

**Proposal for Belgian Trust Fund for
Poverty and Social Impact Analysis
(Joint UNDP-World Bank Project)**

Name of Proposal: Malawi: Impact of Private Sector
Participation in Malawi's Urban Water Boards
Government Unit Responsible for Project: Ministry of Economic Planning
and Development
Liaison Person at UNDP Country Office: Mr. Peter Kulemeka
Total Amount Requested: \$100,000

A. Description of the policies on which the PSIA will focus and the rationale for selecting these policies

The PSIA will focus on the proposed private sector participation (PSP) in Malawi's two urban water boards: The Blantyre Water Board and Lilongwe Water Board. These two water boards are currently statutory corporations, owned and operated by the Government on a commercial basis. They supply water to about 1.1 million people, which represents close to 10% of Malawi's population. In recent years, these water boards have been characterized by wide spread inefficiencies evidenced by high leakage levels and deteriorating financial positions. It is for this reason that the 2002 Malawi Poverty Reduction Strategy Paper (MPRS) indicated that "reforms to improve the commercial viability and autonomy of water boards will be pursued more vigorously." (MPRS, page 42). Subsequently, in 2003, the government undertook an options study which recommended PSP in the form of a Lease Contract. It was argued that the benefits of such a reform would include increased coverage in water supply, reduced operating costs and leakages, and increased billing efficiency. Under the proposed form of PSP, Government remains the owner of the assets while the private partner enters into a contract with the Government to be responsible for the operations of the utility. Government has recently indicated that it is now ready to move with the proposed reform having done most of the preparatory work required (e.g. establishment of a regulatory authority). The proposed reform has sparked widespread debate in the media. In particular, there has been opposition from civil society organizations and members of parliament who believe that most poor people will lose out because the proposed reform will lead to an escalation of tariffs and reduced focus on expanding coverage to low income areas.

B. Ongoing programmes and activities to which PSIA would be linked

The options study had recommended the recruitment of a Transactions Advisor whose role would be to ensure that key constraints are addressed in the sector, paving way to a smooth transition. It also recommended the mounting of a public awareness and communications campaign whose aim would be to educate stakeholders the population at large about the realities and potential benefits of the proposed reforms. The proposed PSIA will therefore provide useful input into the work of the Transactions Advisor as well as to the public awareness campaign. Hence, it is hoped that the findings of the PSIA will help the Government refine the design of reforms in the two boards.

C. Description of the proposed analytical work:

a. Methodological approach, such as data analysis and assessment tools

The analysis will be done using a mix of quantitative and qualitative techniques to measure the likely impact of the proposed reforms on tariff structures, household expenditure, equity, and non-monetary measures of wellbeing. Examples of quantitative techniques to be employed include welfare impact measurement through the consumer surplus as well as through willingness to pay, counterfactual analyses, and benefit incidence analyses. Examples of qualitative techniques will include focus group discussions and stakeholder analyses. All these analyses will be done using primary as well as secondary data.

b. Consultations with national stakeholders

Consultations with national stakeholders will be crucial to this PSIA. The participatory approach to conducting this PSIA has already been demonstrated by the involvement of various stakeholders in the identification of this topic area. A meeting was held at which stakeholders within and outside government discussed possible topic areas in which a PSIA would need to be conducted. It is planned that various stakeholders will continue to be consulted in the subsequent stages of the proposed PSISA. In particular, a steering committee will be formed composed of representatives of various stakeholder institutions such as Consumer Association of Malawi, Parliament, Malawi Economic Justice Network, private sector, Ministry of Water Development and other institutions. It is through this steering committee that Government will be consulting the stakeholders to ensure that the study provides answers to various questions that stakeholders may have. Thus, the steering committee will be expected to approve the inception phase report of the study to ensure that the proposed scope and methodology are adequate. It will also review the first draft of the study report before it can be discussed by the wider stakeholder community. In conducting the study itself, the terms of reference for the study will clearly stipulate the need for the consultants to seek the views of a diverse section of people representing different interests. ,

c. Timeframe

It is planned that the whole PSIA work will take a total of six months. The first two months will be for preparing terms of reference for the consultants, recruitment of the consultants, and training of the consultants and the government officials that will be involved in the study. The remaining four months will be for carrying out the actual study and disseminating the results.

D. Statement on how the analytical results will be fed into national policy decision-making

Before the proposed reform can actually be implemented, it needs to be approved by cabinet. The proposed PSIA will therefore provide input into a cabinet paper that will be prepared by the Ministry of Irrigation and Water Development. It is expected that the final design of the proposed reform will take into account the findings and recommendations of the proposed PSIA.

E. Statement on how the World Bank and the Belgian Government (if both have local representatives) will support the project (note: the World Bank will need to approve the project and the local Belgian representative should be notified of the project and invited to meetings)

The World Bank Country Office, in close collaboration with the UNDP Resident Mission (the Belgian Government is not represented in Malawi) will provide the required technical assistance to the government at every stage of the PSIA process, including in the preparation of TORs for the study and in ensuring that the proposed methodology of the study is robust enough in addressing the TORs. Having conducted two PSIAs in the last four years, the World Bank will help build capacity in Government in the management of PSIA processes.

F. Statement identifying the Government unit that will lead the PSIA, how it will coordinate with the unit leading the Poverty Reduction Strategy (if the former is different) and how UNDP will support the process, especially with technical assistance

The PSIA will be led by the Ministry of Economic Planning and Development, which is also the institution in charge of the PRSP. The PSIA will be conducted in close collaboration with the Ministry of Finance and the Ministry of Irrigation and Water Development.

UNDP will mainly play a facilitation role in processing the project proposal and implementing the project. It will liaise with Ministry of Economic Planning and Development, UNOPS and World Bank to ensure that appropriate technical assistance is provided to the project including in recruitment of international and local experts and training of national representatives. In this regard, UNDP will coordinate preparation and

timely submission of government requests for forwarding to UNOPS and the World Bank. UNDP will provide general project management over sight and take part in project monitoring and review activities. Monitoring activities will include financial and technical aspects of the project. UNDP will facilitate project technical and financial reporting.

F. Plans for training components of the project (how training will be provided and for whom)

The PSIA will be preceded by a stakeholder training that will include Government officials as well as representatives from civil society, private sector organizations, parliament and academia. It is envisaged that the training will comprise of a general module covering general principles of PSIAs, common methodologies, its usefulness and its limitations, and a reform-specific module that will focus on PSIAs in the area of reforms in water boards. The World Bank and UNDP will help identify suitable facilitators of the training. It is hoped that the training will further raise awareness on the important role that PSIAs play in general, but also equip the stakeholders so that they can participate more effectively in the proposed PSIA.

G. Deliverables of the PSIA by the end of the project

It is envisaged that at the end of the project, a report of the actual PSIA with findings and recommendations will be produced. Further, another report will be produced on the extent to which this project will have enhanced the capacity of government and other stakeholders to undertake PSIAs, and on the extent to which the proposed PSIA will have influenced the final policy decision to be taken by government on the proposed reform.

H. Plans for dissemination of the results and policy dialogue

The report containing findings and recommendations will be discussed at a national stakeholder workshop. The steering committee will then submit the very final recommendations of the PSIA to the Ministry of Irrigation and Water Development and to the Privatization Commission. As chair of the steering committee, the Ministry of Economic Planning and Development will continue to be involved in policy dialogue on this matter with these two institutions, especially in the process of preparing a cabinet paper on the proposed policy reform..

I. Detailed Budget Table for PSIA

Activity	Inputs, (Atlas Budget Category)¹	Cost (USD)	Matching Funds (if any)
International consultant (s)	PERINT	\$50,000	-
Local consultant (s)	PERLOC	\$30,000	-
Training of national representatives	MISC	\$10,000	-
Travel	TRAV	\$10,000	-
Grand Total		\$100,000	-

¹ Atlas Budget Categories: TRAV (travel), PERLOC (local consultant), PERINT (international consultant) and MISC (miscellaneous).