3



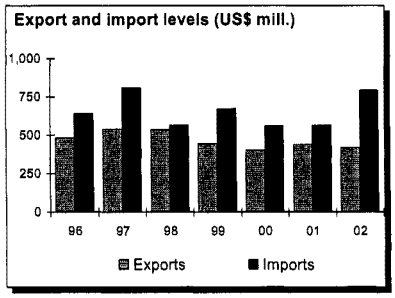
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	9.7	23.8	27.2	14.9
Implicit GDP deflator	14.3	13.3	25.2	17.5
Government finance				
(% of GDP, includes current grants)				
Current revenue	18.4	20.7	18.4	18.7
Current budget balance	-1.2	-5.9	-5.9	-7.5
Overall surplus/deficit	-12.0	-13.9	-14.6	-15.4



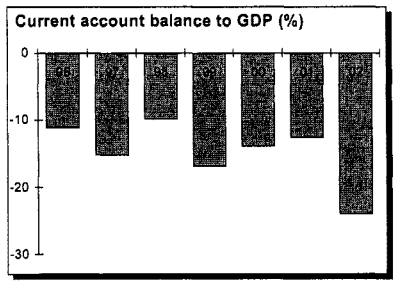
TRADE

	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	..	397	441	421
Tobacco	..	286	236	246
Tea	..	30	36	45
Manufactures	..	28	60	60
Total imports (cif)	..	756	566	796
Food	..	63	34	41
Fuel and energy	..	47	68	97
Capital goods	..	278	217	317
Export price index *(1995=100)*	..	100	85	85
Import price index *(1995=100)*	..	95	91	91
Terms of trade *(1995=100)*	..	105	93	93



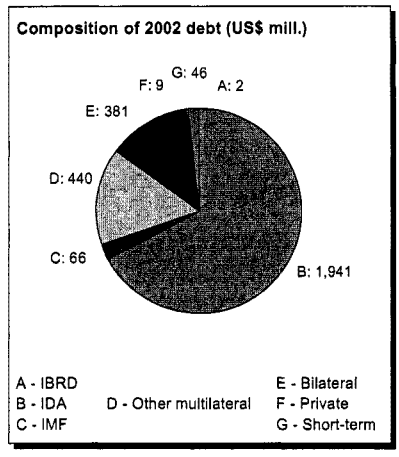
BALANCE of PAYMENTS

	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	263	418	483	487
Imports of goods and services	340	764	672	916
Resource balance	-77	-346	-189	-429
Net income	-70	-39	-33	-37
Net current transfers	20	101	10	10
Current account balance	-127	-284	-212	-456
Financing items (net)	134	284	200	347
Changes in net reserves	-6	0	12	109
Memo:				
Reserves including gold *(US$ millions)*	54	47	203	162
Conversion rate *(DEC, local/US$)*	1.1	3.6	72.2	76.7



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	865	1,709	2,855	2,885
IBRD	73	74	4	2
IDA	177	919	1,877	1,941
Total debt service	108	103	76	89
IBRD	4	16	4	2
IDA	2	10	35	17
Composition of net resource flows				
Official grants	..	153	98	235
Official creditors	58	108	74	20
Private creditors	-16	-2	0	0
Foreign direct investment	..	0	28	38
Portfolio equity	..	0	0	0
World Bank program				
Commitments	..	..	15	53
Disbursements	48	86	108	51
Principal repayments	2	13	27	7
Net flows	46	73	81	44
Interest payments	4	13	12	12
Net transfers	42	60	69	32



Additional Annex 11 Environmental and Social Analysis (ESA)
MALAWI: Community-Based Rural Land Development Project

1. OVERVIEW

Background:

With 60% of its population living below the poverty line, an agricultural sector providing 85% of employment, but characterized by very low levels of productivity (despite adequate agro-climatic conditions), and a highly skewed asset distribution, Malawi is embarking on a novel and ambitious land reform program aimed at removing fundamental (and highly interdependent) constraints to agricultural and rural development. These constraints include: (i) severely unequal land distribution, land degradation, demographic pressure, and social tensions; (ii) land market failure and the collapse of the large, unprofitable, and poorly managed estates (predominantly tobacco estates); and (iii) economic and social management characterized by top-down and centralized approaches to development, and excluding the majority of rural and poor communities from decision-making and benefits of development programs.

At the request of Government of Malawi, and as part of its strategy to reduce poverty through a combination of land reform (using a market-based redistribution approach) and institutional strengthening, the World Bank (through IDA), agreed to support the preparation and finance the implementation of a pilot land reform program, through the Community Based Rural Land Development Project (CBRLDP).

Objective:

The present annex summarizes the Environmental and Social Analysis (ESA) conducted by the Ministry of Lands, Physical Planning and Surveys (MLPPS) as part of the preparation of CBRLDP. Since the project is expected to be funded by IDA, the ESA was guided by the requirements of the World Bank's environment and social safeguard policies (under the umbrella Operational Policy 4.01: Environmental Assessment, 1999 and its various Annexes), as well as the Malawi Environmental Policy and Legislation Requirements (Environmental Management Act of 1996 and Environmental Management Guidelines of 1997).

2. PROJECT MALAWI COMMUNITY-BASED RURAL LAND DEVELOPMENT PROJECT(CBRLDP)

Project Beneficiaries:

CBRLDP is designed to increase the incomes of about 15,000 poor rural families by implementing a decentralized, community-based and voluntary approach to land reform in 4 pilot districts. Such an approach will empower communities to manage their own land and agricultural assets, and enhance and ensure food and income security among participating farming households.

Project Area:

Designed as a first phase of a longer term program, the project will pilot the land reform and

community empowerment approach in only one part of the country. The project areas targeted for acquiring land (through purchasing from willing sellers, or from existing government estates, or donations) are farming areas with under-utilized estates within four southern districts: Machinga, Mangochi, Mulanje and Thyolo (see Annex 12 for project map).

Project Components:

The project will support the strategic objectives of equitable and efficient land reform and poverty reduction through the implementation of four complementary components:

i. **Land Acquisition and Farm Land Development,** with direct community involvement in the identification and negotiation of the land transactions. Community proposals for acquiring land and farm development would be reviewed and approved–taking into account legal, technical, environmental, and poverty reduction criteria—by a district-level multi-stakeholder entity (the existing District Executive Council, augmented with key stakeholders) and the National Technical Advisory Council, established under MASAF. The sources of land include: (i) leasehold or freehold land offered by willing sellers; (ii) Government-administered land (e.g. the so-called "re-entered estates which failed to comply with leasehold covenants); and (iii) private donations. Farm development costs will finance individual benefits, consisting of settlement costs and establishing agricultural production. Communal infrastructure will be not be eligible for financing under this component, but will be eligible for financing under MASAF.
ii. **Land Administration.** Beneficiaries will receive secure, formal title to their land under the project through decentralized land administration services provided by the regional office in Blantyre. The specific property rights arrangements will be decided by communities, including the registration of community property or individual plots. A simple, demand-driven and cost-effective approach to land administration will be piloted.
iii. **Capacity-Building** will finance public information campaigns, community mobilization, participatory rural appraisal, training and technical support to communities, district and national participating institutions and stakeholders. This will include financing environmental and social impact assessments and action plans. Policy analysis, and some basic infrastructure at the district and national levels would also be supported.
iv. **Project management and M&E** will finance project administration, coordination, supervision, monitoring and evaluation. The M&E framework will include the use of qualified NGOs and/or private firms to assist project monitoring and evaluation in each of the Districts. The M&E system will measure changes "before and after", and "with-without" along two dimensions: (a) social/welfare of beneficiaries; and (b) productivity and environmental condition of the land.

3. ENVIRONMENT AND SOCIAL ISSUES

On the Environmental Side, potential issues that justify conducting an environmental analysis, and the preparation of a screening and review process to be incorporated into the project implementation manual, and to be funded and implemented through the project, include: possible location of farms to be purchased near natural habits or critical ecosystems areas, environmental health of project beneficiaries and their communities, and sustainability of land use and agricultural management practices on all newly acquired farms.

More specific risks identified by the environmental analysis include:

i. acquisition of farms that may encroach (or border) on national parks or protected areas, wetlands,

or other sensitive ecosystems;

ii. impacts that may arise from individual shelter rehabilitation or setup (including location, access to drinking water, and sanitation for the new farm owners);

iii. increased use of agro-chemicals, either as part of a "starter pack" or, over time, through improved incomes and access to information and extension services; and

iv. land use and cropping practices that may exacerbate land degradation, loss of biological diversity, or poor water management, that may already be ongoing on farms to be acquired through the project.

On the Social Side, while the project will support the purchase of farms available on the market or in the public sector for the benefit of poor/landless farmers and other vulnerable groups, the project will involve no involuntary land acquisition, or any form of restriction of livelihoods or loss of access to protected areas or other natural resource reserves. However, the acquisition of new land by poor and vulnerable groups, particularly in an area where the new farm owners may be outsiders (e.g. from a different district or area where they currently live) may result in social tensions. Thus, the important emphasis in the project—as a fundamental design feature—on community development and integration in order for beneficiaries to access project funds, all through the initial phase of information dissemination, group formation and application submissions (pre-qualification), until the preparation, appraisal, and approval of a detailed Farm Land Development Plan (FLDP).

4. COMPLIANCE WITH MALAWI'S LEGAL AND INSTITUTIONAL FRAMEWORK:

National EIA Regime. The basic environmental legislation under which CBRLDP has been prepared is the Environment Management Act (EMA), supported by the National Environmental Action Plan (NEAP) and the National Environmental Policy (NEP), all approved in 1996.

CBRLDP has been reviewed and cleared by the Director of Environmental Affairs (DEA), in accordance with the provisions of the Environment Management Act of 1996 (EMA). Section 24 of the Law calls for the integration of environmental concerns into the socioeconomic development plans and, specifically for the preparation of Environmental Impact Assessment (EIA) for any projects as directed by the Director of Environmental Affairs (DEA) in consultation with the lead agency. An inter-agency Technical Committee on the Environment provides the DEA with the necessary expertise and advice in the EIA decision-making process.

Section 24(1) of EMA, list the types of projects for which an environmental impact assessment is mandatory or *may* be required. List A describes the projects for which EIA is mandatory while List B contains development projects for which an EIA may be required (*Guidelines for Environmental Impact Assessment in Malawi,* December 1997).

Under the EMA, the Director is empowered to require changes to a project if in his or her view it will cause significant and irreparable injury to the environment. Decisions of the Director may be appealed to the Environmental Appeals Tribunal, established under Section 70 of the EMA.

Public consultation is an integral component of the EIA requirements and guidelines are available on methods of public consultation. In particular, EMA requires that access to information is maintained by making available for public review all formal EIA documents.

District Level Authority for EIA and Enforcement of the Guidelines. The EMA requires that environment and natural resources management be integrated in any development planning including at the district level. Each district is required to develop a District Environmental Action Plan (DEAP) which is integrated into the District Development Planning system (DDP). The authority of the district is provided for in Sections 19, 20 and 23 of the EMA. The most significant factor is that no development activity should be undertaken in a district outside the DEAP. Effectively, this means all projects in any one district need to integrate environmental issues. The effective system for integrating such issues is the EIA process, which would be accompanied by requisite district level capacity to implement desired environmental management responsibilities.

Clearance of CBRLDP. Since CBRLDP will not involve any investment sub-projects, DEA review concluded that all project activities are likely to fall below the thresholds set out in the Malawi "Prescribed List of Projects for which EIA is mandatory". However, to manage the potential cumulative impacts of CBRLDP-funded, on-farm activities in the pilot districts, DEA approved the ESA and the environmental screening and review process that will be incorporated into the project process framework and implementation manual.

5. COMPLIANCE WITH WORLD BANK/IDA SAFEGUARD POLICIES:

Environmental Assessment (OP 4.01) is the main policy *triggered* by the project, resulting in the preparation of an environmental assessment in the form of an Environmental and Social Analysis (ESA), and a environmental management plan including, an Environmental and Social Screening and Review Process (ESSRP), a Pest Management Plan (PMP), Monitoring and Evaluation (M&E), and institutional strengthening, all funded and implemented as part of the project.

The ESA covers: baseline conditions both in Malawi, in general, and more specifically, in four of the pilot districts in the south of the country (Mulanje, Thyolo, Machinga, and Mangochi); policy and institutional issues; potential social and environmental issues (related mainly to community development, human health and farming); and a process framework to identify and mitigate the potential risks and enhance the potential benefits of project activities. Furthermore, because the project uses a demand-driven process for acquiring farms, both as part of appraising their viability (at the time of purchase), and later, as part of preparing their detailed Farm Development Plans (FDPs), using Rapid Rural Appraisal techniques, a farm-level environmental assessment will be conducted and—if need be—more specific mitigation measures would be incorporated in the FDPs.

Pest Management (OP 4.09). Because one of the key aims of the project is to help poor and vulnerable groups in Malawi own farm-land and improve their livelihoods, the farm development part of the LAFD grant is designed to also help these groups acquire basic production technology that may involve agro-chemicals, seeds, tools and implements, etc. Therefore, the Pest Management Policy is triggered and a Pest Management Plan has been developed and incorporated into the Environmental Management Plan of the project. The PMP, as designed, has a dual objective:

i. to enhance the capacity of the project beneficiaries to use pesticides in an economic and safe way (ensuring that banned pesticides or agro-chemicals in WHO classes IA, 1B and II will not be acquired by farmers), and introduce them to Integrated Pest Management (IPM) on a pilot basis--for which technical capacity will be established in project districts through training of trainers; and
ii. to identify key strategic and institutional issues at the national and local government levels, in order

to promote movement towards the development and implementation of a Pest Management Policy.

Natural Habitats (OP 4.04) is *not triggered*, since the project will not involve any infrastructure or land development that would impact negatively biodiversity, or any natural habitats of any significance. Moreover, through ESSRP, the project will specifically screen potential farms to be purchased by poor communities for the existence or connection with potential natural habitat issues, and will promote sustainable land use practices as part of the FDPs.

Forests Policy (OP 4.36) is *not triggered*, as the project will not involve any specific forestry related activities. However, new farmers will be encouraged to sustainably use forest resources that may be on their new farms, and include tree planting as part of their farm plans (FLDPs), both for economic and ecological reasons.

Involuntary Resettlement (OP 4.12) is *not triggered* because, while the project will support the purchase of farms available on the market for the benefit of poor/landless farmers and other vulnerable groups, the project will involve no involuntary land acquisition or any form of restriction of livelihoods, or involuntary restrictions of access to legally designated parks and protected areas. This is ensured through the following project design features:

i. farms purchased from the market will be unencumbered and free of any legal and financial claims or any other liens;
ii. farms with encroachers, or subject to any form of unresolved labor disputes, will not be eligible for purchase and payment by the project;
iii. the farm development grant (which is part of the first project component) will be used for individual benefits only, allowing farmers to set up shelter, and basic amenities, and to enable them to start agriculture production; and
iv. The project will not fund any community infrastructure. Instead, if they express the need, communities will be supported in the preparation of proposals to be submitted to MASAF (which uses a community-driven approach to support a variety of community socioeconomic and infrastructure sub-projects).

Indigenous Peoples (OD 4.20) is *not triggered*, as no self-identified or otherwise known indigenous or tribal populations are known to reside in the project area, that would require a special development plan. The ESA concluded that the poorest and most vulnerable people in the four districts where the project will operate, cut across all ethnic groups, including groups that have migrated from Mozambique over the years.

Safety of Dams (OP 4.37, BP) is *not triggered*, as the project will not support any communal infrastructure, including any dams or water storage structures.

Projects on International Waterways (OP 7.50) is *not triggered*, as the project will not involve any activities pertaining to water resources. The only possible uses of water resources will be confined to those already in existence on the purchased farms, including drinking, and on farm use.

Cultural Property (OP 11.03) is *not triggered*, as the project will involve no construction or infrastructure of any kind. However, groups acquiring new farms through the project will be sensitized to the issues.

Projects in Disputed Areas (OP 7.60) is *not triggered* as the project will operate within the sovereign borders (in the southern part) of Malawi.

6. PROJECT CLASSIFICATION

The proposed CBRLDP represents a novel pilot approach to land reform, whereby a significant number of poor households will have access to farmland through a voluntary and market-driven land acquisition process. The project will be undertaken on estates previously used for agricultural purposes, but now largely under-utilized. Any protected areas and ecologically or culturally vulnerable sites will be excluded from acquisition and resettlement, while only those beneficiaries who form their groups/communities on a voluntary and inclusive basis will be eligible. Similarly, land will only be acquired from a willing seller or an existing government farm, and possibly a donation.

Qualifying beneficiaries will be given grants to buy land that is either available on the market, free of any encumbrances, or land which is already part of publicly owned estates. Moreover, the grant to be provided by the project will include a portion that would be used for resettlement expenses, basic shelter and amenities, as well as the purchase of basic tools and inputs to start farming.

It is expected that the project will not have any significant environmental or social impacts, and will in fact contribute to the sustainable development of the rural sector in Malawi through: (i) increases in the incomes of poor households, and reduction in poverty; (ii) improved agricultural productivity and sustainable land management practices; (iii) improved community empowerment, inclusion, and social cohesion; and (iv) mitigation of localized distortions around the land issue.

However, although the project will not finance or support any communal infrastructure, and will focus mainly on individual household benefits (which may include, shelter, drinking water, pit latrines, and livestock kholas, as well as agricultural inputs and basic technology), it has been classified as "B" (according to World Bank OP/GP 4.01). This classification has been assigned largely to enhance potential positive impacts, and to ensure that: (i) the acquisition of farms does not encroach on national parks or protected areas, wetlands, and sensitive ecosystems, or any sites of cultural or archeological value; (ii) FDPs incorporate sustainability principles and the "new community farm-owners" take advantage of capacity-building support available through the project, including a pilot program on Integrated Pest Management (PMP); (iii) the renovation/construction of household shelter and other amenities (e.g., pit latrines) are undertaken in accordance with sound environmental and social principles; and (iv) that capacity for dealing with safeguard issues is built among public institutions in charge of implementing the project, particularly at the local District Economic Committees (DECs) level and community levels, thus contributing to enhancing the capacity of local institutions and the government's decentralization program.

7. PARTICIPATORY APPROACH:

Despite the fact that the project would not have any significant environmental impacts, and would not involve any resettlement or restriction of livelihoods, the preparation of the ESA used a participatory process, conducted in three stages, and aimed at facilitating a broad-based dialogue and transparency in project development and identification of key environmental and social issues. Moreover, the extensive consultations conducted helped inform the final project design.

Phase 1: *Preparation (scoping) workshop* December, 2002, Blantyre. This first workshop, which brought together district staff in Blantyre (a neutral district not part of the project), reviewed the project concept and initial design, and helped identify the main potential environmental and social issues to be discussed by communities, and incorporate them in the TORs for the ESA.

Phase 2: *First Stakeholders Workshop and Community Field Visits* (December 13, 2002). This Workshop, which involved community representatives, district staff from all the four pilot districts, as well as the central government officers, was organized with two main objectives: (i) to present, discuss, and get feedback on the project concept with the communities within the pilot areas; and (ii) to identify data sources, site selection for field visits/surveys, and finalization of the SEA's TORs.

The results and recommendations of the Workshop were then discussed with communities in different localities during field visits. The same issues which were discussed with the district staff formed the checklist for discussion and data collection with community members in the four districts. In addition to interviews with the local people, technical officers from government, nongovernmental organizations and members of the private sector were also consulted in each district, including, District Commissioners (DC's), Environmental District Officers (EDO), Directors of Planning and Development (DPD), NGO representatives with an interest in environmental issues, staff responsible for lands, Land Husbandry Officers, staff from Ministries of Fisheries and Forestry, Agriculture, the Meteorological Department and Tea Estates representatives. Opinion leaders' views were also sought during the process, including traditional leaders, local politicians and religious leaders, and other key informants depending on the area of inquiry.

In addition to seeking feedback and views on the project concept and initial design, the discussions with communities and field surveys focused on: (i) assessing potential bio-physical and socioeconomic impacts of the project; (ii) collecting sufficient local data to assess the likely environmental impacts of different community investments (this option was to be initially included in the project, but was later left to MASAF); and (iii) identify practical environmental mitigation measures and improvements.

Phase 3: *A second workshop for District Staff and Traditional Leaders* (January 24-25, 2003). A two-day workshop was organized to present the findings and recommendations of the ESA, and to comment on a summary draft report which had been distributed to potential participants prior to the workshop. Participants were drawn from a wide range of stakeholders, including district and community level participants (three Traditional Authorities attended, one from each district). Most of the participants were individuals who had been consulted during field visits. The workshop provided the stakeholders with additional opportunity to identify themselves with the findings and enhance the sense of ownership of the recommendations and systems.

8. ANALYSIS OF ALTERNATIVES:

Since the specific farm areas that would be acquired and settled under the project are not known in advance, and will be determined only through a demand driven process, the ESA included a broad analysis of alternatives, qualitatively comparing four options in terms of potential environmental and social impacts, using information collected from field surveys, secondary sources, and consultations with communities and local officials. The alternatives considered included: (i) no project; (ii) alternative districts for the pilot phase; (iii) alternative areas within the districts; and (iv) alternative land redistribution schemes.

The SEA concluded that the "no project" alternative was the least desirable because of the prevailing situation characterized by social tensions resulting from highly skewed land distribution, encroachment into privately and state owned properties, and associated pressures and conflicts over natural resources. Furthermore, the analysis of alternatives also helped refine project design by pointing out the desirability of focusing on acquisition of land that is free of encroachment, legal claims, and other encumbrances, and by allowing beneficiary communities to decide on the property rights regime to use for their new farms.

9. MITIGATION OF POTENTIAL SOCIAL AND ENVIRONMENTAL IMPACTS:

Because there are no significant environmental and social issues which warrant a separate and detailed Environmental Management Plan (EMP), an Environmental and Social Screening and Review Process (ESSRP) was designed in consultation with the main project stakeholders, including the Environmental Affairs Department (which cleared the ESA documentation), to be incorporated into the Project Implementation Manual (PIM) (see summary table 11.2 below).

Social issues. As indicated previously, the project does not trigger any of the Bank's Social Safeguard Policies. However, both during the application phase (when eligible communities present a general plan of the new farm location and how they intend to develop it) and during the acquisition phase (when beneficiary communities prepare a detailed Farm Land Development Proposal in order to access the balance of their household grants), ESSRP (using a simple "safeguards matrix") will be used to screen for social issues, related to transparency and inclusion, conflict resolution, and safeguards. The only potential (non-safeguard) risk identified by the ESA is the potential conflict that may arise from new land beneficiary communities settling in next to existing communities. This risk will be mitigated through several features incorporated in project design, including:

i. transparency and extensive communication and information campaigns about project benefits and eligibility criteria;
ii. extensive consultations within both receiving and beneficiary communities during the pre-qualification phase, facilitated by Community Oversight Committees; and
iii. the use of conflict resolution mechanisms to be funded under the project's capacity building component, as the need arises.

Moreover, by design the project will, in fact, contribute significantly to social development outcomes in the form of:

i. access to land and economic empowerment of thousands of the poorest and most vulnerable Malawians, through a self-selected, market-based, and demand-driven approach, offering a better alternative than "encroachment" and "squatting."
ii. community development, conflict resolution, and social capital formation among hundreds of new communities of farm owners, through improvement in household conditions, farm development plans, as well as capacity building and access to knowledge and information;

iii. support for the new communities in the preparation of plans to enable them to access other sources of local development funding (particularly from MASAF), for production intensification, access to credit, commodity marketing, and communal infrastructure; and
iv. a more efficient and equitable land redistribution and administration system that would significantly contribute to increasing agricultural productivity and help reduce poverty in Malawi, when the pilot phase is replicated throughout the country.

Finally, in order to adequately address the social risks discussed above, and build the capacity of local government institutions, the project will fund a full time Social Development Specialist position in every pilot district.

Environmental Issues:

The screening process involves essentially three key steps :

Step1: Screening for natural habitat and suitability of farm land to be acquired. When proposals are presented to the (DECS), the standard application form will include information on the location and past use of the farm, as well as an outline of the intended use of the new farm proposal for the acquisition of farms that may encroach (or border) on national parks or protected areas, wetlands, or other sensitive ecosystems.

Step 2: Screening for impacts that may arise from individual shelter rehabilitation or setup (including location, access to drinking water, and sanitation for the new farm owners)

Step 3: Screening FDPs for potential use of agro-chemicals, and the sustainability of land use and cropping practices that may exacerbate land degradation, loss of biological diversity.

The screening is undertaken by DEC staff using an adequately trained technical specialist already in place (such as, District Land Officer, extension officer, etc.), or by hiring a qualified private sector service provider.

The screening is done using simple checklists, included in the Project Implementation Manual (see Table 11.2 below).

Monitoring and Evaluation:

Given the nature of impacts and issues to be encountered during project implementation, an Environmental Monitoring System (EMS) has been designed. It is based on two principles:

i. The EMS will not focus on monitoring and reporting on either general environmental and social conditions in the four pilot districts, or the impacts from individual farm activities (this would be a vastly unrealistic, expensive and not very useful exercise). Rather, the EMS will track a small number of indicators related to: (i) the sustainability of the FDPs and adoption of sound land use practices, and (ii) the environmental health conditions of the beneficiary households and their communities; and (iii) other process indicators.
ii. The Environmental Monitoring Plan will be an integral part of the Project Monitoring and Evaluation System.

The EMS has initially been designed to carry out monitoring and evaluation of the trends in the adoption of

processes and practices of the beneficiary groups and their host communities in relation to environmentally and socially important issues that might arise in the pilot period. In addition, implementation of mitigation measures will be monitored.

A key goal in the CBRLDP process is that the FDP be community-driven and, therefore, represent consensus of the beneficiaries' opinion on the practices at their farm. Each FDP will be unique reflecting the group's strategy for development and opinions on environmental "hot spots" and ecosystems at risk. Each farm must have a mini-EMP derived from the specific mitigation measures outlined in that group's application.

In practice, it is likely that current critical issues, and the indicators that characterize them and will remain important elements of the EMS whatever strategy and EMP emerge from each FDP. Thus, the EMS design is flexible and adaptable, assimilating new monitoring needs and discarding old ones as environmental circumstances and priorities change. The project will collate the information from each farm and provide a broad picture of what is happening to the environment in the farm surroundings.

A number of processes have been put in place to ensure appropriate environmental management practices are followed in the project. These processes are essential for at all levels of the project. The EMS covers three groups of indicators (with details given in the main ESA report):

i. Process indicators at the village, district, and national levels
ii. Socioeconomic and well being indicators (part of the core indictors to be monitored by project as a whole); and
iii. Adoption of management practice indicators

Estimated Cost and Implementation Schedule for the EMP. The estimated budget and schedule are provided in the Project Implementation Plan, and is summarized in Table 11.1 below.

Project Supervision. This will be part of overall project supervision, as provided in the Project Implementation Manual.

Annex Table 11.1 Summary of Environmental Management Plan

EMP Component	Key Activities	Institutional Responsibility	Budget (US$)
Community preparation of FDPs	Environmental and Social Screening	Communities, DEC (NGOs)	800,000
	Environment and social mitigation plan at farm level	DEC, DESC	
Implementation of FDPs	• Extension service support • Training/awareness • Gender & Environment • Other activities on demand	Communities DEC, DESC (NGOs)	
Capacity building	• Environmental Social Development expertise at district level • Training/awareness • Other activities on demand	DEC,	
Pilot Pest Management Plan	• Farm level pilot IPM program • Strengthening national capacity for PMP implementation	DEC, DESC, IPM sub-committees	600,000
M&E (part of project M&E)	• Data collection, analysis, and reporting	DEC, DESC, PMU	400,000

Annex Table 11.2. Main Steps of Environmental and Social Screening & Review Process

Stages of Project	Responsibility	Corresponding Environmental and Social Safeguards	Responsibility
Information dissemination	District Commissioner	Ensure that vulnerable groups are reached: • Use of local language • Appropriate media, including radio • Given enough time to organize themselves	Community/ Social Development Officer
Pre-qualification	DEC of the district of origin Lands Officer	Ensure vulnerable groups are able to prepare and submit good applications	Lands Officer
Standard Application Form › Farm location › Sales agreement	Lands Officer in district of origin	What are the potential environmental issues at that farm	Lands Officer
Field Appraisal	Lands officer leads field appraisal team in receiving district	Mini Farm ESA using checklist, report on: • physical environmental issues • social issues such as encroachment	Field Appraisal Team
Appraisal decision	Lands Officer	Appraisal decision to community incorporating the farm ESA results	Lands officer
DEC approval	DEC of the receiving district	Check on completeness of environmental checklist and local requirements	DEC
Approval by National Technical Advisory Committee	Project Management Unit	-	-
Detailed Farm Development Proposal	Beneficiary groups FAT led by Lands Officer	Checklist to evaluate environmental issues	Field Appraisal Team
Approval			)EC and NTAC
Implementation, Monitoring & Evaluation	Beneficiary groups,	Monitor compliance with environmental guidelines	Environment and Community/social Development Specialist, Lands officer

Additional Annex 12
Detailed Description of MASAF 3 Community Development Projects Component
MALAWI: Community-Based Rural Land Development Project

1. MASAF 3 PROJECT CYCLE

Goal:

The CDP component will aim at improving community access and accessibility to socioeconomic services in urban and rural areas (CMPs), and raising incomes for poor households through cash transfers (Local Authority Managed Projects or LAMPs).

Objectives:

The major objectives of CDP are to:

i. increase the stock of the rural and peri-urban socioeconomic assets for service provision;
ii. increase access to basic socioeconomic services in both urban and rural areas on a sustainable basis;
iii. transfer cash incomes to the individuals in targeted poor and vulnerable households in the urban, peri-urban and rural areas through labor-intensive public works; and
iv. enhance participatory development management capacities at community and district levels.

Guiding Principles:

The following principles will guide the CDP:

i. Active participation of the beneficiaries at the community level in the pre- to post sub-project cycle stages
ii. The sub-projects supported are within the community service packages and adhere to sector norms and standards
iii. Equitable participation of women and men in project management
iv. Participation of the youth throughout all project cycle processes
v. Community contribution for CMPs of at least 20% of the total sub-project cost, except for capital intensive sub-projects such as water, where the contribution will be at least 10%
vi. Self targeting under LAMPs through payment of a wage rate 20% below the market, and linked to a defined task
vii. Utilization, under LAMPs, of appropriate labor based technologies that are gender sensitive
viii. The unskilled labor proportion of LAMPs is at least 40%

Target Groups:

The LAs, upon receipt of the IPF, will convene a meeting to determine resource targeting based on levels of existing service delivery for CMPs and the socioeconomic status of the district for LAMPs. The status of existing service delivery will be assessed against the MDG service coverage and consideration of other funding sources for the districts to enable the LAs to decide on the amount of resources that should be allocated to a particular service package in pursuit of MDG indicator targets. In the LAMPs, the VAM will be used in addition to poverty maps to identify the poorest areas and those under consumption stress. Additionally poor households identified through wealth ranking will be targeted.

Activities:

For CMPs, the sub-projects to be supported will fall under health, education, and water and sanitation, and must be included under the community service package for that sector.

Implementation Arrangements:

Under the CDP, communities will manage sub-projects, while LAs will be responsible for managing the LAMPs. The steps for the pre- to post sub-project cycle are described below briefly, and given in more detail in the CDP Handbook.

Pre-sub-project cycle. Open-ended PRAs will be undertaken by the DEC, through the CDAs and other members of the AECs, to ascertain community needs, and to produce a list of community priorities. These in turn will feed into the District Development Plan. Facilitators at community level include the CDA and other trained cadres. Those District Plans which were formulated without the PRA or a village action plan (VAP), will be supported by MASAF to undertake the PRA or VAP.

Sub-project cycle:

Through the open-ended PRA process, if there are activities identified by communities which might be eligible for MASAF support, then the community will enter into the sub-project cycle.

Extended PRAs will be undertaken to arrive at a confirmed community sub-project proposal which is in line with the community service packages. For the LAMPs, communities will carry out participatory community based targeting to identify the needy household using participatory social ranking and stratification techniques. It is at this stage that possible environmental effects excluding resettlement, if any, and the necessary mitigatory aspects will be discussed. Preliminary costing will be undertaken, and the community will democratically elect a Project Management Committee (PMC). Election to positions will not be based on political, religion or kinship factors, but on social merit and acceptability in the eyes of the wider public. The PMC will be accountable to the people that elect it, and responsible for preparing the application for submission to the LA. The application form will indicate the number of the PIF submitted by the community, as well as the date of submission.

Appraisal. The application submitted to the LAs will be subjected to an appraisal process to ensure that it meets the criteria for funding by MASAF. The first step will be a **desk appraisal** which checks if the following have considered the following:

i. Completeness of the application form;
ii. Whether the application fits within the scope of the component;

iii. Whether the application meets the district development objectives and sector norms;
iv. Environmental and mitigation measures;
v. Confirmation that the sub-project will not lead to resettlement; and
vi. The application is in line with the community service packages.

The **field appraisal** confirms that the proposal is a community priority, the findings of the desk appraisal, ascertains the technical feasibility, the communities' capacity and readiness to implement the sub-project. Due to the specialized nature of the LAMPS, the DEC will appoint a technical committee for purposes of taking leadership in appraisal, costing, monitoring and providing technical advice for implementation. The following, among other things, will be assessed:

i. Whether the community participated fully in needs identification;
ii. If the proposal is a high priority for the community;
iii. Whether different groups in the community were represented;
iv. Understanding of the community about the sub-project;
v. Confirmation of no involuntary resettlement;
vi. Availability of community contribution (for CMPs); and
vii. Arrangements for operation and maintenance.

Costing. The DEC will carry out detailed costing of the sub-projects which includes the community contribution as well as environmental mitigation measures requiring financing. In the case of complex sub-projects such as flood control, consultants may need to be engaged for this activity. The SOBOQs will assist LAs and PMCs in the costing exercise.

Approval. A summary report of all sub-projects which have been successfully appraised and costed will be reviewed by the LA for approval in accordance with the LA threshold: US$20,000 equivalent for IDA contribution to the CMPs, and US$40,000 equivalent for IDA contribution to LAMPs. Notwithstanding LA approval, these will be submitted to MASAF for NTAC confirmation before funding will be approved by the Board. MASAF will be sampling applications received to ensure that principles and criteria in the Operational Manual have been applied to the approved sub-projects. Communities will be informed of the approval by the DEC, including information relating to logistical arrangements to prepare the communities for implementation.

Implementation. Prior to launching the sub-project, the DEC, with support from the ZO, will provide **training** to the PMC. Selected Group Village Heads and foremen for the LAMPs will also be trained. Arrangements for the launching ceremony, which should take place within two weeks of the training, will be agreed to by the DEC, ZO, Village Heads and PMC. See the Training Handbook for more detail.

All sub-projects will have a **launch ceremony** with participation of the community and other key stakeholders including traditional, civic and political leaders. The DEC will go through the Financing Agreement to ensure that the roles and responsibilities of the respective parties are clear. The community will be presented with the first tranche for their sub-project (in the case of CMPs) with which they will open a project bank account. A procurement plan will be prepared for each sub-project which will guide the procurement activities relating to specific project milestones. Training for asset management will be provided during this phase. Procurement will be undertaken in accordance with the CDP handbook.

Monitoring and supervision will be undertaken by the technical staff at LA level, with support from the ZO or FO. The LAs will use the LA-PPIMS to monitor and report on progress on a monthly and quarterly

basis.

Any unused funds or savings realized by the PMC will be returned to MASAF once the sub-project has been completed. This situation should rarely occur since funding for the third tranche will be based on assessed funding required for completion. Once a sub-project is completed, an **inauguration ceremony** will be held to officially commission the asset, and a completion certificate will be presented to the community. The Asset Management Committee will sign an Asset Maintenance Agreement during the ceremony which formalizes the arrangements made for maintenance of the asset. PMCs in LAMPs could manage the non-wage component of sub-projects with PMC managed accounts.

Flow of Funds. The funding for sub-projects will be provided in tranches of 40%, 30%, 30%. In order to access the second tranche, the PMC will prepare a justification report when 70% of the first tranche has been expended, which accounts for the funds spent to date. To access the third tranche, 100% of the first tranche and 70% of the second tranche must be justified, and a mid-term assessment report must accompany the request. Third tranche will be based on funds needed to complete the sub-project. These reports will be submitted to the LA, which will review the submission to ensure completeness prior to submission to MASAF. Funds for the CMPs will be transferred directly to their bank account, while funds for the LAMPs will be transferred into a dedicated MASAF bank account at the district level. Receipts for CMPs will be maintained at the community level in a paper based system, and receipts for LAMPs will be retained at LA level.

Post Completion Activities. Approximately six months after the inauguration, or when communities report completion, the DEC will organize for relevant sectoral experts or consultants appointed by MASAF to evaluate the completed sub-project/facility on the basis of the following criteria:

i. Technical performance: the extent to which the construction or equipment functions satisfactorily;
ii. Utilization: the extent of use of the facility or service;
iii. Beneficiaries: analysis of the number and composition of people benefiting from the sub-project and the beneficiaries' own assessment of the value of the asset and the return on their investment;
iv. Community obligation: the degree to which the community has met its obligations to manage, maintain and repair equipment or structures, collect user fees and promote the use of services;
v. LA/sector obligation: the extent to which the LA or sector met its agreed to obligation (staff, operating costs or other inputs);
vi. Environment mitigation. Assess whether the measures have been fully applied;
vii. Skills developed during the course of implementation; and
viii. Overall assessment of impact: which will capture lessons learned and propose future actions.

The outcome of this evaluation will be a report which will be submitted to MASAF's TAP directorate.

2. MASAF 3 - PROCUREMENT ARRANGEMENTS

Introduction:

Goods, works and services to be funded by IDA will be procured according to the Development Financing Agreement, and the annual procurement plan, covering the requirements, prepared by MASAF and approved by IDA. Procurement for all IDA financed goods and works will be carried out in accordance with the Bank's "Guidelines for Procurement under IBRD Loans and IDA Credits" published in January 1995 and revised in January and August 1996, September 1997, and January 1999 (the Guidelines). Consultant services financed by IDA will be procured in accordance with the Bank's "Guidelines: Selection and Employment of Consultants by World Bank Borrowers published in January 1997, and revised in September 1997, January 1999, and May 2002 (the Consultant Guidelines). In addition to complying with the World Bank Guidelines, procurement will also comply with the Public Procurement Act of 2003. In the event of a conflict between these, the regulations of the World Bank will prevail. In all cases IDA's standard bidding documents and evaluation forms will be utilized. An update of General Procurement Notice for all International Competitive Bidding (ICB) and Quality and Cost Based Selection (QCBS) contracts, which are still outstanding, will be published on an annual basis in the United Nations Development Business (UNDB).

Procurement Methods:

All procurement for works, goods and services and consultancies for MASAF activities, which will utilize IDA funding, shall comply with the Development Financing Agreement, described briefly below, with detailed procedures described in the Procurement Handbook, the component handbooks, and the Community Managed Projects Handbook. Failure to do so could result in activities being ineligible for IDA funding. Procurement methods under the Project will be applied as follows:

1. **International Competitive Bidding (ICB).** All goods estimated to cost US$100,000 equivalent or more will be procured on the basis of ICB, and a Specific Procurement Notice for each tender will be published in UNDB.
2. **National Competitive Bidding (NCB).** The same principles of ICB apply to NCB, except that publication of a Specific Procurement Notice in UNDB not required, and advertising may be limited to the national press or official gazette. Eligible foreign firms will be allowed to participate if they so desire. Goods estimated to cost less than US$100,000 equivalent per contract, up to an aggregate of US$450,000 can be procured through NCB.
3. **Shopping (International and National).** This method is based on comparing price quotations obtained from at least three suppliers to ensure competitive prices, and is an appropriate method for procuring readily available off-the-shelf goods or standard specification commodities that are small in value. Shopping may be used to procure goods estimated to cost less than US$30,000 equivalent per contract, up to an aggregate not to exceed US$3,000,000.
4. **Force Account.** Works under LAMPs which meet the requirements of paragraph 3.8 of the Guidelines costing US$9,000,000 equivalent or less in the aggregate may, with IDA's prior agreement, be carried out by Force Account in accordance with paragraph 3.8 of the Guidelines.
5. **Community Participation.** Goods, works and services required in CDPs, SSPs, and COMSIC shall be procured through community participation utilizing combination of methods and in the manner described below with details provided in the Procurement Handbook, the component handbooks, and the

Community Project Management Handbook.

6. **Local shopping (for Goods and Works)** – Under this method, communities shall solicit quotations from at least three qualified suppliers/contractors based on simplified quotation forms that include a description of the goods or works, detailed specifications and, where possible, drawings. All quotations shall be made in writing. Quotations shall be opened at the same time and to the extent possible in the presence of the PMC. Members of the community wishing to attend the opening ceremony should be allowed to do so without limitation. As a general rule, the supplier/contractor who offers the lowest price shall be awarded the contract. All contracts shall be on a lump sum fixed price basis and in the form described in the Procurement Handbook.
7. **Local Bidding (for Goods and Works)**. Under this method the communities will advertise bids locally using media such as in local newspaper, radio, posting notices at strategic places, circulating such notices or reading them out in community meetings or other public gatherings. The advert will principally target suppliers and contractors within the vicinity of the beneficiary community. The request for bids shall spell out the work or goods needed, the criteria for selection and the deadline for submission of bids. Bids shall be opened in a public ceremony attended to the extent possible by bidders and community members. After opening, bids will be examined by a committee appointed by the community. Bids will be examined to determine whether they meet minimum specifications mentioned in the bidding documents (experience, quality of works, equipment, services offered and delivery dates). Bids that meet the minimum requirements will be retained for further evaluation and the bidder who meets minimum requirements and offers the lowest bid shall be selected. The award and amount shall be announced to all bidders. All contracts with successful bidders shall be on lump sum fixed price basis and in the form prescribed in the Procurement Handbook.
8. **Direct contracting/off shelf purchases-** Under this method, a supplier or contractor will be chosen without using competitive bidding described above. Direct contracting shall be used when the cost to the community of another procedure would be disproportionately high relative to the value of the procurement itself, and where only one supplier/contractor is available locally. To the extent possible, the contract price agreed with the supplier shall be within local market rates or established estimates as shown in a Unit Price Database maintained by the Local Assemblies or MASAF Field Offices.
9. **Force Account-** This method of procurement may be the most practical method for constructing works which include small and scattered or in remote locations for which qualified construction firms are unlikely to bid at reasonable prices. It is expected that activities under the LAMP, which provides a safety net for the poor and CMP where the community provide labour but only requests for materials, fall into this category and may be procured utilizing this method. Under this method, the community will implement the sub-project using its own resources (skilled and unskilled labor, materials and equipment) and may subcontract part of the sub-project.
10. **Procurement of Small Works**. Works under LAMPs estimated to cost US$25,000 equivalent per contract may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to IDA, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.
11. **Consultant Services**. Consultant services will be procured following the Consultant Guidelines. The main method used will be Quality and Cost Based Selection (QCBS). Other methods may include Least-Cost-Selection for contracts less than US$100,000; Selection Based on Consultants Qualifications for contracts estimated to cost less than US$50,000 per contract, Single Source Selection, with IDA's prior approval, for contracts estimated to cost less than US$100,000 per contract, and Individual Consultants.

Prior Review by IDA:

For goods and works, all ICB, the first two contracts under NCB, and the first three contracts under National or International Shopping shall be subject to prior review. For consultant services, each contract for the employment of firms estimated to cost the equivalent of US$100,000 or more, the first three contracts under Selection Based on Consultants' Qualifications and all proposed single source consultants are subject to IDA's prior review. The procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to contracts proposed for Single Source Selection for consulting firms. With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of US$50,000 or more, the report on the comparison of the qualifications and experience of the candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval, and the contract awarded only after said approval has been given. Paragraph 3 of Appendix 1 to the Consultant Guidelines will also apply to these contracts.

Management of Procurement Activities:

The MASAF Procurement Manager will be responsible for ensuring the annual placement of the General Procurement Notice as well as placing Specific Procurement Notices in UNDB and other media. Procurement of equipment, vehicles, supplies and services for MASAF will be the responsibility of the MASAF MU. MASAF ZOs will be responsible for (a) ensuring that communities and districts receive appropriate training, documentation and guidance, (b) ensuring that documentation is maintained by the communities, and LAs, as appropriate, (c) monitoring contracts entered into by the communities and districts at the local level, and, if necessary (d) providing clarification on the appropriate tendering process for works, goods and services at the district level and below.

3. MASAF3 - FINANCIAL MANAGEMENT AND ACCOUNTABILITY

Introduction:

MASAF will continue to use its existing Financial Management System (FMS) to implement MASAF 3. The Director of Finance, who reports to the ED, has the overall responsibility to ensure that clearly defined and transparent disbursement and financial management systems, controls and procedures are put in place for efficient and effective delivery of MASAF. The FMS will also have well defined reporting systems to facilitate the production of quarterly and annual financial statements for submission to MASAF Management, the Board and Donors.

Financial Management:

The development of a district based MIS (LA-PPIMS) at LA level will be a major link of the financial management systems at MU and community level including other implementing agencies. A Paper Based System (PBS) will be used to track the inflows (receipts) and outflows (expenditures) at community and other implementing agency levels. The PBS will also be used to track and feed into the production of physical progress reports that will be used at LA and MU levels. The MASAF paper-based system will continue to provide adequate information to meet MASAF and donor requirements. The system will be simple enough to be used and maintained by the community and other implementing agencies. The MU will maintain accounting records in accordance with sound accounting practices. The records will be maintained

on a computerized platform to ensure efficiency in processing transactions and reporting.

Disbursement:

The MASAF FMS will ensure that adequate internal controls including segregation of duties, authorization, reconciliation, and validation of procurement processes are in place to ensure that resources are used for the purposes intended. The LA-PPIMS, through the certification process, will provide the basis for initiating the disbursements of funds to sub-projects. The Financial Management and Accounting Handbook provides details on the systems, procedures and controls governing disbursement in accordance with the Development Financing Agreement (DFA), Memorandum of Understanding and Government Finance Act.

Flow of Resources from MASAF to Target Groups:

Funding to projects will be released in tranches of 40%, 30% and 30% of the project budget except under SSP and COMSIP where activity based tranching will be used. A Justification Report of the expenditures incurred will be submitted as a precondition for the release of the second tranche once at least 70% of the first tranche is spent. The third tranche will be released when 100% of the first tranche and at least 70% of the second tranche are successfully justified, and on production of a mid-term assessment report showing that the tranche is adequate to complete the sub-project. These released tranches will be followed up by formal communications to DEC and zones that in-turn will notify the respective PMCs.

For the CMPs, funds will be transferred directly from MASAF to the Community Project Bank Accounts. PMCs will be responsible for management of projects activities.

For LAMPs, funds will be transferred into a designated MASAF Bank Account maintained by the Local Authorities. Under this arrangement, the LAs are entrusted with the responsibility to manage funds and implement labour intensive public works.

For the SSPs, funds will be transferred into a designated MASAF Bank Account managed by PIAs (NGO/CBO/CSO). The PIAs are entrusted with responsibility to manage funds and implement projects on behalf of vulnerable and marginalized groups in collaboration with PSCs.

For COMSIP projects, funds will be transferred directly into Community Project Bank Account for infrastructure projects, and to a designated MASAF Bank Account maintained by the Local Authorities for implementation of capacity building interventions. PMCs will be responsible for management of infrastructure projects.

Capacity enhancement initiatives are cross-cuttings interventions to be managed through the Transparency and Accountability Component. MASAF will centrally manage these activities from the MU. Depending on the implementation arrangement for the activity, funds for TAP may be channeled to a designated MASAF Bank Accounts managed by the LAs or Zone Bank Account.

Accounting Standards, Financial and Management Reporting:

The MASAF Programme Financial Statements will be prepared in accordance with the International Accounting Standards (IAS). MASAF will adopt the Financial Monitoring Report (FMR) based system in the implementation of MASAF 3. In order to achieve this, the MASAF FMS has been designed to allow linkage to technical and operational data from LA-PPIMS through a paper trail.

Internal Control Arrangements:

The internal control systems and procedures defined and articulated in the Financial Management and Accounting Handbook provide reasonable assurance to the attainment of the MASAF Accounting objectives of:

1. Effectiveness and efficiency of MASAF operations;
2. Reliability and credibility of financial reporting environment;
3. Compliance with applicable laws and regulations; and,
4. Adherence to various agreements between the Government of Malawi and donors.

Auditing Arrangements:

MASAF policies on institutional governance include undertaking of internal and external audits. The audits are aimed at:

1. Ensuring accountability and transparency across all MASAF 3 implementation levels;
2. Ensuring that the MASAF 3 management framework (the project delivery mechanism) is functioning to the required standards;
3. Safeguarding assets from various types of risks; and
4. Complying with the provisions of the various donors financing agreements, statutory requirements and internal rules and regulations.

External Auditing. The responsibility for conducting external audit services rests with the Auditor General in line with the Public Audit Act, the Public Finance Management Act and the Development Financing Agreement. The Auditor General may augment his/her capacity through subcontract arrangements to firms of accountants registered with the Society of Accountants in Malawi or to other professional firms or individuals to undertake specialized work. The Auditor General shall conduct the audits following the Supreme Auditing Institutions Standards of Auditing and specific terms of reference approved by the Donors. The audited reports shall be submitted to the Donors, through the Treasury, not later than 30th December of each year.

Internal Auditing. Internal auditing activities for MASAF will be undertaken by two functional structures:

1. Through an Internal Audit Unit based at the MU. The Unit, headed by Director of Audit, will report to the ED on all matters of audit, and to the MASAF Board on special matters of concern to the Board. The Unit will also coordinate external audit efforts. The scope of the units work will cover all areas and operations utilising MASAF funds where-so-ever applied.
2. (Working in collaboration with the MASAF Internal Audit Unit, the Internal Audit Units of those Organizations or operations utilizing MASAF funds will undertake audits of MASAF activities pertaining to their organizations. The Units shall report their findings to their management but shall share such findings with the MASAF MU internal audit unit.

General responsibilities to Audit Activities. The general audit responsibilities to be observed for all institutions, their departments, and individuals utilizing MASAF funds are to:

1. Cooperate with the teams conducting audits and to provide all relevant information whether requested or not; and
2. Act on the audit findings in an appropriate manner including addressing the weaknesses identified in the audit reviews expeditiously.

Additional Annex 13
Choice of Pilot Districts and the Costs of Scaling-Up
MALAWI: Community-Based Rural Land Development Project

The choice of the four districts was informed by the need to address the simmering tensions around the land issue in Malawi. The history of the carving out of estates from customary lands, combined with the current juxtaposition of idle, unused estates with overcrowded lands has resulted in localized tensions. These tensions sometimes express themselves through encroachments or invasions, and cases of extreme violence have been recorded.

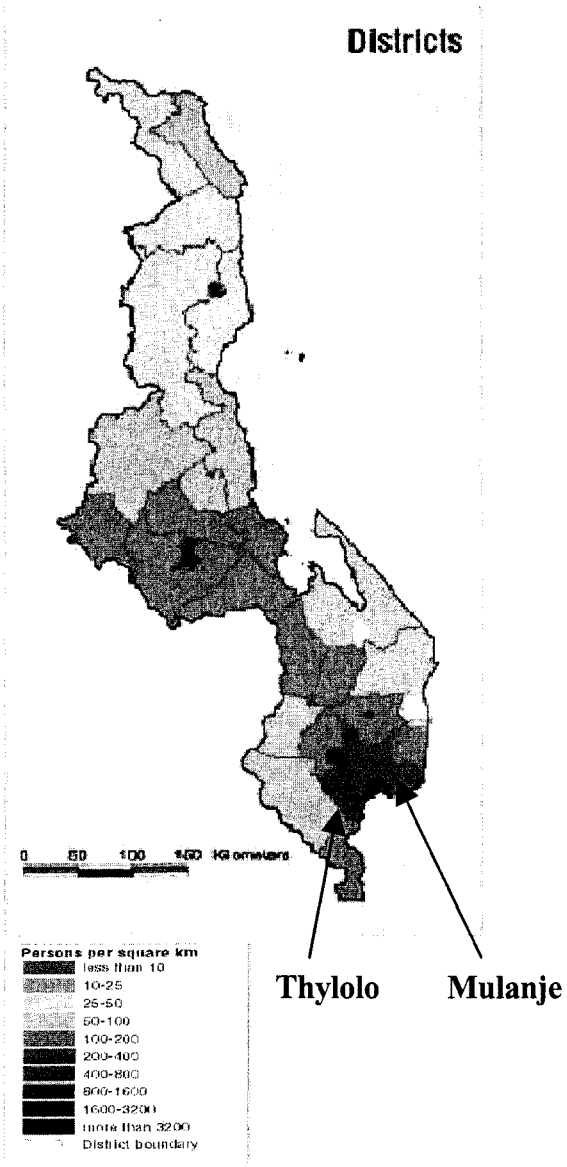
The districts most affected by the tensions and encroachments at the moment are the districts of Mulanje and Thyolo—districts with very high population densities (see Tables 1 and 2). While there are other districts with high population densities in the Southern Region, the encroachment problem is not as severe as in Mulanje and Thyolo (for example, Chiradzulu and Phalombe). Blantyre and Zomba show high densities as they are urban centers. As shown in the map, Mulanje and Thyolo are two of the highest density districts in the country.

Table 1. Districts population densities, 1977, 1987, 1998

Region/District	Land Area	Population Density		
		1998	1987	1977
Malawi	**94,276**	**104**	**85**	**59**
Northern Region	**26,931**	**46**	**34**	**24**
Chitipa	4,288	29	23	17
Karonga	3,355	58	44	32
Rumphi	4,769	27	20	13
Nkhata Bay	4,089	42	34	26
Mzimba	10,430	58	29	30
Central Region	**35,592**	**114**	**87**	**60**
Kasungu	7,878	60	41	25
Nkhotakota	4,259	54	37	22
Ntchisi	1,655	10	73	53
Dowa	3,04	135	106	81
Salima	2,196	113	86	60
Lilongwe	6,159	217	108	109
Mchirji	3,356	95	74	47
Dedza	3,624	133	114	82
Ntcheu	3,424	108	105	66
Southern Region	**31,753**	**144**	**125**	**87**
Mangochi	6,273	96	79	48
Machinga	3,771	97	80	52
Balaka	2,193	115	97	67
Zomba	2,580	209	102	108
Chiradzulu	767	307	275	230
Blantyre	2,012	389	198	191
Mwanza	2,295	60	53	31
Thyolo	1,715	267	251	188
Mularje	2,056	208	204	150
Phalombe	1,394	166	156	122
Chikwawa	4,755	72	67	41
Nsanje	1,942	100	105	56

Source: *Chaloza et al (2003) Rural Public and Private Land Supply. Study for the Ministry of Lands, Planning and Physical Surveys*

Table 2. Map of District population densities



Data: NSO, 1998.
http://www.ifpri.org/pubs/cp/malawiatlas/malawiatlas_02.pdf

There is a close correlation between small cultivated area and poverty, for example, 74% of poor smallholdings cultivate < 0.5ha. In addition, the average farm size in the Southern Region is smaller than other regions (Table 3) (and 66% of poor households are located in the Southern Region) and the farm size of the target beneficiary group (the poor) is 0.5 ha (Table 3). FAO estimate that most poor households in the Southern Region have holdings < 0.3ha.

Table 3. Farm Characteristics by Region

	Average Land holding
	Hectares
Northern	0.93
Central	1.13
Southern	0.72
Average	0.92

Source: Integrated Household Survey, 1998

Table 4. Farm characteristics by farm size

	Farm size quintile				
	Smallest	**2nd**	**3rd**	**4th**	**Largest**
Average No. of plots owned	2	3	3	4	5
Average plot size in ha	0.3	0.4	0.5	0.6	0.6
Average farm size in ha	0.5	0.9	1.3	1.8	3.0

Source: IFPRI/APRU Malawi Smallholder Farmer Survey, 1998.

Even within these very densely populated districts, there are lands available for redistribution. In Thyolo, unused estates exist, which could be bought by the beneficiaries of the project. In Mulanje, there are also estates for sale, but these are often already under cultivation. Given the prominence of tea, outgrowers schemes could be envisaged and financed under the project.

Two other districts were chosen to complement Thyolo and Mulanje. These are the districts of Machinga and Mangochi. There is already some natural migration from Thyolo and Mulanje to Machinga, which has an ample supply of idle estates. Mangochi is somewhat further away, but has a substantial number of unused estates.

Even though relatively less densely populated, both Machinga and Mangochi have significant numbers of land-poor households, implying a substantial potential for land redistribution within these districts.

All in all, the scope for inter-district migration is limited, but the choice of the pilot districts does offer this option. Whereas the four districts speak a common language -Lomwe- there are ethnic differences, and hence the social aspects of inter-district migration need to be handled with the utmost care.

There are currently three projects under preparation in the Ministry of Lands, each focusing on different pilot districts, distributed evenly over the country:

i. AfDB-assisted project, involving the titling of customary lands in three districts where there is potential demand for such titling (Rumphi in the North; Kasungu in the Centre; and Chiradzulu in the South);
ii. EU-assisted project, involving capacity-building for decentralization of Land Administration in the districts of Mzimba in the North, Salima in the Centre, and Mwanza in the South.
iii. WB-assisted land redistribution project, involving the two districts with the highest incidence of encroachments, and two districts with a substantial supply of unused estates and localized land

pressures.

If scaled-up, a national project would probably target Chiradzulu (land scarce district, highest population density), Zomba and Chikwakwa in the South, and, Nkhotakota, and Mchinji in the Centre as these districts also experience problems with encroachment. As ground rents and land tax increase over the following years (as committed by the Government), estate owners will have a further incentive to sell un- or under-utilized lands, thus increasing the supply of land for redistribution.

Throughout the country, the number of land-poor families that could benefit from a scaled-up project are estimated as follows: if we consider smallholders with less that 0.5 ha as land constrained (at most 20% of all smallholders (see table 3 above) i.e. less than 360,000 families), and assume most smallholders do not rely on farming as their primary source of income (as indicated by higher non-farm sources of income). In addition, the rental market that will expand due the increased land tax and ground rents will also make more land available for rental. A rough estimate of the potential beneficiaries of a scaled up project would then be 100,000. If we apply the uniform ceiling used in the pilot ($1050) and add in the administration and other overhead costs, a scaled-up project may require in the order of $120 million over 20 years i.e. $6 million per year.

Additional Annex 14: Social-cultural Appraisal Summary
MALAWI: Community-Based Rural Land Development Project

The four pilot districts can be divided into two socially differentiated areas. Thyolo and Mulanje are principally Lomwe and Mag'anja by ethnic origin, even though traces of Yao are also found. Christianity predominates as the main religion in these two districts. By contrast, Machinga and Mangochi are predominantly Yao by ethnicity and Muslim by religion.

While the rural population in all pilot districts relies on farming as a predominant livelihood activity, there are significant differences in terms of off-farm economic opportunities. Seasonal work on tea plantations in Thyolo and Mulanje is a source of income for many people. In Machinga and Mangochi off-farm income opportunities are more limited, and center around fishing along the lakeshore areas, and the making of mats, baskets and other handicraft items.

Because of the history of the carving out of the many tea plantations from customary lands, Thyolo and Mulanje have more acute land shortages for smallholder farmers than Machinga and Mangochi. However, at a micro level, there are people with inadequate land in all the four districts.

The key uniting social factor is that the whole pilot area is matrilineal by descent. This means that customary land, which constitutes more than 60 percent of the total land area, is passed on in succession following matrilineal descent rules. Land in a matrilineal society belongs to a lineage, led by the oldest maternal uncle (i.e the oldest brother of the sisters). The lineage leader distributes land to the sisters. When daughters reach marrying age, land is transferred from the mother to the daughters. If the mother has not enough land to distribute to her daughters, she seeks the assistance of the lineage leader to provide her with more land, if available. Even when the daughters have married they still keep rights to land. Their husbands cultivate the land with them but they have no inheritance rights. In fact, the husbands are regarded as "strangers" who, upon dissolution of marriage, must return to their home village. However, if husband and wife seek permission to live in a "neutral" location, as in the case of the CBRLDP where they will buy leasehold land, ownership rights can be decided by the family on its own, viz. whether to give rights to the husband, wife, or joint.

Chiefs settle most of the land disputes, although a limited number of them find their way to the District Commissioner.

Next to the similarity of matrilineal descent, there are differences with regard to other cultural and traditional beliefs. For example, initiation ceremonies for girls and boys are different as well as a range of beliefs regarding birth, family life and death.

The socio-cultural appraisal of the project involved an assessment of whether the design had taken into account the main relevant socio-cultural factors to ensure that potential areas of conflict were adequately addressed. As a result of the appraisal, and the lessons from previous experience, the following changes were introduced in the design of the project, and reflected in the Project Implementation Manual:

1. The principle that the project would support only voluntary movement of people was more clearly and emphatically articulated. It was pointed out that large movements across districts, especially between Mulanje/Thyolo and Machinga/Mangochi would likely generate social problems. The M&E system will monitor these movements closely, if and when they occur, and suggest immediate resolution to possible problems.

2. The need for wide consultations with receiving communities, including, especially where inter-district migration is concerned, the involvement of political leaders, was more clearly articulated.
3. The original requirement for beneficiaries to relinquish title to customary land in their originating community was scrapped. Such pieces of land are already too small, by definition, and are likely to be left to relatives to cultivate. In addition, it was going to be almost impossible to enforce this requirement.
4. Project design attempts to minimize the risk that (a) the formation process of self-selected groups of potential beneficiaries marginalizes certain categories of vulnerable individuals, and (b) the self-selected groups are regarded as not legitimate by the rest of the community.
5. The design includes encouraging the formation of a village-level committee to facilitate project processes from a social perspective.

This committee, called the Community Oversight Committee, would comprise between ten and twenty members. The following guidelines would be issued:

1. Membership would be equally divided between men and women.
2. Members of the COC would be democratically elected at a village meeting or a meeting of several participating villages.
3. Where there are several participating villages, membership will be in proportion to the number of villages taking into account the size of population of the different villages.

The COC would:

1. Receive orientation from the Lands Officer, making it become very conversant with eligibility criteria;
2. Keep records of groups in formation, including membership of such groups;
3. Advise forming groups of potential problems that might lead to rejection during the Participatory Rural Appraisal (PRA) stage;
4. Discuss with groups issues arising from the process of group formation, and feed these issues into the PRA stage;
5. Provide information to inquiring individuals regarding groups in formation to assist those who have problems linking themselves to a group;
6. Inform the community, at a village meeting, about any forming groups and the composition of their membership. Any complaints about the group formation process and disagreements regarding composition will be resolved in mutually agreeable ways;
7. Facilitate the formation of the Project Management Committee;
8. Participate in the Field Appraisal; and
9. Receive, address and refer complaints from individuals in beneficiary groups, where the PMC is in conflict of interest.

Where populations have moved beyond their own community, the need for prior agreement on the sale of land and re-settlement between beneficiaries and receiving communities is included into the approval procedures

Social-cultural aspects were also introduced in the monitoring and evaluation framework, including:

1. distribution of benefits across different social groups;
2. qualitative assessments of economic and social well-being of communities left by beneficiaries, especially that of vulnerable individuals left behind;
3. assessment of access to social facilities by beneficiary groups and receiving communities;

4. assessment of social harmony within and between beneficiary groups and receiving communities;
5. identification of unanticipated social issues and recommendations for addressing them;
6. assessment of land-related disputes, if they occur; and
7. other disputes.

Stage in Project Cycle	Social Issues and Actions
Sensitization	To bring awareness to the community about the project. To ensure that communities have correct and complete information about the project necessary for deciding on whether to participate. To initiate the formation of Community Oversight Committees.
Project Identification	Community Oversight Committee works with potential beneficiaries to assess their needs and to form groups. COC finalizes pre-qualification of beneficiary groups. COC facilitates the election of PMCs
Farm Plan	To confirm that the farm plan was prepared with the participation of all beneficiaries. To ensure that there are no disagreements among members of the beneficiary group on the farm plan.
Field Appraisal	Community Oversight Committee Exists, or is not necessary. Community Oversight Committee was elected democratically by the community and people are happy with its composition. Beneficiary group members are eligible. Group formation is proceeding smoothly without significant social tensions. Receiving community is informed about the intention to buy land in their area by other communities and have no complaints or hostilities against the idea of new settlers. Receiving community has no complaints about the farm plan
District Approval	There are no reasonable complaints regarding eligibility and selection process. There are no complaints or hostility from receiving communities about 'outsiders' intention to buy land in their area.
PMU/NTAC	Confirms District Approval.
M & E	Distribution of benefits across different social groups. Access to social facilities by communities. Social harmony within and between beneficiary groups and receiving communities. New social issues, with recommendations for addressing them.

Additional Annex 15: Pilot Districts -- MAP
MALAWI: Community-Based Rural Land Development Project

Pilot Districts Map - MALAWI Community-Based Rural Land Development Project - IBRD 32815