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Enabling poor rural people
to overcome poverty

Republic of Malawi

Implementation of the third cycle of the Rural Livelihoods Support Programme financed under the Flexible Lending Mechanism

Note to Executive Board representatives

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Abbreviations and acronyms

FLM	Flexible Lending Mechanism
PFU	programme facilitation unit
VDC	village development committee

Implementation of the third cycle of the Rural Livelihoods Support Programme financed under the Flexible Lending Mechanism

I. Introduction

1. The Executive Board approved the establishment of the Flexible Lending Mechanism (FLM) at its sixty-fourth session in September 1998. FLM loans provide for (i) a continuous and evolving design process through implementation of distinct three-to-four year cycles, and (ii) clearly defined preconditions or “triggers” for proceeding to subsequent cycles.
2. Paragraph 13 of the FLM guidelines (EB 98/64/R.9/Rev.1) stipulates that “... for each FLM loan and prior to the end of each cycle, IFAD management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly.”
3. An information note (EB 2007/91/INF.3) was presented to the Executive Board at its ninety-first session in September 2007 to report on the progress of the Rural Livelihoods Support Programme during its first cycle, and on the achievement of triggers for proceeding to the second cycle. The note also brought to the Board’s attention various operational adjustments required to improve the programme’s focus and impact.
4. This information note summarizes progress made during the second cycle and the recommendations made for implementation of the third cycle. These include a reduction in the scope of programme activities in order to focus on those that have been most successful until now and are considered of greatest value by the beneficiaries. Activities that have been less successful during the first and second cycles will be discontinued.

II. Background

A. Overview

5. The Executive Board approved financing of the programme on 12 September 2001 and the programme became effective on 30 August 2004. Its total cost is estimated at US\$16.5 million. Sources of financing are IFAD (with a loan of about US\$14.8 million), the Government (contributing US\$1.2 million) and beneficiaries (US\$0.5 million). The Ministry of Local Government and Rural Development has overall responsibility for the programme. The programme facilitation unit (PFU) supports the district assemblies in implementation activities. IFAD took over direct supervision of the programme in 2008.
6. The programme is being implemented in accordance with the loan agreement between IFAD and the Government of Malawi dated 13 November 2003, which specifies that the programme will be implemented in line with IFAD’s FLM. The FLM involves three 3-year programme cycles with approval for the second and third cycles being dependent on achieving certain triggers during the preceding cycle. The first cycle was evaluated in 2007, subsequent to which the programme entered its second cycle. In May 2010, an IFAD-Government evaluation/design mission conducted an evaluation of the programme’s second cycle, assessed whether the triggers for the third cycle had been achieved, and formulated necessary adjustments to the design of the programme to bring it to a satisfactory conclusion in 2013.

B. Goal and objectives

7. The goal of the programme's third cycle is to reduce poverty sustainably among the target group through investments in human capital, food production and income-generating activities. This will be achieved through three complementary objectives, each corresponding to one of the three programme components: (i) empowerment of poor and vulnerable people through development of institutional and human resource capacities for community development, management and local governance; (ii) support for target groups in self-selected food security and income-generating activities based on agriculture and livestock; and (iii) efficient and effective programme management and coordination.
8. The programme has three components:
 - **Component 1: Investment in human capital.** This supports capacity-building at village level in order to empower poor and vulnerable communities and households.
 - **Component 2: Village investments.** This supports target groups with resources to invest in a series of activities that respond to their concerns and make use of local opportunities identified through the village planning process. Two funds have been established to finance these activities: the Local Initiatives Fund and the Village Investment Fund.
 - **Component 3: Programme management and coordination.** This includes: (i) operating the PFU; (ii) contracting services on behalf of beneficiaries; (iii) coordinating the programme and providing technical support and supervision; (iv) liaising with development-partner-funded activities; and (v) arranging for programme wind-down and completion.

III. Programme achievements during the second cycle

A. Overview

9. Programme achievements from September 2007 to March 2010 have been documented by the PFU and independently reviewed by the evaluation/design mission. The available documentary resources, together with the information obtained by the mission and its observations, create a picture of a successful rural development programme that is delivering significant benefits to some 50,000 households of the target group in some of the poorest and most isolated parts of Malawi. In particular, the programme has made impressive achievements in improving household food security through better crop yields and higher income-generation from livestock production. These achievements provide a platform from which to consolidate and sustain results during the third cycle.

B. Investment in human capital

10. Component 1 includes three subcomponents:
 - **Subcomponent 1.1, community planning and implementation,** has involved the mobilization, sensitization and training of communities in 245 villages through socio-economic profiling and participatory planning processes, which have resulted in the selection of priority investment projects for implementation under the programme's second component. Under the subcomponent, vocational training programmes have also been conducted, and support provided for the launch of small-scale business ventures complemented by revolving funds managed by village development committees (VDCs). There has been enthusiastic participation in these activities, which in most villages represent the first ever of this type. During the second cycle, the programme has supported around 1,200 micro-projects, compared with around 430 in the first cycle. Key features have been: (i) the strong spirit of participation exhibited by community members; (ii) participatory and democratic planning and

decision-making processes; (iii) good understanding of programme objectives and procedures at all levels; (iv) effective targeting of poor and vulnerable households; (v) excellent gender balance in committees and beneficiary selection in two of the three districts; and (vi) a high degree of beneficiary satisfaction with results. A key challenge has been the sustainability of the VDC revolving funds that provide loans to groups of persons for establishing small-scale businesses. To facilitate the sustainability of these funds, the programme is negotiating a partnership with the Opportunity International Bank of Malawi whereby the bank will undertake the management of these funds and offer sustainable pro-poor microfinance products.

- **Subcomponent 1.2, programme implementation support**, involves eight sectoral ministries¹ at district assembly levels, which have ensured that the needs of the target group are incorporated in district planning processes. The ministries have also endeavoured to provide the necessary follow-up during implementation of micro-projects, including technical backstopping and monitoring, but due to high levels of staff vacancies and lack of transport at district assemblies, much of this work has been undertaken by three district facilitators and eight field facilitators engaged directly by the PFU.
- **Subcomponent 1.3, participatory monitoring and evaluation**, is being implemented through a series of workshops and meetings at various levels. Annual review workshops are held at district, village and area levels to review programme implementation. Communities are expected to self-assess their performance and the performance of the service providers, and suggest ways of improving future outcomes. Monitoring of village-level activities is the responsibility of the programme management committees, which submit a simple report form each month. This is working well, whereas the aggregation of reports and transmission of information through the various layers of the decentralized system is not working well and will be strengthened during the third cycle.

C. Village investments

11. This component has funded more than 1,600 micro-projects, ranging from small individually operated income-generating activities (both on- and off-farm), to larger public good investments that benefit the whole community. Project selection is undertaken through the participatory planning process in the first component. Support has focused on: (i) **agriculture and livestock development**, including small-scale goat units, dairy cows, poultry, pigs, aquaculture, food security/crop improvement, conservation agriculture, seed multiplication, orchard establishment, and vegetable growing; (ii) **natural resource management and environmental conservation**, including soil and water conservation projects on sloping land, bee-keeping, community forestry and community tree nurseries; (iii) **community water development and management**, including construction of community boreholes and shallow wells. Boreholes for domestic water supply are almost always a high priority for communities that do not already have them. The boreholes are creating immediate and substantial improvements in economic output and quality of life in terms of time saved and the reduced incidence of water-borne diseases, with women and children being the main beneficiaries; (iv) **primary health care and sanitation**, including establishment of village pharmacies financed by drug revolving funds, latrine construction, and HIV/AIDS advocacy and awareness. Most of the drug revolving funds were experiencing management and sustainability

¹ Ministry of Agriculture and Food Security; Ministry of Transport and Public Infrastructure; Ministry of Natural Resources, Energy and Environment; Ministry of Irrigation and Water Development; Ministry of Health; Ministry of Labour; Ministry of Gender, Child Development and Community Development; and Ministry of Education, Science and Technology.

problems. Programme support for these activities has been wound back, and most have ceased to function; (v) **small-scale businesses** such as bakeries, small-scale trading, carpentry, bricklaying, tinsmithing, tailoring, shopkeeping and shoe repairing. These are supported by vocational training under subcomponent 1.1 and credit from the VDC revolving funds, which is used to purchase equipment and initial stocks of materials; and (vi) **community infrastructure**, including construction or improvement of roads, bridges, culverts and fords, school blocks and maize mills. These are public good investments implemented by VDCs using locally engaged labour, often linked to vocational training (e.g. bricklaying) under the first component.

12. A key feature of this component is the generally excellent performance of the food security/crop improvement initiatives (including conservation agriculture trials), which are overwhelmingly the first choice of communities. Some of the livestock investments, especially goat production, have also produced good results and could be further improved. This assessment, together with the amount of funds available for the third cycle, points to the need to narrow the range of programme-supported activities from six categories to the two most effective ones: (i) agriculture and livestock; and (ii) natural resource management and environmental conservation. Together, these complementary initiatives have the best chance of delivering sustainable poverty alleviation to the target groups. In addition to narrowing the scope of activities, attention will be focused on the 101 villages that joined the programme in 2008 and 2009, while support provided to the 144 villages during the first cycle will taper off.

D. Programme management and coordination

13. The programme is coordinated by the Ministry of Local Government and Rural Development through the PFU in Blantyre under the guidance of the national steering committee. The desk officer based at the ministry's headquarters in Lilongwe acts as the liaison point between the PFU and the Government, and also acts as the secretariat of the steering committee. At field level, the programme is implemented by the district assemblies, which have provided strong support through the district executive committees and the eight line ministries and departments represented at district level. Despite very limited resources, the district assemblies have been effective institutional partners in programme implementation and have been able to improve their capacity to facilitate participatory rural development activities in collaboration with the area, village and project management committees.
14. An area of weakness has been the monitoring and evaluation (M&E) system. IFAD has agreed with the Government that the latter would contract an M&E expert and that the programme would have a fully functional management and information system by end-2010. On financial management, although the PFU has endeavoured to apply sound financial management systems and controls, management by the districts has not been fully satisfactory due to constrained human resource capacities at the district assembly level, leading to a re-centralization of financial management and control at the PFU, rather than at the district assemblies.

E. Achievement of second-cycle triggers

15. All five triggers specified in the loan agreement for the second cycle have been achieved to some extent as shown in the table below.

<i>Trigger</i>	<i>Assessment</i>
Improved financial administration and control	Moderately satisfactory
Preparation of exit strategy	Satisfactory
Number of villages engaged	Highly satisfactory
Conduct of impact assessment survey	Partly satisfactory
Impact on performance indicators	Partly Satisfactory

16. While the trigger assessments are mixed, crucially the number of villages and beneficiaries engaged, and their level of satisfaction with the support provided by the programme is assessed as highly satisfactory. Moreover, the range of livelihood enhancement interventions will be narrowed during the third cycle to include only those that have demonstrated effectiveness in improving the food security and incomes of poor households.

IV. Lessons learned and focus during the third cycle

A. Lessons learned

17. Many lessons have been learned during the programme's first and second cycles, which will inform programme implementation during the third cycle. Foremost among these is the relative ease of mobilizing very poor rural communities to participate in the development process, their willingness to undertake facilitated participatory problem analysis and problem solving, and the strong spirit of volunteerism in the communities. The programme is popular and widely appreciated within the districts and is strongly supported by the district assemblies. However, there are a number of other lessons that will inform the approach to the third cycle:
- **Preference for agriculture, livestock and water interventions.** During the first and second cycles, the programme has supported a very wide range of public and private good interventions. However, beneficiaries are very clear about those they consider most valuable. In 11 of the 12 VDCs consulted, first preference was given to food security initiatives. This reflects the preoccupation with household food security in a chronic food-deficit area. In most cases, livestock interventions, particularly involving goats, were ranked second. Domestic water supply is also highly valued in villages without access to clean water.
 - **Local government implementation capability.** This has come under pressure as the programme has expanded while local government staff are called upon to support more and more partner-funded development programmes. This applies to administrative, financial and technical functions, and calls for continued strong support from the PFU in the provision of training, equipment and transport.
 - **Outreach and targeting.** The programme initially targeted the "poorest of the poor". In the meantime, it has become apparent that the economically active and motivated poor are the main practicable target group for a programme of this nature. However, the inclusion of certain "safety net" activities has ensured that the poorest and most vulnerable are not bypassed completely.
 - **Management capacity of the VDCs.** While VDCs are effective village-level development institutions that play a crucial role in the programme, their limitations also need to be recognized, especially in relation to financial management and reporting. Few, if any, VDCs have the capacity to manage revolving funds or business ventures effectively. This has led to the recommendation that the revolving funds be taken over by an established microfinance institution.
 - **Beneficiary training and sustainability.** All beneficiaries receive some form of training before implementing projects. However, there is a clear need for follow-up and refresher training in most cases – a need that is recognized by the beneficiaries themselves, especially those conducting small-scale business enterprises.
 - **The importance of partnerships.** The programme has been able to extend its reach and effectiveness through cooperation with a number of other organizations including the World Food Programme (food for work

and school feeding); the International Crops Research Institute for the Semi-Arid Tropics (supply of improved seeds); World Vision (road construction); the Shire Highlands Milk Producers Association (milk marketing); the Technical, Entrepreneurial, Vocational Education and Training Authority, and several training institutions (vocational training); the Bvumbwe Research Station (agricultural research); the Malawi Union of Savings and Credit Cooperatives (financial services); Gesellschaft für Technische Zusammenarbeit (GTZ)(fuel-efficient stoves); the International Center for Tropical Agriculture (soil fertility); the World Agroforestry Centre (agroforestry); and Total Land Care (conservation agriculture). Expansion of this network of partnerships will continue during the third cycle.

- **Procurement.** The use of a coupon system for provision of agricultural inputs has been successful in ensuring the targeting and timely delivery of inputs directly to the villages and will be continued. The use of turnkey contracts for complex construction projects also works well.
- Projects involving **common property resources** have proved difficult to implement and sustain. This applies particularly to community woodlots where the survival rates have been low.

B. Recommendations for the third cycle

18. The programme's goal remains unchanged: sustainable poverty reduction among the target group of approximately 50,000 households through investments in human capital, and income-generating activities. The components also remain unchanged but with recommended operational adjustments as follows:

<i>Component/subcomponent</i>	<i>Recommended changes</i>
Investment in human capital	
Community planning and implementation	<ul style="list-style-type: none"> • All first-cycle VDCs/villages to be graduated out of the programme and the remaining resources will be focused on second-cycle VDCs/villages. • Microfinance operations to be linked to a formal microfinance institution rather than operated by VDCs.
Programme implementation support	<ul style="list-style-type: none"> • Service providers to continue to be directly engaged by the PFU. • Increased emphasis to be placed on follow-up and refresher training, including of groups established in the first and second cycles.
Participatory monitoring and evaluation	<ul style="list-style-type: none"> • A new approach to be taken to monitoring, based on local-level data capture and direct transmission to the PFU with copy to the district assemblies. • Targeted impact assessment studies to be conducted, linked to the baseline survey in the final year of the third cycle.
Village investments	
Local Initiatives Fund (LIF)	<ul style="list-style-type: none"> • Funding to be limited to projects supporting agriculture, livestock and natural resource management. • Remaining funds in the Village Investment Fund (VIF) to be transferred to the LIF.
Village Investment Fund (VIF)	<ul style="list-style-type: none"> • No new public good initiatives to be funded, with the possible exception of some water supplies in areas where communities identify this as a priority. • Commitments to existing VIF projects to be completed by the end of the second cycle. • District assemblies to move towards full funding of major infrastructure maintenance during the third cycle.

<i>Component/subcomponent</i>	<i>Recommended changes</i>
Programme management and coordination	
Programme facilitation	<ul style="list-style-type: none"> Accounting and financial control systems to be strengthened to improve reporting and the flow of funds. PFU staff to become more involved in supporting programme activities at the field level. Terms of engagement of PFU staff to be aligned with civil service pay and allowances from 31 December 2011. PFU staffing levels to be rationalized and reduced in line with refocused activities and in order to contain costs. Effective M&E and impact assessment systems to be established.
Contribution to policy dialogue	<ul style="list-style-type: none"> The programme to become more effectively engaged in national policy dialogue on rural poverty reduction and decentralized governance.

19. **Programme costs.** The programme's third cycle has been re-costed taking into consideration changes in costs and prices during the first six years, as well as the recommended changes in activities undertaken. The estimated cost of the third cycle is US\$5.5 million. During its next cycle, the programme will be financed by the release of funds for the third cycle from the IFAD loan in the amount of SDR 3.3 million (approximately US\$5.2 million depending on the United States dollar/special drawing right exchange rate), with the remainder coming from the Government and beneficiaries.

V. Conclusions

20. **General.** The Government is strongly committed to consolidating and expanding the programme's achievements within the context of the ongoing democratic decentralization process. The programme is considered a model project within the country and many of its innovative features are being replicated in other rural development programmes and projects. The Government intends to expand the programme's approach within the existing three districts and replicate it in other districts of southern Malawi.
21. **Sustainability and exit strategy.** The most important sustainability issue concerns the participatory processes and democratic structures that the programme has established at village level, and the approach that has made the district assemblies responsive to grass-roots needs expressed through these processes. These processes and procedures are well understood and appreciated at all levels, and will continue as long as programme funding is forthcoming and the PFU is acting as the facilitator and coordinator. The challenge is to institutionalize these processes and procedures during a period when decentralized governance is still evolving.
22. Transition to the third cycle as of 1 September 2010 has been approved by IFAD Management.