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Republic of Malawi
Country strategic opportunities programme

Note to Executive Board representatives

<u>Technical questions:</u>	<u>Focal points:</u>	<u>Dispatch of documentation:</u>
Thomas Rath Country Programme Manager East and Southern Africa Division Tel.: +39 06 5459 2069 e-mail: t.rath@ifad.org		William Skinner Chief Governing Bodies Office Tel.: +39 06 5459 2974 e-mail: gb_office@ifad.org

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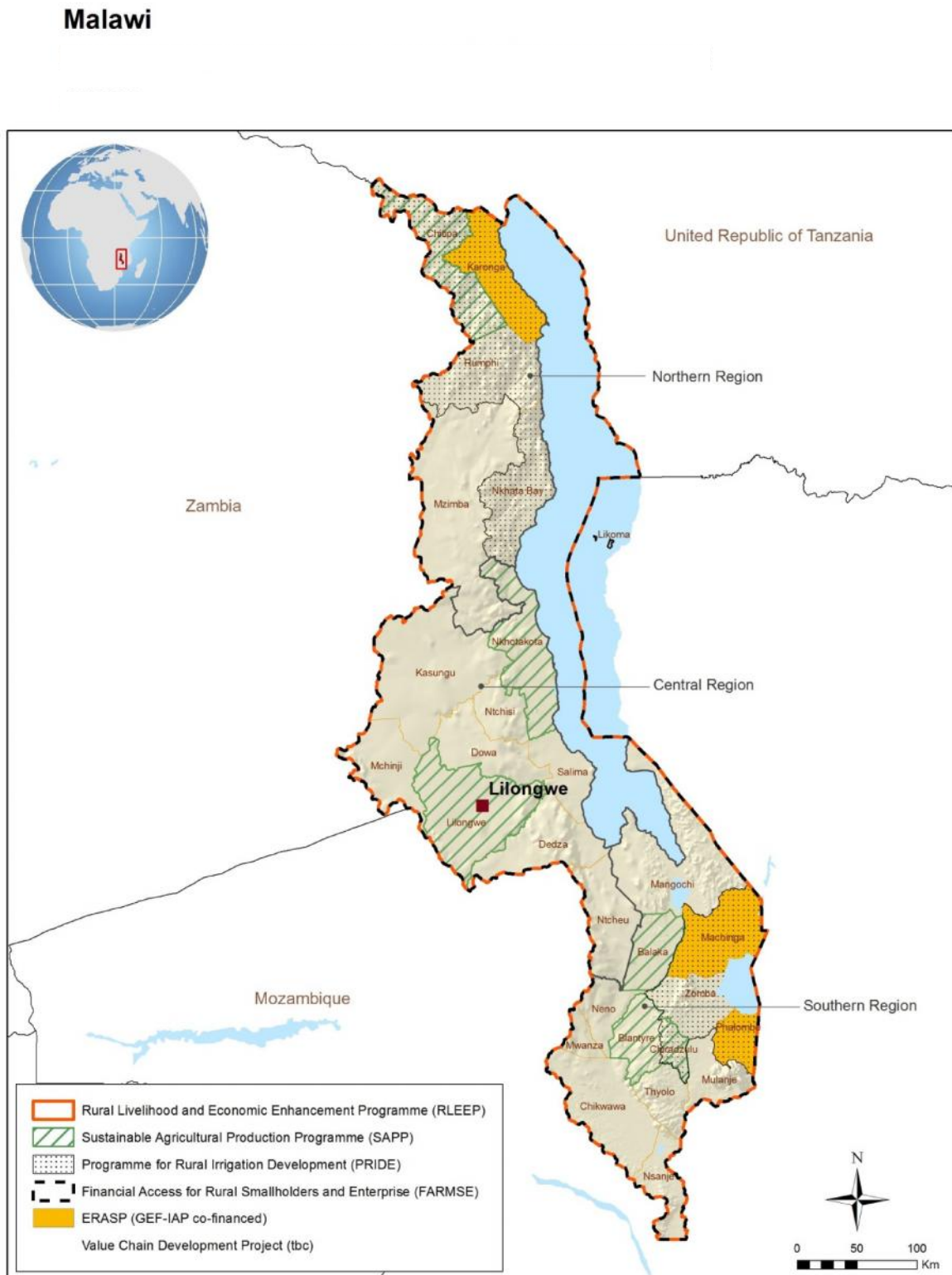
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Abbreviations and acronyms

ASWAp-SP	Agriculture Sector Wide Approach Support Project
COSOP	country strategic opportunities programme
DCAFS	Donor Committee on Agriculture and Food Security
ERASP	Enhancing the Resilience of Agroecological Systems
FARMSE	Financial Advancement for Rural Markets, Smallholders and Enterprise
FISP	Farm Input Subsidy Programme
GAP	good agricultural practice
IAP	Integrated Approach Pilot
IRLADP	Irrigation, Rural Livelihoods and Agricultural Development Project
M&E	monitoring and evaluation
PRIDE	Programme for Rural Irrigation Development
RLEEP	Rural Livelihoods and Economic Enhancement Programme
SAPP	Sustainable Agricultural Production Programme
SSTC	South-South and Triangular Cooperation
SMEs	small and medium-sized enterprises
SO	strategic objective

Map of IFAD-funded operations in the country



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.
 Map compiled by IFAD | 23-09-2016

Executive summary

1. Introduction. This country strategic opportunities programme (COSOP) maps IFAD's engagement with the Government of Malawi for the period mid-2016 through mid-2022. It builds on COSOP 2010-2015, lessons from IFAD-financed projects, country diagnosis from the literature and consultations with stakeholders.
2. Country context. Malawi has a population of 16.7 million people, of which 85 per cent are rural. Two of three people are under age 25. Population is predicted to further grow to 26 million by 2030. The poverty headcount stands at 50.7 per cent, with 30 per cent being severely poor. Poverty is most pronounced in rural areas of the north and south, while it has decreased in urban areas. High rates of malnutrition, paired with some 10 per cent of the population infected by HIV/AIDS, hamper the country's productivity and require high care efforts by family members, especially women.
3. Agriculture is a key sector of Malawi's economy in terms of national income and employment. Pressure on scarce resources results in degradation and deforestation. The extreme weather congruent with climate change has negatively affected food security, leaving 2.8 million people dependent on food aid in early 2016. This underlines the vulnerability of the predominantly rainfed production system. The public extension system cannot meet farmer demand, due to a lack of capacity and staff time devoted to the Farm Input Subsidy Programme.
4. The COSOP's strategic objectives are fully aligned with the main relevant policies of the Government: the Second Malawi Growth and Development Strategy; the National Agriculture Policy; and the National Export Strategy.
5. Lessons learned. The COSOP 2016-2022 builds on lessons from the four programmes included in the previous COSOP 2010-2015. IFAD has proven expertise in delivering good agricultural practices, such as conservation agriculture and adaptation to climate change. Innovations in extension services, such as farmer- and community-led systems, showed good initial results. Small and medium-scale irrigation development and the management of irrigation schemes by water users' associations – providing smallholders access to irrigated land – forms another area of success. IFAD pioneered value chain development successfully in several commodities across a range of actors. The household methodology approach empowered women to make joint decisions. IFAD-funded investments are implemented through government and community structures, thus strengthening capacities at national, district and local levels and improving beneficiary uptake of services.
6. Strategic objectives. COSOP 2016-2022 aims at two strategic objectives:
 - (a) Strategic objective 1: Smallholder households become resilient to natural shocks and enhance food and nutrition security. This objective seeks to reduce the vulnerability of smallholder farmers to weather extremes and natural disasters. It will be achieved through investments in:
 - (i) climate-proofed infrastructure, including irrigation and soil and water conservation; and
 - (ii) on-farm technology. The capacities of farmers and their communities will be developed for integrated natural resource management, including irrigation management, and for good agricultural practices, including climate-smart and nutrition-sensitive agriculture, crop diversification, best nutritional practices and post-harvest activities. Nutrition will be mainstreamed in all projects.
 - (b) Strategic objective 2: Smallholder households access remunerative markets and services. This objective seeks to enable smallholder farmers to benefit from agricultural commodity markets. It will be achieved through improved access to rural financial, market and business development services dedicated

to smallholder farmers. Smallholders will be supported in forming credit and savings associations for accessing financial services. Very poor households will benefit from the Graduation Approach. Financial institutions and value chain partners will be supported in creating business opportunities for smallholder farmers to supply agricultural commodity markets. Producer groups will be assisted in addressing market demands such as product choice, quantity and quality standards.

7. Sustainable results and successful delivery. Investment and non-project activities will focus on economically active poor rural people while creating spin-off for vulnerable, food-deficit households. Mainstreaming of nutrition will directly enhance the well-being of the target group. Positive scaling-up development outcomes will be emphasized through policy engagement and partnership-building. Opportunities under South-South and Triangular Cooperation will be proactively pursued. Climate and natural resource management aspects are addressed in lending programmes through Global Environment Facility and Adaptation for Smallholder Agriculture Programme funding. The monitoring capacity of the Government will be strengthened. Innovation will be driven by grant-funded research and by testing new approaches within projects.

Republic of Malawi

Country strategic opportunities programme

I. Country diagnosis

1. Country context. Malawi is a small, densely populated country bordered by Mozambique, the United Republic of Tanzania and Zambia. Its climate is tropical, with a rainy season from October to April and a mean annual rainfall ranging from 500 to 3,000 mm.
2. Malawi's population increased from 4 million in 1966 to 16.7 million in 2014, and is expected to grow to 26 million by 2030. Two of three people are under 25 years of age.¹ Life expectancy has improved to 62.8 years.² The average population density is 177 people per km² (2014), with some areas in the south having over 300 people per km².
3. Malawi is a Least Developed Country, with a 2014 Human Development Index of 0.445, ranking it 174th of 182 countries. The gross national income per capita fell from US\$370 in 2011 to US\$250 in 2015, mainly due to a drop in income from export crops.
4. The 2014 gross domestic product (GDP) was about US\$4.26 billion, of which 17.04 per cent derives from industry and 49.65 per cent from services. Agriculture provides the remaining 33.31 per cent, but plays a key role. The sector employs 80 per cent of the workforce and is the main foreign exchange earner, through exports of tobacco, sugar, tea, coffee and cotton. Real GDP growth in 2014 was estimated at 5.7 per cent, driven largely by agriculture, with significant contributions from manufacturing, wholesale and retail trade and services.³ Unemployment stands at 6.6 per cent (2014). Youth unemployment is strikingly high at 40 per cent.
5. Inflation has remained above 20 per cent since 2013 (up from 4.1 per cent in 2007), driven by low crop harvests and subsequent surges in food prices. In 2016 food price inflation was at 28.4 per cent, affecting net food buyers and posing a risk of increased child malnutrition.⁴ Annual interest rates for credit are about 27 per cent (13.2 per cent on deposits).
6. The following trends have been observed in national growth and development: (i) average per capita income is increasing, driven by growth in the rural non-farm sector; (ii) urban population growth exceeds rural population growth, but Malawi will remain predominantly rural for the coming decade; and (iii) urban poverty rates are increasing slightly, showing the limited absorption capacity of the urban economy.⁵
7. Rural livelihoods. Eighty-five per cent of the population (about 11 million people) live in rural areas and almost all engage in crop and livestock production. Landholdings average 0.8 hectares, with maize being the dominant crop (66 per cent) for smallholders, followed by pigeon pea, groundnuts (16 per cent each) and tobacco (8 per cent).

¹ Population Reference Bureau (2014), www.prb.org/.

² UNDP, *Human Development Report 2014*, Malawi summary (New York: United Nations Development Programme, 2015).

³ African Economic Outlook (2015), www.africaneconomicoutlook.org/.

⁴ G.A. Cornia, L. Deotti and M. Sassi, "Sources of food price volatility and child malnutrition in Niger and Malawi," *Food Policy* 60 (April 2016): 20-30; K. Harttgen, S. Klasen and R. Rischke, "Analyzing nutritional impacts of price and income related shocks in Malawi," *Food Policy* 60 (April 2016): 31-43.

⁵ P. Dorosh, K. Pauw and J. Thurlow, "Contribution of Cities and Towns to National Growth and Development in Malawi" (unpublished, International Food Policy Research Institute [IFPRI], Washington, DC, 2015).

8. About 51 per cent of the population lives below the national poverty line,⁶ with 30 per cent living in severe poverty in 2010.⁷ Poverty is predominantly rural, with the south and north of the country bearing the main burden. Statistics for rural food and nutrition security are also alarming. Stunting among children averages 42 per cent, and in some districts over 60 per cent.⁸ Woman-headed households are more affected by food insecurity, as they usually have smaller resource endowments.⁹
9. Despite progress in HIV/AIDS prevention and treatment, 9.1 per cent of the adult population is infected.¹⁰ Poor nutrition and HIV/AIDS prevalence aggravate low rural productivity. Caring for family members also represents an extra burden, especially for women.
10. Rapid population growth reduces family landholdings. Land degradation,¹¹ deforestation and climate change exacerbate food and nutrition insecurity.¹² Agriculture is increasingly vulnerable to natural shocks. Heavy rains followed by the 2015/16 drought left 2.8 million Malawians dependent on food aid. Agricultural practices are inadequately adapted to intensive land-use and weather extremes. Loss of topsoil from agricultural lands is substantial, largely because of inappropriate management.
11. Rural households provide agricultural labour, which is seasonal and poorly paid, especially for women. Diversification into off-farm activities, for example through small and medium-sized enterprises (SMEs)¹³ for value addition, employment, trading and services, offers opportunities to improve livelihoods, reduce vulnerability and employ young men and women.
12. Policies and programmes. Malawi's development vision is outlined in the Malawi Vision 2020, which aims to make Malawi "secure, democratically mature, environmentally sustainable, self-reliant with equal opportunities for and active participation by all". Malawi Vision 2020 is translated into strategies and sector policies, and implemented by programmes that are relevant to the country strategic opportunities programme (COSOP).
 - (i) The Second Malawi Growth and Development Strategy II (2011-2016) is the overarching medium-term strategy for attaining long-term development. It aspires to reduce poverty through sustainable economic growth and infrastructure development, inter alia in agriculture.
 - (ii) The National Agriculture Policy (2016-2020) outlines eight priority areas that are fully in harmony with the COSOP strategic objectives: agricultural production and productivity; irrigation development; mechanization of agriculture; agriculture market development, agroprocessing and value addition; food and nutrition security; agricultural risk management; youth and women's empowerment in agriculture; and institutional development, coordination and capacity-strengthening.

⁶ <http://data.worldbank.org/country/malawi>

⁷ http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/MWI.pdf

⁸ IFAD, *Baseline Report on Food Knowledge, Attitude and Practice (KAP) Malawi 2015* (Rome, 2016); and ScalingUp Nutrition (SUN)/Malawi, <http://scalingupnutrition.org/sun-countries/malawi/>.

⁹ M. Kassie, J. Stage, H. Teklewolde and O. Erenstein, "Gendered Food Security in Rural Malawi: Why is women's food security status lower?," *Food Security* 7 (2015): 1299.

¹⁰ <http://www.unaids.org/en/regionscountries/countries/malawi>

¹¹ Land degradation and subsequent change in land use are estimated to cause economic costs in the range of 6-7 per cent of Malawi's GDP. O.K. Kirui, "Economics of Land Degradation and Improvements in Tanzania and Malawi," in *Economics of Land Degradation and Improvement – A Global Assessment for Sustainable Development*, ed. E. Nkonya, A. Mirzabaev, J. von Braun (Cham [ZG], Switzerland: Springer International Publishing, 2016), 609-649.

¹² Draft National Forest Policy of Malawi, 2013 (see appendix III).

¹³ SMEs include microenterprises and homestead production, as well as minor rural processors and agro-dealers that employ up to 30 people.

- (iii) Malawi National Export Strategy (2013-2018) pursues growth through oilseed and sugarcane products, and through the processing of dairy, maize, wheat, horticulture and pulses. These commodities will be supported under strategic objective 2.
 - (iv) The National Climate Change Programme (2013-2016), in harmony with strategic objective 1, promotes climate change adaptation and mitigation for livelihoods through economic development.
13. The above policies are implemented through government programmes. The Farm Input Subsidy Programme (FISP) aims to contribute to crop production and diversification.¹⁴ Since its inception in 2005, FISP has reached 50 per cent of Malawi's smallholders, but it consumes 80 per cent of the agricultural budget and considerable staff time. It impacts the outreach of extension services and lacks incentives for farmers to boost productivity. The Malawi Agriculture Sector Wide Approach Support Project (ASWAp-SP) aims to coordinate interventions, with a target of 6 per cent annual growth in the agriculture sector. ASWAp-SP is currently being reviewed to address challenges encountered during implementation. Other programmes relevant to the COSOP include the National Irrigation Master Plan and Investment Framework and the National Climate Change Investment Plan.
 14. Government capacity to manage and implement programmes is stretched. The World Bank's 2014 Country and Policy Institutional Assessment shows a negative trend for public-sector management. Decentralization provides a network of local institutions and rural services, but the capacity to implement projects and programmes remains limited, and is further compromised by FISP. Private-sector engagement in the rural economy is cautious due to high risks and limited returns.
 15. Strategic opportunity. The above situation provides a strategic opportunity for poverty reduction and enhancement of food and nutrition security by IFAD. Poor rural men and women face challenges that the Government of Malawi must respond to adequately. IFAD support can contribute to making government policies more effective. The following are areas in which IFAD's comparative advantage could be well employed: (i) improved targeting of government policies and programmes; (ii) climate-smart agriculture; (iii) smallholder irrigation and catchment management; (iv) mainstreaming of nutrition issues and climate change adaptation; (v) market linkages, value chains and small enterprise development; and (vi) rural financial services.
 16. Risks. The main risks for the new COSOP 2016-2022 relate to economic downturn, financial governance issues and the effects of climate variability (table 1).
 17. Risks related to financial governance increased due to a large government corruption scandal towards the end of 2013 ("cashgate"), which led donors to temporarily suspend development assistance. In terms of public corruption perception,¹⁵ Malawi ranks 112th of 168 countries, which presents a further deterioration from the 2012 assessment. In a bid to strengthen public financial management systems, the Government has: (i) established independent audit committees for ministry departments and agencies; (ii) carried out a forensic audit of the integrated financial management system (IFMS); (iii) engaged an information technology security officer, based in the Accountant General's Department, to monitor unlawful transactions on the IFMS; (iv) cleared a backlog of government account reconciliations that were last carried out in July 2013; and (v) speeded up the trials of officials implicated in illegal transactions. The full impact of the public financial management reforms must be monitored.

¹⁴ C. Arndt, K. Pauw and J. Thurlow, "The Economy-wide Impacts and Risks of Malawi's Farm Input Subsidy Program [sic]," *American Journal of Agricultural Economics* (24 August 2015), doi: 10.1093/ajae/aav048.

¹⁵ Transparency International, <https://www.transparency.org/country/#MWI>.

Table 1
Risks and mitigation strategy

Risk	Risk level	Mitigation strategy
Economic downturn	Medium	Investments in resilience of smallholders aim to strengthen their capacity to cope with macroeconomic effects on their livelihoods
Government institutions have insufficient capacities to implement project activities	Medium	IFAD will: <ul style="list-style-type: none"> strengthen capacities through technical assistance, training, management tools diversify support service delivery, including through the private sector ensure dedicated project coordination structures
Financial governance, including corruption	High	IFAD will: <ul style="list-style-type: none"> employ strict fiduciary control measures (e.g. IT-based accounting and reporting, close fiduciary supervision, annual audit) provide training and supervision to project-related staff
Adverse climate events	Medium	IFAD will : <ul style="list-style-type: none"> invest in various technical areas (irrigation, value chains, rural finance systems) provide training to increase smallholder and public-/ private-sector capacities to adapt to the effects of climate change

II. Previous lessons and results

18. The COSOP 2010-2015 supported four investment programmes: the Rural Livelihoods Support Programme; the Irrigation, Rural Livelihoods and Agricultural Development Project (IRLADP), which was cofinanced with the World Bank; the Rural Livelihoods and Economic Enhancement Programme (RLEEP) and the Sustainable Agricultural Production Programme (SAPP) – as well as 12 regional and country grant-funded projects. The following are the main lessons learned from the loan-funded programmes:

- Good agricultural practices (GAPs). SAPP promotes GAPs to improve soil fertility and boost production. Results in farmers' fields are promising, as yields of rainfed maize increased from 1.3 to 2.2 tons per hectare (t/ha). Among other activities, RLEEP supports double lining and improved storage in groundnuts, which together increase marketable production by 50 per cent.

Climate-smart agricultural practices that can boost better nutrition, underpinned by an efficient use of weather information, are highly relevant. As the irrigated area expands, the need for GAPs adapted to irrigated farming increases. Better post-harvest practices are also needed to boost the marketability of produce along a "farming as a business" perspective.

- Public extension services use the lead farmer and farmer field school approaches, and the IFAD-funded projects (IRLADP, SAPP, RLEEP) support these. The projects report improved outreach and adoption rates, and have helped refine the approaches, for example by introducing farmer's business schools and community animal health workers. The effectiveness of extension services could be further increased through complementary services by non-governmental and private service providers.
- Sustainable irrigation development enhances yields and cropping intensities. In IRLADP, maize yields increased from 1.6 to 3.4 t/ha. Cropping intensity increased in new irrigation schemes, especially in small ones, from 80 per cent (baseline) to 160 per cent. Water users' associations ensure long-term management, secure smallholder access to land and enable contract farming. New irrigation projects need to build on IRLADP's approach to securing land

access. Catchment soil and water management are important in sustaining the irrigation infrastructure and ecosystem.

- Value chain development. RLEEP works with a range of value chain actors including farmers, the private sector, and the National Smallholder Farmers' Association of Malawi (NASFAM). RLEEP's approach to value chain development started with a national mapping exercise, followed by a consultative process to identify potential commodity chains. An innovative process has recently begun in which private-sector companies identify the value chains and their restrictions. Private companies can apply for matching grants to address value chain issues, similar to IFAD's public/private/producer partnership approach. Economic modelling by IFAD and the International Food Policy Research Institute confirms the potential for value chain development, including for biofuels and cash crops.¹⁶
- Rural finance. Limited access to rural finance services constrains agricultural development. The COSOP 2010-2015 provided some support to improving access to rural finance, such as support to village savings and loan associations. However, farmer demand exceeds available services and credit remains expensive. The need for an innovative approach to rural finance is recognized, Consequently, a rural finance development project is proposed for the new lending pipeline (appendix VI).
- Climate change and vulnerability to external shocks. Climate change in densely populated parts in southern Africa is estimated to cause yield losses of about 20 per cent by 2050.¹⁷ Climate change has become a reality for Malawi's largely rainfed agriculture, as evidenced by the 2015/16 floods and droughts. Smallholders are particularly vulnerable to climate effects, and the promotion of GAPs should include climate-smart options, such as the use of weather forecasts. Investment in irrigation and climate-proof infrastructure should be complemented by adequate catchment management (appendix III).
- Nutrition and food security. The outcome of IFAD's Food Knowledge Attitude and Practices survey¹⁸ provided a baseline for the COSOP in mainstreaming nutrition. The need for a more rigorous nutrition intervention was confirmed, and districts with high rates of stunting should be targeted. Project interventions should lead to improved feeding practices for infants and young children and should ensure regular growth monitoring and promotion to identify risks for remedial intervention at an early stage. All projects should be nutrition-sensitive, which could entail promotion of: (i) nutritious plant products for subsistence and in value chains; (ii) good post-harvest and food processing technologies; and (iii) awareness through large-scale campaigns and household-level training.
- Project management. During 2010-2015, project start-ups were slow, due to late fulfilment of effectiveness criteria. Experiences in project management are mixed: SAPP has been managed by the Ministry of Agriculture, and staff members were not fully dedicated to the programme. This has negatively affected performance, causing a three-year delay. RLEEP has a dedicated coordination unit that performs well, under the oversight of the Ministry of Local Government. The lesson learned is that a fully dedicated management unit enables efficient project implementation.

¹⁶ R. Benfica and J. Thurlow, *Development of a Rural Investment and Policy Analysis (RIAPA) Modeling Toolkit* (PowerPoint presentation, IFAD Learning Day Workshop, Rome, 25 February 2016).

¹⁷ T. Wheeler and J. von Braun, "Climate change impacts on global food security," *Science* 134 (2013): 508-513.

¹⁸ See also IFAD, *Survey on Food Knowledge, Attitude and Practices in Rural Livelihoods and Economic Enhancement Programme and Sustainable Agriculture Production Programme, Malawi* (Rome, 2015), operations.ifad.org/.../01b9a47b-b1e6-4e69-9154-8a6402464570.

- Gender and targeting. In IRLADP, the household methodology approach helped households arrive at joint decisions on crops, revenues and household resources. The methodology is inclusive and addresses gender equality, while respecting household diversity. The vulnerable and poor, often more affected by the impact of HIV/AIDS, have different needs than do more commercially oriented farmers. Poor households need stabilization of their livelihoods, including through inputs for assets, promotion of labour-saving cropping technologies and good nutrition.
- Policy engagement. The COSOP 2010-2015 portfolio was well aligned with government policies, but results were not systematically used to inform policymakers. Donor coordination and policy dialogue on agriculture in Malawi are undertaken through the Donor Committee on Agriculture and Food Security (DCAFS) and through the ASWAp. IFAD's limited in-country presence has hampered its regular participation in DCAFS. Alternative arrangements should be employed to ensure a steady transfer of project-based knowledge to policymakers and development partners.

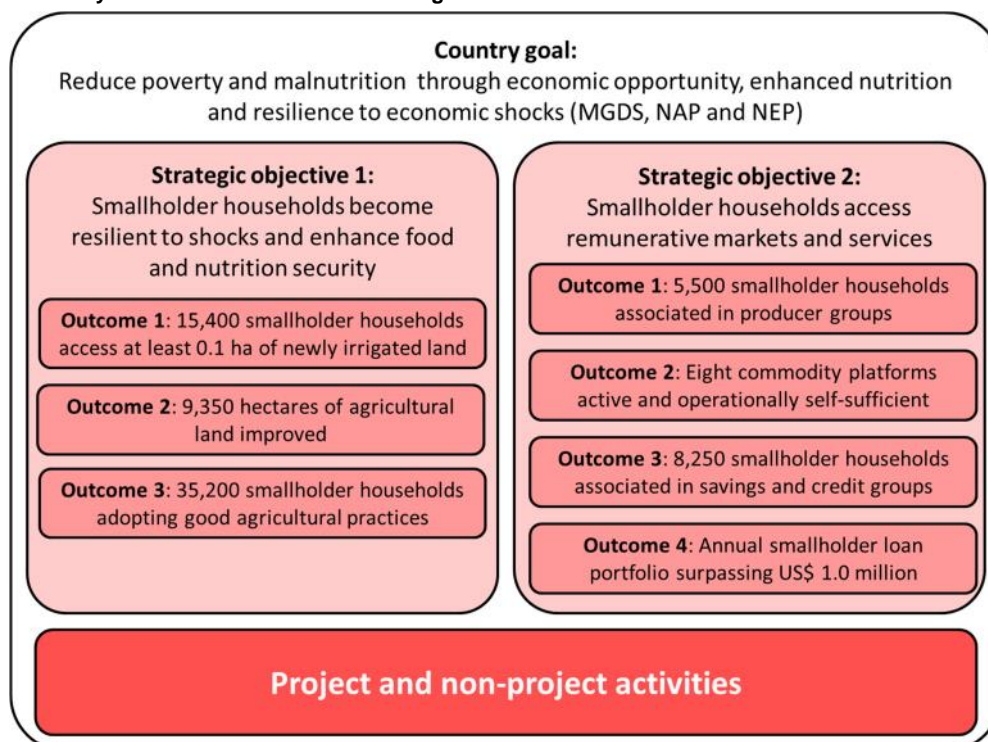
III. Strategic objectives

19. IFAD has a comparative advantage in transforming smallholder agriculture by linking improved service delivery to community organizations. Its approach in Malawi is to: (i) work with and strengthen district-level government services; and (ii) deliver those services via community organizations to smallholder farmers. This combines technological innovations in smallholder farming with social innovations in the relationships between smallholders and agricultural services. The latter takes place at both ends – i.e. in the communities and in the service delivery system – and helps establish relationships that continue beyond project completion.
20. Malawi's rural poverty, food and nutrition insecurities provide a context within which IFAD's comparative advantage can be applied. The country addresses this situation by creating economic opportunities for smallholders and by enhancing their resilience to external shocks. Resilience and commercialization thus form the twin strategic objectives of the IFAD programme 2016-2022.
21. Strategic objective 1: Smallholder households become resilient to natural shocks and enhance food and nutrition security. This objective seeks to reduce the vulnerability of smallholder farmers to weather extremes and natural disasters and to improve their food and nutrition status. It will be achieved through investments in: (i) climate-proofed infrastructure, including irrigation and soil and water conservation; and (ii) on-farm technology. The capacities of farmers and their communities will be built for integrated natural resource management, including irrigation management, and for GAPs, including climate-smart and nutrition-sensitive agriculture. Nutrition has a pivotal role in improving livelihoods. Improved food and nutrition security will be achieved by influencing farmers' choices towards more nutritious crop and livestock production, enhanced post-harvest handling and processing, and preparation of nutritious food. Best practice will be promoted through large-scale campaigns. Government and private service providers will be supported in delivering technology and infrastructure, whereas smallholder farmers will be supported in establishing groups that manage catchment, forest, rangeland, water and land resources, and that test and replicate new agricultural practices. As this objective matches technical improvements to natural resource systems, investments will be developed and delivered through a landscape approach.
22. Strategic objective 2: Smallholder households access remunerative markets and services. This objective seeks to enable smallholder farmers to benefit from agricultural commodity markets. It will be achieved through improved access of smallholders to rural financial, market and business development services. Smallholders will be supported in forming credit and savings associations

for accessing financial services, and producer groups in responding to market demands in terms of product type, quantity, quality and delivery. Very poor households will be enabled to benefit from financial services through the Graduation Approach.¹⁹ Financial institutions and value chain partners will be supported in creating business opportunities for smallholder farmers. Business development services will strengthen market linkages that benefit smallholders and their organizations. Value addition will increase income from on- and off-farm activities and provides opportunities for SMEs and off-farm employment. The enterprises to be supported include "green businesses", such as the local manufacturing of fuelwood-saving cook stoves. Rural youth will be specifically targeted for off-farm business opportunities such as services and manufacturing. Strategic objective 2 will be realized through a value chain approach that enhances the linkages between producers, financiers and markets.

23. Theory of change. The main causes of poverty and food and nutrition insecurity among the rural population lie in the vulnerability to external shocks. The predominant rainfed agriculture is prone to natural shocks such as drought and flooding, which destroy livelihoods for years, pushing people into destitution and hunger. Natural resources, including arable land, have degraded through overuse and poor management. Smallholders are price takers and face difficulties in adjusting to changing market demands and prices. The COSOP aims to tackle these root causes through the two strategic objectives. The combination of strategic objective 1 (resilience to natural shocks and enhanced food and nutrition security) and strategic objective 2 (improved access to remunerative markets and services) will enhance the incomes, nutrition, and well-being of rural people (figure 1). Both strategic objectives will be pursued by a portfolio of investment projects and by non-project activities that seek to enhance the effectiveness of individual projects.

Figure 1
Summary of COSOP results framework logic



¹⁹ http://www.cgap.org/sites/default/files/graduation_guide_final.pdf

IV. Sustainable results

A. Targeting and gender

24. The COSOP aims to reach about 600,000 poor rural people, mainly through ongoing (SAPP, RLEEP) and new projects (Programme for Rural Irrigation Development [PRIDE], Enhancing the Resilience of Agroecological Systems [ERASP], Financial Advancement for Rural Markets, Smallholders and Enterprise [FARMSE], and a sixth project to be determined for the lending cycle 2019-2022).
25. While the COSOP is countrywide, it will pay specific attention to areas with high poverty rates and that are prone to adverse climate effects. It targets poor smallholders, encompassing economically active and food-secure households, food insecure households and very poor households. The household methodology constitutes the backbone of its approach to gender equality. All target group categories are expected to benefit from irrigation development, land conservation, GAPs, training in food and nutrition security, and fuelwood-saving stoves. In addition, very poor households and poor woman-headed households will be assisted through the Graduation Approach under FARMSE, while food-secure and economically active households will benefit from value chain activities, such as market-led production and access to financial services. New opportunities for off-farm services and manufacturing will be offered to youth. Projects will analyse their target groups through categorization congruent with the COSOP (see key file 4) or with its further refinement.

B. Scaling up

26. The scaling-up strategy in Malawi aims to influence key drivers of change through evidence-based knowledge products, policy engagement and strategic investments. Partnerships with the Government, development partners, private-sector and producers' organizations (in particular, NASFAM and its 50 member associations) will enable scaling up through sharing knowledge, leveraging resources and replicating successful solutions. IFAD will closely collaborate with DCAFS members to pursue joint scaling-up strategies through government programmes, as well as leveraging private-sector resources, as was piloted in RLEEP.
27. The limited access of smallholders to rural financial services limits scope for successful scaling up, although community member-based financial institutions (CMBFIs) and value chain finance models are growing fast. IFAD will invest in this strategic area in partnership with the formal financial sector, the Reserve Bank of Malawi and development partners such as the German Agency for International Cooperation (GIZ) to boost CMBFIs and unleash the development potential of smallholders and rural SMEs.

C. Policy engagement

28. The policy engagement agenda is linked to the strategic objectives and will be enhanced by effective partnerships and knowledge management. IFAD will strengthen its engagement within DCAFS on issues affecting smallholders and will engage directly with government. DCAFS is a platform to support the Government in FISP reform and other agriculture-related issues. Moreover, the results and lessons learned from SAPP will inform DCAFS partners and the Government in their adjustments to the agricultural extension policy.
29. The Government will be assisted in updating its climate change and environmental policies and safeguards, including land tenure issues. It has adopted a revision of its safeguards in view of the oncoming PRIDE and ERASP programmes. This process will continue and will be deepened through regular environmental audits, lessons learned and public hearings to link farmers and policymakers.
30. RLEEP and FARMSE will contribute to intensifying public/private/producer partnerships to bring more smallholders into commercially oriented agriculture.

Policy issues refer to incentives for the private sector to engage with smallholders at input and output markets. Finally, the programmes under the COSOP will strengthen government capacity for monitoring and evaluation to support evidence-based policymaking.

D. Natural resources and climate change

31. Malawi's climate change policy pursues adaptation and mitigation in agriculture. IFAD's portfolio furthers the policies through investments and policy engagement under strategic objective 1, such as inclusion of climate-smart options among GAPs and the proposed Global Environment Facility (GEF)-funded Integrated Approach Pilot (IAP) activity ERASP.
32. The Social, Environmental and Climate Assessment Procedures study (appendix III) proposes to address degradation through integrated catchment restoration and management. This perspective will inform ongoing and new projects such as PRIDE and ERASP. Existing approaches will be institutionalized (e.g. fuelwood-saving stoves) and new ones will be explored (e.g. biogas).

E. Nutrition-sensitive agriculture and rural development

33. The Government joined the Scaling Up Nutrition movement and established a national nutrition committee to support implementation of the Food and Nutrition Security Policy (2005) and the National Nutrition Policy and Strategic Plan (2007-2015).
34. In support of this, the COSOP will mainstream nutrition as a means to boost well-being and enhance the resilience of poor smallholder families through its programmes, with a focus on adult and young women. Mainstreaming connects nutrition activities with suitable project activities under both strategic objectives. Examples include promotion of: (i) nutrition-sensitive value chains, which would include farmer sensitization to selecting more nutritious crops and livestock products for sustenance and as cash earners; and (ii) homestead food production through the promotion of kitchen gardens, small livestock rearing, etc.
35. Investments at the household level will be complemented by nutrition education and large-scale campaigns targeting households and policymakers alike. Topics include dietary diversity, taking the main causes of stunting into consideration (e.g. early pregnancies, inadequate breastfeeding practices, maternal nutrition, food preparation and preservation, and hygiene and sanitation).²⁰ The type of support will be adjusted to the specific needs of the subsets of the target group.
36. Additional efforts will be made to work with specialized partners such as the Food and Agriculture Organization of the United Nations and the United Nations Children's Fund, and to use grants to explore innovative approaches, such as nutrition-conserving practices in post-harvest processing.

V. Successful delivery

A. Financing framework

37. The COSOP 2016-2022 covers two cycles of IFAD's performance-based allocation system (PBAS 2016-2018 and 2019-2021). The PBAS forecasts IFAD financing for 2016-2018 to be US\$42 million (table 2). The first project, FARMSE, will absorb the entire allocation, while a second project is envisaged for PBAS 2019-2021.

²⁰ See also IFAD, *Survey on Food Knowledge, Attitude and Practices in Rural Livelihoods and Economic Enhancement Programme and Sustainable Agriculture Production Programme, Malawi* (Rome, 2015), operations.ifad.org/.../01b9a47b-b1e6-4e69-9154-8a6402464570.

Table 2
PBAS forecast for COSOP 2016-2021

Financing terms	2016	DHC
GNI per capita	2014	250
Rural population	2014	14 006 983
IRAI 2014		3.19
Rural sector performance (RSP) 2015		3.72
Project assessment rating (PAR)		2015
Country performance rating		3.54
2016 annual allocation		14 116 926
2017 annual allocation		14 116 926
2018 annual allocation		14 116 926
Total	(2016-2018)	42 350 777

Note: DHC = DSF grant and HC loan (50 per cent each); IRAI = World Bank IDA Resource Allocation Index.

38. Table 3 presents the low- and high-case PBAS scenarios. It shows that a poor PAR and poor RSP would reduce the PBAS 2016-2018 allocation by 26 per cent. This would curb IFAD financing to about US\$31 million, affecting the magnitude of new projects.

Table 3
Relationship between performance indicators and country score

<i>Financing scenario</i>	<i>PAR rating (+/- 1)</i>	<i>RSP score (+/- 0.3)</i>	<i>Percentage change in PBAS country score from base scenario</i>
Hypothetical low case	3	3.4	-26%
Base case	4	3.7	0%
Hypothetical high case	5	4.0	29%

39. Additional funding of the project portfolio includes government, private-sector and beneficiary contributions. IFAD administers funds from the OPEC Fund for International Development and the GEF-funded IAP programme (a pan-African platform for identifying and sharing solutions on climate resilience and sustainable approaches to food security). Efforts will be made to cofinance with other development partners, and grant funds may be mobilized from IFAD's regional grant programme.

B. Monitoring and evaluation (M&E)

40. The COSOP aims to strengthen government capacity to effectively monitor the performance of its investments. The COSOP results framework includes: outcome and milestone indicators against which achievements will be reported annually from the projects' M&E frameworks; reports on non-project activities; and additional surveys. All projects have dedicated monitoring systems to track outputs and assess outcomes and impact. COSOP indicators will be unified across the portfolio, as will target group categorization. Data will be disaggregated by category, gender and age. IFAD and the Government will hold annual and midterm reviews to assess progress, draw lessons and make adjustments as needed.

C. Knowledge management

41. Knowledge management, in conjunction with partnerships, will play a strong role in IFAD engagement in policy dialogue and in scaling up. The projects form the basis for knowledge management, as they gather success stories, identify key issues and project staff participate in programme review sessions. Knowledge management activities will include thematic studies, such as the current analysis of extension modalities undertaken through RLEEP. To set up efficient management of knowledge, a dedicated knowledge management specialist, possibly from IFAD's new regional hub, will be engaged.

D. Partnerships

42. IFAD aims to become a credible partner in policy dialogue. Besides effective knowledge management, this requires regular interaction with partners, including government, development agencies, the private sector and farmers' organizations. Partnership will be instrumental in policy advocacy, scaling up, cofinancing and linking farmers with the private sector. IFAD will thus interact more regularly with DCAFS and will follow developments in the Scaling Up Nutrition movement.

E. Innovations

43. The COSOP will scale up innovations from IFAD-funded projects (e.g. improved groundnut storage, the household methodology and post-harvest techniques). Many such innovations were introduced through grants and subsequently piloted in projects. In addition, projects will have budgetary resources to adopt new technologies and approaches to enhance target groups' livelihoods (e.g. catchment management and CMBFIs).²¹ IFAD grant funding will be used to scout for innovations, including crop insurance and renewable energy.

F. South-South and Triangular Cooperation

44. South-South and Triangular Cooperation (SSTC) opportunities will be pursued in a proactive manner and linked with the scaling-up agenda. They will include exchange visits, study tours and other forms of learning and technology transfer – for example, regular exchange visits with project staff from Zambia and training through the Value Links approach promoted by GIZ. Project activities could be attached to the grant for Strengthening Capacities and Tools to Scale Up and Disseminate Innovations in order to develop associated learning routes. Expanding the subregional focus will be part of the new IFAD decentralization agenda, for example by connecting countries through knowledge fairs.
45. At the policy level, IFAD will broker and organize study tours and exchanges between policymakers from Malawi and other developing countries. The GEF-funded, pan-African IAP would serve as a mechanism for testing policy-related solutions.
46. SSTC activities will be funded through new regional grants, supplementary funds and project budgets for knowledge management. Malawi will seek support from the unrestricted complementary contribution made by the Government of China to SSTC activities. On a larger scale, participation in SSTC events in Asia and Latin America will be pursued.

²¹ CMBFIs, see concept note in appendix VI.

COSOP results management framework

Country strategy alignment What is the country seeking to achieve?	Key results for RB-COSOP (Jul 2016- Jun 2019) How is IFAD going to contribute?			Indicative lending and non-lending activities for the next 3 years ²²
	Strategic objectives	Outcome indicators gender, wealth and age disaggregated	Milestone indicators gender, wealth and age disaggregated	
<p>Malawi Growth and Development Poverty Reduction Strategy 2013 – 2016 (MGDS II): Sustainable economic growth; social development; disaster risk management; infrastructure development; governance; gender and capacity development.</p> <p>National Agriculture Policy (2016-2020): Sustainable agricultural production; sustainable irrigation development; agriculture market development, agro-processing and value addition; food and nutrition security; agricultural risk management; youth and women empowerment in agriculture; institutional development, coordination and capacity development.</p> <p>National Export Strategy (2013-2018):</p>	<p>SO1: Smallholder households become resilient to natural shocks</p>	<ul style="list-style-type: none"> ▪ 15,400 smallholder households with long-term tenure security for at least 0.1 ha of newly irrigated land; ▪ 9,350 hectares of agricultural land improved through soil and water conservation measures (excluding irrigation); ▪ 35,200 smallholder households adopting one or more recommended good agricultural practices ▪ 23,500 smallholder farmers (at least 30% female) reporting an over 20% production increase from improved practices ▪ 14,000 smallholder households reporting decreased incidence of hunger, measured by the number of meals per day 	<ul style="list-style-type: none"> ▪ 4,400 ha of land under irrigation schemes constructed or rehabilitated ▪ 15,400 smallholder households associated into newly formed and trained groups for managing infrastructure ▪ 28 groups in NRM formed and strengthened ▪ 39,000 smallholder farmers trained in good agricultural practices ▪ 55 new or adapted good agricultural practices – including CSA, post-production, irrigation and nutrition – included in the MoAIWD extension programme 	<p>Lending/investment activities:</p> <ul style="list-style-type: none"> ▪ RLEEP (Oct 2009 – Dec 2017) ▪ SAPP (Jan 2012 – Mar 2021) ▪ PRIDE (Jul 2016 – 2023) ▪ ERASP (2016 – 2023) ▪ FARMSE (2019– 2025) ▪ VC project (tbd) (2020-2026) <p>B) Non-lending / non-project activities:</p> <ul style="list-style-type: none"> ▪ Policy dialogue ▪ Knowledge management ▪ Partnership building ▪ South-south and triangular cooperation, grants and reimbursable technical assistance

²² Periods quoted reflect (assumed) effectiveness until completion. For result targets, proportional contribution according to time overlap between the RB-COSOP and the project is assumed, following Malawi fiscal year for the RB-COSOP's first three years (Jul 2016 - Jun 2019).

Country strategy alignment What is the country seeking to achieve?	Key results for RB-COSOP (Jul 2016- Jun 2019) How is IFAD going to contribute?			Indicative lending and non-lending activities for the next 3 years ²²
	Strategic objectives	Outcome indicators gender, wealth and age disaggregated	Milestone indicators gender, wealth and age disaggregated	
<ul style="list-style-type: none"> ▪ support export oriented clusters and diversify country's export, especially through promotion of oil-seeds and sugar cane products, as well as agro-processing of dairy, maize, wheat, horticulture and pulses; ▪ develop a conducive environment for youth, women, farmers and SMEs; ▪ invest in supportive economic institutions and organizations to build the productive base of the economy, and ▪ significantly strengthen skills, competencies and knowledge. 	SO2: Smallholder households access remunerative markets and services	<ul style="list-style-type: none"> ▪ 5,500 smallholder households associated into newly formed and trained producer groups ▪ Eight commodity platforms active and operationally self-sufficient ▪ 8,250 smallholder households associated in newly formed and trained saving and credit groups ▪ annual smallholder loan portfolio enabled by the projects surpassing USD 1.0 million 	<ul style="list-style-type: none"> ▪ 23,000 smallholder farmers trained in post-production, processing and marketing ▪ 16,500 smallholder farmers trained in business and entrepreneurship (above orientation level) ▪ 3 commodity platforms initiated and strengthened ▪ 5 financial institutions participating in the project portfolio 	

COSOP preparation process including preparatory studies, stakeholder consultation and events

1. Overview

The RB-COSOP 2010-2015 for Malawi expired in 2015. ESA management decided to use this as an opportunity to take stock of the results obtained and issues encountered by the country programme and to identify areas that deserve a scaling-up or a change. In short, a COSOP Completion Review and the design of a new RB-COSOP were initiated. In May 2015, FAO-TCI fact finding mission collected the results of IFAD investments that were implemented between 2010-2015, and obtained views of Government of Malawi and relevant stakeholders on the projects and IFAD's performance. As per IFAD's SECAP an in country assessment was carried out in August 2015. Its recommendations and results have been reflected in the final RB-COSOP. An overview of the main milestones of the RB-COSOP 2016-2022 design process can be obtained in Table 1 below.

Table 1: Milestones of the RB-COSOP 2016-2022 design process

Date	Purpose
June 2015	RB-COSOP completion mission
Aug 2015	SECAP in-country assessment
9 Sept 2015	1. In-country consultation
Feb 2016	Inception mission of FARMSE
28 April 2016	CPMT at IFAD HQ
9 and 11 August 2016	2. In-Country consultations
20 September 2016	RB-COSOP Approval
October 2016	RB-COSOP endorsement by Government
December 2016	Presentation to the Executive Board

2. RB-COSOP Completion Review

A RB-COSOP Completion Review (CCR) summarises the main results obtained by the IFAD project portfolio and non-project activities. The main findings were shared for discussion with the Government and other stakeholders at the 1. RB-COSOP consultation workshop held on 9 September in Lilongwe. The final draft CCR has been reviewed by GoM and IFAD management and is published together with the RB-COSOP 2016-2022.

The main comments raised refer to the need of a consistent monitoring and performance evaluation of projects, such as the recent review of the Rural Livelihood Support Programme, and the IFAD country programme to identify successful interventions and scale them up through larger investments and policies. IFAD is perceived as a leading institution for smallholder agriculture and thus, it is important development partner for government.

3. RB-COSOP Stakeholder Consultations

Four RB-COSOP consultations were held in Malawi. In September 2015, a workshop was organised with Government, private sector and NGOs to discuss the strategic positioning of IFAD with development partners. A second workshop was held with the Donor Committee for Agriculture and Food Security (DCAFS). A similar set up of two distinct consultations was chosen in August 2016 to present an advanced draft RB-COSOP to the same stakeholder groups in two separate meetings. The feedback received in all four meetings is summarized as follows.

Overall, the strategic objectives of the RB-COSOP were endorsed as very relevant. It was suggested that the RB-COSOP would cover 2016-2022. The alignment with relevant policies was commended and updates were provided as regards to the Malawi Growth

and Development Strategy III, and the National Climate Change Investment Plan, which will guide the design and implementation of forthcoming projects. Besides policy dialogue, the RB-COSOP consultations enable forward planning and harmonization with strategies and investments by other DPs. It was suggested that IFAD should be more engaged in policy dialogue, given its specialization in smallholder agriculture. A permanent country presence would be helpful in this regard and most welcomed.

For the RB-COSOP 206-2022, it was suggested that emphasis should to be placed on value chain development, alongside support to farmer organizations, diversification to food and cash crops that a market value, e.g. potato and legumes. Interventions to support food and nutrition security are important and should be mainstreamed. Irrigation is key to enhance smallholder production and climate change resilience among smallholders. IFAD should invest in smallholder irrigation and link these to remunerative markets (like it is design for PRIDE) while other DPs are supporting road infrastructure. In the same vein, climate proofing of existing infrastructure and irrigation schemes should be considered. Private sector would benefit to better understand how they could engage with IFAD-funded projects.

Good Agricultural Practice (GAP) and diversification needs to be promoted and linked too value chains. There is a need for re-focus of agricultural extension on GAPs, marketing and climate adaptation. More resources and a diversification of extension service approaches is needed to render services to farmers more efficiently. The latter will require also developing opportunities to increase farmers' access to inputs and services. Communities require incentives and technical support to carry out NRM related activities. The meeting endorsed that support to smallholders' access to financial services is important for smallholders to effectively participate in value chains and expand their production and business. Improved access to rural financial services was already included in the previous RB-COCOP 2010-2015, but not supported by a project. A concept note for the FARMSE project was prepared in February 20-16 (see Appendix VIII). It should be linked with existing rural finance projects such as those supported by USAID and GIZ.

Finally, start-up delays of projects is reported to be a frequent issue and close start-up support will be required during the first few months or year of a project.

Institutions met during the COSOP preparation process include:

<p>Government of Malawi</p> <ul style="list-style-type: none"> • Ministry of Finance, Economy and Development Planning • Ministry of Agriculture, Irrigation and Water Development • ASWAp Secretariat • Ministry of Local Government and Rural Development • Ministry of Natural Resources, Energy and Mining • Ministry of Fisheries • National Youth Council 	<p>Civil Society Organizations</p> <ul style="list-style-type: none"> • National Smallholder Farmers' Association of Malawi (NASFAM) • Total Land Care (TLC) • AGRA • <p>Private Sector</p> <ul style="list-style-type: none"> • Export & Trading Company
<p>Development Partners</p> <ul style="list-style-type: none"> • The World Bank • EU • WFP • UNDP • FAO • AfDB 	<ul style="list-style-type: none"> • USAID • Flanders/Belgium • Norway • Denmark DFID/UK • GIZ/Germany • JICA • Ireland

4. CPMT consultations

The COSOP was developed under active participation of the in-house CPMT, drawing on IFAD's diverse technical expertise. A CPMT was held in 28 April 2016, to brief CPMT members on current status and to obtain feedback on the draft RB-COSOP. The final draft RB-COSOP was shared in August 2016 to prepare for the review by the OSC.

Natural resource management and climate change adaptation: Background, national policies and IFAD intervention strategies

Republic of Malawi Social, Environmental and Climate Assessment Preparatory Study Main Findings

Background

The International Fund for Agricultural Development (IFAD), in collaboration with counterparts in the Government of Malawi (GoM), has prepared this Social, Environmental and Climate Assessment Preparatory (SECAP) Study to provide the analytical underpinning necessary to ensure environmental and social sustainability and climate adaptability in its country programme in Malawi. The SECAP Study supports the development and decision-making process for IFAD's new Results-Based Country Strategic Opportunities Programme (RB-COSOP) for Malawi, 2016 – 2020, and establishment of outcome-driven national development strategies and systems that address sustainable environmental and natural resources management (ENRM), promote greater social equity in rural communities and encourage appropriate measures for adaptation to, and where feasible, mitigation of climate change (CC), as reflected in the Government's existing sustainable national development policies, environmental action plans and climate change strategies.

Main environmental, social and climate change challenges

Based on the SECAP Study team's review of the available documentation and discussions with key stakeholders at the national, district, and local levels, the team identified the following as the principal environmental, social and climate change issues and priorities for the SECAP Study to focus on.

- Land degradation. The increasing degradation of land resources, particularly forested and arable lands in the critical catchments and watersheds across the country, resulting from continuous cultivation on the same land, encroachment into marginal land and protected areas, deforestation, soil erosion and loss of soil fertility, was consistently identified by stakeholders as a priority concern²³.
- Pressure on its land resources. Being one of the most densely populated countries in continental Africa, Malawi faces more pressure on its land resources now than ever before. Given the high number of births per woman the population will continue to increase steadily.
- Deforestation. Closely linked to land degradation, the increasing loss and degradation of forest resources, particularly around rural villages and in upper catchments and watersheds, was also identified as a priority concern²⁴.
- Loss of forest and fisheries biodiversity. Invasive fish species, overfishing of lake fisheries, coupled with the loss of fisheries habitat, and the overcutting of forest resources, threatening the rich biodiversity of these resources, was also recognized as a priority concern²⁵.
- Impacts of climate change and variability. The perceived impacts on rural food security and livelihoods dependent on natural resources of climate change (increasing occurrence of extreme weather events) and variability

²³ National Action Programme for the United Nations Convention to Combat Desertification (2001), Malawi State of Environment and Outlook Report (2010), Second National Communication (2011), Climate Change Vulnerability Assessment (2013).

²⁴ Ibid.

²⁵ National Biodiversity Strategy and Action Plan (2006), *Ibid.*

- (unpredictability of temperature and precipitation), particularly in fragile catchments and watersheds, were often raised as a priority concern²⁶.
- Water scarcity/stress. The increasing reduction in surface water resources (perennial rivers becoming seasonal) in catchments and watersheds across the country and resulting threats to groundwater resources were consistently a priority concern²⁷.

Analysis of strategic orientation for the RB-COSOP

IFAD's past RB-COSOP, developed in 2009 to cover the period from 2010-2015, focused on improving access for the poor in rural communities to appropriate technologies and services for sustainable NRM and increasing access to sustainable agricultural input and produce markets. To some extent, the IFAD portfolio developed under this RB-COSOP has addressed these environmental, social and climate concerns.

Despite these indications of progress in addressing environmental, social and climate concerns under the past RB-COSOP, there remain opportunities for improving the performance of IFAD's country programme in these areas under the new RB-COSOP. The Mid-Term Review of the current RB-COSOP performed in 2013 found that the design of the new programmes (RLEEP and SAPP) reflected the RB-COSOP's strategic objectives, but it presented less than convincing evidence that these programmes effectively incorporated measures to ensure sustainable NRM, social equity CC risk management and adaptation. In fact, one of the key conclusions of the RB-COSOP Mid-Term Review and Scaling-up Workshop held in Lilongwe in March 2013 was that "Implementation and management of the RB-COSOP are generally satisfactory but improvements can be made in key areas of capacity enhancement and technical and environmental risk management".²⁸

The new RB-COSOP launched in 2016, should renew IFAD's commitment to addressing Malawi's priorities in ENRM, social equity and CC adaptation/ mitigation in rural areas. This SECAP Study is designed to ensure that these considerations are mainstreamed into IFAD's new RB-COSOP and its subsequent country programme. To this end, the SECAP Study proposes a strategic objective addressing these priorities to guide the overall strategic orientation of the new RB-COSOP.

SECAP strategic objective

Promote an integrated catchment restoration and management approach in the future country programme – in order to ensure priorities in environmental sustainability, rural social equity and climate adaptation/mitigation are effectively integrated into the strategic objectives of the forthcoming RB-COSOP.

- Transition from traditional sectoral project approaches (i.e. agriculture, irrigation, access to markets/financial services) to a holistic landscape approach to country programme interventions;
- Incorporate appropriate social, environmental and climate change measures consistent with IFAD's mandate to address poverty reduction and food insecurity in rural areas; and
- Ensure implementation at the full catchment level on a community-driven basis involving the range of stakeholders and civil society organizations.

The integrated catchment restoration and management approach the SECAP Study recommends is intended to push IFAD's interventions to address Malawi's environmental, social and climate priorities in a more holistic and landscape-based manner. The extensive land degradation the SECAP team witnessed in the catchments it visited demands a holistic intervention that addresses the particular social, environmental

²⁶ Ibid.

²⁷ Ibid.

²⁸ IFAD, "Aide-Memoire of the RB-COSOP Midterm Review and Scaling-up Workshop," in *Country Strategic Opportunities Programme (RB-COSOP) Midterm Review* (Rome: IFAD, November 2013), appendix 1, p. 22.

and climate conditions in the broader landscape. These degraded catchments require restoration first and foremost in order to properly renew their environmental functions and then they need integrated land and water management from top to bottom in order to maintain their environmental services. This will require integrating conservation of the forest resources protecting the water source at the top of the catchment with more efficient, climate-smart management of the water resources once they reach the agricultural lands at the bottom of the catchment. This landscape approach is fully consistent with promoting ecosystem resilience identified in the Policy Priority Area for Climate Change Adaptation in Malawi's National Climate Change Policy (2015) and with the Integrated Watershed Management Programme identified as one of the priority climate change adaptation investments in the National Climate Change Investment Plan (2013-2018)²⁹.

The transition from traditional sectoral project approaches is critical to addressing these priorities because it is apparent to the SECAP team that IFAD's agriculture, irrigation and market/financial access project approaches cannot fully meet the diverse combination of challenges (natural resource conservation, income-generation, climate adaptation) that exist in most rural areas. As successful as these sectoral projects have been, their narrow sectoral focus and limited scope target specific concerns and will never be able to deal with the multi-layered challenges all the catchments face. For example, the SAPP has been successful in introducing conservation agricultural practices to smallholder farmers in its project areas, but it stops short of addressing critical upstream threats to the water sources smallholder farmers depend on.

The catchment approach will allow IFAD to incorporate the range of appropriate environmental, social and climate change measures to address priorities in a holistic manner while targeting poverty reduction and food insecurity in rural areas. For example, the environmental measures would almost certainly include investments in catchment restoration, integrated water resources management, and soil and water conservation (e.g. contour ridging, agroforestry and water harvesting), as well as technical support for climate-smart agricultural practices, environmental monitoring, and institutional strengthening for NRM/catchment committees³⁰. The social measures should include promotion of off-farm income generation through alternative livelihoods (e.g. linking aquaculture to irrigation schemes where feasible; promoting household livestock husbandry, particularly small animals, ruminants; and developing beekeeping operations for honey production where the market allows), access to financial services and agricultural markets. Climate measures should include investigating the feasibility of alternative (renewable) energy sources and technologies for cooking and brick making at the village level³¹, promoting afforestation, reforestation and vegetation cover as part of catchment restoration³², and improving climate monitoring at the district and village level along with the dissemination of critical climate information to smallholder farmers on a regular basis.

Finally, the stakeholders who attended the mission's public consultation in Lilongwe strongly endorsed the SECAP team's catchment approach, emphasizing the importance of ensuring implementation at the full catchment level on a community-driven basis. This would involve the range of stakeholders and civil society organizations in planning, designing, implementing and monitoring any IFAD intervention in the catchment and build on the existing institutional arrangements at the district, area and

²⁹ Ministry of Environment and Climate Change Management, *National Climate Change Policy* (Lilongwe, 2015), 14; and *National Climate Change Investment Plan (2013-2018)* (Lilongwe, 2013), 6-8 (Lilongwe: Government of Malawi, Ministry of Environment and Climate Change Management).

³⁰ These measures are consistent with the investments for "Improving Climate Change Community Resilience through Agriculture Production," described in the *National Climate Change Investment Plan (2013-2018)*, 8-9.

³¹ These are among the specific objectives of the "Enhancing Energy-Saving Technology Programme," identified as a priority climate-change mitigation investment in the *National Climate Change Investment Plan (2013-2018)*, 13.

³² These are among the climate mitigation investments for "Enhancing Reduction of Emissions from Deforestation and Forest Degradation (REDD+)," in the *National Climate Change Investment Plan (2013-2018)*, 11-13.

village levels (e.g. District Council, District Executive Committee (DEC), Area and Village Development Committees). This is consistent with the institutional arrangements and implementation plan described in the National Climate Change Policy (2015) and follows the decentralization structure described in the National Climate Change Investment Plan (2012 – 2018).

In addition, this SECAP Strategic Objective should ensure that the new RB-COSOP will contribute to the objectives of United Nations in Malawi as expressed by the United Nations Development Assistance Framework (UNDAF)³³. The UNDAF provides a comprehensive framework and approach for coordinating United Nations collaboration with the GoM. The new RB-COSOP should be consistent with and contribute to the first of the four UNDAF priorities areas identified, i.e. “National policies, local and national institutions effectively support equitable and sustainable economic growth and food security by 2016”. This priority area includes promotion of improved management and conservation of natural resources in the context of rapid and debilitating climate change.

Proposed priority strategic actions

Pursuant to the SECAP strategic objective proposed above for reorientation of the new RB-COSOP, the SECAP Study also identifies a number of concrete actions for the RB-COSOP preparation team to consider in its work. These actions obviously build on the SECAP strategic objective and should be viewed as initial ideas for implementation of the strategic objective. The new RB-COSOP will identify a number of new strategic objectives based on IFAD’s experience in implementation of the current RB-COSOP, changing circumstances/needs in the agricultural sector of Malawi, priorities identified by the GoM and IFAD’s particular niche and comparative advantage in Malawi. In order to ensure that the SECAP strategic objective informs these new RB-COSOP strategic objectives, the SECAP Study recommends the below actions for the RB-COSOP team to consider.

Ensure that the RB-COSOP strategic objectives promote, to the extent practicable, a catchment restoration and management approach in the future country programme:	Next steps
The new RB-COSOP should target interventions that involve the restoration/management of critical catchments in priority areas of the country. Such interventions should promote an appropriate mix of sustainable ENRM investments, social equity measures and climate-smart agricultural practices. These interventions are meant to sustain IFAD’s projects over time by assuring enough water flow, soil fertility and community adoption of sustainable activities.	Formulate new projects/ programmes that target critical catchments to promote integrated restoration/management investments/practices.
A useful tool for identifying critical catchments to target is the new National Irrigation Master Plan (2015), which identifies priorities for irrigation development based on a detailed screening and selection process that considers such factors as: water resource areas, livelihood zones, soil suitability, land use, climate and agro-climatic zones, surface and groundwater hydrology, cropping patterns and seasonality of water demand. The top 30 irrigation schemes identified in the Master Plan provide a starting point for looking at critical catchment opportunities for using the holistic landscape approach recommended by the SECAP Study to promote integrated restoration and management of the catchment, along with economic and social development and reduction of poverty and food insecurity.	Work with the MoAIWD Departments of Irrigation and Land Resources and Conservation, and the Environmental Affairs Department of MoNREM to identify priority catchments for future IFAD interventions.
Malawi has not yet developed an environmental/climate impact hot-spot strategy for setting priorities. The Integrated Watershed	Work with the Environmental Affairs Department to

³³ Government of Malawi/United Nations Country Team, *United Nations Development Assistance Framework in Malawi 2012-2016* (Lilongwe, 2011).

Ensure that the RB-COSOP strategic objectives promote, to the extent practicable, a catchment restoration and management approach in the future country programme:	Next steps
Management Programme in the National Climate Change Investment Plan (2013 – 2018) does not identify watershed “hot spots” for priority attention in adaptation investments. The RB-COSOP team should investigate using ASAP and/or GEF financing to develop a catchment “hot spot” strategy and then scale up successful climate-smart projects in priority areas, taking advantage of the investments and training that the communities have already received under IFAD interventions.	develop a “hot spot” strategy for identifying priority catchments for scaling-up with IFAD interventions.

Proposals for activities to access GEF, ASAP and other sources of funds

The SECAP team recognizes that the IFAD country programme to be developed under the new RB-COSOP may not be able to address all of the environmental, social and climate priorities of the GoM and that some sources of external financing offer opportunities for discrete support to smallholder farmers, i.e. the Adaptation for Smallholder Agriculture Programme (ASAP), and for environmental issues of global significance, i.e. the Global Environment Facility (GEF). The SECAP Study proposes several actions eligible for external financing for the RB-COSOP team to consider.

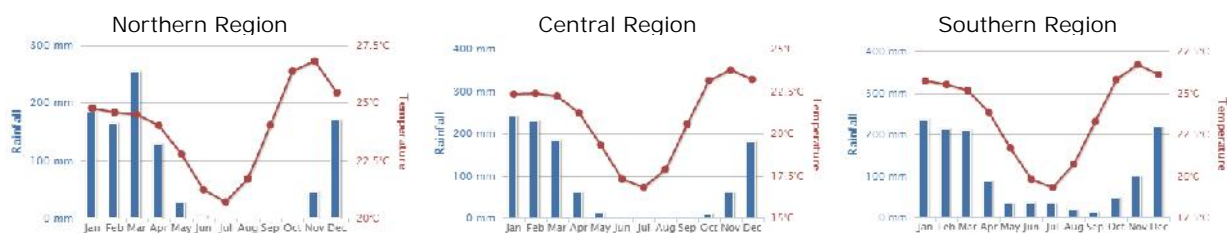
SECAP Strategic Actions for Supplemental Financing

Consider supplemental financing for discrete priorities to support IFAD interventions:	Next steps
<p>The new RB-COSOP should seek supplemental financing, where appropriate, for relevant SECAP activities from ASAP, GEF, and Green Climate Fund (GCF) sources.</p> <p>Both the National Climate Change Policy (2015) and the National Climate Change Investment Plan (2013 – 2018) target promotion of alternative (renewable) energy sources for fuel wood for cooking in order to (i) relieve the pressure on forests from fuel wood production and (ii) reduce exposure to indoor air pollution. A range of alternatives, including solar and micro-hydroelectric power and fuelwood saving cooking stoves among others, need to be evaluated for their feasibility in rural areas. GEF financing under its climate change mitigation focal area may present opportunities to demonstrate the feasibility of alternative energy sources in the Malawian context. An example of such a GEF project is UNDP’s “Increasing Access to Clean and Affordable Decentralized Energy Services in Selected Vulnerable Areas of Malawi,” approved in 2014.</p> <p>Catchment committees will soon be created through the 2015 Water Act. ASAP and GEF funding could help strengthen these new institutions through appropriate training and have them as focal point for IFAD’s work at catchment level.</p> <p>Aquaculture has significant potential in Malawi both for providing smallholder farmers with alternative income generation and for supplying them with a source of protein to meet their food security and nutritional needs. For this reason, the Fisheries Master Plan (2012) identifies increased aquaculture production and productivity as a strategic priority for Malawi. The Master Plan includes a Fish Farming Community Livelihood Programme, whose objective is “to develop a self-supporting rural fish farming development model that improves integrated livelihoods of rural small-holder farmers.” IFAD has extensive experience in sub-Saharan Africa with inland fisheries and aquaculture programmes benefiting the rural poor. The RB-COSOP team should investigate</p>	<p>Identify appropriate activities for GEF, ASAP and GCF financing.</p> <p>Work with GEF focal point in the Environmental Affairs Department and GEF counterparts to evaluate opportunities for GEF financing for demonstrating alternative energy sources in rural Malawi.</p> <p>Work with the Department of Water Resources and Department of Land Resources and Conservation, reinforcing efforts to coordinate at national level.</p> <p>Work with the Department of Fisheries to evaluate the potential for supporting a fish farming community livelihoods programme linked to other IFAD interventions.</p>

Consider supplemental financing for discrete priorities to support IFAD interventions:	Next steps
<p>opportunities for benefiting smallholder farmers by developing an aquaculture project with ASAP financing.</p> <p>Climate change projections for Malawi indicate a future decline in maize yields and yet smallholder farmers prefer to use the non-hybrid varieties of maize, which are less resilient to CC impacts. Maize is the staple crop for smallholders and continues to be the principal crop promoted by IFAD interventions in Malawi (e.g. PRIDE). Because climate change impacts will increasingly threaten the sustainability of maize harvests in the future, IFAD will need to promote crop diversification and raise farming community awareness through training on this issue. The RB-COSOP team should consider ASAP financing for this sort of climate adaptation and awareness raising, perhaps in the context of the new PRIDE.</p> <p>Deforestation for charcoal production is one of the main drivers of catchment degradation. Urban demand for charcoal, increasing population pressures and lack of alternative lucrative livelihoods are all exacerbating the problem. Because IFAD's mandate will not allow it to address the urban demand for charcoal directly, IFAD should consider mechanisms for collaboration with another development partner, an international NGO or a UN organization, in addressing this issue. The RB-COSOP team should consider a partnership where IFAD would address forest protection issues in rural areas while the partner would address alternative energy sources to suppress urban demand for charcoal. IFAD's role would involve promoting alternative livelihoods, like beekeeping for honey production or small poultry through the involvement of the private sector (e.g. National Smallholder Farmers' Association of Malawi) or PPPS for creation of cooperatives, improved access to markets and training on business practices.</p> <p>Other activities aimed at addressing deforestation and catchment degradation to ensure adequate water flows and soil fertility include: reforestation, promotion of natural regeneration of forests, forest conservation through beekeeping, environmental committees and community trainings, training on sustainable agricultural practices (agroforestry, conservation agriculture, river bank buffer zones, among others). It is extremely important to link these activities to appropriate incentives (see point above on alternative livelihoods) for smallholder farmers to ensure adoption, ownership and sustainability over time.</p>	<p>Work with the Ministry of Agriculture, Department of Extension, to develop an appropriate outreach programme on maize for smallholder farmers.</p> <p>Work with appropriate development partners (e.g. UNDP, AfDB, bi-laterals) to develop an urban/rural alternative (renewable) energy project.</p> <p>Work with catchment committees and identify appropriate GoM department at national level, e.g. Land Resources and Conservation or Water Resources (which created the catchment committees) in MoAIWD. Work with private sector and extension workers to sustain farmers in their new alternative livelihoods activities.</p>

Country at a glance

	1990	2000	2014
World view			
Population, total	9 408 998.00	11 193 230.00	16 695 253.00
Population growth (annual %)	3.64	2.81	3.07
Surface area (sq. km)	118 480.00	118 480.00	118 480.00
Population density (people per sq. km of land area)	99.80	118.72	177.08
Poverty headcount ratio at national poverty lines (% of population)	..	..	..
Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)	..	..	..
GNI, Atlas method (current US\$)	1 723 154 381.28	1 749 386 104.80	4 180 017 557.67
GNI per capita, Atlas method (current US\$)	180.00	160.00	250.00
GNI, PPP (current international \$)	3 223 221 817.69	5 556 706 483.83	13 166 102 554.42
GNI per capita, PPP (current international \$)	340.00	500.00	790.00
People			
Income share held by lowest 20%	..	..	..
Life expectancy at birth, total (years)	43.77	44.08	..
Fertility rate, total (births per woman)	7.00	6.25	..
Adolescent fertility rate (births per 1,000 women ages 15-19)	176.36	161.42	136.97
Contraceptive prevalence (% of women ages 15-49)	..	30.60	..
Births attended by skilled health staff (% of total)	..	55.60	..
Mortality rate, under-5 (per 1,000)	242.40	174.40	66.90
Prevalence of underweight, weight for age (% of children under 5)	..	21.50	16.70
Immunization, measles (% of children ages 12-23 months)	81.00	73.00	85.00
Primary completion rate, both sexes (%)	28.21	65.24	..
Gross enrolment ratio, primary, both sexes (%)	71.04	137.54	..
Gross enrolment ratio, secondary, both sexes (%)	16.13	32.05	..
Gross enrolment ratio, primary and secondary, gender parity index (GPI)	0.81	0.93	..
Prevalence of HIV, total (% of population ages 15-49)	8.80	16.60	10.00



Source: The World Bank database

	1990	2000	2014
Environment			
Forest area (sq. km)	38 960.00	35 670.00	..
Terrestrial and marine protected areas (% of total territorial area)	15.02	16.47	..
Annual freshwater withdrawals, total (% of internal resources)	..	..	..
Improved water source (% of population with access)	42.50	62.50	88.40
Improved sanitation facilities (% of population with access)	29.30	34.30	40.60
Urban population growth (annual %)	6.42	3.42	4.06
Energy use (kg of oil equivalent per capita)	..	..	..
CO2 emissions (metric tons per capita)	0.07	0.08	..
Electric power consumption (kWh per capita)	..	..	..
Economy			
GDP at market prices (current US\$)	1 880 784 191.81	1 743 506 287.42	4 258 033 615.30
GDP growth (annual %)	5.69	1.58	5.70
Inflation, GDP deflator (annual %)	10.66	30.53	20.95
Agriculture, value added (% of GDP)	45.00	39.54	33.31
Industry, value added (% of GDP)	28.89	17.92	17.04
Services, etc., value added (% of GDP)	26.11	42.54	49.65
Exports of goods and services (% of GDP)	23.78	25.60	45.79
Imports of goods and services (% of GDP)	33.42	35.33	56.12
Gross capital formation (% of GDP)	23.04	13.56	15.37
Revenue, excluding grants (% of GDP)	..	..	..
Cash surplus/deficit (% of GDP)	..	..	..
States and markets			
Time required to start a business (days)	..	..	38.00
Domestic credit provided by financial sector (% of GDP)	..	..	..
Tax revenue (% of GDP)	..	..	..
Military expenditure (% of GDP)	1.29	0.67	1.21
Mobile cellular subscriptions (per 100 people)	-	0.43	30.50
Internet users (per 100 people)	-	0.13	5.83
High-technology exports (% of manufactured exports)	0.09	2.03	..
Overall level of statistical capacity (scale 0 - 100)	..	..	75.56
Global links			
Merchandise trade (% of GDP)	52.74	52.25	102.09
Net barter terms of trade index (2000 = 100)	148.24	100.00	..
External debt stocks, total (DOD, current US\$)	1 556 812 000.00	2 719 222 000.00	1 637 225 000.00
Total debt service (% of exports of goods, services and primary income)	29.31	13.50	4.19
Net migration	..	..	..
Personal remittances, received (current US\$)	..	746 886.19	38 487 244.44
Foreign direct investment, net inflows (BoP, current US\$)	23 300 000.00	25 999 996.36	715 693 148.19
Net official development assistance and official aid received (current U	500 360 000.00	446 110 000.00	..

Source: World Development Indicators database

Total area	11,848 km ² (including lakes)
Land area	9,408 km ²
Lake area	2,440 km ²
Protected areas (national parks, forests and game reserves)	1.7 m. ha, 18 per cent of land area
Land available for agriculture	7.7 m. ha, 82 per cent of land area
Estimated land under estates	1.2 m. ha, 13 per cent of land area
Land available for smallholders	6.5 m. ha, 69 per cent of land area
Average land holding size	1.2 ha per household
Land area suitable for rain-fed agriculture	31 percent of land area
Land suitable for irrigation	90,000 ha
Land under irrigation	40,000 ha
Lakes	Malawi, Chilwa, Chiuta, Malombe, Kazuni
Forest areas (indigenous and plantation) Forest reserves (88)	3.3 m. ha, 36.0 per cent of land area
National parks (5)	Nyika National Park, Lake Malawi National Park, Kasungu National Park, Liwonde National Park, Lengwe National Park
Wildlife reserves (4)	Vwaza Marsh Wildlife Reserve, Nkhotakota Wildlife Reserve, Majete Wildlife Reserve, Mwabvi Wildlife Reserve

Source: GoM, State of the Environment, National Biodiversity Strategy (2015)

Fiduciary summary of country portfolio

FIDUCIARY SUMMARY OF COUNTRY PORTFOLIO – September 2016



COUNTRY		Malawi				
Project	Financing instrument	FLX Status ⁽¹⁾	Lending Terms	Currency	Amount (million)	Completion date
RLEEP	G-I-DSF-8013-	DSBL	DSF HC GRANTS	XDR	4.95	30/12/2017
RLEEP	L-I--738-	DSBL	HIGHLY CONCESSIONAL TERMS 0.75 pc	XDR	5.35	30/12/2017
SAPP	G-I-DSF-8092-	DSBL	DSF HC GRANTS	XDR	14.25	30/03/2021
SAPP	G-I-DSF-8092-A	EXPD	DSF SELF-STANDING GRANTS	USD	0.60	30/03/2014
SAPP	L-I--854-	DSBL	HIGHLY CONCESSIONAL TERMS 0.75 pc	XDR	14.65	30/03/2021
PRIDE	200000144800	APPR	ASAP GRANTS	XDR	5.15	Project approved Dec 2015. Not entered into force yet pending Parliamentary approval
PRIDE	200000144900	APPR	DSF HC GRANTS	XDR	19.35	
PRIDE	200000145000	APPR	HIGHLY CONCESSIONAL TERMS 0.75 pc	XDR	19.30	

(1) APPR – SIGN – ENTF – DISB – EXPD - SPND

CURRENT LENDING TERMS	DHC: 50% grant/50% HC loan
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A. INHERENT RISK (TI, PEFA relevant extracts)

(2) High risk = 0 – 30; Medium risk = 31 – 65; Low risk = 66 and above.

(3) High risk = 0 – 3; Medium risk = 3.1 – 4.0; Low risk = 4.1 – 10.

Comments:

Transparency international I Corruption Perceptions Index 2015 rating was 3.1, the same as in 2012. Current ranking is 112 out of 168 countries.

In the 2016 World Bank's Ease of Doing Business Report, Malawi is ranked 141th out of 189 countries, compared to 144th position in the previous survey, showing a slight positive trend.

In the Mo Ibrahim index of African Governance issued in 2015 Malawi is ranked 17th out of 54 countries, scoring 57 points out of 100 (no change since 2011).

The March 2016 World Bank Report No.: 103060 "Project Performance Report in Malawi" noted that the limited compliance with the PFM legal framework and internal controls posed a high risk to the development objectives at project end. An example of risks materializing is the embezzlement of about US\$32 million known as the "cash gate" scandal [which resulted from the misuse of the national Integrated Financial Management System(IFMIS)] and led donors to temporarily suspend development assistance. Regarding civil service reform, the number of public servants has increased rapidly over the evaluation period raising questions about the sustainability of the overall public wage bill.

Further, significant loopholes in the Human Resource Management Information System (HRMIS) internal control environment remain, which pose risks and undermine the effectiveness of the system.

The latest Public Expenditure and Financial Accountability (PEFA) report was prepared in March 2011 by the World Bank. The report suggested that overall, there was something of a deterioration in Public Financial Management performance since 2008 (the date of the previous report). This change was most marked in the areas of budget credibility; accounting, recording and reporting;

and external scrutiny and audit. There was, however, improvement in comprehensiveness and transparency. **Overall, the inherent risk is Medium.**

B. PORTFOLIO, FM RISK & PERFORMANCE

Project	Financing instrument	Curr.	Amount (million)	Project risk rating	PSR quality of FM	PSR audit	PSR disb. rate	Disbursed to approved
RLEEP	G-I-DSF-8013-	XDR	4.95	L	4	5	4	87 %
RLEEP	L-I--738-	XDR	5.35	L	4	5	4	92 %
SAPP	G-I-DSF-8092-	XDR	14.25	H	4	5	3	41 %
SAPP	G-I-DSF-8092-A	USD	0.60	H	4	5	3	55 %
SAPP	L-I--854-	XDR	14.65	H	4	5	3	40 %
PRIDE	200000144800	XDR	5.15	M (*)	N/A	N/A	N/A	0 %
PRIDE	200000144900	XDR	19.35	M (*)	N/A	N/A	N/A	0 %
PRIDE	200000145000	XDR	19.30	M (*)	N/A	N/A	N/A	0 %

(*) For PRIDE the Project risk rating was assessed at design but implementation has not yet started.

Comments:

RLEEP: Though commendable, the disbursement rate compares unfavorably with the expected rate of 88% in the 7th year of implementation, largely resulting from late Programme start-up. The 2015/16 AWPB has had a commendable overall disbursement performance rate of 85%.

SAPP disbursement improved by 100% in one year basically because of the efforts made by IFAD team to set more smooth flow of funds (i.e. Designated account in a commercial bank rather than in the Central Bank) and the commencement of the Implementation Fast Track Action Plan (IFAP); the Financial Management PSR score improved from 3 to 4 and disbursement score from 2 to 3. SAPP is still struggling in the implementation of the TOMPRO accounting software and are still using Excel for financial accounting which that cannot guarantee accuracy and the integrity of the bookkeeping. The other deficiency is a lack of adequate experience on the part of the Financial Management team. There is a major gap in financial planning, monitoring and reporting. The FM internal controls and checks of the main implementing partner are weak. Due to the above mentioned aspects, the risk continues to be rated high.

C. SUMMARY – APPROVED AND DISBURSED AMOUNTS

APPROVED AMOUNTS (PBAS)

USD million ⁽⁴⁾	2010 - 2012 (IFAD8)	2013 - 2015 (IFAD9)	2016 - 2018 (IFAD10)	Notes
PBAS allocation	Not Available in GRIPS	39.28	42.35	Original approved allocations, not those revised (as per GC 33/L.6, GC 36/L.8/Rev.1 and GC 39/L.4)
Amount approved	46.26	60.09	0.00	Indicative amounts as per President's Reports

(4) Source = GRIPS.

DISBURSEMENTS BY FINANCING SOURCE

USD million equivalent disbursed during the period ⁽⁵⁾	2010 - 2012 (IFAD8)	2013 - 2015 (IFAD9)	2016 - 2018 (IFAD10)	Cumulative undisbursed balance ⁽⁶⁾
IFAD financing	13.32	20.77	6.38	79.49
ASAP	0.00	0.00	0.00	7.20

(5) Historical total disbursed, in USD. Source = Oracle Business Intelligence.

(6) At 08/09/2016 IMF exchange rate. Includes financing instruments in approved, effective, signed and disbursable status.

D. AUDIT

The audit performance in Malawi is rated as satisfactory. The statutory audit is up-to-date with the audit of 2014/15 having been carried out by the private firm of AG Global. The future audits will be carried out by the Auditor General of the Republic of Malawi starting with the audit of the financial year 2015/2016 as per the IFAD-financed INTOSAI Development Initiative (IDI) Grant; IFAD has financed a capacity-building grant to the IDI to enhance Supreme Audit Institution of Malawi .

E. SUPERVISION

RLEEP: financial management is moderately satisfactory. The accounting software used is ACCPAC. The key issues requiring considerable improvement are: the Special Programme Account requires better management in terms of imprest accounts being cleaned up for earliest accountability; and there is lack of in-depth supervision, review, scrutiny and management oversight of the Grant expenditures.

SAPP: On the positive side the implementation has progressed during the last 12 months. In order to accelerate implementation, the Government of Malawi and IFAD developed an Implementation Fast Track Action Plan and installed a Transitional Programme Coordination Team (TPCT). The capacity at TPCT and the hiring of the NGO Total Land Care (TLC) appears adequate and reporting appears credible and accurate. The capacity of the financial controller under TPCT is enhanced with counterpart accountants at the Ministry's headquarters and in the programme districts. The TOMPRO accounting software been installed and expansion of its full use is continuing. However, its implementation, the finalization of the accounting procedures and accounting manual are still pending. The financial procedures need to be updated to reflect implementation changes and improved financial monitoring and reporting templates.

F. DEBT SERVICING

No issues on debt services and payments.

G. COMMENTS ON COSOP / CONCEPT NOTE**COSOP**

- Probably it is needed to highlight the fact that generally Beneficiary contributions are not always captured in the financial statements of the ongoing Projects and Programmes.
- It would be helpful to highlight the liquidity issues experienced by the Projects mainly due to the set flow of funds, in particular:
 - in the case of RLEEP, the problem was that the USD-denominated Special Account was originally at the Reserve Bank of Malawi (RBM) from where funds were released into the Kwacha-denominated holding account, still at the RBM. Once these funds had been communicated as being available the Programme could make payments against them from their Kwacha-denominated operating account at Standard Bank. Delays occurred in this release process and in the communication back to RBM notifying them that the holding account should be reduced for expenditures incurred. The Programme felt that it could raise a new withdrawal application for replenishment of funds until the holding account reflected the reduced balance. Consequently, the Programme's liquidity problem was masked. Moving the Special Account to a commercial bank resolved this issue.
 - For SAPP, The USD-denominated Designated Account for IFAD financing was defined in the Financing Agreement as being the Reserve Bank of Malawi (RBM). Funds flowed into holding accounts at the RBM for the Secretariat (PMU), the six districts and the five Agricultural Development divisions (ADD). Delays were experienced in the release of funds causing delays in procurement at the Secretariat and in implementation at field level. Again, switching the Designated Account to a commercial bank acceptable to IFAD resolved the problem. We could use those as lessons learned.
- Problems with Counterpart contribution, including VAT exemption, which affected the implementation of activities.
- It would be useful to mention that IFAD Projects in Malawi have in the past used the non-allowed practice of cross-financing; this shall be avoided in future Projects. Meantime this is linked to liquidity problems which, as already stated, have to be clearly addressed in the new designs.

CONCEPT NOTE

- Provide accurate analysis on the process of the grants facility, in particular how the grantees will be selected and how the monitoring will be assured
- Internal Audit: highlight the importance of having a structured internal audit, try to explore if the Ministry's internal auditors can carry out periodical missions sharing the reports with IFAD, in this case an assessment of the internal audit structure and capacities is recommended. It is also suggested, should national capacity be lacking, to create an internal control unit which will be used for all IFAD Projects and Programmes in Malawi.
- Flow of Funds: It would crucial for smooth disbursement to avoid the problems experienced in the past (see. Point above "Flow of Funds") and then having the Special/Designated Account in a commercial bank rather than in the Central Bank.
- FM Software – it is crucial to emphasize the necessity for FARMSE to be provided with an efficient FM software; try to capitalize previous Projects' experience with the different FM software used (i.e. TOMPRO and ACCPAC).
- Introduce, explore and encourage the possibility of adopting a shared back office in a Single Project Implementing Unit for IFAD-financed activities.
- Audit: It is advisable to consult the Auditor General in order to confirm they can perform the annual external audit of FARMSE so that they can start the audit log from the beginning of the project and agree the specific Terms of Reference.

Concept note

Date: April 04 2016

Concept Note:

MALAWI ; Financial Advancement for Rural Markets, Smallholders and Enterprise (FARMSE)

Background

1. While the Malawian inclusive financial sector has enjoyed a decade of steady growth, rural areas remain substantially underserved. Those economically active rural poor that do have access to financial services are limited to basic savings and microcredit. Substantial savings, credit and other financial service demand are left unattended as a result.³⁴

2. Untapped rural savings and loans represent a sustainable business opportunity for the formal financial sector (FFS). Given high transaction costs to financial services in rural areas, however, greater FFS market penetration requires an efficient means to aggregate savings and loans. Community Member-Based Financial Institutions (CMBFIs – e.g., village savings and loans associations, financial cooperatives, etc.) can provide this aggregation function while serving a great number of smallholder households in their own right. With modest innovations, CMBFI will link households and rural micro and small enterprise (MSEs) to the FFS.³⁵

Selected Rural Finance Sector Statistics³⁶

Rural Population (economically active = age 16+)	7.6 Million
Rural Population with Financial Services	3.1 Million
Rural Population with CMBFI Services	1.1 Million
Estimated Rural Savings Liquidity from CMBFIs annually - USD (assuming 20% of total CMBFI savings is liquid)	8.8 Million
MSEs with Access to Formal Credit	17%
High Achieving CMBFI Members/Enterprise	100,000 SMEs 130,000 farmers

3. While CMBFIs have grown from 6,000 to 73,000 groups and from 85,000 to 1.1 million members since 2008, modest innovations could improve impacts (e.g., better matching of dividend and savings models to household income/expense rhythms; establishing market-driven linkages with the FFS; and integrating non-farm and agricultural extension services).³⁷ Incentives to innovate CMBFIs could also benefit from Reserve Bank of Malawi (RBM) attention (e.g., simple registration, certification, etc.). Developing mobile money is also critical to rural financial service development, as the recent introduction of electronic wallets and fund transfer services showed initial promise but slowed due to agent cash liquidity challenges³⁸.

4. Some financial interventions in agricultural value chains may also facilitate improvements to smallholder household welfare. Each chain has unique challenges, but promising development models suggest non-financial smallholder risk reduction interventions (e.g., contract farming, extension services, etc.) can lever improved access

³⁴ FinScope Consumer Survey Malawi (2014).

³⁵ M. Thom, B. Cooper, J. Gray, C. Denoon-Stevens, A. van der Linden and T. Tappendorf, *Making Access Possible: Malawi Country Diagnostic Report (MAP)* (New York: United Nations Development Programme, forthcoming), v.

³⁶ Sources: *ibid* 1 and 2 and project concept mission findings.

³⁷ *Ibid*.

³⁸ *Ibid* 2.

to financial services (e.g., input finance, guarantees, etc.). Well-structured chains such as tobacco have instructive models which have yet to be systemically introduced in less-structured value chains (e.g., Irish potato, legumes).

A. Possible Geographic Area of Intervention and Target Groups

5. Financial Advancement for Rural Markets, Smallholders and Enterprise (FARMSE) will be national in scope, targeting the economically active rural poor, specifically: rural households and on- and off-farm MSEs, and select value chains actors.

B. Justification and Rationale

6. The penetration of financial services to Malawi's rural areas is the lowest in the region. Over 50% of Malawians do not have access to financial service which limits their capacity to manage economic risk, smooth consumption, accumulate assets and invest in enterprise. Greater access will improve household welfare and support key Government of Malawi (GoM) objectives of improving economic growth and employment creation through MSEs and farmers. Through improved access to finance and increased income, FARMSE will meet IFAD's 2016-2022 RB-COSOP objectives that: (i) smallholder households become resilient to shocks, and (ii) smallholder farmers access remunerative markets and services. Through capacity building and policy engagement it will also support evidence-based policy engagement and scaling-up of development outcomes for positive rural transformation.

7. Efficiently aggregating credit and savings can create rural market opportunities for the FFS to serve rural smallholders and MSEs. Innovative CMBFIs should systemically link members to the FFS, and could support non-financial technical extension/enterprises services. IFAD has a recognized comparative rural finance and value chain advantage in Malawi with two recent on-the-ground experiences via RLEEP: CMBFIs aggregated to form financial cooperatives and supporting farmer access to the FFS through capacity building.

C. Key Project Objectives

8. The goal of FARMSE is to reduce poverty and increase resilience to natural and economic shocks among the economically active rural poor in Malawi. Availability of savings contributes directly to household ability to cope during crises, and their potential to recover afterwards. The development objective is to boost income, and food and nutrition security among economically active, poor rural households.

D. Ownership, Harmonization and Alignment

9. The Ministry of Finance will be the lead ministry for FARMSE. A steering committee including relevant Ministries and other stakeholders will guide the project and enable direct policy engagement.

10. Most of the few ongoing or planned rural finance donor efforts in Malawi are small components of larger programmes (e.g., USAID, UNDP). GIZ is designing a medium term, relatively substantial inclusive finance sector programme and has expressed interest in supporting/complementing FARMSE pre/post-start up. A recently formed Village Savings and Loan Association steering group could provide planning and implementation input to FARMSE.

11. FARMSE could directly support IFAD's Sustainable Agricultural Production Programme and Programme on Rural Irrigation Development. FARMSE's objectives also align with several NGO/private sector interests (e.g., the National Association of Smallholder Farmers of Malawi, the Malawi Network of Microfinance Institutions, Agricultural Commodities Exchange, Agora/Farmers' World, etc.).

E. Components and Activities

12. Component One – Enhanced access to formal and informal rural financial services. The outcomes of this component would be: (i) establishing innovative CMBFI models; (ii) scaling-up and doubling the number of CMBFIs; and (iii) systemically linking CMBFIs with the FFS. Efficiently aggregating rural savings through CMBFIs will attract an appropriate and sustainable service offer from the FFS to rural smallholder and MSEs. A project Challenge Fund will support CMBFI growth and innovation. Small grants will be provided to experienced organizations/consortia (e.g., MFIs, Banks, NGOs) to develop business proposals, from which select proposals focused on CMBFI innovation and scalability will be funded. Further rounds of funding to the most successful grantees will promote scaling-up of innovative CMBFI models. Digital cash payments will also be promoted/supported. This component may support or be coordinated with donors with related CMBFI and mobile money interests (e.g., GIZ and UNCDF/UNDP). Groups formed will receive training on nutrition and household methodologies.

13. Component Two – Rural Financial Sector Oversight and Supervision will: (i) explore and potentially develop a simple CMBFI registration/certification facilitating CMBFI, CMBFI member and MSE FFS linkages; (ii) explore and possibly develop rural finance sector policy guidance; and (iii) assess CMBFIs/value chain finance interventions from a regulatory/oversight perspective. Starting point for these actions will be an assessment of existing regulations and bottlenecks experienced therein. The project will extend research and capacity support to the RBM, MOF and other Ministries as appropriate.

14. Component Three - Linking Value Chains to Formal Financial Institutions. This component will support scalable, replicable and sustainable financial service innovations to select value chains with the objective of improving smallholders' income. Non-financial technical support services leveraging enhanced access to financial services will be provided to smallholders as appropriate. Less well-structured value chains will be targeted (e.g. dairy, legumes, potatoes, etc.). Synergies with existing IFAD-funded projects/other agencies are anticipated. The component will have a performance based, tiered fund similar to that of IFAD's RLEEP programme.

F. Preliminary Environmental and Social category

15. The project's environmental and social category is C. There are no systemic project environmental risks. Some gender risks include for example: women receiving loans subject to a husband's decision making and women with successful enterprise loans adding to daily workloads.

G. Preliminary Climate Risk Classification

16. Based on anticipated increases to the target population's exposure/vulnerability to climate related risk, the project has a low climate risk classification.

H. Costs and Financing

17. The preliminary project budget will guide a detailed costing during the full design mission. Initial costs estimates are USD 19.5 million, with IFAD's share at USD \$16.5 million.³⁹ Malawi is an IFAD performance based allocation system yellow country and will receive 50% of the funding as a grant and 50% at highly concessional loan terms and conditions.

³⁹ Costs are based on actual IFAD's RUFIP Lesotho VSLA group formation costs.

Preliminary Project Budget

Component	Budget	Co-Financing
Comp 1: Enhanced access to formal and informal rural financial services.	11 Million	2 Million
Comp 2: Rural Financial Sector Oversight and Supervision	0.8 Million	0.1 Million
Comp 3: Linking Value Chains to Formal Financial Institutions	3 Million	0.5 Million
Project Management	1.7 Million	0.4 Million
Total	16.5 Million	3 Million

I. Organization and Management

18. Headed by a project co-ordinator, supported by a financial management and procurement team, a project management unit (PMU) will plan and coordinate day to day FARMSE activities. A strong M&E team will be formed to verify grantee performance-based funding results. A knowledge management advisor will document/share programme experiences.

J. Monitoring and Evaluation Indicators

19. Quantifiable measures include: number of CMBFIs formed, CBMFI members using formal financial services, and formal loans taken by CBMFI/value chain smallholders. Other indicators will be applied as required. RIMs surveys will estimate household food security, improved income and assets.

K. Risks

Risks description	Risk Rating	Risk Mitigation Measure
1. Insufficient CBMFI development capacity to meet targets.	Medium	Proactive project recruitment of national and international CBMFI development groups.
2. FFS will not expand rural market coverage/rural poor choose not to use FFS.	Medium	Proactive FFS engagement/effective pro-poor products/services development and marketing.
3. Loss of value chain actor(s).	Low	
4. Private sector does not enter into value chain contracts.	Low	Proactive monitoring and engagement.
5. Unexpected GoM/RBM policy affects value chain and/or financial sector.	Low	Proactive, ongoing and expert support of RBM to manage sector development, good economic analysis.
6. Harmful monetary/macroeconomic policy/conditions.	Medium	

L. Timing

20. Detailed programme design will take place during 2016 and 2017.

Proposed design schedule

Design preparation	February – September 2016
Detailed design	September – October 2016
Quality Enhancement Review	November 2016
Final design	March 2017
Quality Assurance Review	June 2017
Loan negotiation	July 2017
Presentation to the IFAD Executive Board	September 2017

M. LogFrame FARMSE

Results Hierarchy	Indicators			Means of Verification			Assumptions
	Name	Baseline	End-target	Source	Frequency*	Responsibility	
Goal Reduced poverty and enhanced resilience to external shocks among smallholder farmers.	Reduction of prevalence of child malnutrition. No. of households with improved household assets ownership index. No. of households whose climate resilience has been increased.			<ul style="list-style-type: none"> LSMS Project base, mid and end-line surveys MPAT survey Qualitative surveys 		GoM PMU PMU	
Development Objective Economically active poor rural households increase income, food and nutrition security).	<ul style="list-style-type: none"> Fewer rural smallholder household hungry periods. Increased annual smallholder household income. Vol. of expanded/aggregated rural savings liquidity markets, creating an attractive market opportunity for the formal financial services sector. 			<ul style="list-style-type: none"> Project base and end-line survey MPAT survey RIMS 		PMU PMU PMU	<ul style="list-style-type: none"> The number and capacity of CBMFI development organizations sufficient to meet output goals. Attractive savings/loans market development attracting FFS participation. Attractive/appropriate FFS can be offered to rural smallholders. Appropriate financial interventions can be designed value chains.
Outcomes							
C1: Improved access to formal and informal finance for the economically active rural poor and their enterprises.	<ul style="list-style-type: none"> Number of CMBF groups operational (RIMS 2.3.1). Number of loans smallholder households/MSEs secure from FFS providers. (RIMS 2.3.2). 			<ul style="list-style-type: none"> Project M&E data Project base and end-line survey MPAT survey RIMS data 			<ul style="list-style-type: none"> Increased savings and income smooth household income. Greater access to appropriate, affordable and sustainable financial services attracts rural smallholder households.
C1: Increased formal financial sector participation in rural financial markets.	<ul style="list-style-type: none"> Number of rural smallholder served with FFS financial services. Number of FFS institutions engaging rural CMBFIs. 			<ul style="list-style-type: none"> Project M&E data Project base and end-line survey MPAT survey RIMS data 			<ul style="list-style-type: none"> Rural savings liquidity is sufficient to attract FFS participation. Rural market development opportunities are competitive with alternative uses of FFS capital. Appropriate regulatory guidance is provided by RBM.

C3: Sustainable rural value chain finance products improved smallholder income.	<ul style="list-style-type: none"> • Number of formal financial institutions pursuing value chain finance. • Number of value chain actors accessing rural finance products. 			<ul style="list-style-type: none"> • Project M&E data • Project base and end-line survey • RIMS data • VC actor survey 			<ul style="list-style-type: none"> • Scalable and replicable value chain finance models developed. • Increased chain actors financing benefits for target group.
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Key file 1: Rural poverty and agricultural/rural sector issues

Priority Areas	Affected Group	Major Issues	Actions Needed
Food security for 2.8 million food insecure rural people	Smallholder and land-less rural population	<ul style="list-style-type: none"> • Production system remains vulnerable to shocks (climate and price). • Small scale production with limited access to improved inputs, technology and supporting services. • Low soil fertility. • Scarcity and volatility of water supply. 	<ul style="list-style-type: none"> • Foster production systems, through improve technology and organization. • Support rain-fed production under good agricultural practices, with small scale irrigation. • Increase access to supporting services.
Access to inputs	Rural population	<ul style="list-style-type: none"> • Limited access to quality inputs at affordable rate. 	<ul style="list-style-type: none"> • Improve extension services, advising on type and source of inputs. • Work with agro-dealers to tailor products and payments to meet target group's needs. • Support appropriate sector regulations.
Access to output markets for produce	Small producer	<ul style="list-style-type: none"> • Lack of access to markets under remunerative conditions (e.g. clear pricing, quality requirements). • Coordination along the commodity value chains weak. • Absence of pro-active private sector (besides for Tobacco). • Relatively weak degree of organization of farmers. 	<ul style="list-style-type: none"> • Increase coordination along value chains. • Strengthen producers organizations. • Partner with private sector on in- and output side and oversee that partnership agreements are beneficial for small producers (sustainable). • Support appropriate sector regulations.
Climate resilient rural road and irrigation infrastructure	Rural population	<ul style="list-style-type: none"> • Roads and bridges damaged by severe weather events, rendering access to/from rural areas more difficult. • Irrigation schemes damaged by weather events and sedimentation 	<ul style="list-style-type: none"> • Investments in and appropriate, cost-efficient maintenance of rural roads/bridge. • Investment in small/medium scale irrigation schemes. • User-based management and maintenance of irrigation schemes.
Access to secure saving	Rural population	<ul style="list-style-type: none"> • Absence of deposit-taking rural MFIs (only 2 of the MFIs take deposits). 	<ul style="list-style-type: none"> • Create market incentive for MFIs to establish deposit-taking business line.
Sustainable extension service	Rural population and SMEs	<ul style="list-style-type: none"> • Lack of appropriate service provision for small producers/SMEs, smallholders and other VC actors. 	<ul style="list-style-type: none"> • Establish sustainable model of private sector service provision to address aforementioned issue.

Key file 2: Organizations matrix (strengths, weaknesses, opportunities and threats analysis)

Organization	Strengths	Weaknesses	Opportunities/Threats	Remarks
Enablers				
Ministry of Agriculture, Irrigation and Water	<ul style="list-style-type: none"> • Strong presence throughout the country • various in-house experts • Coordinates all interventions in the agricultural sector (overview) 	<ul style="list-style-type: none"> • Implementation of FISP requires staff time and limits implementation capacity on the ground; almost 50% of extension staff position vacant, indicating difficulties to deliver services at village level 	<ul style="list-style-type: none"> • O: synergies with national and other donor-funded programmes • O: in-house expertise in agriculture, irrigation, etc. • T: slow delivery due to staff capacity and time limitations 	<ul style="list-style-type: none"> • ASWAp recently reviewed • Start-up of SAPP under MoAIWD was delayed by almost 3 years
Ministry of Local Government and Rural Development	<ul style="list-style-type: none"> • Focuses on rural development beyond agriculture production • Presence at district level 	<ul style="list-style-type: none"> • Low presence at village level 	<ul style="list-style-type: none"> • O: Work toward rural-transformation promotion of off-farm opportunities • T: somewhat limited capacity at district affecting implementation 	<ul style="list-style-type: none"> • Leading on RLEEP
Ministry of Finance	<ul style="list-style-type: none"> • Fast and sound interaction with IFAD in related issues • Business oriented 	<ul style="list-style-type: none"> • Lower presence at decentralised level 	<ul style="list-style-type: none"> • O: Focus on economist and fiscal sustainability 	<ul style="list-style-type: none"> • Counterpart recently changed
Ministry of Industry and Trade	<ul style="list-style-type: none"> • Focus on Micro, Small and Medium Enterprises • Business focus and hence economic sustainability of interventions 	<ul style="list-style-type: none"> • No strong linkage with on-going IFAD projects 	<ul style="list-style-type: none"> • O: build synergies with other programmes to create rural employment opportunities • T: broader focus, not only agriculture 	<ul style="list-style-type: none"> • Try to engage more during future mission
Environmental Affairs Department (EAD), Land Resources Conservation Department (LRCD)	<ul style="list-style-type: none"> • Regulations and process in place to protect land and water resources 	<ul style="list-style-type: none"> • Lower presence at decentralised level 	<ul style="list-style-type: none"> • O: Supports adoption of new ESIA and CC regulation 	<ul style="list-style-type: none"> • Reviews and approves ESIA's
Reserve Bank of Malawi (RBM)	<ul style="list-style-type: none"> • National oversight 	<ul style="list-style-type: none"> • Competencies mixed: Capital markets, pensions and micro-finance 	<ul style="list-style-type: none"> • T: overregulation • O: light-touch regulation 	<ul style="list-style-type: none"> • Phone talk in scoping mission (need for follow-up meeting)
WFP Malawi	<ul style="list-style-type: none"> • Innovative in area of nutrition: School feeding programme • Experience in sourcing large 	<ul style="list-style-type: none"> • Background in emergency which might not promote sustainable solutions for 	<ul style="list-style-type: none"> • O: work through demand-pull for certain commodities • O: Collaborate in areas of 	<ul style="list-style-type: none"> • Interest expressed to collaborate under Purchase for Progress

Organization	Strengths	Weaknesses	Opportunities/Threats	Remarks
	<ul style="list-style-type: none"> demand from smallholders through P4P programme • Strong procurement lens 	<ul style="list-style-type: none"> development 	<ul style="list-style-type: none"> nutrition-enriching measures 	<ul style="list-style-type: none"> programme (P4P)
DCAFS	<ul style="list-style-type: none"> • Coordinates donor activities in-country and hence knows broad picture • Engages with government on core policy aspects on-behalf of its members (bigger role) 	<ul style="list-style-type: none"> • Does not implement but remains coordination and knowledge sharing platform 	<ul style="list-style-type: none"> • O: membership meetings build opportunity for knowledge sharing and mutual learning • O: partner in policy engagement 	<ul style="list-style-type: none"> •
Malawi Microfinance Network (MAMN)	<ul style="list-style-type: none"> • Apex body for MFIs in Malawi • Supervisory capacity, as delegated from RBM 	<ul style="list-style-type: none"> • No sustainable model for deposit-taking MFIs developed/promoted. 	<ul style="list-style-type: none"> • O: energetic CEO • T: capacity at HQ still to be developed 	<ul style="list-style-type: none"> •
UNCDF	<ul style="list-style-type: none"> • Best expertise on Rural Finance in the country (Technical experts) • Pilot projects promoting state-off-the-art approaches (MM4P, etc.) 	<ul style="list-style-type: none"> • Lack of resources • Projects mostly pilot phase and size 	<ul style="list-style-type: none"> • O: partner for technical expertise • O: scale up successful pilot project outcomes 	<ul style="list-style-type: none"> •
Reserve Bank of Malawi (RBM)	<ul style="list-style-type: none"> • National oversight 	<ul style="list-style-type: none"> • Competencies mixed: Capital markets, pensions and micro-finance 	<ul style="list-style-type: none"> • T: overregulation. • O: light-touch regulation 	<ul style="list-style-type: none"> • Phone talk in scoping mission (need for follow-up meeting)
Service Providers				
Agricultural Commodity Exchange (ACE)	<ul style="list-style-type: none"> • National outreach through several own warehouses, plus links with other third-party warehouses • MIS for warehouse management, generating data on user (buyer, seller) • Trade-system: matching buyer and seller through various tools (auctions, reversed auctions, forward contracts) 	<ul style="list-style-type: none"> • Not yet self-sustainable, but requires donor support • Focus on cereals and legumes (commodities) • Mostly interacting with larger traders (who, however, buy from smallholders and aggregators) 	<ul style="list-style-type: none"> • O: MIS could generate good ME data • O: forward contracts and reverse auctions could link with contract farming • T: Active with several donor projects, potentially lack of focus on IFAD • O: Business-oriented player 	<ul style="list-style-type: none"> • CEO is open to innovative ideas on promoting price stability • A2F could be improved through ATMs at Warehouses
Total Land Care (TLC)	<ul style="list-style-type: none"> • Strong presence in Malawi and advocate for conservation agriculture 	<ul style="list-style-type: none"> • Limited outreach 	<ul style="list-style-type: none"> • T: coordination with government extension services • O: approach to livelihoods and agricultural development 	<ul style="list-style-type: none"> • Currently, TLC is implementing partner in SAPP
ZOONA	<ul style="list-style-type: none"> • Mobile money transfer (With 	<ul style="list-style-type: none"> • No deposit taking, simply 	<ul style="list-style-type: none"> • O: familiarises rural 	<ul style="list-style-type: none"> •

Organization	Strengths	Weaknesses	Opportunities/Threats	Remarks
	<ul style="list-style-type: none"> marginal fee) • Widely accepted 	<ul style="list-style-type: none"> transfer 	<ul style="list-style-type: none"> population with mobile money 	
Agora/Farmers World	<ul style="list-style-type: none"> • 130 Retail stores throughout the country, with logistical background • 80 stores serve as Point of Sales (POS) (agent banking) in collaboration with FMB 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • O: Had ideas to sign MoU with Opportunity Bank to start tripartite agreement (Farmer – Bank – FW): input-credit based on collateral 	<ul style="list-style-type: none"> • CEO interested in increasing POSs • Manager interested in MoU
First Merchant Bank (FMB)	<ul style="list-style-type: none"> • POs with Farmers World in 80 stores • Bank with capacity for cash management (liquidity, account, MIS, etc.) 	<ul style="list-style-type: none"> • Not yet interested enough in rural market 	<ul style="list-style-type: none"> • O: extend POS to additional FW stores • O: pull in for finance of SMEs/ groups 	<ul style="list-style-type: none"> •
Client Organizations				
MUSCO	<ul style="list-style-type: none"> • Formation of community member based financial institutions • Aggregation of groups to SACCOs • Member-based institution with wide outreach to MFIs 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • O: As apex body, could have multiplier effect • T: Despite tasked to supervise SACCOs, moral hazard problem since SACCOs are members 	<ul style="list-style-type: none"> •
National Smallholder Farmers' Association of Malawi (NASFAM)	<ul style="list-style-type: none"> • Member based (strong outreach) • First experience in value addition, branding and marketing • Private-sector branch: NasCom – buying/selling crops from members • Own warehouses 	<ul style="list-style-type: none"> • Mainly donor-dependent (not yet self-sustainable) • Potentially active in too many donor projects 	<ul style="list-style-type: none"> • O: Wide out-reach • O: experience in value addition at local level • T: unclear how much capacity for implementation (strong in project acquisition) 	<ul style="list-style-type: none"> •

Specific experience in terms of outreach to poorer rural people should be noted.

Key file 3: Complementary donor initiatives/partnership potential

Donor/Agency	Nature Of Project/Programme	Project/Programme Coverage	Status	Complementarity/ Synergy Potential
SO1 – Resilience to natural shocks				
World Bank	<ul style="list-style-type: none"> Malawi Social Action Fund (MASAF IV) 	<ul style="list-style-type: none"> US\$75 Million mainly focusing on social safety nets, but also on agriculture and food security activities. National coverage 	2015-2018	Complements IFAD activities and strengthens social inclusion through safety net approach
World Bank	<ul style="list-style-type: none"> Shire River Basin Management Project 	<ul style="list-style-type: none"> US\$136 Million project to generate sustainable social, economic and environmental benefits by collaborative planning, developing and managing natural resources in the Shire valley 	2012-2018	Policy dialogue with government in supporting refinement of catchment management policies and guidelines based on experiences in Shire River basin and on IFAD PRIDE and GEF-IAP experiences. Complements IFAD's district and community level approaches with national level activities. Lays ground for next Phase (Shire Valley development project, which could be an option for co-financing)
CGIAR Institutes	<ul style="list-style-type: none"> Support multiplication of legume seeds and new rice variety for Malawi 	<ul style="list-style-type: none"> Sponsored by USAID 	On-going	Support to irrigation projects to access high quality inputs
Illovo Sugar (private sector)	<ul style="list-style-type: none"> Out-grower schemes for sugar cane 	<ul style="list-style-type: none"> 2,600 ha of out-grower under rainfed and irrigated cultivation in Dwangwa 	On-going	Private sector led out-grower scheme with provision of input, finance and TA. Potential synergies and learning for production technologies and climate resilience
African Development Bank (AfDB)	<ul style="list-style-type: none"> Malawi Irrigation Development Project 	<ul style="list-style-type: none"> Develop 2,000 ha of land around the Likhubula River, benefitting 7,000 farm families (US\$15 Million) 	2015-2018	Synergies for implementation work and policy discussions regarding small-scale irrigation issues
AfDB	<ul style="list-style-type: none"> Irrigation and Road project 	<ul style="list-style-type: none"> GAFFSP and Africa Development Fund funds will finance Smallholder Irrigation and Value Addition Project (SIVAP), reaching 11.400 farm families. In addition rehabilitation of roads between Mzuzu and Nkhata Bay will improve market access. Total US\$73 Million 	2014-2019(?)	Synergies in area of irrigation development and value addition. Coordination in terms of infrastructure development. Partnership in areas of policy engagement

Donor/Agency	Nature Of Project/Programme	Project/Programme Coverage	Status	Complementarity/ Synergy Potential
SO2 – Access to remunerative markets				
GIZ	<ul style="list-style-type: none"> • Micro Finance project 	<ul style="list-style-type: none"> • National/ multiple districts 	Inception (2016-2022)	Could complement formalization linkages between CMBFIs and formal finance sector
World Bank	<ul style="list-style-type: none"> • Financial Sector Technical Assistance Project (F-STAP) 	<ul style="list-style-type: none"> • US\$28 Million project aiming to increase access to finance for the currently unbanked, but bankable, population of Malawi 	2011-2017	Rural Finance Sector transformation/ macro-economic context and synergies with FARMSE programme
UNDP	<ul style="list-style-type: none"> • Malawi Enterprise Challenge Fund 	<ul style="list-style-type: none"> • National 	On-going	While mostly aiming at 50:50 match-funding and potentially partnerships with bigger private sector companies, there might be potential to bring collaboration in areas of liquidity, mobile network extension (infrastructure), and agency banking
WFP	<ul style="list-style-type: none"> • P4P 	<ul style="list-style-type: none"> • National 	On-going (after 1 st phase pilot was very successful)	Working with ACE/warehouse receipt system to source crops locally. VC entry point (secured off-take; forward contracts)
USAID	<ul style="list-style-type: none"> • AIMS (Agribusiness Investment for Market Stimulation) 	<ul style="list-style-type: none"> • Malawi, Kenya and Tanzania: Expand trade of certain commodities through access to finance 	On-going	US\$50 Million for grant facility that reduces collateral requirements for SMEs Nobel Moyo: nmoyo@globalcommunities.org (contact in MWI) In addition: Unsaid has experience with Village Savings and Loan Associations in their livelihood support programmes
USAID	<ul style="list-style-type: none"> • Feed the Future programme 	<ul style="list-style-type: none"> • 8 focus districts (Centre & Blantyre) 		Programme fosters inclusive and sustainable growth in Malawi's agricultural sector and improves the nutritional status of women and children under five; and promotes VC activities
DFID/ MOST	<ul style="list-style-type: none"> • Malawi Oil Seed Transformation project 	<ul style="list-style-type: none"> • The Malawi Oilseed Sector Transformation (MOST) programme is a four-year market systems initiative, which aims to increase the incomes of 60,000 poor women and 	On-going	Piloting contract farming arrangements in oil seed sector, collaboration with ACE Interesting approach to kick-start SMEs through assistance in developing/tuning

Donor/Agency	Nature Of Project/Programme	Project/Programme Coverage	Status	Complementarity/ Synergy Potential
		men working in Malawi's cotton, groundnut, soybean and sunflower markets		business plans Implemented by Adam Smith International for DFID Strategic partnership for all oil-seed related issues and conceptually for market-system approaches
GIZ/ MIERA	<ul style="list-style-type: none"> Value Chain Development project in Oilseeds, tourism and sustainable brick production 	<ul style="list-style-type: none"> Japanese support Capacity Development for villages to achieve 		Cooperation under German-IFAD strategic partnership. Collaboration in areas of extension service innovation and training of extension staff. VC development experience knowledge sharing
EuropeAid	<ul style="list-style-type: none"> Farm Income Diversification Programme II (FIDP II) 	<ul style="list-style-type: none"> Grant mechanism to finance projects for VC development and production diversification. FIDP Phase II operates in 12 districts. In phase II it expands to more Extension Planning Areas (EPAs) within districts 	2009-2015	Learning on other VC grant mechanism to compare with RLEEP ACF and foreseen grant in FARMSE project Learning on roll-out to all EPAs within specific districts. Complements Scaling-up activities
JICA	<ul style="list-style-type: none"> Institutional Support to One Village One Product programme 	<ul style="list-style-type: none"> Implemented through the Ministry of Industries and Trade, this programme is a continuation from the 2003 Initiative to promote rural enterprise through capacity building, as well as support through improving access to finance 	2014-2019	Links thematically to aspects of rural SME development and access to rural finance
Malawi Agriculture Partnership (MAP) Programme II	<ul style="list-style-type: none"> Second phase of partnership programme with private sector for commercialization and improved access to inputs 	<ul style="list-style-type: none"> Implemented by the African Corporate Citizenship Institute (ACCI) and financed by Norway, this national project aims at reaching 105,000 HHs to reduce poverty and improve nutrition, partly following a VCD approach 	2014-2019	Potential synergies in private sector partnership and value chain development Coordination for intervention areas
Policy engagement				
DCAF	<ul style="list-style-type: none"> National level risk management policy formulation and implementation 	<ul style="list-style-type: none"> Assistance to Agricultural Risk Management Strategy and Disaster Recovery Framework in collaboration with Africa Risk Capacity. Main activities weather insurance & small-scale irrigation to bridge dry-spells 	On-going	Feed lessons from smallholder operated irrigation schemes (water user associations) and catchment approaches under GEF-funded IAP into policy formulation process

Donor/Agency	Nature Of Project/Programme	Project/Programme Coverage	Status	Complementarity/ Synergy Potential
OXFAM	<ul style="list-style-type: none"> • Consultation to Land Bill 	<ul style="list-style-type: none"> • Programme to secure government commitment to address land related challenges, conducting participatory consultations and present findings to GoM (ca. 6,000 people benefiting) 		Complement IFAD activities in area of land/NRM policy engagement
FAO	<ul style="list-style-type: none"> • Sector-projects with policy focus 	<ul style="list-style-type: none"> • FAO, through its core budget and other UN funds, implements programmes in the following areas (i) sustainable livelihoods; (ii) nutrition; (iii) agribusiness and aquaculture; (iv) emergency and rehabilitation interventions 	On-going	Potential to collaborate in policy engagement and compare findings

Key file 4: Target group identification, priority issues and potential response

Typology	Poverty Levels And Causes	Coping Actions	Priority Needs	RB-COSOP Response
Economically Active Rural Poor	Food secure households, slightly above subsistence level (able to make small savings and minimal investments)	Use savings in periods of hardship	<ul style="list-style-type: none"> • Reliable savings schemes • Access to credit • Technical assistance (business & production, marketing) 	<ul style="list-style-type: none"> • Good agricultural practices • Irrigation and soil- and water conservation • Value chain development • Rural finance mechanisms • Mainstream nutrition
Emerging farmers	Poor food insecure households with potential to re-invest small amounts annually and slowly to grow their asset-base	Curbing next season investments to cope with present crises	<ul style="list-style-type: none"> • Access to credit • Access to input • Technical assistance (business & production, marketing) • Insurance 	<ul style="list-style-type: none"> • Good agricultural practices • Irrigation and soil- and water conservation • Value chain development • Access to value chains • Access to rural finance • Food and nutrition support • Training in farming and commercialization
Women	70% of farmers are women , but only 10 % of women have control over credit use. Women have lower literacy rates that men Women take 80% of domestic tasks including fuelwood collection. They are less active in salary based work than men Both patri- and matrilineal systems exist with different effects on access to land	Strong dependence on husband Engage in small livestock rearing and gardening	<ul style="list-style-type: none"> • Access to skills training • Access to finance • Access to producer groups • Nutrition training • Access to markets • Secure access to land and assets 	<ul style="list-style-type: none"> • Household approach to help developing a development path • Food and nutrition support • Skills training • Off-farm opportunities • Food and nutrition support • Land tenure support • Graduation approach
FHH	FHH earn 60% of a male headed household (MHH). Poverty incidence is 60% in FHH. 25% of total HH in Malawi are female headed. They tend to have fewer HH members and higher rates of illiteracy. Higher reliance on	Engage in small livestock rearing and gardening	<ul style="list-style-type: none"> • Access to skills training • Access to financial services • Access to producer groups • Nutrition training • Access to markets • Secure access to land and assets 	<ul style="list-style-type: none"> • Household approach to help developing a development path • Skills training • Food and nutrition support • Land tenure support • Graduation approach

Typology	Poverty Levels And Causes	Coping Actions	Priority Needs	RB-COSOP Response
	agriculture and less on non-farm work, than MHH			
Youth	Unemployment Low skills levels Low literacy levels	none	<ul style="list-style-type: none"> • Aspire to non-farm work • Access to training • Access to financial services 	<ul style="list-style-type: none"> • Employment promotion in agro-processing and services
SMEs	Owner of small on- and off-farm business. Slowly growing their asset base, but vulnerable to shocks	Mixed livelihood strategies (business and farming)	<ul style="list-style-type: none"> • Access to formal credit • Access to input • Technical assistance (business & production, marketing) • Insurance 	<ul style="list-style-type: none"> • Good agricultural practices (post production) • Value chain development • Rural finance mechanisms
Very poor	Food deficit households, often affected by poor health; a small asset-base and uncertain access to limited land resources; generally engaged in casual labour	Small-scale production (net-buyer) Casual workers	<ul style="list-style-type: none"> • Cover basic needs (nutrition & health) • Improve productivity and nutritional value of homesteads • Improve agriculture production 	<ul style="list-style-type: none"> • Access to asset /cash transfer through graduation approach • Training on GAPs • Access to irrigation and soil- and water conservation • Fuel efficient cooking stoves • Food and nutrition support •