

PCR EVALUATION NOTE
MALAWI: LINE OF CREDIT TO THE INVESTMENT AND DEVELOPMENT BANK
OF MALAWI LIMITED (INDEBANK)

1. THE LINE OF CREDIT

Appraisal Date		Loan #	<i>F/MLW/DBM/LC/96/1</i>	Loan Amount	<i>UA5.0 million</i>
Approval Date	<i>12 December 1996</i>	Loan Signature Date	<i>8 January 1998</i>	Project Completion Date	<i>June 2004</i>
Loan Effectiveness Date	<i>31 March 1999</i>			PCR Date	<i>29 December 2005</i>
NA= Not Available. Source: Bank Staff PCR					

1.1. Objectives

1.1.2. The principal development objectives of the project was: i) to contribute to the economic and social progress of the country by providing financial assistance for investments, preferably, but not entirely, in the private sector

1.1.3. Project-specific objectives comprised of the following: i) Increasing the country's agricultural-based industrial output, expanding its manufactured exports and promoting the development of small and medium-sized enterprises (SMEs) and the private sector; iii) providing financial support to INDEBANK to enable it to extend term lending facilities to private investors in the private sectors of the economy; iii) promoting the expansion of the private sector; iv) promoting the expansion of small and medium sized enterprises in Malawi; v) Increasing capacity utilization of existing industries; vi) Increasing the quality and quantity of exportable goods by projects financed; vii) creating new production capacities from the project; viii) Creating a Micro Enterprise Development Fund from interest spread savings generated under the line of credit operations; and ix) Increasing the number of new enterprises developed, generating employment and conserving foreign exchange resources.

1.2. Project (Line of Credit) Components

1.2.1. The principal components of the LOC comprised of the following : i) Preparation, appraisal and approval of 15 sub projects; ii) Disbursement of line of credit proceeds to INDEBANK; iii) Provision of loans to sub borrowers for equipment and inputs; iv) Provision of support for INDEBANK's medium-term operational program and enhancing its operational and financial performance; and v) Establishment of a revolving fund in the name of a Micro Enterprise Development Fund (MEDF).

1.2. Project (Line of Credit) Results (Outputs and Outcomes)

1.3.2. The project's results were mixed and involved the following areas: i) development of sub-projects; ii) disbursement of the proceeds of the lines of credit and; iii) operational

and financial performance of INDEBANK. Performance assessment under these categories is summarized below:

1.3.3. Development of Sub Projects: In all, 6 sub projects were identified and prepared by INDEBANK, five of which were approved by the Bank following submission by the borrower; one sub-borrower declined a loan from INDEBANK. In terms of numbers, performance was lower than envisaged at appraisal, which contemplated financing a total of 15 sub projects in various sectors of the economy. The sub projects financed under the lines of credit were in the major sectors of industry, agro-industry, tourism and related services. The average loan size of sub projects financed under this facility came to UA 342,000 as against UA 500,000 envisaged at appraisal. Since the PCR did not provide detailed information about the profile of sub projects, the outcomes of implementing the line of credit cannot be adequately assessed in this report. The weak pipeline of sub projects in INDEBANK was symptomatic of a serious deficit of absorptive capacity as the line of credit amount represented a substantial portion of the bank's cumulative loan assets. The low level of disbursement on the LOC amount noted below was mainly a reflection of unfavorable prevailing macroeconomic conditions that made long-term investments of the type envisaged under the facility unattractive to local investors. The low absorptive capacity of the bank to effectively utilize lines of credit resources put at its disposal was another explanatory factor.

1.3.4. Disbursement of LOC Resources: Disbursement performance did not proceed as envisaged at appraisal; the first disbursement did not take place on the date envisaged. A significant time slippage on disbursement occurred, thereby delaying the commencement of line of credit operations under the facility. The main reasons for the slippage included; i) delay in securing parliamentary approval of the pertinent loan agreement for the line of credit facility; and ii) hesitation on the part of the borrower to confirm commitment to LOC borrowing due to apprehensions regarding the country's weak macro economic situation, characterized by high interest and inflation rates and exchange rates that dampened the demand for credit. Total disbursement amounted to UA 1.35 million, representing only 27 % of total loan amount. This represented a relatively poor disbursement performance than envisaged at appraisal. Consequently, a substantial and an unutilized balance of the LOC facility that was subsequently cancelled amounted to UA 3.65 million.

1.3.5. Macro Enterprises Development Fund (MEDF): Since the LOC facility made concessional resources available to finance commercial-oriented enterprises in INDEBANK's portfolio, it was contemplated that an equivalent of 3.0% of outstanding and disbursed LOC would be earmarked for deposit into a revolving fund to be used to continue financing micro-enterprises in Malawi. Projections made at appraisal estimated that UA 0.5 million (US\$0.78 million) and UA 1.1 million (US\$1.6 million) would be credited to the fund account within 5 and 10 years, respectively. Since a significant portion of the loan facility was cancelled, resources earmarked for the fund will fall far short of the original appraisal expectations. Moreover, the Fund became operational much later than expected, in 2004. At the time of the PCR, only a small amount of US\$102,600 had been credited to the Fund account, representing a very small fraction of

the target amount of US\$ 1.6 million. The Fund has had some positive impact on poverty alleviation. Available information as of end February 2005 indicates that in aggregate, MK1 million was lent to the Small Enterprises Development Organization of Malawi (SEDOM) which in turn was on-lent to over 200 micro enterprises with loans ranging between MK50,000(\$400) and MK300,000 (\$2,500). Beneficiaries were engaged in wide-ranging activities including: crop marketing, poultry-keeping, tailoring, etc.

1.3.6. Operational and Financial Performance: All the four sub-projects financed under the LOC facility were operating satisfactorily and the sub-borrowers also demonstrated the ability to meet loan repayment obligations. At the commencement of the project, institutional and governance problems within INDEBANK had an adverse effect on project implementation performance. However, following the structural transformation (including privatization) of INDEBANK, from a purely development finance institution to a commercial-oriented bank (INDEbank Limited) the prospects for the bank's financial performance and viability remained stronger. The bank has usually operated on strict commercial principles and has a track record of profitable financial performance; for instance, its gross income increased more than 179% between 2001 and 2004, with net income also increasing by 453% during the same period, from MK17.0 million to MK 94 million. During the corresponding period, its asset base also expanded significantly, from MK1.22 billion to MK2.50 billion. Its customer deposit base expanded significantly, allowing it to fund its lending program from a more stable deposit base.

1.3. Project Financing

1.3.1..The LOC facility in the amount of UA 5.0 million was approved following a re-appraisal in July 1996 to update the original appraisal made in April 1994. Project implementation started in January 2000 instead of March 1997 as appraised, followed by the first and last disbursements in June 2000 and June 2004, respectively (as against June 1997 and December 1997, set at appraisal). The total LOC amount disbursed amounted to UA 1,346,291.02 (27%) while the unused and cancelled amount was UA 3,653,708.98 (73%).

2. PCR CONCLUSIONS AND PERFORMANCE RATINGS

2.1. Principal Conclusions

2.1.1. The PCR assessed the implementation performance of the LOC as unsatisfactory, mainly reflecting the low rate of disbursement, at 27%. Nonetheless, the project had its positive side. It is estimated to have generated a total of 200 jobs through the sub-projects financed under the facility, mainly in industry, agro-industry and tourism sectors. The low disbursement ratio implied that "the overall impact of the project on the industrial and financial sectors and the country's economic development was very limited". Consequently, from the standpoints of achieving project objectives and institutional development, the project's performance was unsatisfactory.

2.2. Performance Ratings:

2.2.1. The performance of the LOC operations was mixed. While implementation performance was adjudged highly satisfactory with a rating of 3.0, the Bank's performance was assessed as satisfactory with a 2.5 rating; an unsatisfactory rating of 1.74 was accorded to project output performance. Regarding project output performance, the overall unsatisfactory rating is a reflection of poor ratings for achievement of objectives and institutional development impact. The only positive rating of 2.0 under this category was attributed to sustainability assessment.

3. LESSONS LEARNED

3.1. The PCR succeeded in deriving pertinent lessons from the LOC's implementation and performance experience. These emphasized: a) the significance of macroeconomic environment on LOC operations, particularly in driving the demand for credit in the financial market; b) the rationale for using concessional resources to finance commercial-oriented sub projects; c) the need and significance of institutional building capacity components in the design of LOC operations; and d) the need to align LOC operations to PBL operations, with the latter addressing macroeconomic constraints that might impede satisfactory LOC implementation.

4. BORROWER'S PCR AND INPUTS TO BANK STAFF PCR

4.1. It is not known whether the borrower submitted a project completion report and the extent to which it may have been relied upon in the preparation of the Bank Staff PCR.

5. PCR QUALITY RATINGS

5.1 The overall rating for the quality of the PCR is satisfactory, at 2.59. All quality assessment indicators except two registered satisfactory quality while only two were assessed as highly satisfactory as shown in Annex 1, where each rating has been rationalized with pertinent comments.

6. PRIORITY TASK RECOMMENDATION

6.1. A thematic study on lines of credit would benefit greatly from drawing upon the mixed performance experience of this LOC operation to shed more light on the role of macroeconomic factors and the financial sector.

ASSESSMENT OF IMPLEMENTATION AND BANK PERFORMANCE AND PROJECT RESULTS/OUTCOMES				
LINE OF CREDIT TO THE INVESTMENT AND DEVELOPMENT BANK OF MALAWI LIMITD (INDEBANK)				
	Component Indicator	PCR Rating (1-4)	Evaluation Rating	Comments
1.	IMPLEMENTATION PERFORMANCE ASSESSMENT			
i)	Adherence to implementation schedule	1.0	1.0	PCR rating is validated (slippage on implementation of 54 months was excessive and justifies the low PCR rating at 1.0). The mitigating factor is that the borrower was not directly responsible for the delay since it did not control the parliamentary or legislative approval process for the line of credit agreement.
ii)	Adherence to cost schedule	1.0	1.0	PCR rating is validated with reservations. Only UA1.35 million out of loan amount of UA 3.65 million was disbursed mainly due to low demand for credit and not due to disbursement inefficiency. If specific disbursement requests were made by the borrower and not met then non-adherence to cost schedule would be more applicable. The absorptive or operational capacity of INDEBANK to utilize LOC resources was not necessarily a major factor in the low utilization of the LOC facility. It could also be argued, with credibility, that the appraisal targets for eligible sub projects in terms of numbers and the average loan size in the pipeline was not realistic.
iii)	Compliance with covenants and conditions	2.0	2.0	PCR rating is validated.
iv)	Adequacy of monitoring evaluation and reporting	2.0	2.0	PCR rating is validated.
v)	Satisfactory operations	3.0	1.75	PCR rating not validated. Since only subprojects representing 27% of disbursements were operational, it would be misleading to assign a highly satisfactory rating of 3.0 rating to this component indicator. Since satisfactory implementation of the LOC may be determined by the degree or rate of disbursement of LOC proceeds, the poor disbursement rate of 27% implied that LOC operations carried out by the bank could not have attained a highly satisfactory rating of 3.0 accorded to this particular performance indicator. Since LOC implementation was assessed as unsatisfactory the rating is adjusted to 1.75 to achieve consistency.
	Total Scores	9.0	7.75	
	Average Rating	3.0	1.55	Unsatisfactory
PERFORMANCE OF THE BANK				
	Component Indicator			
i)	Identification	NA	NA	
ii)	Preparation	2,0	2.0	Validated
iii)	Appraisal	2.0	2.0	Validated
iv)	Supervision	3.0	3.0	Validated. (Although supervision by the Bank was

ANNEX 1				
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	Component Indicator	PCR Rating (1-4)	Evaluation Rating	Comments
				effective, it was not indicated whether the norm of at least 1.5 supervisions per year was achieved. For rationalizing a highly satisfactory rating for this component indicator, it would be reasonable that this norm be surpassed and should be so explicitly indicated in the PCR.
	Total Scores	7.0	7.0	
	Average Rating	2.5	2.5	Satisfactory
PROJECT RESULTS/OUTPUTS AND OUTCOMES				
	Component Indicator	Rating (1-4)		Comments
1.	Relevance and achievement of objectives			
i)	Macro-economic policy	2.0	2.0	Validated
ii)	Sector policy	2.0	2.0	Validated
iii)	Fiscal Policy	3.0	3.0	Validated
iv)	Financial aspect	1.0	1.0	Validated
v)	Poverty reduction, social impact and gender	1.0	3.0	The PCR rating is not validated. The rating is inconsistent with textual evidence which indicates that the four subprojects financed under the LOC generated a total of 200 jobs in industrial, agro-processing and tourism sectors (see para 5.1.1 of the PCR) . To some extent, this employment generation contributed to poverty alleviation in the concerned communities. In addition, the Micro-enterprise Development Fund remains one sustainable component of the project that will continue to generate pro-poor benefits. Moreover, the PCR recognized that by effectively implementing MEDF, INDEbank was “having a good impact on poverty alleviation in the country”. Accordingly, the PCR rating is adjusted to 3.0
vi)	Environment	2.0	2.0	Validated
vii)	Private sector development	1.0	3.0	The PCR rating is not validated. The beneficiaries of the project mentioned above are purely private sector operators. Hence the project’s impact on private sector development is unquestionable. For this reason, the PCR rating is adjusted to 3
	Total Scores	12.0	15.0	
	Average Rating	1.71	2.14	Satisfactory
2.	Institutional Development			
i)	Institutional framework including restructuring	2.0	2.0	Validated
ii)	Financial and integrated systems of management	1.0	1.0	Validated

ASSESSMENT OF IMPLEMENTATION AND BANK PERFORMANCE AND PROJECT RESULTS/OUTCOMES

LINE OF CREDIT TO THE INVESTMENT AND DEVELOPMENT BANK OF MALAWI LIMITD (INDEBANK)

	Component Indicator	PCR Rating (1-4)	Evaluation Rating	Comments
	including audit systems			
iii)	Transfer of Technology			
iv)	Staffing by qualified/skilled personnel (including turnover), training and counterpart staff.			
	Total Scores	3.0	3.0	
	Average Rating	1.5	1.5	Unsatisfactory
3.	Sustainability			
i)	Continued commitment of borrower	1.0	2.5	Validated. Except for its surveillance and control over macroeconomic policy that may impact on the banking sector and hence on the role of INDE bank, the role of the GOM was substantially reduced after the restructuring process. In view of the bank's historical and strategic role the GOM is expected to play an increasingly supportive role. The PCR rating is adjusted to 2.5.
ii)	Environmental policy			
iii)	Institutional framework	1.0	3.0	The PCR rating is not validated. Contrary to what is implied in the low rating, INDEBANK became a more sustainable institution following its restructuring and transformation into a private owned and commercial oriented bank. In addition, the MEDF was also designed in such a manner as to render it a more sustainable microenterprise financing facility. The PCR rating is adjusted to 3.0
iv)	Technical viability and staffing	3.0	3.0	Validated
v)	Financial viability (including cost-recovery)	3.0	3.0	Validated
vi)	Economic viability			
vii)	Environmental viability			
viii)	O & M facilitation (foreign exchange and recurrent cost financing availability,etc)	2.0	2.0	Validated
	Total Scores	10.0	13.5	
	Average Rating	2.0	2.7	Satisfactory
4.	Economic rate of return			
	OVERALL RATING	1.74	2.11	Satisfactory

PCR QUALITY ASSESSMENT AND RATING

Basic Data Sheet

Project Loan/ Grant #		F/MLW/DBM/LC/96/1	
Title		LINE OF CREDIT TO THE INVESTMENT AND DEVELOPMENT BANK OF MALAWI LIMITD (INDEBANK)	
Borrower		Investment and Development Bank of Malawi (INDEBANK)	
Guarantor			
Beneficiary		Investment and Development Bank of Malawi (INDEBANK)	
Executing Agency		Investment and Development Bank of Malawi (INDEBANK)	
PCR CHAPTER		RATING (4-Point scale)	REMARKS
1	Adequacy of analysis of project goals, objectives and formulation including the verifiable indicators, consistency with appraisal and subsequent revisions	3.0	The project matrix was well formulated and formed a good basis for analysis.
2	Adequacy of analysis of project execution including procurement issues, disbursements, borrower's reporting and assessment of monitoring and evaluation achievements	3.0	Generally adequate.
3	Soundness of judgment on project performance and results including operating results, economic and financial and related conditions/covenants and their fulfillment, institutional, performance of consultants, contractors, suppliers and other parties.	2.5	Delays resulting from the need for parliamentary ratification of the LOC Loan Agreement was not directly within government control as legislative activities fall under a different branch of government.
4	Adequacy of analysis of social and environmental impacts	2.5	The establishment of sub projects and the creation of 200 jobs was a strong manifestation of poverty alleviation and private sector development, a fact not recognized in the PCR ratings for the releant component indicators in Annex 1.
5	Soundness of judgment on project sustainability, plans for future project operations' phase and maintenance	2.5	The very restructuring of the bank, thereby weakening government control over it was more positive sustainability factor than was recognized in the PCR.
6	Soundness of judgment on performance of the Bank, borrower and co-financiers.	2.75	With the restructuring of the INDEBANK, the GOM was expected to play a less proactive role than before; Government ownership and commitment should therefore not have been expected to be stronger after the restructuring process.
7	Consistency of overall rating with individual rating components.	2.0	A number of inconsistencies were observed as indicated in Annex 1.
8	Adequacy of analysis and clarity of conclusions, lessons learned and recommendations	2.5	
TOTAL SCORES		20.75	
OVERALL RATING		2.59	Satisfactory
OPEV and Country Department Agree/Disagree on Project Performance Rating:			
Borrower's PCR and Inputs to Bank and Bank Staff PCR: It is not known whether the borrower submitted			

	a project completion report and the extent to which it may have been relied upon in the preparation of the Bank Staff PCR.
	Conclusion: The project's performance was mixed. Only 27% of the original LOC amount was disbursed , not due to lending capacity inadequacies but mainly due to adverse macroeconomic conditions and relatively low demand for credit. Some 200 jobs were created and hence the project had a positive anti-poverty stance. The project's rating was satisfactory. The quality of the PCR was rates satisfactory. It reflected adequately the project's implementation experience and project results.
	Priority of Project for Performance Evaluation Report, Impact Evaluation, Country/Sector Reviews or Thematic Evaluation Studies: A thematic study on lines of credit would benefit greatly from drawing upon the mixed performance experience of this LOC operation to shed more light on the role of macroeconomic factors and the financial sector.
	Major Issues of Focus in the Performance Evaluation Report: Not applicable.
	Follow-Up Action/Decision: Future LOC operations in Malawi should draw upon the lesson from this investment regarding the impact of macro economic factors and the health of the financial sector generally.