Investing in rural people

Republic of Malawi

Financial Access for Rural Markets, Smallholders and Enterprise Programme (FARMSE)

Design completion report

DRAFT

Main report and appendices

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East and Southern Africa Division
Programme Management Department

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Currency equivalents

Currency Unit	=	Malawi Kwacha (MWK)
USD 1.0	=	MWK 723
MWK 1.0	=	USD .0014

Fiscal Year

01 July – June 30

Weights and measures

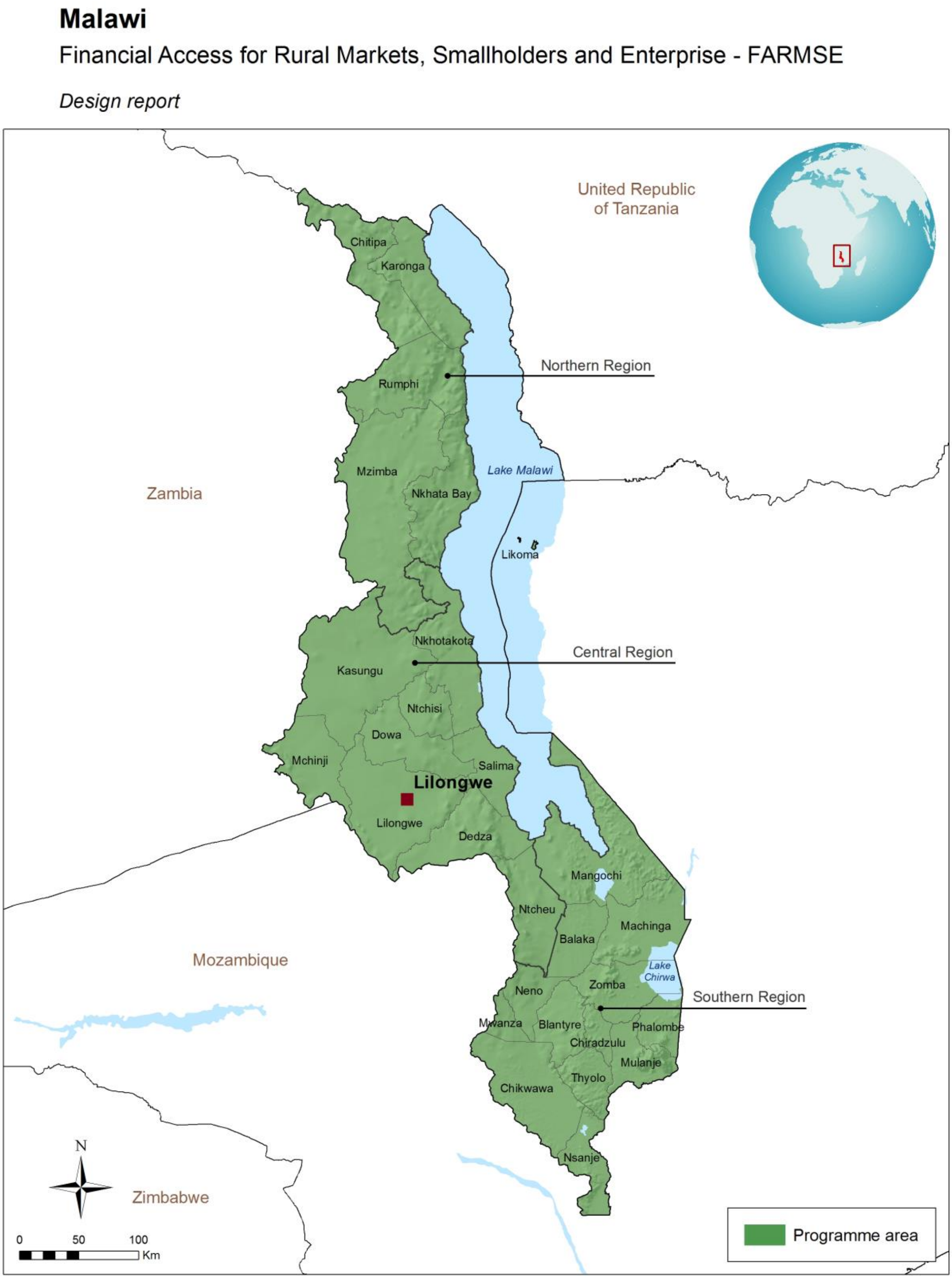
1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

Abbreviations and acronyms

AFWG	Agricultural Finance Working Group
AWP&B	Annual Work Plan and Budget
BAM	Bankers Association of Malawi
CBFO	Community Based Financial Organization
CEO	Chief Executive Officer
COSOP	Country Strategic Opportunities Paper
CPIA	Country and Policy Institutional Assessment
CTA	Chief Technical Advisor
DPFSPD	Department of Pensions and Financial Sector Policy Division
EIRR	Economic internal rate of return
ENPV	Economic net present value
FARMSE	Facility to Assist Rural Markets, Smallholders, and Enterprise Programme
FISP	Farm Input Subsidy Programme
FMA	Financial Management Assessment
FMD	Financial Management Division
FSP	Financial Service Providers
GAP	Food agricultural practice
GDP	Gross Domestic Product
GOM	Government of Malawi
HCD	Human Centered Design
HDI	Human Development Index
IFAD	International Fund for Agricultural Development
IPC	Internal Procurement Committee
IRLADP	Irrigation, Rural Livelihoods, and Agricultural Development Programme
M&E	Monitoring and Evaluation
MGDS	Malawi Growth and Development Strategy II
MIS	Management Information System
MLGRD	Ministry of Local Government and Rural Development
MAMN	Malawi Micro-Finance Network
MNO	Mobile Network Operators
MOA	Ministry Agriculture
MOFEPD	Ministry of Finance, Economic Planning, and Development
MPAT	Multidimensional Poverty Assessment Tool
MSMEs	Micro, small and medium, sized enterprise
MUSCCO	Malawi Union of Savings and Credit Cooperatives
MWK	Malawian Kwacha (unit of currency)
NAP	National Agriculture Policy
NGOs	Non-governmental organisation
NSSP	National Social Support Programme
OIBM	Opportunity International Bank of Malawi
PCN	Project Concept Note
PFSPD	Pensions and Financial Sector Policy Division of the MOF
PIM	Programme Implementation Manual
PLC	Payday lending companies
PMU	Programme Management Unit
PRIDE	Programme for Rural Irrigation Development
PSC	Programme Steering Committee
RB-AWPB	Results Based Annual Work plan and Budget
RBM	Reserve Bank of Malawi
RIMS	Results and Impact Management System
RLEEP	Rural Livelihoods and Economic Enhancement Programme
SACCO	Savings and Credit Cooperative
SAPP	Sustainable Agricultural Production Programme
SECAP	Social, Environmental and Climate Assessment Procedures

SME	Small and medium sized enterprise
TA	Technical Assistance
TOR	Terms of Reference
TSPs	Technical Service Providers
USD	Unites States Denominated currency
VSLAs	Village Savings and Loans Association

Map of the Programme area



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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 | 09-10-2017

Executive Summary[1]

1. **Background.** Malawi's population is 16.7 million people, out of which 85 per cent is rural. Two out of three people are under age 25. Poverty headcount stands at 50.7 per cent, with 30 per cent being severe poor. Poverty is most pronounced in rural areas with high rates of malnutrition and HIV/AIDS pandemic, and these hamper the country's productivity and require high care efforts by family members, especially women. Like in many developing countries Micro Small and Medium Enterprises (MSMEs) sector in Malawi is seen as the engine for economic growth and development because it supports and forms the productive base of the economy through production and supply of raw materials for value addition, job creation production of food, revenue generation and ability to create a resilient economy. GoM collaborates with various development partners to address these challenges, and FARMSE has been designed to support GoM's efforts in poverty reduction through implementation of concerted poverty graduation programme/s and enhancement of rural financial inclusion, with a special focus on women and youth. GoM's graduation concept is about concentrated and coordinated efforts to move households out of poverty on a sustainable basis based on global evidence that such graduation approaches have shown positive impact and can achieve long term positive effects, putting beneficiary households on a productive pathway. Rural financial inclusion will be achieved through support and strengthening of existing community based financial organizations (CBFOs) to a limited extent formation of new CBFOs and lastly through support of innovative financial approaches.

2. **Economic context.** Malawi has experienced difficult economic conditions with recurring draughts affecting agriculture production over the past several years. The sector is responsible for 33% of the country's gross domestic product of USD 4.3 billion (2014), with industry contributing 17.0% and services 49.7%. Real GDP growth in 2014 was estimated at 5.7%, with official unemployment at 6.6%, and youth unemployment over 40%. Inflation has remained above 20% since 2013 (up from 4.1% in 2007), driven by low crop harvests and subsequent surges in food prices. In 2016, food price inflation was 28.4%, affecting net-food buyers and posing a risk of increased child malnutrition. Annual interest rates for credit are around 27% (13.2% on savings deposits).

3. **Poverty.** Malawi is a Least Developed Country with a 2015 Human Development Index of 0.445, ranking it 173rd out of 182 countries. The gross national income per capita fell from USD 370 in 2011 to USD 250 in 2015, mainly due to a drop-in income from export crops. Despite progress in HIV/AIDS prevention and treatment, 9.1% of the adult population is infected (2010). Poor nutrition and HIV/AIDS prevalence aggravate the low rural productivity, and caring for family members puts an extra burden on women. About 51% of Malawians live below the national poverty line, with 30% living in severe poverty. Some 25% of the poor are considered ultra-poor, another 50% are food secure but vulnerable to slipping back into ultra-poverty. Another 25% are poor and resilient to falling into poverty. Poverty is predominantly rural, with a higher prevalence in the south and north of the country. Female-headed households represent about 25% of households in the country; 57% of women headed households live under the poverty line. Also, these households are more affected by food insecurity as they usually have smaller resources endowments.[2]

4. **Food security.** Recurrent droughts and food insecurity conditions in Malawi have remained dire over the past decade. With the El Niño weather phenomenon - associated with severe drought exposes some 80% of Malawians to food security risk or having insufficient means to meet their

[1] Final design team included Abla Benhammouche, Country Director ,Teresa Maru-Munlo, Team Leader and Rural Finance Specialist; Michael Mbulo, Institutions/Partnership Specialist; Kwibisa Liywalii, Agriculture Value Chains Specialist; Dixon Ngwende, Value Chain Specialist; Richard Batamanye, Financial Management and Procurement Specialist; Kunduz Masylkanova, Programme Economist; and Oscar Atiim Anaadumba, IFAD Portfolio Support Consultant.
[2] Kassie et al. (2015) Gendered Food Security in Rural Malawi, Springer.

minimum food needs in any given year. Statistics for rural food and nutrition security are alarming. Stunting among children averages 42%, and in some districts over 60%. Again, female-headed households are more affected by food insecurity as they usually have smaller resources endowments.

5. **Agriculture** provides for the direct and indirect livelihoods of over 80% of Malawi's population, the bulk of the raw materials required by the manufacturing industry, and 40% of total export earnings. Agriculture is the main foreign exchange earner primarily from tobacco, sugar, tea, coffee, and cotton. In Malawi, small and large livestock play an important role in the rural economy, used as a form of savings in times of economic shock. Most rural households are net food buyers and do not produce sufficient food to meet their needs. Consequently, households must rely on markets and other non-farm sources, such as casual labour, remittances, and humanitarian assistance to cover all their food needs.

6. **Financial Sector.** Macro-economic volatility in Malawi creates substantial financial and non-financial market uncertainty and risk. Chronically high inflation, a rapidly depreciating currency, and an economy reliant on primary commodities vulnerable to exogenous price shocks and natural disasters, impart significant negative impact on financial services providers' (FSPs) performance and their outreach. Inflation undermines the value of savings and contributes to high lending rates. This makes credit, particularly long-term asset lending, unaffordable for most Malawians, but for the low-income and rural population particularly. Poor contract resolution and infrastructure further exacerbate lending expansion in rural Malawi. The current high-inflation environment in Malawi which is unlikely to ease in the short term, will curtail demand for savings and the outreach of financial sector in general and in rural areas especially.

7. There are 11 commercial banks in Malawi, six of which account for over 50% of institutional financial assets. Commercial banks serve corporate clients, government, and 27% of Malawian (salary employed) adults. There are 30 Savings and Credit Cooperatives (SACCOs), of which 10 operate in rural towns. There are 14 registered microfinance institutions (MFIs) and 8 payday lending companies (PLCs) serving 17% of adults. There are two mobile network operators (TNM and Airtel) offering basic money transfer and no interest savings services. Informal Community Based Financial Organizations (CBFOs) have an estimated 1.1 million members from all income strata, of which, an estimated 47% are women. An estimated 42% and 12% of urban and rural adults respectively (most salaried employees) use formal financial services. Farmers are amongst the least banked.

8. The main barriers to financial service use include transaction costs (including cost of travel to FSPs), lack identification, ill-suited financial products, limited income, unavailability/insufficient loan collateral. These constraints are exacerbated by relatively high banking costs, low financial literacy, and a "fear" among the poor of using formal financial services. On the supply side, commercial banks have little incentive to serve the poor as they earn 60% of their revenue from loans to large corporate clients; 22% from foreign exchange; 15% from investments (mostly treasury bills) and 6% from fees and commissions. In MFIs and SACCOs, 100% and 85% of revenue respectively comes from high-interest rate group and/ or individual loans to low income clients. CBFOs offer even smaller loans with higher interest rates, but distribute generous annual retained earnings to members. Mobile money developments show promise for rural service provision, to both individuals and groups, such as MFIs and CBFO groups/members. For the most part, MFIs, CBFOs, and mobile providers offer very small loans for consumer or working capital needs. Larger asset development loans are typically only available from commercial banks.

9. The financial sector regulatory and policy in Malawi is relatively sound. Financial inclusion is guided by a national inclusive financial strategy elaborated by the Ministry of Finance, and host of other good practice regulatory structures and policy commitments. Banks, SACCOs and the microfinance sector have established apex organizations, and payment and clearing systems are automated providing safe and efficient inter-operability.

10. **Policy and Institutional Framework.** The *Malawi Vision 2020* outlines the country's development vision which aims to make Malawi "*secure, democratically mature, environmentally*

sustainable, self-reliant with equal opportunities for and active participation by all". The vision has several strategies relevant to FARMSE including the **Malawi Growth and Development Strategy II** (MGDS II: 2013-2016), a medium-term strategy to attain long-term poverty reduction poverty through sustainable economic growth and infrastructure development, *inter alia* in agriculture, and the **National Agriculture Policy** (NAP 2016-2020) which outlines eight priority areas (agricultural production and productivity; irrigation development; mechanisation of agriculture; 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 strengthening). Building on this vision, the Ministry of Finance, Economic Planning, and Development (MoFEPD) financial inclusion strategy includes support for: digital payments, informal savings, rural financial services, insurance, consumer empowerment and education. Other ministries including the Ministry of Local Government and Rural Development and the Ministry of Agriculture also include rural finance in their strategic planning.

11. **Rationale.** The journey from poverty to prosperity is not a singular accomplishment, but continual evolution towards greater household food security, income and asset accumulation, and livelihood opportunities. FARMSE intends to help graduate poor Malawians along the poverty spectrum from ultra-poor to a productive pathway on a sustainable basis. FARMSE will work to support household economic development through access to financial services that are appropriate to each socio-economic level of poverty, including social payment graduation programmes, community-based financial organizations, financial cooperatives, MFIs, and commercial banks. Meeting the needs of rural households will require new and innovative products, services, and delivery mechanisms beyond what the financial sector currently offers. Supporting emerging and encouraging new institutional efforts and partnerships is required to overcome the multiple costs, volume, and product/service design constraints facing sector development, as well as overcoming the sector's relative lack of experience and unclear risk perception of rural markets. FARMSE will support FSPs to develop demand-driven, simple to use, low monetary value, low transaction cost savings and loans products highly suitable for low income rural households. With a focus on formal financial services, FARMSE supported value chains will fuel economic opportunity for smallholder rural enterprise/ households on and/or off-farm enterprises, creating employment and rural economic multipliers effects. Support to improved rural financial infrastructure (e.g., sector associations), policy, and regulation is also required.

12. **Programme Area and Targeting strategy.** FARMSE will be a nation-wide programme, its geographic coverage will be clustered based on two distinct targeting mechanisms. As such, the programme will combine localized and national geographic targeting approaches. For activities involving demand driven implementing agencies, particularly FSPs, care will be taken to select partners with a combined geographic footprint as broad as possible. The FARMSE will adopt two targeting strategies.

13. **Target population.** A socio-economic analysis of available data served to broadly categorize poor rural Malawian households into five categories: i) ultra-poor labour constrained; ii) ultra-poor but non-labour constrained; iii) poor but food-secure; iv) vulnerable to poverty; and v) resilient to poverty. This is the definition adopted by GoM's National Social Protection Programme.

14. The first targeting strategy is socio-economic based. Component 1.0 will support graduation of the poor from poverty by targeting both categories of ultra-poor households. The component is based on GoM existing graduation model which focuses on concentrating and coordinating efforts to move households out of poverty on a sustainable basis. The programme together with the implementing partner/s will focus initially on two districts within the central region where graduation is being introduced, and later scale up by introducing additional districts within the same region and other regions based on need and cost efficiencies. This component will target 15,000 households and, 30% will be women headed households and 20%[3] youth[4].

[3] This will comprise 10% women youth and 10% male youth.

15. The second targeting strategy relies on self-selection through use of financial services and will be the anchor for component 2.1. This approach will tap on existing and new financial services that meet the needs of target poor households (except ultra-poor labour constrained which is served by graduation), but are largely unattractive to higher income households. This targeting strategy is not exclusive of other socio-economic strata. Selection of programme partner FSPs will seek to ensure the greatest geographic coverage possible. Proposed financial sector projects will be encouraged to consider linkages with existing IFAD programmes Sustainable Agricultural Production Programme (SAPP) and Programme for Rural Irrigation Development (PRIDE) or operate in past programme areas Rural Livelihoods and Economic Enhancement Programme. This component will reach 380,574 target beneficiaries, of which 30% will be adult women[5], and 20% will be youth respectively, and will primarily target the ultra-poor non-labour constrained through to vulnerable to poverty socio-economic stratum.

16. Component 2.2 will focus on financial sector innovation, and outreach through targeted value chains, and will reach an estimated 37,200 beneficiaries. Activities under this subcomponent will support FSPs wishing to enter and expand outreach in rural areas and address their (FSP's) lack of experience in rural financial markets and limited expertise in designing and delivering products/ services targeting low-income rural clients and MSMEs.

17. Total programme beneficiaries will number 432,774, of which, an estimated 30% will be women, and at least 20% will be youth.

18. **Programme Objectives.** The overall goal of FARMSE is to reduce poverty, improve livelihoods and enhance the resilience of rural households on a sustainable basis. The programme's development objective is to increase access to, and use of, a range of sustainable financial services by rural households and micro, small, and medium enterprises.

19. **Main programme indicators.** It is expected that the programme will result in: i) a graduation of 15000 households from ultra-poverty; ii) outreach of rural financial services serving 380,574 individuals with sustainable financial services; and iii) sustainable financial services innovation introducing and/or improving five new sustainable financial products, services or delivery mechanisms targeting rural beneficiaries. This is expected to contribute to improved resilience and improved food security and nutrition to 37,200 beneficiaries.

20. **Component 1: Ultra-poor graduation model development and testing at scale.** This component will support on-going government efforts in developing and delivering effective graduation programmes in rural areas to reduce extreme poverty levels among both ultra-poor labour constrained and non-labour constrained households. The component will be based on the current GoM graduation concept, and will be delivered by GIZ, with the participation of the National Social Support Programme, under the Ministry of Finance (MoFEPD) who together are piloting a modest graduation programme in Mwanza District southern Malawi. GIZ envisages mobilizing parallel funding for part of this component, and if this happens they will be considered an implementing partner. In the event that such parallel funding does not materialize, then GIZ will be considered a service provider like any other service provider and will be subjected to all contractual processes like any other service provider. The graduation concept adopted by the GoM is aligned to the BRAC model that has been universally tested by Consultative Group to Assist the Poor (CGAP)/Ford Foundation model. This model essentially has 5 steps targeting: consumption support, savings, technical skills transfer and asset transfer, IFAD support will only be applied from stage 2 to stage 5 of the graduation stages while GoM and its other partners, including GIZ, will support the stage 1 which mainly comprises cash transfer for consumption support. GIZ plans mobilize parallel funding especially for stage 1.

21. **Component 2: Support to Financial Innovation and Outreach.** This component will seek to overcome numerous barriers to financial services to the rural poor. It will support the development of

[4] Even though the official definition of youth in Malawi is 15-35, youth in the context of FARMSE is 16-25. 16 is the legal adult age in Malawi.

[5] Above the age of 25. Inclusive of male and female youth

informal and formal financial services best suited to ultra-poor non-labour constrained, poor but food-secure, vulnerable to poverty, and low income but resilient to poverty households, emphasizing savings and credit for on and off farm enterprise. This component will also employ financial interventions within select value chains to enhance economic returns to smallholder participation and value chain efficiency. The component has two subcomponents and will reach 37,200.

22. **Subcomponent 2.1 - Community based financial organization support (CBFO).** Given the existence of about 65000 village savings and loans associations (VSLAs) with a membership of 1.1 million, this subcomponent will support the strengthening and consolidation of existing VSLAs, and to a lesser extent the formation of new VSLAs/CBFOs. The programme will promote group lending for value chains and use RLEEP's successful elements and partnerships as a starting point among others with similar experience. The sub component has three activities i) Mapping of existing CBFOs and assessing maturity or state of development; ii) Building capacity of CBFOs to provide opportunities for additional skills and linking CBFOs and/or their members to formal financial institutions and high value markets. This will enhance smallholder income, asset and some livelihood/ enterprise development opportunities; iii) Formation of new Groups.

23. Some 16,143 existing and 5,000 new groups, reaching 380,574 households and 2,587,903 household members will be supported, with a minimum of 30% and 20% of group members being women and youth respectively. CBFOs support groups/consortia will be awarded performance based, multi-year, multi-phased service contracts on a competitive basis.

24. **Subcomponent 2.2 – Innovation and Outreach Facility (IOF).** Activities under this subcomponent will support FSPs wishing to enter and expand outreach in rural areas. Support will be provided on a demand-driven and cost-sharing basis through the Rural Finance Innovation and Outreach Facility (IOF). The IOF would address FSP's lack of experience in rural financial markets and limited expertise in designing and delivering products/services targeting low-income rural clients and MSMEs. This subcomponent will: i) increase access to new and innovative financial services and low-cost delivery mechanisms for poor rural households and MSMEs; and ii) support the scaling up of proven financial services and delivery mechanisms. The IOF will have three funding windows: i) market research and feasibility studies to support FSP market opportunities identification, risks, market entry costs and revenues; ii) pilot testing of product innovations and/ or delivery mechanisms; and iii) expanding outreach of piloted products/services and/or delivery mechanisms. Prospective partners can choose to apply to the window that best suits the nature of development needs. All projects will be cost shared with FSP partners and chosen on a competitive basis.

25. **Component 3 – Strategic Partnerships, Knowledge Generation, and Policy.** The outcome of this component is to increase the capacity and knowledge bases of rural financial sector support organizations, and has three objectives: i) strengthen macro level regulatory and financial sector policy and institutional capacity; ii) strengthen financial sector organizations/ infrastructure; and iii) produce and distribute rural finance sector knowledge products which enhance the outreach and innovation potential of sector stakeholders. The component has two subcomponents.

26. **Subcomponent 3.1 – Support for Poverty graduation Policy and Systems.** The activities will support efforts at MoFEPD and the respective divisions the Division of Poverty Reduction and Social Protection in Ministry of Finance to develop and implement coordination policy, and capacity related to reviews of graduation models adoption, and dissemination of best graduation practices within the GoM and to other stakeholders.

27. **Subcomponent 3.2 – Support for development of broader Rural Finance Policy.** The first activity will be support for rural finance sector development, policy, and research with the goal of improving FARMSE and other development partner target group access to and benefits derived from structured rural finance including greater links between CBFOs and the formal financial sector. It will also facilitate formal GoM recognition of good rural finance practices This will be done in partnership the MoFEPD, the Reserve Bank of Malawi and industry stakeholders such as MAMN, the Bankers Association of Malawi (BAM) and the Malawi Union of Savings and Credit Cooperatives (MUSCCO) A

Other activities would include support for key innovations/lessons knowledge management, financial training modules, feasibility study for a micro-finance apex fund, and rural financial literacy.

28. **Programme Implementation approach.** The proposed principles of engagement for programme design are as follows:

i) While not exclusive to any target socio-economic household, some financial tools are more appropriate for one than others. Graduation will target the ultra-poor, while informal financial organizations such as CBFOs are better suited to the ultra-poor but non-labour constrained and poor but food-secure. Financial services offered by formal FSPs are most effective for households vulnerable to poverty and resilient households. The FARMSE design will provide the most appropriate intervention for each group, including youth, with gender sensitive approaches;

ii) The programme will be national in scope with some interventions targeting strategically identified districts to test concentrate resources and test/identify effective, efficient, and replicable interventions for scaling up. Where possible, components/activities will overlap geographically and with IFAD programme areas, to maximize impact and potential for scaling up;

iii) The programme will support private and not-for-profit organizations individually or in consortia, often in long-term, multi-phased and performance-based partnerships. Private sector participation will be on a cost sharing basis;

iv) To ensure the GoM's ability to successfully manage and provide oversight for programme implementation, a competitively selected Programme Management Unit (PMU) team, technically qualified to manage a financial inclusion programme will be supported with training and long term technical capacity support; as well as the policy related activities in Component 3, and Where needed the programme partners will be required to employ high-calibre international, regional, and national financial sector experts as required to ensure effective project implementation.

29. **Programme oversight.** The implementation of FARMSE would be jointly undertaken by several agencies and organizations working within their specialised fields of competence. This calls for sound coordination of the different agencies and stakeholders, which would be achieved through the establishment of the Programme Steering Committee (PSC) and the PMU.

30. **Programme Steering Committee (PSC).** A multi-sector stakeholder PSC, chaired by the Principal Secretary of MoFEPD, will be established to provide overall programme oversight, direction, and guidance. The PSC will have representatives of key stakeholders including, *inter-alia*, government ministries, farmer organisations, APEX bodies, the private sector, and development partners. The PSC would meet on a quarterly basis to review work plans and budgets, financial and progress reports, receive draft annual reports and approve all major programme decisions. The multi-sectorial composition of the PSC will ensure FARMSE's implementation complements rather than duplicates other government interventions and encourages private sector participation, harmonizing the programme's contribution with the GOM's strategic priorities and development objectives for the sector.

31. **The Programme Management Unit** would be hosted by the Department of Pensions and Financial Sector Policy Division (DPFSPD), at the Ministry of Finance. It would be responsible for day to day management, consolidation of AWPBs, Procurement Plans, Progress, and Financial Reports, and will co-ordinate the procurement of goods, works and services. The PMU will manage monitoring and evaluation, and provide support to implementation and supervision missions.

32. The PMU will be staffed with: i) Programme Coordinator; ii) National Rural Finance/ Microfinance Specialist; iii) financial controller; iv) procurement officer; v) monitoring and evaluation vi) knowledge management & communications officer; and vii) Accountant. Additionally, the PMU will have a long-term rural finance Chief Technical Advisor (CTA) contracted to support implementation of Component 2 and 3, paid through the IOF (subcomponent 2.2). The CTA will work closely with the National Rural Finance/Microfinance Specialist, and together with the programme manager, will develop the AWP&B for Component 2 and component 3.

33. **Programme implementation.** Component 1 will be delivered by GIZ with the participation of the National Social Support Programme, under the Ministry of Finance. Component 2 will be led by the CTA and the PMU, with CBFO support and formation organizations, value chain stakeholder organizations and FSPs as implementing agents. Component 3 will be led and managed by the programme coordinator with support from the CTA. Overall, the FARMSE institutional and implementation arrangements will build on existing structures and mechanisms of RLEEP in order to minimize start up delays as has been experienced by other projects like PRIDE. In this regard a maximum of four key staff will transition from RLEEP to FARMSE under new work contracts. The staff being transitioned will be subjected to assessment as may be required to determine their suitability for the positions.

34. **Supervision.** The FARMSE would be directly supervised by IFAD. Direct supervision would encompass four processes: i) loan and grant administration; ii) procurement review; iii) audit review; and iv) supervision and implementation support. Direct supervision would be applied as a continuous process which requires on-going communication and engagement with the GoM and PMU. Key supervision processes include: i) ensuring fiduciary compliance with the loan and grant administration; ii) assessing programme performance; iii) guidance towards the achievement of the programme's strategic objectives; and iv) conducting supervisory missions.

35. **Programme Costs.** Programme costs are organized into three technical and one non-technical components: (i) Graduation of Ultra-Poor Households; (ii) Support to Financial Innovation and Outreach; and (iii) Strategic Partnerships, Knowledge Generation and Policy; and (iv) Programme Management and Coordination. A summary breakdown of programme costs by components and their respective sub-components is shown in Table 2.

36. Total programme costs to be incurred during the seven-year implementation period, including price and physical contingencies, duties and taxes, are estimated at USD 57.7 million. This includes a base cost of USD 54.8 million and physical and price contingencies of USD 2.9 million. Estimated foreign exchange expenditure is about USD 28.2 million, local cost is about USD 20.7 million and duties and taxes amount to USD 8.8 million. Investment costs represent 93 per cent, with recurrent costs accounting for the remaining 7 per cent of the total cost. Programme management and coordination costs account 10 per cent of total programme costs.

Table 1: Programme Cost Summary by Component & Year (US$'000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Project Components by Year -- Totals Including Contingencies
(USD '000)

	Totals Including Contingencies							
	18/19	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
1. Graduation of Ultra-Poor Households	899	2,406	3,706	4,355	3,262	1,178	23	15,829
2. Support to Financial Innovation and Outreach	153	6,250	4,688	5,898	5,748	7,008	4,449	34,195
3. Strategic Partnerships, Knowledge Generation, and Policy	2	92	193	547	393	345	75	1,648
4. Programme Management and Coordination	852	797	849	823	898	855	984	6,057
Total PROJECT COSTS	1,906	9,545	9,435	11,623	10,301	9,386	5,531	57,728

37. **Programme Financing.** FARMSE will be financed by the Government of Malawi (GOM), IFAD, and private sector participants. IFAD will finance 73 per cent (USD 42 million) of the programme costs. Half of IFAD funding will be provided on loan at highly concessional terms, while the other half of IFAD funds will be provided as a grant. The Government will contribute USD 9.6 million (17%) out of which about USD 3.1 million (5%) will be financed from its Social Cash Transfer fund and USD 6.5 million (11%) will finance taxes and some duties[6]. Domestic private sector will contribute 11 percent of total project costs, USD 6.1 million through in-kind and cash contributions to sub-projects financed under the Innovation and Outreach Facility. The programme cost does not include contributions of GIZ to Graduation of Ultra-Poor Households component as this contribution will be implemented as parallel financing. Actual amounts of GIZ contribution will be known around November 2017.

[6] Under the current practice, portions of taxes and duties in the programme costs are reimbursed by the government. However, duties and import excises are not reimbursed. This has been taken into account when preparing financing plan.

Table 2: Programme Financing Plan by Component (US$ '000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise

Components by Financiers (USD '000)	**Govt taxes**	**Govt cash transfer**	**IFAD Loan**	**IFAD Grant**	**Private Sector**	**Total**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Amount**
1. Graduation of Ultra-Poor Households	2,094	3,059	5,337	5,337	-	15,829
2. Support to Financial Innovation and Outreach	3,316	-	12,283	12,283	6,151	34,032
3. Strategic Partnerships, Knowledge Generation, and Policy	289	-	763	763	-	1,814
4. Programme Management and Coordination	822	-	2,618	2,618	-	6,057
Total PROJECT COSTS	6,520	3,059	21,000	21,000	6,151	57,731

38. **Financial analysis.** Incremental costs and benefits accruing at the household level are based on anticipated increased access to and productive use of sustainable formal and informal financial services and are based on prevailing farming practices of eight crop/ activity models. On-farm models (per ha) include: i) Maize; ii) Groundnuts; iii) Soya bean; iv) Rain-fed Potato; v) Irrigated potato w/investment in a low-cost treadle pump); and vi) Maize on rented land. Livestock activities include: i) goat rearing with an initial investment of two goats, reaching a maximum stock of nine; and ii) one dairy cow. Five Household models were developed to represent expected FARMSE beneficiaries. For the purposes of analysis, households are classified as being either: i) Ultra Poor; ii) Poor, or iii) Vulnerable. These household types are differentiated by: i) land holding; and ii) livestock ownership. Beneficiary household cash flow analysis was undertaken and estimated capacity to borrow ranged from USD 81 for ultra-poor households to USD 796 for vulnerable households.

39. **Economic analysis.** A base case economic internal rate of return (EIRR) for FAMRSE is estimated at 19.4%. The benefit/cost ratio is estimated at 2.08. The Economic Net Present Value is estimated at USD 29 million for the programme. A sensitivity analysis was conducted on the EIRR and ENPV to determine the effect that reduced programme benefits. The analysis indicates that the programme's profitability is robust and its main economic profitability indicators do not change significantly in response to changes in the expected benefits or costs. The EIRR remains acceptable in all calculated scenarios. Switching values were calculated for incremental benefits and incremental costs.[7] Benefits would have to be reduced by 60% or cost increased by 166% for SIRP to become economically unviable.

40. **Programme Risks.** While FARMSE planned interventions and implementation anticipates some of the challenges facing rural financial sector development, macro-economic, climatic conditions, along with unfavourable political events could have unexpected impacts beyond the control of the programme and/ or the financial services/ products developed from programme support. Beyond exogenous risks, principle programme risks include: i) slow programme start up jeopardizes implementation plan; ii) lack of interest by FSPs and agricultural value chain businesses/organizations to participate in the IOF; iii) FSPs/ agriculture value chain actors do not source appropriate technical assistance; and iv) GoM policy deviates from good practice inclusive finance.

41. **Sustainability.** The long-term success of rural finance sector development is largely determined by how well the needs of supply and demand are met. For suppliers, a reasonable and long-term profit must be realizable. For demand, products and services must meet a practical household/enterprise needs at an acceptable cost. Moreover, these conditions must be met under prevailing macro-economic and environmental conditions, both of which present ongoing and future challenges for financial sector stability. Investment also requires a stable and good practice regulatory and policy environment. Each FARMSE component recognizes these challenges and has built in mechanisms to ensure sustainability of outcomes and impacts are guarded to the extent possible.

42. Component 1.0 will build on current work being done by GoM and will be outsourced to GIZ based on its experience with graduation pilots undertaken with GoM under the NSSP of the

[7] The switching value of a variable is that value that it would have to attain for the outcome of the project to fall below the minimum level of acceptability (net present value of the project equal to zero).

MoFEPD, and the fact that they are in the process of mobilizing parallel funding for their programmatic activities including graduation. This arrangement will ensure strong programmatic processes and procedures, and will also maximize sustainable outcome potential. Subcomponent 2.1 will support CBFO consolidation and linkages, and to a lesser extent formation of new groups based on the substantial and proven good practices in Malawi and the region. Subcomponent 2.2 proposes a diligent adoption of innovative financial products and practices including up to date delivery systems and mechanisms. Expert technical assistance will be provided to Components 2 and 3 by the chief technical advisor (CTA) and where required internationally qualified financial service experts working with partner FSPs. FSP partner participation will be consistent with their established business strategy and contingent on co-financing. Component 3.0 activities are critical to the long-term stability of the financial sector. Key concrete outputs, such as broader rural finance policy, coordination strategies, policy awareness and rural financial literacy will have direct and tangible sustainability impacts, and improving stakeholder good practice knowledge is equally, important to the long-term leadership influence on sector development.

Logical Framework

Narrative Summary	Performance Indicators	Baseline	Targets			Means of verification	MoV Frequency	MoV responsibility	Assumptions (A)/Risks (R)
			Year 1	Midterm	End Programme				
GOAL									
To reduce poverty, improve livelihoods and enhance the resilience of rural households on a sustainable basis.	Reduced prevalence of chronic malnutrition in children under five by at least 15% (RIMS III)	TBD	N/A						
	Improved household assets ownership index by at least 20% (RIMS III)	TBD	N/A						
DEVELOPMENT OBJECTIVE									
Increased access to and use of a range of sustainable financial services by rural households and micro, small, and medium enterprises.	Graduation strategy and systems developed, tested at scale, and approved by GOM.		0	1	1	PMU Progress reports.	Annual	PMU	Stable political and macroeconomic environment. GOM monetary/fiscal policies and macro-economic reforms are conducive to poverty reduction. Commitment of stakeholders (GOM, donors, private sector) to participate in poverty reduction efforts. Absence of political interference into the autonomy financial sector.
	Improved outreach of sustainable rural financial services to rural poor.	TBD	0	167,110	417,774 of which 125,332 will be adult women, and 83,555 will be youth	PMU Progress reports.	Annual	PMU	
OUTCOMES									
Component 1.0 - Ultra-poor graduation model development and testing at scale									
Outcome 1.1 - the capacity of ultra-poor households to graduate from poverty, improve food security and secure livelihood opportunities is improved.	• At least 80% of targeted household attaining food security.	N/A	0	6,000	15,000 of which 4,500 will be women headed households and 3,000 youth headed households	PMU Progress reports with input from GIZ.	Semi-annual.	PMU/GIZ.	Models can be developed to roll out successful graduation at scale (A) Stakeholders cannot agree on graduation model.
Component 2.0 - Support to Financial Innovation and Outreach									
Outcome 2.1 Improved access to structured and sustainable CFBO financial services.	• Number of retrained CBFO members • Number of increment rural CBFO members.	0 0	0 0	152,223 36,000	380,574 90,000	PMU progress reports.	Monthly.	PMU/CBFO support organizations service providers.	Sufficient demand from CBFO support. organization (A) Client take up (R).

Narrative Summary	Performance Indicators	Baseline	Targets			Means of verification	MoV Frequency	MoV responsibility	Assumptions (A)/Risks (R)
			Year 1	Midterm	End Programme				
Outcome 2.2 Enhanced capacity of FSPs to deliver demand-driven services in rural areas.	• Number of incremental rural clients of partner FSPs.	0	0	11,160	37,200	PMU progress reports.	Annual.	PMU/Facility Manager.	Sufficient demand from FSP with quality proposals (A) Macroeconomic stability (R), client demand (R)
Component 3.0 – Strategic Partnerships, Knowledge Generation, and Policy									
Outcome 3.1 Rural finance sector support organizations capacity and knowledge increased.	• Number of rural finance support organizations supported with rural inclusive finance good practice knowledge.	N/A	2	5	10	PMU progress reports.	Annual.	PMU/M&E specialist.	Support organizations effectively support sector (A) Support organizations do not work to maintain balance between guidance and commercial dynamism (R)
OUTPUTS									
Component 1.0									
New graduation model selected for rollout.	• Number households reached with graduation activities.		0	6,500	15,000	PMU/GIZ progress reports.	Quarterly	PMU/M&E specialist.	Models amenable to scaling up (A) Cost of scaling up high (R)
Subcomponent 2.1									
CFBO support organizations expand network of CFBO groups.	• No of groups restructure & consolidated • No of groups linked to FSPs • Number groups formed • No of value chain groups linked to markets		0 0 0	8,000 2,000 2,000 1,000	20,000 10,000 5,000 2,000	PMU/CBFO support organizations progress reports.	Quarterly	PMU/CBFO support organizations service providers.	Sufficient demand from CBFO support organization (A) Client take up (R)
Subcomponent 2.2									
Designing, innovating, and rolling out demand driven rural financial products/ services for targeted low income households.	• Introduction of five new/Improved sustainable financial products, services or delivery mechanisms targeting rural beneficiaries.		0	2	5	Progress reports TSP reports FSP MIS	Quarterly.	|PMU/Facility Manager	Sufficient demand from FSP (A) Not enough qualified proposals (R) High quality TA not available (R)
Component 3.0									
Good practice financial inclusion knowledge and operating environment provided.	• Approved Rural Finance Policy • Number of rural finance awareness/knowledge forums/platforms		0 0	 2	1 4	PMU Progress reports. PMU Progress reports.	Quarterly. Quarterly	PMU. PMU	Organizations with key contributions can be identified and have sufficient capacity to undertake assignments (A) Stakeholder unwilling to work cooperatively (R).

I. Strategic context and rationale

A. Country and rural development context

1. **Country context.** Malawi is a small, densely populated land locked country located between Zambia, Mozambique, and Tanzania. Its climate is tropical, with a rainy season from October to April and a mean annual rainfall ranging between 500 and 3,000 mm. Malawi's population increased from four million in 1966 to 16.7 million people in 2014; and is expected to grow to 26 million in 2030. Two out of three people are under 25 years of age.[8] Life expectancy has improved to 62.8 years.[9] The average population density is 177 persons per km² (2014), with some areas in the south having over 300 people per km².

2. Malawi is a Least Developed Country with a 2015 Human Development Index of 0.445, ranking it 173rd out of 182 countries. The gross national income per capita fell from USD 370 in 2011 to USD 250 in 2015, mainly due to a drop-in income from export crops.[10] Despite progress in HIV/AIDS prevention and treatment, 9.1% of the adult population is infected (2010).[11] Poor nutrition and HIV/AIDS prevalence aggravate the low rural productivity. Caring for family members also puts an extra burden on household members, especially on women. About 51% of the population live below the national poverty line, with about 25% living in ultra-poor, labour and non-labour constrained poverty in 2010, and another 50% are food secure but still quite vulnerable to slipping back into poverty or ultra-poverty, and another 25% are poor but resilient.[12] Poverty is predominantly rural, with the south and north of the country having the highest incidence. Statistics for rural food and nutrition security are alarming. Stunting among children averages 42%, and in some districts over 60%.[13] Female-headed households represent about 25% of households in the country; 57% of women headed households live under the poverty line. Also, these households are more affected by food insecurity as they usually have smaller resources endowments.[14]

Table 1: Poverty in Malawi by socio-economic strata

Socio-Economic Strata	% of Poor
Ultra-poor Labor Constrained	10%
Ultra-poor Non-Labour Constrained	15%
Poor but Food Secure	25%
Vulnerable to Poverty	25%
Resilient to Poverty	25%

3. The 2014 gross domestic product (GDP) of Malawi was USD 4.258 billion of which 17.0% derives from industry and 49.65% from services. Agriculture provides the remaining 33.3% and plays a key role in the economy. The sector employs 80% of the workforce and is the main foreign exchange earner, through export of tobacco, sugar, tea, coffee, and cotton. Real GDP growth in 2014 was 5.7%, driven largely by agriculture, with significant contributions from manufacturing, wholesale and retail trade, and services.[15] Unemployment stands at 6.6% (2014). Youth unemployment is strikingly high at 40%. Inflation has remained above 20% since 2013 (up from 4.1% in 2007), driven by low crop harvests and subsequent surges in food prices. In 2016 food price inflation was at 28.4% affecting net-food buyers and posing a risk of increased child malnutrition.[16]

4. **Rural livelihoods.** Eighty-five percent (ca.11 million) of the Malawian population lives in rural areas and almost all engage in crop and livestock production. Some 88% of Malawian adults are involved in farming. Whilst for many this is primarily subsistence farming, for 33% farming is their

[8] Population Reference Bureau of Malawi (2014).
[9] UNDP 2015 Human Development Report 2014, Malawi summary.
[10] See WDI at: http://data.un.org/Data.aspx?q=gni+per+capita+malawi&d=WDI&f=Indicator_Code%3aNY.GNP.PCAP.CD%3bCountry_Code%3aMWI#WDI.
[11] See UNAIDS at: http://www.unaids.org/en/regionscountries/countries/malawi.
[12] Labour constrained indicates one or more household member is unable to perform productive labour. See also: http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/MWI.pdf.
[13] IFAD (2016) Baseline Report on Food Knowledge, Attitude, and Practice (KAP); and Scaling-up Nutrition Malawi.
[14] Kassie et al. (2015) Gendered Food Security in Rural Malawi, Springer.
[15] Africa Economic Outlook (2015).
[16] Cornia, Doti, Sassi, (2016), Source of food price volatility and child malnutrition in Niger and Malawi, Food Policy; Harttgen, Klasen, Rischke (2016), Analyzing nutritional impacts of price and income related shocks in Malawi, Food Policy.

primary source of income. Women provide a large proportion of the labour in smallholder agriculture but often do not have control over productive assets and the benefits of their labour. The gender productivity gap between female and male managed agricultural plots is of 28%. This is because 70% of women managing agricultural plots are widowed, divorced, or separated. Key factors explaining reduced agricultural productivity are limited access to male labour, limited involvement in high value crops, and limited access to agricultural tools and machinery.

5. Land holding averages 0.8 hectares (Smallholder farmers cultivate on average 1.2 hectares of land – 30% cultivate less than half a hectare), with maize being the dominant crop (66%) for smallholders, followed by pigeon peas and groundnuts (16% each) and tobacco (8%). Agriculture export account for 85% of the country's exports, of which tobacco comprises 55%. Other major exports products are uranium, sugar, tea, maize and cotton. Imports are dominated by oil, coal, consumer goods and fertilizers.

6. Rapid population growth reduces family landholdings. Land degradation,[17] deforestation, and climate change all exacerbate food and nutrition insecurity.[18] Agriculture is increasingly vulnerable to natural shocks. Climate change will cause temperatures to increase by 1.1-3.0°C by the 2060s, and the intensity of dry and wet seasons will increase resulting in longer dry spells and more floods. Heavy rains followed by the 2015/16 drought related to El Niño 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. Almost all rural households in Malawi participate in on-farm activities, with more than 60% of their income coming from these activities. Agriculture relies heavily on rains and is dominated by two crops: maize and tobacco. Most Malawian farmers are smallholder producers, characterised by use of traditional agrarian tools and limited adequate technologies. More than 80% of rural land is under customary tenure. Livestock rearing is dominated by small stocks, mostly owned by small holder farmers.

7. Poor rural households but especially the ultra-poor, provide agricultural labour, which is seasonal and poorly paid, especially for women. Women nonetheless play a leading role in agricultural production but they suffer the sector's structural deficiencies more acutely than men. Rural women´s potential participation in paid employment is hampered by a significant domestic work burden, and systemic bias in the market place (e.g., for formal credit). There is limited diversification into off-farm activities, through small and medium enterprises (SMEs) for agricultural product value addition, employment, trading, and services, offer some opportunity to improve livelihoods, reduce vulnerability for both men and women of different ages, including youth.[19]

8. Youth, defined as those aged 10-35, in Malawi constitute over 40% of the population.[20] Custom and tradition entail the submission of youth to parents and other (older) adults. Youth do not generally participate in household or community level decision-making processes and their views are unrepresented in society. In rural areas, youth and younger households tend to be poorer than those headed by adults not only due to the limited accumulation of assets, but also because youth have limited access to productive assets such as land. This leaves youth in Malawi locked in unpaid or subsistence farming and poverty.[21]

9. Trends observed in national growth and development are: (i) increase in average per capita income is driven by growth in the rural non-farm sector; (ii) urban population growth exceeds rural

[17] Land degradation and subsequent change in land use is estimated to cause economic costs in range of 6-7% of Malawi's GDP (Kirui 2016 Economics of Land Degradation and Improvements in Tanzania and Malawi, Springer).
[18] Draft National Forest Policy of Malawi, 2013; see Appendix VI.
[19] SMEs include micro-enterprises and homestead production as well as minor rural processors and agro-dealers that employ up to 30 people.
[20] National Statistical Office, September 2008. 2008 Population and Housing Census.
[21] National Statistical Office, September 2012. Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.

population growth, but Malawi will remain predominantly rural for the coming decade; (iii) urban poverty rates increase slightly showing the limited absorption capacity of the urban economy[22].

10. **Financial sector context.** There are 11 commercial banks in Malawi, six of which account for over 50% of institutional financial assets. Commercial banks served most corporate and government clients in the country, as well as 27% of Malawian adults, among them most salaried employees. Commercial banks hold 92% of credit and 89% of deposits, and are generally profitable, though several have relatively high non-performing loans portfolios (some > 20%). There are 30 Savings and Credit Cooperatives (SACCOs), down from a recent high of 48 due to mergers and closures. Of them, 10 operate in smaller towns in rural areas, but none have notable agricultural products offered at scale. Most have community, or open bonds, but salaried employees form the core membership for most SACCOs. There are 14 registered MFIs of which three have over 3,000 clients. There are 8 payday lending companies (PLCs). Together MFIs and PLCs serve about 17% of adults in Malawi.[23] SACCOs provide basic savings and small working capital/consumer loan products, while MFIs and PLCs provide small credit only. Two mobile network operators (TNM and Airtel) offer basic mobile money services, particularly money transfers and a no interest savings vehicle (short-term, low-value). Informal financial service providers such as community based financial organizations (CBFOs) have an estimated 1.1 million urban and rural members from all income strata, of which, an estimated 47% are women. While CBFOs are informal some models have proven durable with over 80% group formation sustainability over five years. Fewer than 2% of Malawian use insurance products and there is almost no insurance available for the rural economy or small scale agricultural production.

11. A recent FinScope study showed gradual improvement of access to financial services in Malawi over the last several years. Still, only 42% and 12% of urban and rural adults respectively (most salaried employees) use formal financial services, with only 2.6% regularly using more than two financial products. In total, some one third of the adult population has access formal financial services and an additional 25% make use of informal financial services. Farmers are amongst the least banked on a percentage basis, even as they constitute the largest portion of formal financial sector clients. They are the largest users of informal financial services, and account for the largest number of adults without access to financial services (35%). Savings and money transfers constitute most products employed, with credit and insurance use is very limited.

12. **Financial Sector Business Model Constraints.** The main general barriers to formal financial sector use are affordability, including the cost of travel to financial service providers (FSPs - particularly in rural areas), lack of reliable identification, ill-suited financial products, particularly for the rural poor, and limited income and collateral for loans. These constraints are exacerbated by relatively high banking costs, low financial literacy, and a “fear” among the poor of using formal financial services. On the supply side, commercial banks in Malawi earn about 60% of their revenue from loans mostly to large corporate clients; 22% from foreign exchange; 15% from investments (mostly treasury bills) and 6% from fees and commissions. Operating in this comfort zone, most commercial banks are profitable despite relatively high non-performing loans, and, thus, have little institutional experience and/or limited interest in new market development. This is not the case in the microfinance sector where almost 100% of MFI revenue comes from high-interest group and/or individual loans serving both salaried and low income clients. Approximately 85% of revenues from SACCOs comes from credit services and smaller amount from investments, fees, and commissions. CBFOs do not retain earnings, rather profits earned on high interest loans are distributed annually to group members’ pro rata to their savings accounts.

13. **Savings.** Formal savings in Malawi decreased from 3.8 million adults saving in 2008 to 3.4 million in 2014 (an 11% decline). Banks hold MWK 190.3 billion (USD 456.5 million), retirement funds K 17.6 billion (USD 42.3 million), SACCOs MWK 3.7 billion (USD 8.8 million), and CFBOs less than

[22] Thurlow et al (2015) Contribution of Cities and Towns to National Growth and Development in Malawi; World Bank *Urban Review*.
[23] Note that many adults use multiple formal and informal service providers.

2%.[24] An estimated 27%, mostly urban Malawians, save in a financial service provider (including SACCOs). This compares to CBFOs which have an estimated 1.1 million members, up from 80,000 in 2011. Just over 38% of farmers in Malawi save informal institutions compared to 36% in CBFOs, over 50% do not save in an institution. Some 20% of MSMEs use CBFOs, and 24% and 17% use banks and/or SACCOs respectively. There are over 1 million subscribers to AirTel and TNM mobile money services, many in rural areas, however, only 25% of accounts are active (used within last 45 days).

14. The hassle, distance, and cost of saving, lack of attractive savings products and inadequate electronic payments infrastructure are the main constraints to more formal savings in rural areas. Many poor also simply do not have the money to save, or if they do, they require highly liquid vehicles most formal and informal sources cannot provide. CBFOs and Mobile Network Operators (MNOs) provide low value savings products suited to lower income peoples' needs, while banks saving products for wealthier clients.[25] Rapid inflation ensures short-term savings in any institution offer negative real returns, particularly when fees, and transportation costs are included. CBFOs offer potentially positive interest when low transaction costs and profit distributions are considered. MNO services are not legally allowed to pay interest on savings.

15. **Credit.** Commercial banks loans totalled MWK 234 billion, compared to CBFOs, PDLs, and MFIs whose loans totalled between MWK 5 and MWK 6 billion, and SACCOs with MWK 3 billion. Banks hold 91% of total credit (mostly large corporate clients, SMEs, and high-net worth individuals). Just 270,000, or 4% of Malawians, took credit from a formal FSP in 2014, compared to 480,000 in 2008. The average formal sector interest rate is 30% to 45%, with 90% of loans at terms less than a year. Some 21.5% of bank credit was directed to large commercial agriculture, forestry, and fishing enterprises, particularly in the tobacco sector. Just 4% of farmers have formal credit, most in tobacco. Use of *informal* credit by contrast has increased significantly in Malawi up from 80,000 users in 2008 to over 1.1 million in 2014. CBFOs are the most common informal supplier, providing small, one month loans with interest rates over 200% on averages loans of MWK 8,250 or USD 15. Some 8% to 12% of Malawians borrow in-kind inputs from agricultural suppliers. MNOs have recently developed small value loan products, using SIM cards as guarantees and payment history for credit risk analysis but are still in pilot mode.

16. The cost of formal credit, including transportation, fee, and other related expenses are onerous for all Malawians but the rural poor particularly. Beyond these cost, collateral and identification restrictions also constrain access. On the supply side, formal lenders ration credit to lower income markets and the poor. There are many reasons for this. An inefficient judicial system, preparations for Basel II compliance, high costs of administering small loans, and a lack of credit history information all conspire to reduce interest in inclusive credit products.[26] FSPs enjoy profitable lending to large commercial clients and investing saving deposits in GoM treasury bills/bonds. A small and medium size enterprise (SME) lending bubble ten years ago, further fuels current conservative lending. Formal FSPs also have limited experience in developing inclusive financial services in rural areas, even as competition in traditional markets is creating some interest in new market development.

17. Despite high interest, CBFO credit is highly accessible (e.g., low transaction costs, no collateral or identification requirements). Many CBFO group members, however, do not want/ need credit, because they have no productive uses for it, or because amounts available are too small for productive purposes beyond petty trade or partial agricultural input payment. Moreover, loans are made available to only few members monthly, so loan timing may not coincide with household needs (e.g., pre-harvest, re-school year, and pre-planting). This limitation can be overcome with training and capacity building. A major benefit of CBFOs, particularly Village and Savings and Loans Association

[24] RBM, 2014. USD currency conversions are from 2014. CBFOs include Village Savings and Loan Association, Village Banks, and other types of informal financial cooperatives.
[25] Only Village Savings and Loans Associations (VSLAs) currently serve clients at or below Malawi's average income. Alternative informal savings group options serve a range of incomes (averaging from MWK 8,403 (USD 20) to MWK 32,836 (USD 79)).
[26] Basel II is an international financial systems protocol designed to bring consistency to national financial systems and regulatory regimes.

(VSLAs), is not the credit perse, but the annual profit distribution (typically in December).[27] Many members participate in VSLAs for this reason alone as the distribution can reach MWK 30,000 to MWK 70,000 (USD 60 to USD 100).[28] The size of distributions, like the size of loans, is insufficient to meet the needs of most emerging high-performing households and MSMEs. Finally, as CBFOs do not have formal registration, linking them and their members to formal institutions is challenging. While some groups have formal bank accounts, use of CBFO membership for credit risk assessment, group collateral, or for group savings remains a potential filled exception rather than the rule. CFBOs offer women and youth affordable participation, but do not resolve other challenges such as access to male labour, involvement in cash cropping, or access to agricultural inputs, equipment, and machinery.

18. **Payments and Transfers.** About 80% of adults receive their income in cash and 5% through a commercial bank. Some 95% of people use cash for most of their consumer purchases which, accounts for an estimated 75% of the value of all payments in the country. Only 4% of transactions are cashless.

19. While cash predominates, the number and vehicles for electronic payments and fund transfers are rapidly growing in Malawi. Some 24% of adults use mobile transactions, though most still involve cash (e.g. ATM and mobile money agent cash withdrawals). Fewer than 15% of adults in Malawi have bank cards, used almost exclusively for ATM withdrawals and accounting for 13% of non-cash transactions. Some, 0.8% have debit cards and 0.2% credit cards. . This is probably because the debit and credit card phenomenon is fairly nascent in Malawi. Six banks offer mobile services and four internet banking, but there are fewer than 50,000 subscribers accounting for 4% of payments. Mobile money offered by AirTel and TNM account for half of all non-cash transactions with 3.8 million transactions per month for MKW 8.6 billion in 2014 (MKW 3.4 billion in 2013). About 34% of urban adults, compared to 15% in all areas use mobile money, mostly the salaried and higher income farmers. Furthermore, compared to East African where the mobile payment system is really advanced, the potential payment windows provided by the MNOs is still very limited. Current uses include: value transfer, airtime purchases, and bill payments. Cashing mobile money value in and out at agents constitutes for cash is the largest mobile money transactions, sharing airtime is second. The MNO agent network remains small with fewer than 18,000 agents, of which 50% are inactive. The low number is attributed to low awareness of potential enterprise of agents. In this regard, the MNOs have developed and rolled out sensitization strategies in order to attract new agents. Network growth is needed to attract more clients, but suffers from poor agent commissions and unresolved liquidity issues, a challenge particularly acute in rural areas as people often travel some distance to get cash. One MNO is trying to combat this liquidity challenge by creating a higher level of agent known as “super agents” and these provide support to first level agents. That only 40% of adults in Malawi have access to a mobile phone despite relatively good penetration of cellular infrastructure in the country, is another constraint.

20. About 1.4 million Malawian send or receive money through formal or informal channels. Use of formal financial systems for transferred doubled from 2008 to 2014 but still count for only 12% all transfers. Family and friends are the most common means of fund transfer primarily for cost reasons. Non-formal service providers such as Peoples Trading Centre, Zoona and the Malawi Post provide fund transfer services. The Malawi Post alone had 60,000 transfers monthly, up 45% from 2013, with an average transaction value of MWK 7,800 (USD 18.7).

21. The success of the electronic payment eco-systems remains constrained by physical access to electronic payment vehicles, limited agent cash, poor commissions to agents, and limited, though improving interbank/ organizational operability. The GoM has recently digitized salary payments and will digitize social cash transfer payments and this will help to expand the electronic payments systems. The 2011 Mobile Payments System Guidelines from the RBM, which restricts MNOs from

27 The lump sum payment consists of a member’s savings plus proportional share of accumulated profits from loan income. The share is based on the amount of each members’ savings.
28 This assumes a 15-member group saving between MWK 400 and MWK 700 per week.

paying savings interest and from investing aggregate stored value, is under review, as is the MWK 200,000 (USD 276) per account cap on mobile money value.[29]

22. **The Way Forward for Inclusive Finance.** Macro-economic volatility in Malawi creates substantial financial and non-financial market uncertainty and risk, affecting the financial system. Chronically high inflation, a rapidly depreciating currency, and an economy reliant on primary commodities vulnerable to exogenous price shocks and natural disasters, impart significant negative impact on FSP performance and outreach. Inflation undermines the value of savings and contributes to high lending rates and increase loan non-payments. This makes credit, particularly long-term asset lending, unaffordable for most Malawians, but for the low-income and rural population particularly. Poor contract resolution and infrastructure further exacerbate lending expansion in rural Malawi. If the current high-inflation environment in Malawi will not ease soon, formal financial savings products will continue to have unattractive interest rates discouraging savings in the formal financial system.

23. The development of an inclusive financial sector has been underway for some time in Malawi. And while strides towards greater access by the poor to formal finance have been made, sector building efforts have created far more access for urban than rural households. The advent of mobile banking and mobile money will change this, and building on gains made in urban microfinance and CBFOs, substantial potential for inclusive finance in rural areas is possible in the medium-term. For this to be happen, however, the ecosystem of FSPs, products, and services, as well a more comprehensive supporting regulatory and policy environment must be supported to overcome the low value, high transaction volume cost constraints to greater rural financial service provision.

24. The demand for savings for consumption smoothing and unanticipated economic and/or household events is a first order priority for most rural households. Money transfers services (or mobile value transfer) is an important complementary means to meeting the same needs. Working capital loans for agricultural inputs, as well as small consumption loans are also vital for managing household economic cycles and unexpected events. Demand for larger loans, primarily for productive assets, is limited due to both the unfavourable macro-economic context and a typically low household repayment capacity.

25. Sustainably serving high-volume, low-value savings and transfer services rural demand has proven challenging. Use of the formal financial sector's branch network and electronic banking service is limited and better designed to serve high-net worth and corporate clients. Banks are well-trusted, but they have a limited distribution footprint and are a costly option for most Malawians. Banks strategy also focuses on a small number of corporate clients who take larger, higher-margin loans or make larger, lower administration cost saving deposits (leading to relatively higher financial margins on fund intermediation). The incentive for most commercial banks to expand services to lower income client markets is limited given the inevitable smaller per client contribution to revenue. Banking agents have the potential to increase formal financial sector outreach at a lower cost, but the relative comfort of existing revenue models, as well as a hangover from over lending to SMEs, makes banks adverse to new market development. Opportunity International Bank of Malawi (OIBM), with its microfinance roots has a range of products and reaches beyond the traditional commercial bank market, yet it too has limited scale.

26. MFIs and SACCOs have penetrated low income markets and rural areas, but are limited by internal management and human resource capacities, technology, and capital for on-lending (with the exception of FINCA, MFIs cannot legally collect deposits). As with banks, MFIs have not expanded a network of lower cost local agents and their product product/service offer is relatively expensive, but more accessible. Even given higher costs, these formal financial organizations provide low-value products well-suited to poor households. This said, MFIs' low value, weekly or monthly repayment group credit product is not always well tuned to the agricultural economic cycle of most rural

[29] Interest earned or otherwise accrued to balances in the trust account shall not be to the benefit of or otherwise paid to the Mobile Payment Service Provider. Instead, mobile money providers have used any interest accrued on corporate social responsibility projects. The guidelines also stipulate that the mobile money float should be kept in a trust account with a bank "whose usage shall be restricted to facilitating mobile payment transactions.

households. There are some innovations however. Rural Livelihoods and Economic Enhancement Programme, an IFAD funded programmes in collaboration with MUSSCO, demonstrated that clustering rural VSLAs can lead to the creation of low-income member driven rural SACCOs. Similarly, CUMO links motorbike outreach to individual and VSLA group clients to overcome transaction costs in rural areas. The scalability of both approaches remains untested.

27. Clearly there are substantial challenges to serving the low-income market generally, and the rural low income market specifically. These constraints and formal financial sector business models have precluded much outreach and innovation to rural markets, leading to a generally poor understanding of and experience in these markets. This has constrained the development of optimal expertise in designing and delivering products and services beyond the large commercial and salaried employee markets. Commercial banks, SACCOs, and MFIs have limited exposure to, and understanding of rural markets which can elevate risk perceptions and dampen views of market potential, which further decreases perceived commercial attractiveness.

28. Community based financial organizations such as VSLAs, by contrast, have proven pivotal in the growth of inclusive finance in rural Malawi. Providing low-value products well suited to poorer households, CBFOs have effectively penetrated both urban and rural markets. They are not a panacea however. The scale of outreach and sustainability of CBFO methodologies can be limited by group capacities and on-lending liquidity, particularly in those cases where group formation is unstructured and informal. Those groups receiving support from international/national agencies tend to do better. However, relatively small loans and savings provided by CBFOs limit household economic impacts to consumption smoothing and small, expensive working capital loans. Annual profit distribution provides larger sums, but not large enough for asset purchase. Moreover, and despite emerging innovations, most CBFO models could be better synchronized with the agricultural-based economic cycle of rural households.

29. Mobile network operators have the potential to serve the low value, high transaction rural market. Mobile money initial rapid expansion was stalled as MNO business models did not incentivize a vibrant agent network. That MNOs cannot legally offer interest on savings or invest aggregate stored value to make money, and this is a significant barrier to the system's expansion. Lack of products beyond short term low-value, value storage, bill and air time payments hinders the growth and economic benefits of mobile money. Growth of affordable, accessible micro and small credit products that can be originated and serviced on-line, and limited use of e-money for goods and service payment similarly constrains mobile money uptake, and economic impact as does poor access to mobile phones. A strong preference for cash transactions in Malawi, and relatively low levels of financial literacy exacerbate challenges.

30. Finding the balance between low cost and agents is the most critical piece to solving the rural market financial service puzzle: provision of other services, particularly credit - both short and longer term larger value asset building credit – is another. At present, no single FSP - offers either the accessibility or the products required to sustainability meet the needs or rural households. A small number of ongoing, innovative partnership initiatives, many centred on linking CFBOs to the formal financial system, suggests scalable, cost-effective, and profitable financial services are possible in rural areas. Rural financial service development, as a result, must be viewed in transition from fewer physical financial transaction points, to more mobile service delivery.

B. Rationale

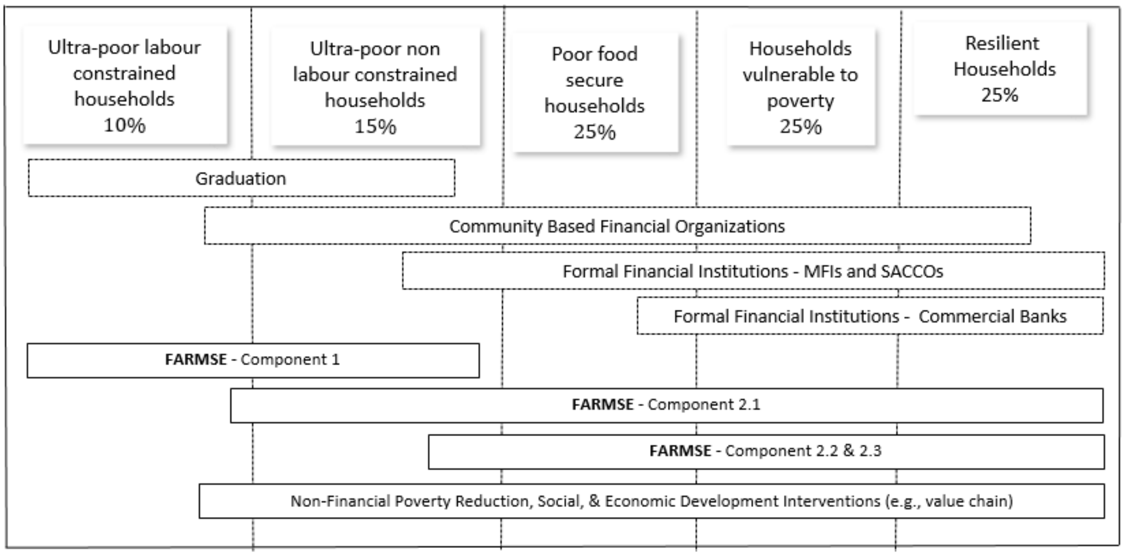
31. The rationale behind FARMSE design is one of continual graduation. This implies that the journey from poverty to prosperity is not a singular accomplishment, but continual evolution towards greater food security, higher income, and asset accumulation.

32. FARMSE will support service providers as they find sustainable paths to delivering a greater range of low value, high transaction volume, and low cost service solutions in rural areas. Tapping CBFOs' demand driven popularity is key to growing rural outreach, as they are to creating attractive

savings/credit markets for formal FSPs. Meeting the needs of rural households however will require new and innovative products, services, and delivery mechanisms beyond what the financial sector currently offers. Supporting emerging and encouraging new institutional efforts and partnerships is required to overcome the multiple costs, volume and product design constraints facing sector development, as well as overcoming the sectors relative lack of experience and risk perception of rural markets. Collective meso and macro level support will improve rural financial infrastructure, policy, and regulation, and information dissemination.

33. Component 1.0 intends to promote a context specific intervention model to help graduate Malawians living in ultra-poverty to a food secure existence and bring them out of poverty. Without new opportunities, however, most that do graduate could continue to live in relative poverty, begging the question: what is the next step towards greater prosperity? Two key factors stand out. The first is access to improved livelihood opportunities and the second, is the capacity to take advantage of these opportunities. Access to financial products and services provides part of the capacity required, and CFBOs offer the most appropriate financing tools for newly graduated ultra-poor and for economically active poor alike.[30] CFBOs provide simple to use, low-value, low transaction cost savings and loans products highly suitable for low income households. While GoM has already developed a graduation concept, which provides guidelines to be adopted by partners implementing this intervention, the systems are yet to be fully developed and FARMSE will therefore support development of such systems.

Table 2: FARMSE target beneficiaries



34. As noted, these products primarily improve household consumption smoothing and minor asset building, offering less a pathway to greater prosperity than to improved household resilience. If households are to sustainably lift themselves out of poverty they will require some form of financial services. This is particularly true for households able to grow their farms and/or enterprises through access to credit and positive interest rate savings. Not all households can or should be expected to take this step, yet the more households that can reach this stage, the more vibrant the local economy will be and the more livelihood opportunities will be created. Component 2.2 of FARMSE directly addresses the provision of formal sector financial products and services to fuel this type of growth.

[30] In addition to financial capacity, the economically active poor must also have the capacity to successfully engage in the commercial economy. FARMSE will provide support to enterprise or agricultural production development only as it necessary to advancing sustainable financial services. Where possible however the programme will work in areas with such support in place.

35. The Malawian financial ecosystem is *relatively* stable and has broad product and service offer, but it is not yet willing or able to serve low value, low transaction cost rural demand. Not only does the formal financial system lack the products, services, and delivery mechanisms for rural markets, it must also overcome inherent risk perceptions before it can realistically commit to serving them on a profitable basis. Component 2.2 seeks to address these twin constraints through provision of highly qualified technical assistance to FSPs willing to develop appropriate rural products. Select non-financial service agricultural value chain businesses can also offer financial services.

36. Given modest funding absorption capacity in Malawi and the innovative nature of its approach, FARMSE requires a seven -year programme horizon.

Relevant GoM Strategies and Policies

37. **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*". The Malawi vision 2020 is translated into several strategies and sector policies and implemented by programmes which are relevant to FARMSE. They include: the **Malawi Growth and Development Strategy II** (MGDS II: 2013-2016) which is a medium-term strategy to attain long-term development. It aspires to reduce poverty through sustainable economic growth and infrastructure development in inter alia the agriculture sector; and the **National Agriculture Policy** (NAP 2016-2020) which outlines eight priority areas that correspond directly or indirectly with FARMSE (agricultural production and productivity; irrigation development; mechanisation of agriculture; 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 strengthening).

38. Consistent with Malawi Vision 2020, the Ministry of Finance, Economic Planning and Development (MoFEPD) set out a six-point financial inclusion strategy to address which includes: expanding digital payments and informal savings, targeting financial services for farmers and micro small and medium sized enterprise (MSMEs), use of niche insurance opportunities to reduce client economic vulnerability, improving consumer empowerment and education, and finally, facilitating national coordination of financial inclusion. Other ministries, including the Ministry of Local Government and Rural Development and the Ministry of Agriculture also include rural finance in their strategic planning.

II. Programme description

A. Programme area and target group

39. **Targeting Strategy.** Although FARMSE will be a nation-wide programme, its geographic coverage will be clustered based on two distinct targeting mechanisms: i) selection of participants for Component 1 will be based on pre-identified criteria ensuring that targets for women and youth are met; and ii) self-selection through use of low income appropriate financial services for Component 2.

40. The FARMSE targeting strategy is socio-economic based as different programme components will target households with different socio-economic characteristics to meet their specific needs. Specific geographic areas (e.g., districts with clusters of villages) will be selected based on concentrations of ultra-poor households as already mapped out by GoM for component 1, and for component 2, selection of community group service providers will be based on; rural orientation, women/youth participation in the groups and low financially included areas. Preference will be given to areas which overlap with other FARMSE components, and/or other complementary government/ donor activities, and in areas where with some livelihood opportunities for the poor exist (e.g., growing agricultural product value chain). Sites in North and Central Malawi are of interest given that most similar graduation programming efforts have concentrated in the South.

41. Component 1.0 is based on GoM existing graduation model which focuses on concentrating and coordinating efforts to move households out of poverty on a sustainable basis. The programme

together with the implementing partner/s will focus initially on two districts within the central region where graduation has been tested or introduced, and later scale up by introducing additional districts within the same region and other regions based on need and cost efficiencies. The component will build on works currently done by GoM through Economic Planning and Development Division and Public Works Division within the Ministry of local government and rural development (MLGRD). The former coordinates support that to ultra-poor labour constrained, while Public Works coordinates support to ultra-poor but non labour constrained. This component will target 15,000 households and, 40% will be women headed households and 40% youth. Participating households will be selected based on GoM pre-identified criteria.

42. Component 2.0 will focus on financial service provision, targeting poor but food secure households, households vulnerable to poverty, and resilient households through organized community groups. The programme will facilitate access to financial with a focus in rural outreach, women/youth participation and on underserved or highly financially excluded areas. This approach relies on the expansion of existing and new financial services and/or related interventions that meet target households needs/demands, but are largely unattractive to higher income households. This targeting strategy is not exclusive to reaching households in other socio-economic strata with lower or higher income. Many financial sector interventions also have geographic limitations based on implementing FSP’s area of operations (e.g., location of branch/agent network), which can introduce some bias towards urban areas. Measures to ensure programme benefits are as widely distributed nationally as possible. Partner financial service sector operating areas will be selected based on: i) commercial activity potential (agriculture and trade/services); ii) agricultural product value chains with development potential; iii) poverty reduction and employment creation potential; iv) financial services demand, particularly among target socio-economic households; and v) existence of complementary government/ donor programmes. The programme could support value chain financing interventions located in urban areas if benefits of interventions flow substantially to target rural households. Proposed financial sector projects will be encouraged to consider linkages with existing IFAD programmes (Sustainable Agricultural Production Programme - SAPP, and Programme for Rural Irrigation Development - PRIDE) or operate in past programme areas Rural Livelihoods and Economic Enhancement Programme (RLEEP).

43. **Gender and youth mainstreaming strategy.** A key element in FARMSE’s targeting strategy is inclusion. Success in gender mainstreaming and social inclusion at the programme level will be possible through appropriate FARMSE management/staff capacitation and operational policies. Women will be proactively offered equal opportunities to participate in programme management and gaining access to training and promotions. The programme will adopt a non-harassment policy. PMU staff members will be trained on gender issues, socio-economic analysis, household methodologies and HIV/AIDS. Compliance with the programme’s gender and youth strategy will be required among organizations/individuals contracted to undertake programme activities. Likewise, the PMU will be mandated to proactively raise the awareness of partners and contractors to use pro-poor development methods sensitive to gender and youth needs/ interests.

44. The programme will proactively reach out to individuals, households or groups/associations to ensure women and youth have access to opportunities offered by FARMSE, including mechanisms integrated in programme design facilitating their access to information, engagement, representation and participation in programme activities and interventions. At programme level, FARMSE will identify measurable indicators for women and youth for each programme component and sub-component. The programme will actively engage and enable women and youth to participate in programme planning and monitoring activities. The programme will also ensure intervention opportunities are sensitive to the needs and preferences of women and youth. A gender analysis of all financial products and services will be made to ensure to the extent possible, the financial, economic, and social impacts of services are gender positive. Partner financial and non-financial organizations will also be assessed for their gender sensitivity and their awareness on different types of youth groups. FARMSE will monitor targeting effectiveness (planned vs. actual men and women reached – including young males and females) using gender and youth-disaggregated, participatory monitoring and

evaluation (M&E). FARMSE will monitor the impact of products and services on target groups, together with key gender equality outcomes which will include *inter alia:* improved intra-household relations; improved sharing of tasks between household members; and participation of women in decision-making related to use of land for productive purposes. Use of data will fine tune operational/ intervention strategies.

45. **Gender and youth strategy.** A key element of inclusion and targeting is the application of mechanisms to facilitate the involvement of youth and women in programme interventions. A Household Methodology adapted for the Malawian context will be employed for Components 1.0. This approach will equip targeted households to elaborate, execute, and monitor a realistic household development plan to become more resilient.[31] The programme will borrow best practice strategies from other successful IFAD programmes, especially SAPP. The use of household methodologies aims to unlock households´ economic potential and promote gender equality from within. As such, the approach addresses structural factors hindering the long term sustainability of interventions, including: i) participation of men, women and youth in household and community decisions related to access, control and use of productive assets; ii) promote more equal access, control and use of assets and benefits derived from household livelihood activities; and iii) promote equal enjoyment of benefits associated to programme interventions. Component 2.1 will also encourage active inclusion through household methodologies and/or similar approaches via CBFO group selection/formation methods employed by CBFO support organizations. As this subcomponent, will be demand driven, there is no guarantee as to the nature of such targeting, though inclusion strategies will be strongly encouraged.

46. **Target groups.** FARMSE categorizes rural households as: i) labour constrained ultra-poor; ii) non-labour constrained ultra-poor; iii) food secure but poor; iv) vulnerable; and v) resilient.[32]

47. The groups represent a continuum, characterized by diverging levels of poverty/ wealth, vulnerability and resilience. The first two categories (ultra-poor, labour constrained and non-labour constrained households) represent those living under extreme/severe food poverty as they are unable to meet basic food needs. The third category, food secure but poor households, represents households living under the poverty line that are food secure but unable to meet all other basic needs. Together, these three categories represent 50.7% of the Malawian population living under the national poverty line. Vulnerable households are the economically active, whose performance in agricultural activity allows for the regular sale of produce in markets and the use of cheap labour from poorer households. These economically active households tend to have additional small complementary sources of income. While over the poverty line, these households are vulnerable to shocks which can result in loss of assets and falling back into poverty.

48. Recognizing the role played by financial inclusion in poverty alleviation, FARMSE was designed to meet the financial inclusion needs of the first four categories of poor and vulnerable households, and within these, the condition of women and youth who are more likely to be excluded without specific targeting efforts.

49. In addition to needing to meet food consumption needs, very poor households require productive assets to develop livelihood activities. Savings and access to small credit supports such a transition. CFBOs play a crucial role in supporting households living under the poverty line who are food secure and vulnerable to poverty for consumption needs, livelihoods enhancement, and meeting foreseen and unforeseen education or health related expenses. Credit and savings also enables these households, as well as households vulnerable to poverty, to strengthen their livelihood strategies. Formal FSPs, such as SACCOs and MFIs, offer more economically active and resilient households the possibility of accessing funds to build stronger and or diversified livelihood activities, including those in agricultural or micro/small enterprise.

[31] IFAD, October 2014. Household Methodologies: Harnessing the Family´s Potential for Change. Gender, Targeting and Social Inclusion.
[32] While similar, these five categories cannot be strictly equated to the five socio-economic quintiles used in national level household surveys.

50. Component 1.0 will target, 15,000 ultra-poor households, of these 40% will be women headed households and 20% youth. Component 2.1 focuses on CBFO group expansion and innovation and will reach 380,574 target beneficiaries through 4-5 support/promoter institutions. 20% of target beneficiaries will be youth and 40% women. Component 2.2 will through more formal financial service providers reach an estimated 37,200 target beneficiaries of which an estimated 40% will be women, and at least 20% will be youth.

B. Development objective and impact indicators

51. The overall goal of FARMSE is to reduce poverty, improve livelihoods and enhance the resilience of rural households on a sustainable basis.

52. The programme's development objective is to increase access to and use of a range of sustainable financial services by rural households and micro, small, and medium enterprises. This programme development objective will be assessed through two indicators:

i) A graduation model adopted, rolled out at scale, and approved by GOM.

ii) Improved outreach of sustainable rural financial services to rural poor.

C. Outcomes/Components

Outcomes

53. FARMSE has three components and related outcomes as set out in Table 3 below.

54. Main indicators would include:

i) **At impact level:** Reduced prevalence of chronic malnutrition in children under five (RIMS III); Improved household assets ownership index (RIMS III); Smallholder households report to cope with effects of climate change (RIMS 1.8.5);

ii) **At the output level:** graduation strategy and system, adopted and implemented; restructured/strengthened community based financial organizations, introduction of sustainable financial products, services or delivery mechanisms targeting rural beneficiaries, number of individuals served with sustainable financial services, increase in savings and increase in income generating activities.

Table 3: FARMSE component and outcomes

Component	Outcome
Component 1.0	1.1 The capacity of ultra-poor households to graduate from poverty, improve food security and secure livelihood opportunities is improved. 1.2 The capacity of ultra-poor women headed households and youth graduate from poverty is improved.
Component 2.0	2.1 Improved access to structured and sustainable CBFO financial services. 2.2 Enhanced capacity of FSPs to deliver demand-driven services in rural areas. 2.3 Improved access to sustainable financial services to women and youth.
Component 3.0	3.1 New rural policy framework developed. 3.2 Rural finance sector support organizations capacity and knowledge increased.

iii) **At outcome levels:**

(i) **Component 1.0**: i) number of targeted household attaining food security; ii) number of women headed households and youth attaining food security;

(ii) **Component 2.0**: i) number of increment rural CBFO members; ii) number of CBFO members linked to FSP services; iii) incremental rural clients of partner FSPs; iv) increased CBFO and FSP savings; v) increase in number of income generating activities and vi) improved access to sustainable financial services to women and youth.

(iii) **Component 3**: i) Number of policies and systems developed; ii) Number of rural finance support organizations supported with rural inclusive finance good practice knowledge.

Components

Component 1.0 - Ultra-poor graduation model development and testing at scale

55. The **outcomes** of this component are: i) the capacity of ultra-poor households to graduate from poverty, improve food security and secure livelihood opportunities is improved; and ii) the capacity of ultra-poor women headed households and youth graduate from poverty is improved. The **objective** of the component is to develop and test at scale a cost-effective, replicable model(s) to graduate households from ultra-poverty and food insecurity into sustainable, self-reliant livelihoods.

56. This component is divided into two stages: selection of operational districts, based on existing GoM poverty statistics, and in collaboration with EPD, selection and assessment of qualifying ultra-poor households; Roll out the graduation process. Both stages of the component will be implemented by GIZ with oversight from of the PMU.

57. This model includes elements of household methodologies to address inclusive household planning and the promotion of gender equality for strengthen economic household potential. In the course of implementation model will also seek to:

i) improve applicability for labour constrained and non-labour constrained ultra-poor households;

ii) encourage household planning and improvement of intra-household relations;

iii) incorporate effective livelihood improvement measures or establishing effective synergies with livelihood programmes (e.g., value chain programmes in same area); and

iv) address other key vulnerability factors affecting household resilience to shocks.

58. GIZ may subcontract qualified national and/or international agencies to support implementation of graduation. Applicants will have substantial experience in the implementation of graduation/ community development initiatives and proven operational capacity in Malawi. Preference will be given to agencies with a record managing rigorous community level processes

Key Features of the Graduation Model for Ultra-Poor Households. The growing levels of ultra-poverty in Malawi calls for the need to find effective graduation pathways to sustainable livelihoods for ultra-poor households. Consistent with best international practise, models developed for Malawi could include the following:

i) Funds for meeting food security needs;
ii) Support for livelihood improvement such as training, linkages to markets, basic business skills;
iii) Support through regular household mentoring, including inter alia: addressing key information gaps to support household behaviour change to reduce vulnerability and support engagement in livelihood activities (e.g., HIV/AIDS, food production and/ or security issues, nutrition, linkages to relevant or community groups);
iv) Providing matching grants/ capital investment to enhance livelihood activity;
v) Facilitating engagement in savings and credit groups or other

and household level interventions. Experience and interest in enhancing capacities around gender and youth programming will also be required. Alone, or in partnership with another organizations, selected partner organizations' will implement the proposed model approved by the programme.

59. A longitudinal survey with the baseline provided at the start will also be commissioned for the expansion stage. The study will measure and track the impact of the graduation model both during implementation and after. It will assess the degree to which household graduate from poverty and if changes are sustainable. A research team with competencies and experience like those outlined for the longitudinal study in the first stage will managed the research.

60. **Roll out of effective graduation model.** The roll out will deploy the approved programme model at scale to expand programme benefits and test replicability. A total of 15,000 households will be targeted, of which, approximately 40% will be women and 20% youth headed households. Roll out sites will be selected based on representatively of large sections of rural Malawi and opportunities for household livelihood development. The implementation of this stage will be contracted to service providers depending on the different stages of implementation. Grantees will be selected based on experience, their knowledge of gender and youth, and a special emphasis on a capacity to manage small to medium community programmes. FARMSE will commission a qualitative study during the roll out stage to assess both the process and impact of implementation.

61. It is envisaged that households will graduate between 36 months. A qualitative *ex-post* study will be undertaken among the graduating households, and this study will provide an opportunity to learn about the long-term effects and sustainability of programme interventions. The study will be implemented by a professional or firm with proven experience in qualitative inquiry and knowledge of the Malawian context. They will work in close collaboration with the GoM and GIZ. As with all other service providers, candidates will be chosen through a competitive bidding process.

Component 2.0 – Support to Financial Innovation and Outreach

Subcomponent 2.1 - Community based financial organization support

62. The **outcome** of this subcomponent is improved rural financial access through existing, new and innovative informal community based financial organizations savings and loans products.[33] The **objective** is to support CFBOs expanded outreach to poor but food secure households, households vulnerable to poverty, and resilient households in rural Malawi.

63. This sub-component has three activities: i). Mapping of existing CBFOs and assessing maturity status; ii).restructuring and consolidation of CBFOs; provide opportunities to additional skills and linking CBFOs and/or their members to formal financial institutions and high value markets. This will enhance smallholder income, asset and some livelihood / enterprise development opportunities; iii).Formation of new Groups.

64. Activity 1: VSLAs have had great success in Malawi, promoting savings amongst rural populations. According to the NSFI (MoF, 2017) the number of members have grown from 86,000 in 2008 to 1.1 million in 2014. The first activity will take stock of the existing CBFOs (VSLAs, SILC etc), assess their capacity and their spread. This will include 641 VSLAs mobilized under the IFAD supported RLEEP with 10,684 members. Those groups that will be found to be stable will receive support to improve their internal capacity, processes. It is estimated that there are about 65000 VSLAs in Malawi, which have been formed with support from various NGOs.

65. Activity 2: This activity will support the selection and restructuring and consolidation of CBFOs. In this activity, 4 to 5 VSLA/CBFO support organizations, will receive a matching grant to be used in for selection and restructuring of 16,143 VSLAs with a membership of 290,574 individual members

33 Informal CBFOs are commonly referred to as Village Savings and Loan Associations. CBFOs have two defining characters. First, they are informal, or unregulated by a government agency. Second, they are formed and managed by individuals who come together voluntarily. There many different CBFO models, many like VSLAs, and can include informal cooperative associations, village bank models, or variations of the VSLA model. See: IFAD, How to do Support community-based financial organizations, IFAD, 2014.

representing households with 1,975,903 people of which 30% of the members will be women with 20% youth. To ensure the aspect of women and youth is not subsumed in normal programming, the support organizations will be assessed for experience and knowledge of gender and youth differentiation. Also, in order to ensure a common approach by the selected institutions, FARMSE will support GoM in strengthening the mandate of the VSLA sector-working group to provide guidelines and realign formation and consolidation approaches.

66. The "VSLA plus" model will address inter alia agricultural and off-farm enterprise development, and group and member linkages to the formal financial sector. The development of agricultural enterprises will build on the experiences and lessons from RLEEP through the value chain development. RLEEP supported development of seven value chains namely: potato, groundnut, soya, dairy, sunflower, honey and beef. Farmer groups supported in these value chains have also been assisted to create VSLAs. Some VSLAs have been successfully linked to MFIs and formal financial markets while others have been consolidated to form SACCOs. These are the potential farmer value chains to be supported under FARMSE in collaboration with other lead agencies such as Canadian Cooperative Association (CCA) and Farmers Union of Malawi (FUM). However, there should be no restrictions on selection of commodities but support agriculture enterprises that are relevant to the VSLAs.

67. This activity will also support innovations that better serve the needs of youth and address issues of gender inequality. Sub-activities under this activity will be i).Consolidation of CBFOs into Farmer and/or Financial Cooperatives and linkage to commodity markets; ii). Farmer groups linked to sustainable markets and formal Financial Service Providers (FSPs). Through these activities the CBFO members will be provided with skills in marketing, agro enterprise and innovation (access and usage of new technologies and monitor markets). A number of NGOs are already implementing VSLA plus models e.g. CRS's "Recover, Build and Prosper" model and Care International's promotion of value chains through Farmer Field and Business School Models.

68. Canadian Cooperative Association (CCA) has extensive experience in confederation of VSLAs into farmer and/or financial cooperatives, and is already partnering with IFAD in this regard not only in Malawi, but in Ethiopia and Tanzania. Care International, among others, have been providing technical support to the Community Savings and Investment Programme (COMSIP) for the development of VSLAs. In addition they have linked up with Airtel and OBM to explore digital solutions. Airtel has developed the "Chikumbe"[34] short message service.

69. The third activity will comprise support for the mobilization and formation of new CBFOs. The objective will be to enhance the economic and social benefits accrued to members through CBFOs participation. Two or three CBFOs model innovations will be supported by existing CBFOs support group/consortia, which could be different or same promoters undertaking activity 2. This activity will target the formation of 5000 new groups, reaching 90,000 members with 612,000 household members, of which a targeted minimum of 30% of will be women and 20% will be youth. These groups once established and mature will also undergo the capacity building to ensure sustainability.

70. For all the three activities, matching grants will be provided to experienced CBFO promoters for the preparation of a detailed proposal with multi-year project implementation plan. Selected proposals will be awarded service contracts on a competitive basis for multi-year, multi-phased, performance based contracts. Funding will be given to organizations with a proven track record in CBFO promotion or to a consortia capable of rapidly and sustainably expanding their network of member groups in targeted rural areas with the Promoter contributing 40% of the cost and the Programme contributing 60%.

71. Funding will be available only to CBFO promoters with proven capacity to form new, good practice CBFO structured groups and/or innovate at scale existing group formation and methodologies.[35] There are currently as many as ten CBFO promoters/support organizations in the

34 Chikumbe is a Chichewa word for farmer
35 See: IFAD, How to do Support community-based financial organizations, IFAD, 2014.

country, the largest five of which have indicated interest in the programme, either alone or in association with smaller organizations and/or mobile phone companies. CBFO will respond to an expression of interest for two project types:

72. CBFO promoters will request support to form between 800 and 5,000 new groups over a four to five-year period, with a focus on underserved rural areas in the North, Centre, and South of the country. Applicants can propose to incorporate up to 25% of existing informal groups into their network (i.e., not supported by existing CBFO support organization structured methodology). CFBO models must hold the potential to link with the formal financial sector including mobile money services, groups must have the potential for 80% sustainability rate after three years of operation, and will support FARMSE's gender, youth, and environmental principles.

73. **Financial inclusion and nutrition.** Implementing partners for Components 1 and 2.1 will be encouraged and provided with relevant literature to distribute information on nutrition related knowledge such as: i) clarifying the difference between food consumption and adequate nutrition; ii) prioritizing food safety in household expenses; iii) supporting healthy food options; and iv) encouraging breastfeeding and good feeding practices for children aged 0-2 years (to contribute to stunting prevention efforts). Information will be distributed to implementing partner's beneficiaries.

Subcomponent 2.2 – Innovation and Outreach Facility (IOF)

74. The outcome for this subcomponent is to enhance the capacity of FSPs to deliver demand-driven services in rural areas. The objectives are two: i) increase access to new and innovative financial services and low-cost delivery mechanisms for poor rural households and MSMEs; and ii) to support the scaling up of proven financial services and delivery mechanisms.

75. The limited range and outreach of rural financial services is due to capacity constraints in both supply and demand. Most FIs have limited physical presence in rural areas, lack a proper understanding of rural financial markets, and have inadequate products and delivery mechanisms. While some agribusiness companies support their commercial operations by providing input finance to smallholder farmers, they grapple with farmer side selling and limited sources of funds. As a result, financial services beyond basic VSLAs are scarce, expensive and inflexible. Demand-side constraints also stifle expansion of rural financial services. Smallholders and rural MSME are often unable to access and properly use financial services due to low levels of financial literacy and business skills. They often operate in unstructured value chains and have no track record with formal financial services or formal marketing outlets making them high-risk clients for FSPs.

76. Activities under this subcomponent will be managed by the chief technical advisor within the PMU, and will support FSPs to enter and expand outreach in rural areas through financial products, services, and delivery mechanism innovations for a variety of client segments. The programme will first undertake information dissemination to FSPs, a rolling call for proposals to be followed by rapid institutional assessments to establish capacity gaps relevant for provision of rural finance services and support to FSPs will be provided on a demand-driven and cost-sharing basis through the Rural Finance Innovation and Outreach Facility (IOF). The IOF would address the some constraints undermining FSP willingness and ability to enter and expand rural finance. A fundamental lack of experience in rural financial markets coupled with limited expertise in designing and delivering products and service targeting low-income rural clients and MSMEs. Critically, a lack of exposure to rural markets leads to an exaggerated perception of risks which further discourages FSP from entering these markets. The IOF would address these constraints by facilitating FSP exposure to successful international best practices/innovations which have worked in other African countries, successful international best practices/innovations which have worked in other African countries, including facilitating the access and maximizing the use of remittances, especially to rural areas, promoting financial inclusion and local business opportunities. The FSPs will be able to access to high-quality technical assistance (TA) to identify promising approaches and adjust models to institutional settings and market environments. Products and services could be within the financial sector value chain or could be opportunities related to the development of an agricultural value chain.

77. The IOF would co-finance: i) client-centred/ demand driven market research and feasibility studies; ii) design and pilot test of new financial products and low-cost delivery mechanisms; and iii) provision of non-financial services (if critical for enhancing access to and use of financial services by the project's target). Eligible non-financial services will include, for example, the establishment and strengthening of farmer organizations; financial literacy, management and business development training; establishment of market linkages; and targeted extension services. Partnerships between financial institutions and other actors will be encouraged, as this approach often facilitates better risk management and reduction of transaction costs. Examples of such partnerships may include: structured value chain finance arrangements between financial institutions, input suppliers, agribusiness companies, warehouse operators and commodity exchanges, or partnerships with mobile money operators for digital payment solutions. Funded projects should enhance sustainable access to rural financial services contributing to growing incomes, assets, and resilience of the programme target groups. The IOF would be open to a broad range of FSPs including banks, MFIs, SACCOS, leasing companies and insurance providers. It would also be open to non-financial institutions such as mobile network operators, input suppliers, agribusiness companies, warehouse operators and commodity exchanges.

78. The IOF would support a broad range of products meeting the needs of rural poor households and MSMEs. Example savings products include mobile-enabled services, commitment savings products for agricultural inputs, investments or school fees, and specific products for VSLAs, women, youth. Example loan products would include inter alia cash flow-based multipurpose loans, agricultural production loans, postharvest and warehouse receipt financing. Other products might include crop and livestock insurance. Support to low-cost delivery mechanisms (e.g., low-cost branches and agency models), as well as structured financing arrangements involving value chain partners (e.g., off takers, input providers, commodity exchanges) will also be considered. RLEEP initiated a warehouse receipt system, and six out of the twenty one warehouses were linked to agriculture commodity exchange. It is expected that FARMSE will scale up the warehouse receipt system to reach the remaining warehouses and any other warehouse that may be certified by relevant warehouse receipt system operators. Given the impact of climate change on target group, the programme will also support the development and roll out of innovative financial products that would contribute to enhance their resilience (e.g. micro insurance).

79. **Non-Financial Sector Service Providers** will also be eligible for support if they are engaged in financial service provision (or have the intention to do so), either directly or in partnership with FSPs. Partnerships will be encouraged as they can often manage risk better and reduce transaction costs than a single institution alone. Examples of projects for non-financial service providers would include *inter alia*: value chain finance arrangements between FSPs, input suppliers, agribusiness companies, warehouse operators and commodity exchanges or partnerships with mobile money operators for digital payment solutions. Some non-financial services activities will also be supported if deemed critical to enhance beneficiaries' capacity to access and use financial services supported under the IOF, such as, for example, strengthening farmer organizations or basic financial literacy support, market linkages establishment, or targeted extension services.

80. The facility will have three broad funding windows guiding project selection: i) market research and feasibility studies; ii) pilot testing of innovative products and delivery mechanisms; and iii) scaling up of successful financial services. The funding windows together will offer support for product development at any point between conceptualization to commercialization. Prospective partners can thus choose to apply to the window that best suits the nature of development needs. It is envisaged that the learning curve will be short as several FSPs and MNOs have already started piloting innovative products to reach the rural areas. CUMO MFI in partnership with Discover International are exploring working with VSLAs through a graduation product. FINCA Malawi and Airtel and TNM are finalizing an MOU to launch mobile banking. FINCA has also started rolling out an agency model

81. **Window 1: Market research and feasibility studies.** This section will support FSPs in identifying market opportunities, client needs, key product features and possible delivery mechanisms.

It will also identify risks and risk mitigation measures, costs and revenues estimates, and possible partnerships for product introduction and roll-out. Research could provide insights into the reasons why current service provider products and services are not being used and how they could be improved. Research will provide evidence to support a decision to move to a product/service to pilot stage, upgrade existing products, or expand successful existing products. Research outcomes will also inform a proposal for window 2 and 3.

82. Support under this window will made available to applicants for hiring specialized Technical Service Providers (TSPs) well-versed in market research and client demand/ needs assessment, and to conduct in depth market research, beyond what a FSP typically achieves with its own resources.[36] To ensure ownership and relevance of research, the FSP would designate a team that together with the TSP participate in the design and implementation of the fieldwork and interpretation of the results. In addition to market research, the TSP will conduct an institutional assessment of the FSP. This assessment would examine the capacity of the FSP to introduce the proposed products/delivery mechanisms and identify key bottlenecks to be addressed in (e.g., training requirements, information technology constraints, other operational/procedural challenges). This assessment is a necessary condition for a FSP to request funding under the other two Facility windows.

83. Depending on the scope of research and its relevance to FARMSE objectives, the IOF could provide financing of up to USD 50,000. Eligible expenditures include TA and logistic costs for undertaking fieldwork. The applicant would cover at least 20% of total costs through cash and/or in-kind contribution of staff time and transport. The window would also co-finance study tours and exchange visits enabling FSP decision-makers and operational staff to get first-hand insights into experiences of FSPs with successful rural products/services in other African countries. Study tours would be eligible if there is a clear link to the component objective and if the FSP can make a convincing case how the exchange would enhance its products and delivery mechanisms to FARMSE's target population. The IOF would finance 50% of the total costs for exposure tours, to a ceiling of USD 10,000.

84. **Window 2: Pilot Testing and Innovation** would support pilot-testing of product innovations and new low-cost delivery mechanisms. Based on prior market research (via the Window 1 or credible internal research), funding would co-finance costs of piloting of researched product(s). It will finance the recruitment of a qualified TSPs to work with a dedicated FSP team. Activities would include developing and piloting product prototypes, conducting pilot tests, adjusting and refining product features. Subject to commercial viability, a roll-out plan and budget could be prepared. Eligible costs to be covered by this window would include TA, some fieldwork costs, staff training, management information systems/information (MIS) and information and communications technology (ICT) updates and equipment. Support could cover costs of developing training material for prospective clients. The FSP would be expected to contribute at least 30% of total project costs, in cash or kind. The FARMSE grant ceiling would be USD 70,000.

85. **Window 3: Expanding Outreach.** This window will support scaling up of proven products/ services and delivery mechanisms. It can finance rollout of products and services piloted under Window 2, but also existing products/services developed by the FSP. Proposals would be based on: i) a proven product/delivery mechanism to be scaled up for FARMSE target group; and ii) a well-defined outreach strategy with clearly defined performance targets and milestones. Eligible expenses under this window include national and international TA for staff training, draft manuals, and institutional change. The IOF could co-finance physical investment costs related to the roll-out, such as ICT equipment, low-cost branches and agencies, vehicles, as well as incremental operating costs on a declining basis. Such costs will be directly linked to outreach targets. Finally, training and capacity development of prospective clients could be co-financed. To accommodate high impact projects which could lead to transformative change and reach many beneficiaries, a ceiling for

[36] TSPs can be international, regional, or international. FARMSE will retain the right to approve the qualifications of selected TSP on a project by project basis. FARMSE will also develop a roster of qualified TSPs to help facilitate selection by FIs. Approval of TSP will be applied for all three Facility windows.

matching grants under this window would be set at USD 1 million. FSPs would be required to contribute to 30% of the total project costs of which at least 20% should be in cash and 10% in kind.

86. **Eligibility and selection criteria** for proposals under each of the three windows is detailed in the programme implementation manual (PIM) Annex 2. The criteria has considered: outreach to reach poor households (directly or indirectly through SMEs),[37] outreach to women and youth, commercial viability, expanded outreach, and/or offer some form of beneficial innovation. Projects must also “fit” the strategic plan and market positioning of proposing organization, and have the technical capacity or credibly to implement proposed project. FSPs and their partners can apply several times to the IOF. While a sequencing of applications to the three windows will be encouraged (i.e., market research, pilot testing, followed by roll-out), this will not be strictly required. Proposed projects which can be linked to existing IFAD programme (SAPP and PRIDE) or operate in past programme areas (RLEEP), will be encouraged.

Component 3.0 – Strategic Partnerships, Knowledge Generation, and Policy

87. The outcome is to increase the capacity and knowledge baes of rural financial sector support organizations. There are three objectives: i) strengthen macro level regulatory and financial sector policy guidance and institutional capacity and rural and agriculture finance literacy; ii) strengthen meso level financial sector infrastructure organizations/enterprise; and iii) produce and distribute rural finance sector knowledge products which enhance the outreach and innovation potential of sector stakeholders.

88. This component will support a range of macro and meso level interventions supporting Components 1.0 and 2.0 and the development of the rural finance sector more generally. It will also fund a range of stakeholders at each of the macro and meso levels, as well as fund several knowledge products. Some sector development initiatives at these two levels are readily identifiable while other will become apparent as the sector, the programme and institutions develop.

Subcomponent 3.1 – Support for Poverty Graduation Policy/Strategy and Systems

89. Activities for this subcomponent will support on-going efforts at the Division of Poverty Reduction and Social Protection in MoFEPD to: i) develop the necessary policy, strategies, systems, l and tools related to the identification and implementation of effective graduation models for ultra-poor households; and ii) disseminate information among relevant GoM ministries and other stakeholders. Anticipated activities include technical assistance support for policy guidance and development. It will also include a participatory process to develop the capacity of the MoFEPD and other relevant GoM ministries to ensure government wide buy-in and understanding of graduation programmes and models. This will include such things as training workshops (both national and international), commissioning of targeted (participatory) research, and development of knowledge management diffusion tools to reach out key stakeholder groups.

90. The outcome of this subcomponent will be multi-ministerial support for good practice graduation approaches to poverty alleviation and enhanced capacity within the MoFEPD, MLGRD, MIT and other relevant ministries to manage good practice graduation programmes. These ministries already interface and collaborate on some thematic areas.

Subcomponent 3.2 – Support for development of Broader Rural Finance Policy

This subcomponent has three broad activities:

3.2.1 Development of a Broad Rural Finance policy, and Research support

91. This subcomponent will support the Pensions and Financial Sector Policy Division to develop a broad rural finance policy that recognizes ongoing work in agency and mobile money, collective efforts to improve the CBFO sector in order to improve rural financial access through better structured CBFOs. Such structures will increase benefits of participation, group sustainability, and linkages to the

37 By addressing key bottlenecks of related value chain actors or market partners resulting in increased access to inputs, markets, and finance by the target group.

formal financial sector. The outcome of this sub component will be broad access to good practice rural finance knowledge. It will also facilitate a formal GoM recognition of such practice

92. Activities will support stakeholder consultation/efforts such as the VSLA stakeholder and digital finance working groups and other relevant sector groups to develop, create awareness, distribute and employ good rural finance practice guidelines (e.g., harmonized VSLA formation and structures, core good practice standards that are realigned to global best practice in environment, social and governance (ESG) issues). It will work to develop mechanisms/tools for formal financial sector actors to better understanding and link with CBFO groups and their member enterprise on a commercially viable basis (e.g., assessing group/individual member credit risk as a function of adherence to core good practice standards). It will also support a rigorous qualitative and quantitative research effort to determine linkage strategies and the outcome and impact of different CBFO models.

93. Support for basic CBFO sector data aggregation may also be provided (e.g., group number, status, location, size, etc.). Funding of other knowledge products, stakeholder training and dissemination activities, and CBFO sector activities will be considered. To implement core good practice standards and risk analysis, the programme will identify and support an appropriate organization(s) able to convene and coordinate CBFO sector leaders and stakeholders (BAM, MAMN). Such organizations will provide CBFO and other rural finance thought leadership and guidance for selecting projects.

94. Specific activities of this subcomponent would include inter alia: i) development of good practice Rural Finance Policy; ii)CBFO guidelines; iii) formal FSP guide to CBFO and a CBFO credit risk manual; iv) research on how to best to link CBFOs to formal financial sector, CBFO impact assessment, and improving CBFO social and economic impact; v) support to Reserve Bank of Malawi, MOFEPD and other relevant GoM stakeholders capacity/knowledge of rural finance via workshops and trainings; and vi) support to informal CBFO working committee/s.

3.2.2 Financial service providers and agro-Industry sector development, policy, and research support

95. To reach out to more FSPs than those directly supported under Component 2.2, the programme would establish partnerships with industry associations such as Malawi Micro-Finance Network (MAMN), the Bankers Association of Malawi (BAM) and the Malawi Union of Savings and Credit Cooperatives (MUSSCO). Specific support activities will be defined but could include i) knowledge management on key innovations/lessons from the field; ii) development of training modules related to rural and agricultural finance for different target audiences (e.g., loan officers, credit committee members, executives and board members); iii) co-financing a feasibility study for a micro-finance Apex fund at MAMN; and iv) partnering with agricultural product input suppliers or warehousing companies to provide innovative smallholder finance products.

96. Via on-site and possible regional/ international trainings, this subcomponent will work to strengthen the capacity of the Pensions and Financial Sector Policy Division of the MoFEPD in the areas of rural and agricultural finance. To enhance policy and programmatic coherence among relevant GoM ministries and development partners, a high-level Agricultural Finance Working Group (AFWG) will be established and chaired by the MoFEPD. In addition, relevant public sector institutions and development partners, industry associations and FSPs engaged in rural agricultural finance could participate in the AFWG. Such a group could identify and address key policy and regulatory issues, and serve as a conduit for knowledge management and information sharing.

97. Potential activities will be further developed for all three subcomponents during planning stage of implementation. Additional activities and/or partnership might be identified during program implementation on a demand driven basis. The Knowledge Management Officer of the PMU with the assistance of PMU rural financial specialists, would manage the partnerships.

3.2.3 Rural Financial Literacy Expansion

98. According to RBM studies, financial literacy varies considerably depending on the financial concept, and is still low (57%) and this could be much lower for the rural communities. RBM is in the process of finalizing a financial literacy strategy. FARMSE will support RBM to incorporate specific rural and agricultural finance literacy aspects in the strategy and roll out specific financial literacy sessions to rural communities, and revise the schools curricula in line with rural and agriculture financial literacy.

D. Lessons learned and adherence to IFAD policies

Country performance

99. IFAD's Country Strategic Opportunities Programme (COSOP) 2010-2015 supported four investment programmes: the Rural Livelihood Support Programme (RLSP); the Irrigation, Rural Livelihoods and Agricultural Development Programme (IRLADP co-financed with the World Bank); the RLEEP, and the SAP programmes). IFAD has also funded/co-funded 12 regional and country grant funded programmes/projects in the country. A new programme for the irrigation sector, the Programme for Rural Irrigation Development (PRIDE), is just now starting implementation.

100. The COSOP 2016-2022 notes that government capacity to manage and implement programmes is stretched. The majority of government budget and human resources for the agricultural sector goes to the Farm Input Subsidy Programme (FISP) which is reaching 50% of Malawi's smallholders, but lacks incentives for farmers to boost productivity. The World Bank's 2014 Country and Policy Institutional Assessment (CPIA) shows a negative trend for public sector management in general and in rural development specifically. Government decentralisation efforts provides a network of local institutions and rural services, but the capacity to implement projects and programmes remains limited, which is further compromised by FISP subsidies. Private sector engagement in the rural economy remains limited due to perceived high risks and limited returns.

Lessons learned from IFAD past interventions in Malawi

101. The main lessons learnt from the IFAD funded programmes are summarized below:

102. **Policy engagement.** The COSOP 2010-2015 portfolio was well-aligned to the GOM's policies, but results were not systematically used to inform policy makers. Donor coordination and policy dialogue requires proactive support and facilitation if a constant transfer of programme knowledge to policy makers and development partners and desired outcomes are to be achieved.

103. **Programme management.** During 2010-2015, programme start-ups were slow, due to late fulfilment of effectiveness criteria. The lesson learnt is that a fully dedicated management unit enables efficient programme implementation.

104. **Good Agricultural Practices (GAPs) and climate-smart agriculture.** Proactive good agricultural practice (GAP) and Climate-smart agriculture practice promotion is required to boost smallholder production, as is the need for better post-harvest practices. Famers should also be encouraged to think of farming as a business, which includes seeking to improve access to markets.

105. **Rural Finance.** Limited access to rural finance services constrains agricultural development. COSOP 2010-2015 provided some support to improve access to rural finance, such as to support village savings and loan associations. Farmers' demand exceeds however available services and credit remains expensive.

106. **Value chain development.** Whereas once value chain assessments were undertaken primarily by non-private sector actors, an innovative process has started recently in Malawi where private sector companies identify value chains and their opportunities/restrictions. Some companies did this and then applied to RLEEP for matching grants (like IFAD's Public-Private-Producer Partnership, or 4P approach). The lesson learned is that private sector profit motivation can contribute to addressing value chain opportunities and bottlenecks resulting in broader development benefits.

107. **Gender and targeting.** In IRLADP and SAPP, the Household Methodology Approach helped household members develop visions, plans, and make decisions on crops, revenues, and household resources. The household methodology is inclusive and addresses gender equality, while respecting household diversity. As demonstrated by SAPP, the household methodology is most effective when widely used within communities as changes within the households complement broader collective changes to socially acceptable norms.

108. **Nutrition and food security.** There is a need for more rigorous nutrition intervention and districts with high rates of stunting should be targeted. All programme should be nutrition sensitive and promote nutritious plant production, good post-harvest and food processing and awareness through campaigns and household level training.

109. **Climate change and vulnerability to external shocks.** Climate change has become a reality for Malawi's largely rain-fed agriculture. Smallholder assets bases and incomes are particularly vulnerable to climate effects. This has implication for how farmers should produce, but vulnerability should also condition smallholder financing arrangements to ensure financial services maximize household economic development while, as far as possible, mitigating climate risks.

Rural finance and graduation lessons learned relevant to FARMSE design

110. **Lessons learned related to specific components** from other IFAD rural finance investments in the region (e.g. PROFIT Kenya; RUFIP Ethiopia; FIRA Uganda; RUFEP Zambia) as well as other donor interventions in the sector are synthetized below and will be further assessed during the next phase of the design process.

111. **Geographic Distribution of Resources.** While the programme will be national in scope, some interventions will target strategically identified districts. This will be done to concentrate resources for maximum impact of funds, and to test/identify effective, efficient, and replicable interventions for the purposes of scaling up. Lessons from past interventions show planned overlap with complementary existing or new IFAD programmes and/or those of other donors can multiple target group benefits.

112. **Each socio-economic stratum requires differentiated interventions.** Within each socio-economic stratum, people of different ages and gender require a specific approach to attain food security and to develop income, and assets. Similarly, some financial tools and interventions are more appropriate for one group than others. Graduation models will target the ultra-poor, while informal financial organizations such as CBFOs are better suited to the ultra-poor but non-labour constrained and poor but food-secure. Financial services offered by formal financial services providers are often more effective households that are vulnerable to poverty and resilient households and MSMEs.

113. **Private Sector Partners.** Private sector partners require incentives to enter markets as well as attractive long-term profits to remain in them. Before entering a partnership for market development purposes, interventions must have credible market analysis which shows the commercial potential of a venture. Programme partner enterprises must also have a demonstrated will and capacity to sustain the market intervention over the time required to achieve profitability, otherwise the sustainability of proposed services/business activities will be at risk. Programmes working on a cost sharing basis with private enterprise can ensure long term partnership commitments.

114. **Terms of Partnerships.** Longer-term partnerships are commonly appropriate for sector development programmes, particularly those in countries where relatively few market players exist. To ensure good partner performance and substantial sustainable benefits flow to target groups, longer-term programmes must be multi-phased and performance-based.

115. **Elite Capture.** Entering programmes with private sector enterprise often implies benefits will flow to high income beneficiaries. While this is practicably unavoidable, it is not necessarily undesirable as private enterprise can play key roles in developing agricultural and finance sector value chains to the benefit of the rural poor. Working with the private sector with the explicit and measurable intention of creating substantial benefits to low income populations can avoid unnecessary elite capture. With appropriate processes and a strong targeting strategy, the risk of

unnecessary elite capture or elite capture which does not translate into substantial target beneficiary impacts, can also largely be avoided. Programmes working on a cost sharing basis with private enterprise can minimize elite capture.

116. **Product market analysis.** When financial service providers attempt to design, or adapt financial services products for low income and/or rural markets they often fail to undertake adequate market research, product testing, and/or to develop the delivery capacity required to reach/or meet demand. The result is almost always poor product/service performance. Good practice product design requires an understanding of client needs which can be capture through a **Human Centered Design** (HCD) approach. HCD is an approach which recognized the centrality of client needs. This approach has worked well in many financial sector development activities as it starts with people and ends with solutions uniquely tailored to meet their needs.[38] Like participatory planning and development, client involvement is not a one-off activity. Rather it is an ongoing, iterative process integrated into market development activities. This approach can be at odds with the more rapid pace expectation of private sector actors. Where implemented to good practice levels, however, HCD has been shown to reduce market entry risks leading to improved prospects for sustainable product/services development.

117. **Co-Financing.** Programs that involved private sector typically have some form of co- financing arrangements. Programmes must strike a balance between incentives for the private sector to engage in market development and insisting on an investment cementing their commitment to the commercialization of an opportunity. In lay terms, this is called “skin in the game” or, that a business must risk substantial time and capital to prove their commitment and to justify programme resources.

118. **Graduation models and livelihood opportunities.** The original BRAC graduation model implemented in Bangladesh is commonly referred to as the “graduation approach”.[39] Results of the approach as applied in other countries provides encouraging but mixed results, and have found that it is not possible to predict *ex-ante* those who will benefit most from the graduation approach.[40] Challenges in Bangladesh, for example, included difficulties graduated households encountered marketing products intended to sustain them out of poverty.[41] This example underscores both the challenge and need for access to realistic sustainable livelihood opportunities for the graduating poor. The IFAD programme PROFIT in Kenya confirms strong technical expertise is required to operationalize and manage graduation programmes.

Rural finance programme management lessons learned

119. **Technical capacity.** Both graduation and financial sector development programs typically rely on and require substantial, and often times highly specific technical expertise. This applies both to programme management and to programme implementation. Programmes lacking technical expertise often struggled to attract and assess the capacity of appropriate programme partner institutions. Monitoring and evaluation of partner performance can be equally challenging, a particularly important consideration for multi-phased, performance-based programmes such as FARMSE. At the programme level for both graduation and financial sector programming, the capacity and resources must be available for sourcing highly capable technical assistance and for ongoing support of programme/field team training and development. In many cases, high-level technical assistance must be a condition project funding.

120. **Short Term or Sporadic TA is often insufficient.** Myriad past experiences show sporadic, short-term TA focusing on single technical challenge is typically insufficient to support financial service providers in developing appropriate and rural financing products/services. FSPs typically require substantial technical and operational capacity improvements beyond market research and product

38 For more information see: https://www.cgap.org/publications/what-human-centered-design-means-financial-inclusion for further information
39 CGAP and Ford Foundation, September 2014. From Extreme Poverty to Sustainable Livelihoods. A Technical Guide to the Graduation Approach.
40 IPA, September 2016. Impact of the Graduation Approach: Findings from the CGAP – Ford Foundation Pilots.
41 Representatives of the Malawi Team Visiting the BRAC Graduation Programme in Bangladesh (authors not cited), 2016. BRAC Bangladesh Study Tour Report from 29th November to 4th December 2015.

development.[42] Developing and implementing a sustainable rural outreach strategy also often implies institutional change beyond the simple transfer of technical skills which also requires experienced TA.

121. **Championing change is critical in the private sector.** Negative perceptions about the feasibility of profitably of serving rural areas and agriculture are often rooted at all levels of an institution, from frontline staff to senior management to board members. A change in institutional perception is key to successful results on the ground and experience has repeatedly shown a credible institutional champion is critical to changing mind sets.[43] The champion, often the CEO, must ignite, and drive new product or market development processes, ensure support/guidance from qualified technical partners, build ongoing internal change management support, and manage institutional change risk.

122. **Funding Flow.** Private sector partners and market development interventions are highly sensitive to timing issues, particularly when substantial private sector investment is at risk. In RUFIP Lesotho, for example, funding for CBFO group formation was stalled 18 months and resulted in both lost opportunity costs to serve more beneficiaries, leading to the closure of RUFIP funded CBFO groups due to lack of support. Maintaining planned flow of funding is critical to ensure programme targets and co-financing commitments are met, and private sector partners' commercial momentum is maintained.

123. **Program oversight.** Just as technical capacity is required at the management and project implementation level, financial sector programmes require a high level and engaged oversight body. Without such oversight, meeting implementation targets and market development objectives, programming can fall behind the relatively fast-paced expectations of programme partners – particularly private sector partners causing them to lose interest, not meet performance goals, or find other more profitable ways to spend time and capital.

IFAD policies

124. The strategic goal of IFAD Strategic Framework 2016-2025, also aligned to the cross cutting issues around policy engagement, is to 'enable rural households and communities to gain increasingly remunerative, sustainable and resilient livelihoods that help them permanently move out of poverty and food insecurity'. To achieve this, IFAD will focus on three interlinked and mutually reinforcing strategic objectives:

i) **Strategic Objective 1: Increase poor rural peoples' productive capacities** – investing in rural people, especially the most vulnerable, to improve their skills to become more productive farmers, fishers, or artisans;

ii) **Strategic Objective 2: Increase poor rural peoples' access to markets** – increasing poor rural peoples' access to and integration in markets for goods, services, and wage labour both in agriculture and in non-farm activities on a sustainable and profitable basis; and

iii) **Strategic Objective 3: Strengthen the environmental sustainability and climate resilience of poor rural peoples' economic activities** – strengthening rural people's ability to be able to adequately take care of the environment in which they live while, at the same time, benefiting from it.

125. **FARMSE is aligned with all three Strategic Objectives.** The programme will increase poor rural people's productive capacities (SO1) by providing them with access to financial services either directly or indirectly through provision of value chain enhancements. Through the graduation component, FARMSE will provide some of the poorest people in Malawi a pathway from ultra-poverty

42 Examples include strengthening human resources (capacity and incentives to service new rural target groups), adjustments of the Management Information System (MIS) to adequately measure performance and make adjustments in a timely manner, but also investments in physical outreach capacity to reach remote rural clients, such as low-cost branches and mobile technologies.

43 In Swaziland's Rural Finance and Enterprise Development Programme, a FSP was unable to advance outreach and improve performance despite consistent support due primarily because its ownership was not willing to change its business model.

to sustainable livelihoods and active market participation. The programme will increase target beneficiaries' access to markets (SO2) by providing financial tools to build household. Improved household management will also increase household social capital and confidence to start and or expand farming activities, and/or micro and small enterprise. Finally, the programme will strengthen the environmental sustainability and climate resilience of target beneficiaries' economic activities (SO3), by promoting community-based financial activities with local economic multiplier effects making the poor less dependent on climatic variability.

Overall compliance with IFAD Policies

126. The design of FARMSE is aligned to all relevant IFAD strategies and policies, including:

i) Strategic Framework 2011-15;

ii) Targeting Policy – Reaching the Poor (2010);

iii) Gender Equality and Women's Empowerment;

iv) Rural Finance Policy;

v) Private-Sector Development and Partnership Strategy;

vi) Rural Enterprise Policy;

vii) Policy on Supervision and Implementation Support;

viii) Climate Change Strategy (2010);

ix) Environment and Natural Resource Management Policy (2011); and

x) Social, Environment and Climate Assessment Procedures (SECAP).

127. **Rural finance policy.** Consistent with the goals of IFAD's rural finance policy and technical guidance, FARMSE will support several demand-driven and innovative approaches to rural financial services: including: i) strengthening financial literacy and community-based microfinance; ii) providing technical assistance to selected FSPs to strengthen their capacity to service smallholder farmers; and iii) encouraging risk-sharing through a partial guarantee facility for selected FSPs.

128. **Targeting and gender and women economic empowerment policy.** FARMSE will target the full socio-economic strata of the rural poor. This will include both non-economically active poor and productive poor (those engaged in smallholder subsistence and commercial farming, as well as those with micro and small enterprise). The programme will target at least 50% of all beneficiaries to be women and over 40% youth. The programme will employ graduation household methodologies and CFBO models aimed at enhancing gender/youth household relationships. Financial product/service development will proactively consider women, and youth.

129. **Environment and climate change.** The environmental and social classification of FARMSE is **Category B**. The impact of directly-financed activities is limited to specific sites and can be mitigated using readily available measures. The cumulative impact of an increase in economic activities, indirectly caused by the programme, may cover a wider geographical area and be less easily mitigated by the programme, but will have limited impact severity. Programme-specific risks will be further detailed and mitigation measures agreed upon in the Environmental and Social Management Framework (ESMF) which will be developed during programme start-up. Contracting of service providers will be preceded by due diligence on their social and environmental policies and capacities to implement those. Implementation of the ESMF will be monitored as part of the Programme's M&E system and a grievance redress mechanisms will be established.

130. The high vulnerability of the target beneficiaries to climate-related shocks, will pose a risk to the programme achieving its objectives. Major events such as droughts or floods, such as those experienced in 2015 and 2016, may disturb the expected development trajectory of those farmers under the graduation model or negatively affect the ability of households to repay loans or save. At the same time, the Programme's design includes innovations in rural finance to overcome these types of

setbacks. The climate risk category is thus assessed as **Medium**. More details are available in the SECAP Review Note in Appendix 14.

III. Programme implementation

A. Approach

131. The proposed principles of engagement for programme design are:

i) Within each household strata, people of different ages and gender require a different approach to attain food security, income, and asset development. While not exclusive to any group, some financial tools and interventions are more appropriate for one group than others. Graduation models will target the ultra-poor, while informal financial organizations such as CBFOs are better suited to the ultra-poor but non-labour constrained and poor but food-secure. Financial services offered by formal FSPs are often more effective tools for households that are vulnerable to poverty and resilient households and MSMEs. The FARMSE design will seek to provide the most appropriate intervention for each target group, including youth, with gender sensitive approaches;

ii) While the programme will be national in scope, some interventions will target strategically identified districts. This will be done to concentrate resources to maximize use of funds, and to test/identify effective, efficient, and replicable interventions for the purposes of scaling up. Where possible programme activities will overlap in geographic areas to maximize impact and potential for scaling up;

iii) The programme will work with a range of private and non-profit financial service sector and agro-industry organizations and stakeholders on a cost sharing basis, to provide sustainable financial and non-financial benefits to targeted groups and beneficiaries;

iv) The programme will support private and not-for-profit organizations individually or in consortia, based on short or longer-term strategic partnerships. Longer-term programmes will be multi-phased and performance-based, on a cost sharing basis;

v) To ensure the GoM's ability to successfully manage and oversight programme implementation, a Programme Management Unit (PMU) technically qualified to manage a financial inclusion programme will be created. The GoM will be supported with training and technical capacity development as required;

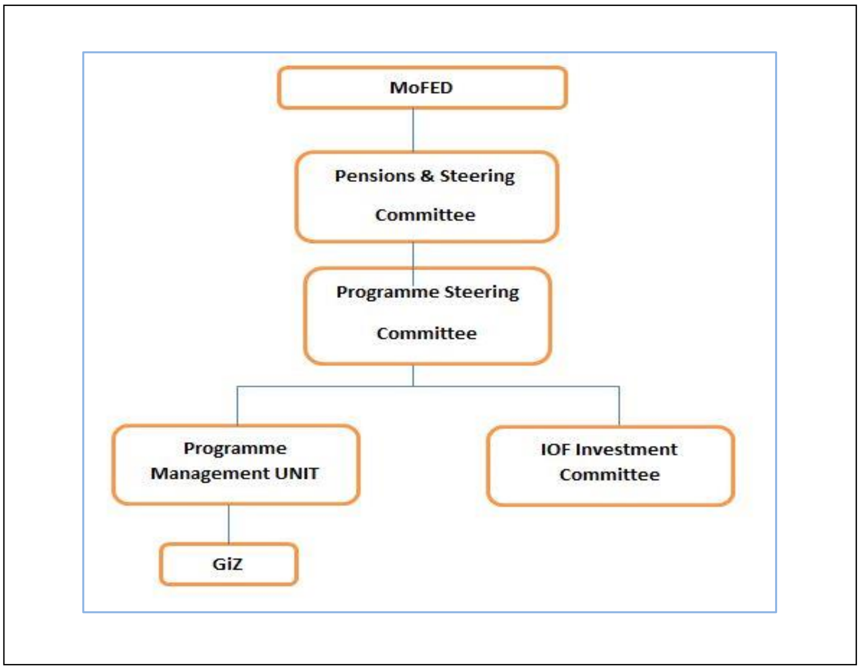
vi) A high-level Programme Steering Committee (PSC) with GoM and private and non-profit sector financial and agro-business stakeholders will be formed; and

vii) Programme partners will be required to employ high-calibre international, regional, and national financial sector experts as required to ensure effective programme implementation.

B. Organizational framework

132. The lead ministry and lead programme agency for FARMSE is the MoFEPD. The Pension and Financial Strategy Division will be charged with coordinating, liaising and day to day interaction with the programme. Other stakeholder ministries include: Ministry Agriculture and the Ministry of Local Government and Rural Development (MLGRD). Other key stakeholder institutions include GIZ, which will take responsibility for Component 1, the Reserve Bank of Malawi, the Bankers Association of Malawi, and the Malawi Microfinance Network. Other important stakeholders will include non-governmental organizations, private sector financial sector and agricultural value chain suppliers providing services for FARMSE implementation.

Figure 1: FARMSE management structure



133. The programme will have the following implementation bodies:

134. **Programme Steering Committee.** A multi-sector stakeholder Programme Steering Committee (PSC), chaired by the Principal Secretary of MoFEPD, will be established to provide overall programme oversight, direction, and guidance. The PSC will be made up of representatives of key stakeholders including, *inter-alia*, government ministries, farmer organisations, apex bodies, the private sector, and development partners. The PSC would meet on a quarterly basis to review work plans and budgets, financial and progress reports, receive draft annual reports and approve all major programme decisions. The multi-sectoral composition of the PSC will ensure FARMSE's implementation complements rather than duplicates other government interventions and encourages private sector participation, harmonizing the programme's contribution with the GoM's strategic priorities and development objectives for the sector.

135. **Programme Management Unit.** Day to day coordination of programme activities and select technical activities will be delegated to a stand-alone dedicated programme management unit (PMU) located in Lilongwe. Reporting to the Principal Secretary of the MoFEPD, the PMU will be granted authority to undertake all financial and procurement management activities, lead implementation and provide specialist technical inputs. It will be responsible for programme accounting, withdrawal applications, keeping of programme accounts, consolidating AWPBs, consolidating annual reports, correspondence with government authorities on issues related to the Financing Agreement (excluding the technical implementation matters), document depository, procurement, submission of reports to IFAD and other related agencies/stakeholders, monitoring and evaluation, preparation, guidance and supervision of the mid-term review mission, commissioning the beneficiary impact assessment, and preparing the end-of-programme evaluation. Other activities comprise the preparation of and support to supervision and research missions.

136. The PMU will be staffed with: i) programme coordinator; ii) national rural finance/microfinance specialist; iii) CBFO Specialist; iv) financial controller; v) procurement officer; vi) knowledge management/communications officer; vii) monitoring and evaluation officer; viii) Accountant

137. Additionally, the PMU will host a long term Chief Technical Advisor (CTA) recruited internationally or regionally, and contracted to manage Component 2 and provide overall technical

support especially systems development and also component 3. The position is for a three year term and this may be extended if there is need. This position will be paid through the Innovation and Outreach Facility (subcomponent 2.2). The CTA will work closely with the programme coordinator and the national rural finance/microfinance specialist, who together will develop the AWP&B. The CTA will be responsible for delivering all aspects of Component 2.0 activities based upon the AWP&B, The rural finance/microfinance specialist besides overseeing activities of component 1 will shadow the CTA, with the goal of taking over functions of the CTA after the three year term.

138. The PMU staff will be recruited through a competitive process following IFAD/GoM procedures, and, staff will be contracted based on time-bound, performance-based contracts. Some key staff will transition from RLEEP to FARMSE under new contracts, but the recruitment and renewal of all PMU staff will require prior consent from IFAD. Long-term technical specialists attached to the PMU will be selected as part of the PMU start-up activities with support from the IFAD rural finance technical unit. (See TORs for these positions in Appendix 11).

139. The PMU will have three programmatic technical tasks. The first will be to oversee and support the implementation of Component 1.0 and subcomponent 2.1. The second will be to implement subcomponent 2.2. This will be led by the CTA who will be in contracted for three years, after which the rural finance specialist will assume responsibility for the subcomponent activities. Third, the programme coordinator will be responsible for the coordination and management of Component 3.0, recruiting and supervising TSPs as necessary.

140. **Programme implementation.** Component 1.0 will be managed by GIZ. Implementation of activities under Component 2.0 will be done primarily by private sector and NGO service providers, with the PMU providing guidance and oversight and support as required. For Component 3.0, the programme coordinator will proactively manage institutional partner development. Specific research and knowledge activities will be undertaken by contracted private sector and NGO service providers, the Reserve Bank of Malawi, or government agencies.

C. Planning, M&E, learning and knowledge management

141. FARMSE's approach to planning, monitoring and evaluation (M&E) will be compatible with corresponding GoM and IFAD policies and tools (e.g., IFAD Results and Impact Management System - RIMS). Guided by the Programme's logical framework, the M&E function will systematically record data and performance information of programme partner performance implementation, as well as household surveys.

Planning

142. The main planning tools for FARMSE will comprise the Logical Framework, M&E framework including its indicators and targets, and the Results Based Annual Work plan and Budget (RB-AWPB). The Logframe provides indicators and targets for programme implementation from output over outcome, development objective to impact levels. The RB-AWPB will break physical targets up by year and attach financial resources to them. The RB-AWPB shall present financial and physical outputs and outcomes of the programme for the given year, and report on the accumulative achievements. The execution of the RB- AWPB will be monitored along the M&E framework of the programme and reported back in regular intervals from quarterly to semi-annuals reports. The cycle of planning, monitoring and reporting is essential for efficient management of the programme and for achieving the results as agreed.

Results based Monitoring and evaluation

143. FARMSE's approach to planning, M&E and knowledge management system will be developed to generate comprehensive and reliable information, to improve planning and decision-making for effective programme management towards results and impact. The system will inform FARMSE overall and programme performance. Both, programme and Results and Impact Management System (RIMS) indicators, at each level will be used to guide programme management and performance. The

IFAD- RIMS manual and templates will be placed in the Programme Implementation Manual (PIM) for guidance. The PMU will have the responsibility for M&E system management.

144. Preliminary baseline and target values are to be established for the key indicators based on the data used for the economic and financial analysis. The PMU will conduct a baseline survey of targeted areas to benchmark key indicators at the beginning of programme implementation and set targets against which progress of the programme will be monitored and impact assessed. A detailed M&E plan to guide the implementation of the programme at all levels will be developed by the PMU within the first few months of implementation.

145. The integrated M&E system will: i) measure the achievement of the logical framework indicators (including the RIMS); ii) assess the relevance of the programme strategy, methodologies and implementation processes; iii) assess the performance of implementing agencies and external service providers; iv) assess programme outcomes and impacts partner service providers/stakeholders including clients, specifically women and youth; v) identify successes and good practices which can also be used to inform Component 3 (and particularly sub-component 3.1); and vi) share knowledge as appropriate with programme stakeholders to support dialogue and decision making. The system will provide performance transparency, respecting as necessary sensitive/proprietary partner information.

146. Beyond RIMS and Logical Frame work measures, other programme and programme metrics will be developed by the PMU with the input of programme stakeholders. Component 1.0 will have two streams of complementary data. First it will undertake a baseline study structured to provide the basis for a random control trial research assessment of graduation impact. This will be used as a part of a longitudinal impact study of the targeted graduation households. Second, two qualitative studies of graduation model households will be undertaken to better understand the effect of graduation on household time use, productive decision making, gender relations impacts, etc.

147. Component 2.0 will require the development of a set of programme partner performance metrics. Data required for CFBO groups will be provided by programme partners and will include basic programme performance indicators including number of groups, number of members, location, some basic form of performance/sustainability. A set of cores metrics will apply to all 2.2 programmes (i.e., around profitability, efficiency, etc.). Another set of metrics will apply only to each specific programme (e.g., non-financial sector partners versus financial sector partners). All metrics beyond those related to FARMSE Logframe, will be developed with the concomitant aim of providing programme partner, programme partner stakeholders and the programme performance data in support of performance management. This will include development of a monitoring process with provision of timely, actionable problem and opportunity identification outputs (e.g., identification of TSPs and FSPs conflicts, client need/demand for financial services, market bottlenecks, etc.). Data will also be used to support relevant policy dialogue. Performance data will be collected by partners and aggregated by the PMU monthly, and reported on a quarterly.

148. **Programme Baseline Study.** The FARMSE baseline study will be designed and carried out at programme start-up in areas likely to be selected for at least one component activities, preferably two. The baseline study will form the basis for assessing programme effectiveness and results achievement. The household survey shall be repeated at mid- term (or programme year 3-4) and at programme completion. Repeated measurements allow for obtaining data and information required for assessing the performance and achievements of the programme over time. Baseline studies will include a target group and a control group, and will incorporate the Multidimensional Poverty Assessment Tool (MPAT). This will be essential to determine attribution of results to programme activities.

149. **Reporting.** The M&E staff will produce three core reports: i) a quarterly progress report by each service provider; ii) a semi-annual progress report; and iii) an annual progress report. The programme Logical Framework includes the draft indicators against which programme performance would be monitored and the sources of data to be used. These indicators would be discussed and agreed at

programme start-up. Draft reports will be shared with programme partners and other relevant stakeholders. Comments and input would be consolidated by the PMU M&E staff, reviewed, and approved by the PSC prior to submission to IFAD, and the GOM. The M&E team will also consolidate programme performance input for Sub components 2.1 and 2.2 monthly, providing trend analysis as projects are implemented. Aggregate core metrics and limited, non-proprietary (to be negotiated) project partner performance data will be published on-line quarterly to update stakeholders on project performance and to foster friendly competition.

150. **Start-up workshop.** MoFEPD will organize a FARMSE start-up workshop, with the aim of presenting programme objectives and scope, roles and responsibilities to potential stakeholders, service providers and samples of beneficiaries. The workshop's timing and agenda will be agreed upon between GOM, IFAD and key programme stakeholders including GIZ. The objective will be to have full buy-in and ownership of FARMSE by all stakeholders. The programme design report needs to be disseminated prior to a wide audience within the GOM, among potential programme implementation partners, and other stakeholders. Invitations to the workshop should be equally inclusive.

Learning and knowledge management

151. **Learning system.** Capturing and documenting lessons and innovations through on-going data collection, monthly/semi-annual reports, and thematic studies will be an integral part of the FARMSE L&KM. disseminating reports and studies (in full or synthesized) will enable sharing of information and dialog facilitation with stakeholders. FARMSE will also have bi-annual and annual review meetings/ workshops. Workshops will report on programme progress, lessons learned, challenges and solutions to implementation constraints. Workshops will be learning events as well, presenting the opportunity to influence the programming performance reviews. A short report capturing workshop discussions and results will provide feedback to the programme's planning and AWPBs as a part of FARMSE's commitment to participatory, demand-driven planning and implementation commitment.

152. Knowledge development and diffusion. FARMSE will support the creation of replicable and scalable approaches to graduation. It will also support the development of several innovative rural financial products, services, and delivery mechanisms. The PMU will work closely with programme partners and the M&E function to capture the process, technical, management, and impact learning's of these programme/ project experiences. The knowledge management function of the M&E will document and share knowledge through internal (e.g., learning events, stakeholder workshop meetings, etc.) and external mechanisms (e.g., website, blogs, podcasts featuring programme stakeholders, etc.). In addition, the programme would publish a semi-annual programme update (online/print) and on various good practices and human interest stories. Knowledge activities will proactively pursue gender and youth issues, and present success stories related to vulnerability reduction and livelihood diversification as a means of household risk management.

D. Financial Management and Procurement

Financial management

153. A Financial Management Assessment (FMA) was undertaken as part of the programme design in accordance with IFAD requirements and Financial Management Division (FMD) guidelines on financial management assessment at design. The assessment was based on review of operation of the Programme Support Unit (PSU) of the IFAD financed RLEEP, Ministry of Local Government and Rural Development (MLGRD), the IFAD financed SAPP mainstreamed in the Ministry of Agriculture, the National Audit Office headed by the Auditor General and the Internal Audit of the Ministry of Finance. A review of previous supervision mission reports on financial management was also undertaken during the design mission.

154. The results find a medium fiduciary risk if the PMU composition, management responsibilities, and implementation activities proposed by design are followed. While FARMSE will be the first IFAD programme led by the MoFEPD, the ministry has substantial experience with other donors and the

FMA found that GoM systems provide adequate controls to ensure proper management of programme funds. That the Pension and Financial Strategy Division of MoFEPD, the designated FARMSE manager, was recently formed ensures the importance of a strong, supportive PMU and of the proposed management training activities. (See Appendix 7 for details)

155. IFAD funding will be administered through a separate designated account opened solely to receive Programme funds from IFAD. MoFEPD will be responsible for ensuring adequate financial management arrangements throughout FARMSE implementation. The operational day-to-day financial management functions including budgeting, accounting, funds flow management, internal control, financial reporting, and ensuring timely external audits will be the responsibility of the Financial Controller of the PMU overseen by the Programme Coordinator.

156. To provide assurance of strong internal controls, MoFEPD will ensure regular internal audit activity provided by the internal audit unit of the Ministry. Supervision missions would report on the activity of the internal audit by reviewing Programme reports and assessing management's responsiveness to recommendations. Internal controls will also be verified during an annual audit undertaken by the Auditor General or by an acceptable designated third party. In compliance with IFAD's General Conditions, FARMSE's financial statements shall be audited on an annual basis in accordance with IFAD audit guidelines. The audit reports together with the related management letters shall be submitted to IFAD no later than six months after the end of each fiscal year. Financial management arrangements including, staffing, budgeting, accounting, funds flow, disbursements, financial reporting, internal controls, and auditing are detailed in Appendix 7.

Procurement

157. Procurement of goods and services including human resources to be financed from the proceeds of the loan will be done in accordance with the Government of the Republic of Malawi (GoM) procurement procedures as per the Public Procurement Act Number 8, 2003, the Malawi Government Public Procurement Regulations of 2004, and GoM Desk Instructions for Public Procurement.

158. The Secretary to Treasury will delegate procurement powers to the FARMSE PMU and will appoint an Internal Procurement Committee (IPC) comprised of officers from MoFEPD and the PMU. The IPC will be the overall approval authority as it will approve: i) all procurement plans; ii) draft advertisements and other bidding documents; iii) specific terms and conditions relating to contract amounts, completion periods, stages, and conditions of part payments; iv) all the contracts above USD 10,000 (or as shall be specified in the Letter to the Borrower); and v) variations/amendments of contracts that have been cleared. The operational day-to-day procurement functions including procurement planning, execution of procurement actions and reporting will be the responsibility of the procurement unit of the PMU. A Procurement Specialist will be recruited on a performance based contract shortly after start up to support help establish procurement systems and train the staff responsible for procurement in the PMU and MoFEPD.

159. All procurement financed from proceeds of the IFAD grant will be exempt from national and local duties and taxes. All procurement will be executed only against approved procurement plans and AWPBs, specifying items to be procured, responsibility for the procurement and the appropriate procurement methods. There is a need for strong record keeping including at implementation partners to facilitate procurement verification during missions and audits during implementation. Details on the procurement arrangements are presented in Appendix 8.

E. Supervision

160. FARMSE would be directly supervised by IFAD. Direct supervision would encompass four discrete processes: i) loan and grant administration; ii) procurement review; iii) audit review; and iv) supervision and implementation support. Direct supervision would be applied as a continuous process which requires on-going communication and engagement with the GoM and the PMU. Key supervision processes which would be applied are outlined below.

161. Loan and Grant administration would ensure fiduciary compliance, with focus on: i) compliance with legal covenants; ii) financial management and specific focus on management of grants under the innovation facility. The procurement review will focus on: i) the procurement planning and processes; and ii) management and monitoring of contracts. Audit reviews will focus on: i) prior review of the terms of reference and appointment of the programme audit; and ii) quality of the programme audit.

162. Programme supervision with focus on: i) implementation performance and progress towards programme objectives; ii) programme investments, outputs, outcomes, and impact; iii) quality of AWPB, M&E, and reporting; iv) effectiveness of the PSC, programme management, implementing institutions, and service providers; v) good governance: transparency and participation; and vi) targeting and gender. Associated implementation support will provide advice for the following aspects of programme performance: i) efficient achievement of programme objectives; ii) implementing and mainstreaming new approaches; iii) addressing operational issues and problems; and iv) generating lessons and articulating best practices.

163. The supervision process would guide the programme towards the achievement of strategic objectives and broader poverty reduction outcomes, while ensuring fiduciary compliance and responsiveness to the accountability framework. Several instruments would be applied to influence implementation: i) on-going policy dialogue with Government; ii) adjustment of annual work plans and budgets; iii) revision of implementation manuals; iv) undertaking of supervision and mid-term review missions; and, legal amendments as appropriate.

164. IFAD will conduct joint field supervision missions with the MoFEPD twice per year. In addition, the MoFEPD will commission an independent external review at mid-term and end-of term. The evaluations will assess processes and results and draw lessons for future programming.

F. Risk identification and mitigation

165. FARMSE will be the first inclusive finance sector development programme in Malawi since a United Nations Capital Development Fund programme ended in 2012. Current and recent past IFAD and other donor programmes had limited or indirect rural finance sector intervention impacts. Thus, there is less than ideal information upon which to anticipate risks to FARMSE. Some, however, are well known due to experiences in other countries in the region while others are specific to the operating and government environment of Malawi.

166. Because of this and to ensure sustainability of the proposed programme interventions, substantial attention is given to identification and management of risks in the FARMSE design, particularly through the provision of strong, long term technical assistance. The current programme design limits the exposure to risks, and proposes measures to manage those risks deemed acceptable or inevitable. Macro-economic and political instability, however, remains a key risk outside the control of the programme. The principal risks affecting FARMSE are set out in Table 4 which provides an assessment of the current level for each major risk facing the programme, and identifying the possible consequences as well as proposed mitigation measures.

Table 4: Risk identification and mitigation matrix

Risks	Current Level	Possible Consequences	Mitigation
1. Slow Programme start up jeopardizes implementation plan.	Medium.	Component 1.0 has a staged approach with a relatively tight time line. There is a risk of slow interface between level 1 which will be fully GoM/other partners supported with level 2-5 where IFAD support is expected. Component 2.0 risks not meeting disbursement targets. Both risks potentially decrease the number of target beneficiaries supported out of poverty.	Provide sufficient support to GoM in start-up phase. Provide sufficient and capable TA for programme start up and implementation. Closely monitor potential bottlenecks in implementation and allow flexibility in overcoming these.
2. Climate change, climate variability, macro-economic and	Medium	Poor crops negatively affect rural economy and financial sector expansion potential. Unexpected macro-economic shocks (hyper-	FARMSE will stress planning for long-term financial service provision. Proposed financial service innovations/outreach mechanisms will be rigorously

Risks	Current Level	Possible Consequences	Mitigation
shocks.		inflation, devaluation, etc.) negatively affect the national/rural economy.	tested and business models/pro forma estimates will be purposely modest to accommodate climate driven or macro-economic impacts. The programme can not anticipate economic shocks but every effort will be taken to ensure the effectiveness of finance products to withstand/accommodate reduced demand and or increased market place risk. FARMSE will, in the short term, increase households' resilience by increasing financial buffers. Over time, increased investments will reduce exposure to extreme weather events.
3.Lack of interest by financial institutions and agricultural value chain businesses/ organizations to participate in the IOF.	Low to Medium	Without substantial participation from enterprise/organizations, there is a risk that few innovative and/or scalable financial products/services are developed to better serve the rural poor.	Soft commitments by CBFO support organizations and FSPs in design of programme participation. Provide strong technically capable PMU staffing. Proactive recruitment of enterprise/organizations for participation and provision of strong TSPs for product/service development.
4. Financial institutions/ agriculture value chain actors do not source appropriate technical assistance.	Low	Without strong technical assistance, IOF grantees will face substantial challenges to design, develop, test and roll out new products for rural markets.	The FARMSE PMU/CTO for rural finance must have strong international experience and proactively support recruitment of TA service providers with the capacity to support IOF grantees in Malawi.
5. GoM policy deviates from good practice inclusive finance or political economy prevents good practice from being translated into policy.	Low	GOM financial and inclusive financial policy and regulations to date have generally followed international good practice. However, the government could introduce subsidy programmes, interest rate caps, or not entertain needed if modest regulatory and/or policy initiatives (esp. around mobile money) anticipated by FARMSE which could limit private sector investment interest in rural financial sector innovation and outreach development.	Provide proactive support to the MoFEPD, other stakeholder ministries, the RBM and other relevant sector stakeholders to bolster commitment to good practice inclusive finance sector development and a comprehensive strategy to manage political alignment with policy recommendations coming from Component 3 of the project.

IV. Programme costs, financing, benefits and sustainability

A. Programme costs

167. Programme costs are organized into three technical and one non-technical components: (i) Graduation of Ultra-Poor Households; (ii) Support to Financial Innovation and Outreach; (iii) Strategic Partnerships, Knowledge Generation and Policy; and (iv) Programme Management and Coordination. A summary breakdown of programme costs by components and their respective sub-components is shown in Table 2.

168. Total programme costs to be incurred during the seven-year implementation period, including price and physical contingencies, duties and taxes, are estimated at USD 57.8 million. This includes a base cost of USD 54.8 million and physical and price contingencies of USD 2.9 million. Estimated foreign exchange expenditure is about USD 28.1 million, local cost is about USD 20.8 million and duties and taxes amount to USD 8.8 million. Investment costs represent 93 per cent, with recurrent costs accounting for the remaining 7 per cent of the total cost. Programme management and coordination costs account 10 per cent of total programme costs.

Table 1: Programme Cost Summary by Component & Year (USD'000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Project Components by Year -- Totals Including Contingencies
(USD '000)

	Totals Including Contingencies							
	18/19	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
1. Graduation of Ultra-Poor Households	899	2,406	3,706	4,355	3,262	1,178	23	15,829
2. Support to Financial Innovation and Outreach	153	6,250	4,688	5,898	5,748	7,008	4,449	34,195
3. Strategic Partnerships, Knowledge Generation, and Policy	2	92	193	547	393	345	75	1,648
4. Programme Management and Coordination	852	797	849	823	898	855	984	6,057
Total PROJECT COSTS	1,906	9,545	9,435	11,623	10,301	9,386	5,531	57,728

B. Programme financing

169. FARMSE will be financed by the Government of Malawi (GOM), IFAD, and private sector participants. IFAD will finance 73 per cent (USD 42 million) of the programme costs. Half of IFAD funding will be provided on loan at highly concessional terms, while the other half of IFAD funds will be provided as a grant. The Government will contribute USD 9.6 million (17%) out of which about USD 3.1 million (5%) will be financed from its Social Cash Transfer fund and USD 6.5 million (11%) will finance taxes and some duties. Domestic private sector will contribute 11 per cent of total project costs, USD 6.1 million through in-kind and cash contributions to sub-projects financed under the Innovation and Outreach Facility. The programme cost does not include contributions of GIZ to Graduation of Ultra-Poor Households component as this contribution will be implemented as parallel financing. Actual amounts of GIZ contribution will be known around November 2017.

Table 2: Programme Financing Plan by Component (USD '000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Components by Financiers
(USD '000)

	Govt taxes	**Govt cash transfer**	**IFAD Loan**	**IFAD Grant**	**Private Sector**	**Total**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Amount**
1. Graduation of Ultra-Poor Households	2,094	3,059	5,337	5,337	-	15,829
2. Support to Financial Innovation and Outreach	3,340	-	12,352	12,352	6,151	34,195
3. Strategic Partnerships, Knowledge Generation, and Policy	261	-	693	693	-	1,648
4. Programme Management and Coordination	822	-	2,618	2,618	-	6,057
Total PROJECT COSTS	6,517	3,059	21,000	21,000	6,151	57,728

C. Summary benefits and economic analysis

170. **Benefits and Beneficiaries:** Total estimated number of targeted households is 432,800. This include around (i) 15,000 ultra-poor households who would benefit from the graduation model interventions; (ii) 380,600 poor, vulnerable and resilient households who would benefit from expansion of informal financial services and products; and (iii) 37,200 households from formal financial services and products. Beneficiary households are likely and/or expected to participate in more than one programme activity. Ultra-poor households, for instance, may graduate from ultra-poverty and/or become members of VSLAs. To minimise double counting, the analysis assumed that around 30 percent of households will benefit from improved access to informal (component 2.2) as well as formal (component 2.1) financial services and products. Please refer to Table 5 for assumptions on target beneficiaries.

Table 5: Summary of target beneficiaries

	Target Number of Beneficiaries			
COMPONENT	Ultra-Poor Households	Poor Households	Vulnerable Households	TOTAL:
1. Graduation of ultra poor households	**15,000**	**-**	**-**	15,000
				-
				-
2.1: Community based financial organisation support	-	190,287	190,287	380,574
2.2: Financial innovation and outreach facility	-	18,600	18,600	37,200
TOTAL:	**15,000**	**151,801**	**151,801**	**432,774**
At various adoption rates and participation in multiple activities				
1. Graduation of ultra poor households	**15,000**	**-**	**-**	15,000
				-
				-
2.1: Community based financial organisation support	-	133,201	133,201	266,402
2.2: Financial innovation and outreach facility	-	9,300	9,300	18,600
TOTAL:	**15,000**	**142,501**	**142,501**	**285,002**

171. **Financial Analysis.** This financial analysis focuses on the incremental costs and benefits accruing at the household level because of the anticipated increased access to and productive use of sustainable formal and informal financial services.

172. **Crop/Activity Models.** Eight crop/activity models were developed. On-farm models (per ha) include: i) Maize; ii) Groundnuts; iii) Soya bean; iv) Rain-fed Potato; v) Irrigated potato (w/ investment in a low-cost treadle pump); and vi) Maize on rented land. Livestock activities include: i) goat rearing with an initial investment of two goats, reaching a maximum stock of nine; and ii) one dairy cow.

173. **Household Models.** Five Household models were developed to represent expected FARMSE beneficiaries. For the purposes of this analysis households are classified as being either: i) Ultra Poor; ii) Poor; or iii) Vulnerable. These household types are differentiated by: i) land holding; and ii) livestock ownership. Some 87% of adopting households will benefit only from the Programmes investments in the expansion and strengthening of CBFO groups, through which access to formal financial services will be increased. CBFO groups allow members to boost savings (and returns thereon) and obtain access to short term loans. CBFOs allow members to smoothen consumption (not quantified), and in some cases, make short-term productive investments (in this analysis represented as farm inputs and land rental). A much smaller portion of *participating* households (9% of adopting households) will gain access to formal financial services due to Programme investments in CBFOs, and the increased innovation and outreach of the rural financial sector. It is expected these households will have access to loans and savings products from formal FSPs that will allow for larger and longer-term productive investments (represented in this analysis by livestock and micro irrigation equipment). Finally, ultra-poor households (4%) will benefit from the implementation of the graduation component which offers training, mentoring, as well as a one-time a lump-sum cash grant for investment in productive assets and working capital. The “with” and “without” programme scenario for each of these household types is summarized in Table 6 below.

Table 6: Summary of with and without programme situations per household type

Ultra Poor Houshold (Graduation beneficiaries)			
Crops	**Unit**	**WOP**	**WP**
Maize	ha	0.20	0.20
Groundnuts	ha	0.10	0.20
Total Cropped Area	**ha**	**0.30**	**0.40**
Total Plot Area	ha	0.40	0.40
Livestock			
Goats	heads	0	5
Poor Household (only VSLA)			
Crops	**Unit**	**WOP**	**WP**
Maize	ha	0.40	0.40
Groundnuts	ha	0.20	0.20
Soya Bean	ha	0.20	0.20
Maize on Rented Land	ha	0.00	0.00
Total Cropped Area	**ha**	**0.80**	**0.80**
Total Plot Area	ha	0.80	0.80
Livestock			
Goats	heads	5	9
Poor Household (VSLA & FFS)			
Crops	**Unit**	**WOP**	**WP**
Maize	ha	0.40	0.40
Groundnuts	ha	0.20	0.20
Soya Bean	ha	0.20	0.20
Maize on Rented Land	ha	0.00	0.10
Total Cropped Area	**ha**	**0.80**	**0.90**
Total Plot Area	ha	0.80	0.80
Livestock			
Goats	heads	5	14
Vulnerable Household (only VSLA)			
Crops	**Unit**	**WOP**	**WP**
Maize	ha	0.20	0.20
Groundnuts	ha	0.20	0.20
Soya Bean	ha	0.20	0.20
rainfed potato	ha	0.40	0.40
Total Cropped Area	**ha**	**1.00**	**1.00**
Total Plot Area	ha	1.00	1.00
Livestock			
Goats	heads	14	28
Vulnerable Household (VSLA & FFS)			
Crops	**Unit**	**WOP**	**WP**
Maize	ha	0.20	0.20
Groundnuts	ha	0.20	0.20
Soya Bean	ha	0.20	0.20
Rainfed potato	ha	0.40	0.00
irrigated potato	ha	0.00	0.40
Total Cropped Area	**ha**	**1.00**	**1.00**
Total Plot Area	ha	1.00	1.00
Livestock			
Goats (investment in 2 goats)	heads	28	28
Dairy Cow	heads	0	1

174. **Household Cash Flow Analysis.** The analysis of the cash flows after financing for all household models indicate that participating households will be substantially better off because of programme interventions. The analysis indicates that if households can muster sufficient savings through CBFO groups and can access adequate financing products through the formal financial sector, the proposed investments are financially sustainable. This is summarized in Table 7.

Table 7: Summary of Profitability Indicators - Household Models

	n. of adopting HH	Net Annual income after financing				Incremental Income after financing		NPV (@ 10%) - incremental income after financing		IRR (after financing)
		WOP		WP at full development						
		MWK	USD	MWK	USD	MWK	USD	MWK	USD	
Ultra Poor Household (Graduation)	7 500	156 705	217.3	245 865	341.01	89 160	123.7	537 896	746	#NUM!
Poor Household (VSLA)	84 350	324 512	450.1	452 655	627.82	128 143	177.7	558 006	774	82%
Poor household (VSLA and FFS)	9 300	324 512	450.1	575 021	797.53	250 509	347.4	1 146 666	1 590	116%
Vulnerable Household (VSLA)	84 350	644 542	894.0	820 685	1 138.26	176 143	244.3	792 604	1 099	77%
Vulnerable Household (VSLA and FFS)	9 300	644 542	894.0	1 143 099	1 585	498 557	691	2 564 284	3 557	102%

175. **Financing requirements.** For each household type have been estimated as a function of total incremental production costs and beneficiary contribution. For households benefiting under Component 1.0, it is assumed that financing requirements will be met through a grant (the one-off lump sum part of the graduation programme). For households benefitting only from subcomponent 2.1 (CBFOs), it is assumed that all financing requirements are met through beneficiary contribution (i.e. savings accumulated through group participation). For households benefiting from both subcomponents 2.1 and 2.2, it is assumed that 50% of financing requirements are met though savings and the remaining 50% through loans. A summary of the financing requirement per household is presented in the Table 8.

Table 8: Household Financing

	Incremental production costs		Beneficiary contribution		Household loan requirement	
	MWK	USD	MWK	USD	MWK	USD
Ultra Poor Household (Graduation)	90,567	126	40,567	56	90,567	126
Poor Household (VSLA)	45,381	63	22,690	32	22,690	32
Poor household (VSLA and FFS)	586,528	815	274,295	381	312,233	434
Vulnerable Household (VSLA)	316,335	439	179,250	249	137,084	190
Vulnerable Household (VSLA and FFS)	866,325	1,203	247,948	344	618,377	859

176. The analysis considers that not all households will be willing or able to profit from FARMSE. Given that FARMSE investments will not flow directly to rural households (except for under the graduation component), an adoption rate of 50% was conservatively assumed. The total number of households that benefit from the programme is therefore calculated to be 194,800. The coverage and phasing of beneficiary by programme year is summarised in the Table 9.

Table 9: Beneficiary Phasing and Adoption

	Target HH	Project Year								
		Y 1	Y 2	Y 3	Y 4	Y 5	Y6	Y7	Y8	**Total**
Ultra Poor Household (Graduation)	**15 000**									
coverage rate		0%	0%	0%	25%	25%	25%	25%	0%	**100%**
adoption rate		50%	50%	50%	50%	50%	50%	50%	50%	**50%**
no. of HH		-	-	-	*1 875*	*1 875*	*1 875*	*1 875*	-	**7 500**
cumulative no. of HH		-	-	-	1 875	3 750	5 625	7 500	7 500	
Poor Household (VSLA)	**168 700**									
coverage rate		0%	0%	10%	10%	10%	30%	20%	20%	**100%**
adoption rate		50%	50%	50%	50%	50%	50%	50%	50%	**50%**
no. of HH		-	-	*8 435*	*8 435*	*8 435*	*25 305*	*16 870*	*16 870*	**84 350**
cumulative no. of HH		-	-	8 435	16 870	25 305	50 610	67 480	84 350	
Poor household (VSLA and FFS)	**18 600**									
coverage rate		0%	0%	10%	10%	10%	30%	20%	20%	**100%**
adoption rate		50%	50%	50%	50%	50%	50%	50%	50%	**50%**
no. of HH		-	-	*930*	*930*	*930*	*2 790*	*1 860*	*1 860*	**9 300**
cumulative no. of HH		-	-	930	1 860	2 790	5 580	7 440	9 300	
Vulnerable Household (VSLA and FFS)	**18 600**									
coverage rate		0%	0%	10%	10%	10%	30%	20%	20%	**100%**
adoption rate		50%	50%	50%	50%	50%	50%	50%	50%	**50%**
no. of HH		-	-	*930*	*930*	*930*	*2 790*	*1 860*	*1 860*	**9 300**
cumulative no. of HH		-	-	930	1 860	2 790	5 580	7 440	9 300	
Vulnerable Household (VSLA)	**168 700**									
coverage rate		0%	0%	10%	10%	10%	30%	20%	20%	**100%**
adoption rate		50%	50%	50%	50%	50%	50%	50%	50%	**50%**
no. of HH		-	-	*8 435*	*8 435*	*8 435*	*25 305*	*16 870*	*16 870*	**84 350**
cumulative no. of HH		-	-	8 435	16 870	25 305	50 610	67 480	84 350	
Totals	**389 600**	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Y7**	**Y8**	
Total Number of HH		-	-	18 730	20 605	20 605	58 065	39 335	37 460	**194 800**
Total Cumulative HH		-	-	18 730	39 335	59 940	118 005	157 340	194 800	

177. **Incremental Financing.** Based on the expected total number of adopting households, the total incremental amount of financing that must be made available by FSPs over the programme life is estimated at USD 1.18 million, assuming an 85% recovery rate.

178. **Economic Profitability Indicators.** Given the above assumptions, the base case economic internal rate of return (EIRR) for FAMRSE is estimated at 19.4%. The benefit/cost ratio is estimated at 2.08. The Economic Net Present Value (ENPV) estimated at USD 29 million.

ENPV @ 12% (USD)	29 million
EIRR (%)	19.4%
B/C Ratio	2.08

Table 10: Sensitivity Analysis

Sensitivity variables	Change	EIRR	ENPV
Base scenario	**0%**	**20.3%**	**15,638,679**
Project benefits	-10%	18.2%	11,120,390
	-20%	15.8%	6,602,101
	-50%	7.2%	-6,952,767
	10%	22.3%	20,156,969
	20%	24.2%	24,675,258
Project costs	10%	18.4%	12,684,258
	20%	16.7%	9,729,837
	50%	12.4%	866,572
Delay in benefit accumulation	1 yr	17.1%	10,393,470
	2 yrs	14.8%	5,116,282
Increases in VSLA loans	20%	20.3%	48,369,882

Table 11: Switching Values

Switching Values:	
Incremental Benefits:	-61%
Incremental Costs:	166%

179. **Sensitivity Analysis.** The key risks to the success of FARMSE implementation have been identified and analysed in the main report of this programme design document. A sensitivity analysis was conducted on the EIRR and ENPV to determine the effect that reduced programme benefits,

increased programme costs, or a lag in benefits could have on the economic viability of the investment. The sensitivity analysis is summarised in Table 10 above.

180. The analysis indicates that the programme's profitability is robust in the sense that its main economic profitability indicators do not change significantly in response to changes in the expected benefits or costs. The EIRR remains acceptable in all calculated scenarios. Switching values were calculated for incremental benefits and incremental costs.[44] Benefits would have to be reduced by 60% or cost increased by 166% for FARMSE to become economically unviable**.**

D. Sustainability

181. The success of rural finance sector development investments is largely determined by how well both the needs of supply and demand are met. For suppliers, a reasonable and long-term profit must be realizable. For demand, products and services must meet a practical need which advances their household economy, at a cost that is acceptable for outcomes rendered. Moreover, these conditions must be met under prevailing macro-economic and environmental conditions, of which both present ongoing and inevitable future challenges for financial sector stability. Investment also require a stable and good practice regulatory and policy environment. Each FARMSE component recognizes these needs and challenges and has built in mechanisms to ensure sustainability of outcomes and impacts are guarded to the extent possible.

182. Component 1.0 will build on GoM graduation concept which is based on the Malawian context and is likely to result in selection of high rate of household graduation from poverty on a sustainable basis. The blend of local context and international practices of Component 1.0 provides significant risk mitigation against unsustainable results. Outsourcing this component to GIZ with its graduation experience in Malawi and its connections to the NSSP of the MoFEPD, ensures strong attention to programmatic processes and procedures which will also maximize potential for sustainable outcomes.

183. Subcomponent 2.1 will support CBFO groups applying good practice consolidation and group formation methods which experience shows some 80% remain operational after 3 to 5 years. It is critical to understand that not all groups should continue to operate as many individuals come together in a group as their financial context allows or demands. What is critical is that the CBFO group methods/structures imbedded in member's financial knowledge/capacity base are sustainable, so that when groups are restructured, consolidated or formed, no outside support organization is required. In addition to serving the needs of individuals and groups, CBFOs are considered a sustainable market platform for linking for low monetary, value high volume transactions to formal FSPs. Several institutions are now collaborating with CBFO organizations and/or existing CBFO groups/members and subcomponent 2.1 activities will encourage and support these efforts. Equally, subcomponent 2.1 will directly support efforts to expand CBFO linkages to formal FSPs via innovation funding activities. These initiatives could also be featured as part of IOF funded activities with FSPs or value chain actors.

184. The premise of subcomponent 2.2 is that all funding initiatives will result in a sustainable/ profitable financial product or service meeting the needs of FARMSE's target groups. As with Component 1.0, subcomponent 2.2 proposes a rigorous, systematic good practice approach to financial service/product development. As critical, the subcomponent includes the funding of expert technical assistance. This is critical on two fronts. The first is the embedding of the CTA in the FARMSE PMU. Expert and proactive support for proposals from FSPs and agriculture value chain participants is key to developing a viable investment pipeline with strong sustainability potential. Managing and guiding proposals, and later supporting implementation, is also critical. The second consideration is the expectation that IOF grantees will source technical expertise related to their specific product or service innovation or outreach activities. While this will not be required in all cases, the expectation is that grantees seldom have the internal technical capacity to design, test, and roll

44 The switching value of a variable is that value that it would have to attain for the outcome of the project to fall below the minimum level of acceptability (net present value of the project equal to zero).

out financial products. This is not to say institutions cannot manage such a process, rather that they simply have no business rational for maintaining the fixed overhead costs of such specialized capacity, so they seldom do. In almost all cases, the Innovation and Outreach Facility funding will have sourcing of FARMSE-approved external technical assistance as a condition, ensuring the best chance that the resulting financial products and services and their outcomes will be sustainable.

185. It is not anticipated that support to key institutions, knowledge products and policies in Component 3.0 will in-and-of themselves guarantee-improved sustainability of any FARMSE intervention. The activities in this component are, however, critical to the long-term stability of the sector and to embedding a sustainability ethos in the rural finance sector eco-system. Key concrete outputs such as broad rural finance policy that include CBFO guidelines will have direct and tangible impacts towards this end, but improving the good practice knowledge of key stakeholders is equally, if not more important to the long-term leadership influence on sector development.

186. While FARMSE planned interventions and implementation considerations anticipates some many of the challenges facing rural financial sector development, macro-economic, climatic conditions, along with unfavourable political events could have unexpected impacts beyond the control of the programme and/or the financial services/products developed from programme support.

Appendix 1: Country and rural context background

1. **Country context.** Malawi is a small, densely populated land locked country located between Zambia, Mozambique and Tanzania. Its climate is tropical, with a rainy season from October to April and a mean annual rainfall ranging between 500 and 3,000 mm.

2. Malawi's population increased from 4 million in 1966 to 16.7 million people in 2014; and is expected to grow to 26 million in 2030. Two out of three people are under 25 years of age.[45] Life expectancy has improved to 62.8 years.[46] The average population density is 177 persons 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 out of 182 countries. The gross national income per capita fell from US$370 in 2011 to US$250 in 2015,[47] mainly due to a drop-in income from export crops. Despite progress in HIV/AIDS prevention and treatment, 9.1% of the adult population is infected (2010).[48] Poor nutrition and HIV/AIDS prevalence aggravate the low rural productivity. Caring for family members also puts an extra burden especially on women. About 51% of the population live below the national poverty line,[49] with 30% living in severe poverty in 2010.[50] Poverty is predominantly rural, with the south and north of the country taking the main burden. (See Appendix 2 for more details on poverty in Malawi) Statistics for rural food and nutrition security are alarming too. Stunting among children averages 42%, and in some districts over 60%.[51] Female-headed households are more affected by food insecurity as they usually have smaller resources endowments.[52]

4. The 2014 gross domestic product (GDP) was about US$4.258 billion of which 17.0% derives from industry and 49.7% from services. Agriculture provides the remaining 33.3% but plays a key role. The sector employs 80% of the workforce and is the main foreign exchange earner, through export of tobacco, sugar, tea, coffee, and cotton. Real GDP growth in 2014 was estimated at 5.7%, driven largely by agriculture, with significant contributions from manufacturing, wholesale and retail trade, and services.[53] Official unemployment stands at 6.6% (2014). Youth unemployment is strikingly high at 40%. Inflation has remained above 20% annually since 2013 (up from 4.1% in 2007), driven by low crop harvests and subsequent surges in food prices. In 2016, food price inflation was at 28.4% affecting net-food buyers and posing a risk of increased child malnutrition.[54]

5. **Rural livelihoods.** Eighty-five per cent (ca. 11 million) of the population live in rural areas and almost all engage in crop and livestock production. Some 88% of Malawian adults are involved in farming. Whilst for many this is primarily subsistence farming, for 33% farming is their primary source of income. More than 80% of rural land is under customary tenure and land holdings average 0.8 hectares (Smallholder farmers cultivate on average 1.2 hectares of land – 30% cultivate less than half a hectare), with maize being the dominant crop (66%) for smallholders, followed by pigeon peas and groundnuts (16% each) and tobacco (8%). Agriculture export account for 85% of the country's exports, of which tobacco comprises 55%. Other major exports products are uranium, sugar, tea, maize and cotton. Imports are dominated by oil, coal, consumer goods and fertilizers.

[45] Malawi Population Reference Bureau. (2014).
[46] UNDP. (2015). Human Development Report 2014, Malawi summary.
[47] See:http://data.un.org/Data.aspx?q=gni+per+capita+malawi&d=WDI&f=Indicator_Code%3aNY.GNP.PCAP.CD%3bCountry_Code%3aMWI#WDI
[48] See: http://www.unaids.org/en/regionscountries/countries/malawi
[49] See: http://data.worldbank.org/country/malawi
[50] See: http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/MWI.pdf.
[51] IFAD. (2016). Baseline Report on Food Knowledge, Attitude, and Practice (KAP).
[52] Kassie et al. (2015). Gendered Food Security in Rural Malawi.
[53] Africa Economic Outlook. (2015).
[54] Cornia, Doti, Sassi. (2016). Source of food price volatility and child malnutrition in Niger and Malawi, Food Policy. See also: Klasen, Rischke. (2016). Analyzing nutritional impacts of price and income related shocks in Malawi, Food Policy.

6. Rapid population growth reduces family landholdings. Land degradation[55], deforestation and climate change exacerbate food and nutrition insecurity.[56] 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.

7. Almost all rural households in Malawi participate in on-farm activities, with more than 60% of their income coming from these activities. Agriculture relies heavily on rains and is dominated by two crops: maize and tobacco. The majority of Malawian farmers are smallholder producers, characterised by use of traditional agrarian tools and limited adequate technologies. Livestock is dominated by small stocks mostly owned by small holder farmers.

8. Rural households provide agricultural labour, which is seasonal and poorly paid, especially for women. Women nonetheless play a leading role in agricultural production but they suffer the sector's structural deficiencies more acutely than men. Rural women´s potential participation in paid employment is hampered by a significant domestic work burden, unequal decision making in the household, and systemic bias in the market place (e.g., for employment, formal credit, etc.). There is limited diversification into off-farm activities, through small and medium enterprises (SMEs) for agricultural product value addition, employment, trading, and services offer some opportunity to improve livelihoods and reduce vulnerability for both men and women.[57]

9. **Development 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*". The Malawi vision 2020 is translated into strategies and sector policies and implemented by programmes, which are relevant to the COSOP. They include:

i) The **Malawi Growth and Development Strategy II** (MGDS II: 2013-2016) which is the overarching medium-term strategy to attain long-term development. It aspires to reduce poverty through sustainable economic growth and infrastructure development, inter alia in agriculture;

ii) The **National Agriculture Policy** (NAP 2016-2020) outlines eight priority areas that fully correspond with Malawi COSOP SOs: agricultural production and productivity; irrigation development; mechanisation of agriculture; 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 strengthening;

iii) The **National Export Strategy** (NES, 2013-2018) pursues growth through oilseeds and sugarcane products, and through processing dairy, maize, wheat, horticulture, and pulses. These commodities will be supported under SO2;

iv) The **National Climate Change Policy** (2013) promotes, as per SO1, climate change adaptation and mitigation for livelihoods through economic development.

10. The above policies are implemented through government programmes. The Farm Input Subsidy Programme (FISP) aims to contribute to crop production and diversification.[58] Since its inception in 2005, FISP reached 50% of Malawi's smallholders, but it consumes 80% of the agricultural budget and considerable time from staff. It impacts on the outreach of extension services and lacks incentives for farmers to boost productivity. The Malawi Agricultural Sector Wide Approach support programme (ASWAp-SP, 2011-2015) aims to coordinate interventions, with the target of 6%

[55] Land degradation and subsequent change in land use is estimated to cause economic costs in range of 6-7% of Malawi's GDP. See Kirui. (2016). Economics of Land Degradation and Improvements in Tanzania and Malawi.
[56] Draft National Forest Policy of Malawi. (2013). See Appendix VI.
[57] SMEs include micro-enterprises and homestead production as well as minor rural processors and agro-dealers that employ up to 30 people.
[58] Arndt et al. (2015). The Economy-wide Impacts and Risks of Malawi's Farm Input Subsidy Program. *Amer. Journal of Agro-Economics.*

annual growth in the agricultural sector. ASWAp is currently being reviewed to address challenges encountered during implementation. Other programmes relevant to poverty alleviation with intersections to FARMSE include the Irrigation Master Plan and Investment Framework (IMPIF, 2015) and National Climate Change Investment Plan (2015).

11. There have been several financial sector development strategies and programmes supporting poverty alleviation. A series of financial sector development and reform initiatives by GoM with the support of the World Bank, leading to the Financial Sector Development Strategy 2010 - 2016 (supported by the multi donor Financial Sector Deepening Trust – FSDT. The GoM also developed the National Strategy for Financial Inclusion (NSFI) for 2010-2015 which focused on improving the quality and diversity of financial services delivery to those excluded from the financial sector. This has been followed up by the National Financial Inclusion Strategy for 2016-2020.

12. Government capacity to manage and implement programmes is stretched. The World Bank's 2014 Country and Policy Institutional Assessment (CPIA) shows a negative trend for public sector management. Decentralisation 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.

Overview of Financial Sector Structure[59]

13. There are 11 commercial banks in Malawi, six of which account for over 50% of institutional financial assets. Commercial banks served most corporate and government clients in the country, as well as 27% of Malawian adults, among them most salaried employees. Commercial banks hold 92% of credit and 89% of deposits, and are generally profitable, though several have relatively high non-performing loans portfolios (some > 20%). There are 30 Savings and Credit Cooperatives (SACCOs), down from a recent high of 48 due to mergers and closures. Of them, 10 operate in smaller towns in rural areas, but none have notable agricultural products offered at scale. Most have community, or open bonds, but salaried employees form the core membership for most SACCOs. There are 14 registered microfinance institutions (MFIs) of which the three with the largest rural exposure have just over 100,000 clients. There are 8 payday lending companies (PLCs). Together MFIs and PLCs serve about 17% of adults (mostly salaried employees) in Malawi.[60] SACCOs provide basic savings and small working capital/consumer loan products, while MFIs and PLCs, with the exception of FINCA provide small credit only. Two mobile network operators (TNM and Airtel) offer basic mobile money services, particularly money transfers and a no-interest savings vehicle (short-term, low-value). Informal providers such as Village Savings and Loan Associations (VSLAs) and other community based financial organizations (CBFOs) have between over 1.1 million urban and rural members from all income strata, of which an estimated 47% are women. Fewer than 2% of Malawian use insurance products and there is almost no insurance available for the rural economy or small scale agricultural production.

14. A recent FinScope study showed a gradual improvement of access to financial services in Malawi over the last several years. Still, only 42% and 12% of urban and rural adults respectively (most salaried employees) use formal financial services, with only 2.6% regularly using more than two financial products. In total, some one third of the adult population have access formal financial services and an additional 25% make use of informal financial services only. Farmers are amongst the least banked even as they constitute the largest portion of formal financial sector clients. They are, by contrast, the largest users of informal financial services. Savings and money transfers constitute most products employed, with credit and insurance use is very limited.

[59] As this section draw extensively from three sources and citations are given only when required for context. The sources include: FinMark Trust (2008). FinScope Consumer Survey Malawi 2008; FinMark Trust (2014). FinScope Consumer Survey Malawi 2014; Cenfri. (2015). Making Access Possible, Malawi.

[60] Note that many adults use multiple formal and informal service providers.

15. There are currently two banks in Malawi with a broad outreach retail strategies, and three MFIs with some degree of rural orientation. National Building Society (NBS) and Opportunity Bank of Malawi (OBM) both have relatively large networks of branches and agencies in rural towns, and OBM has mobiles vans to service more remote rural areas. Both banks face challenges with their operating models, particularly the cost of outreach, but also the suitability of product offer, which affect their financial performance and ability to expand market share. Three MFIs also operate in rural areas and face similar transaction cost challenges. While MFIs have begun to collaborate with CBFOs and have innovated product design for more profitable rural outreach, as non-deposit taking financial institutions they face the additional challenge of funding their loan portfolios. (See Figure 1)

Figure 1: MFIs in Malawi and Rural Lending Challenges

There are 3 non-for profit, licensed non-deposit taking MFIs with a rural focus and basic but successful group lending products. Cumo has piloted low-cost delivery mechanisms using loan officers out-posted in the villages and held-held technologies to reach out deeper into rural areas. The other two MFIs are experimenting with product innovations such as individual and agricultural loans. They are also using CBFOs to originate loans, financial education, and business training. Average loans sizes are well below USD 100 showing these MFIs target rural low income households. Nevertheless, the three MFIs are small: with a combined loan portfolio of less than USD 5 million, they reach fewer than a combined 100,000 borrowers. Unable to take deposits, their growth has been slow and with outreach capacity limited to core equity capital, retained earnings, and modest borrowed funds. With commercial bank interest rates above 40% per annum, domestic borrowing from commercial banks is prohibitive, and would do little to reduce the already extremely high lending rates of MFIs (above 70% per annum) further undercutting their rural growth potential. At the same time, portfolio growth is a necessary pre-condition for MFIs to increase their operational efficiency and lower their lending rates. Offshore borrowing exposes MFIs to high currency risks and hedging costs would make such funds expensive again. In addition, their small sizes and limited track-record with external borrowing makes it difficult for these MFIs to such funding.

16. The main barriers of formal financial sector use are affordability, including the cost of travel to financial institutions (particularly in rural areas), lack of reliable identification, ill-suited financial products, particularly for the rural poor, and limited income and collateral for loans. These constraints are exacerbated by relatively high banking costs, low financial literacy, and a “fear” among the poor of using formal financial services. On the supply side, commercial banks in Malawi earn about 60% of their revenue from loans mostly to large corporate clients; 22% from foreign exchange; 15% from investments (mostly treasury bills) and 6% from fees and commissions. Almost 100% of MFI revenue comes from high-interest group and/or individual loans serving both salaried and low income clients. Approximately 85% of revenues from SACCOs comes from credit services and smaller amount from investments, fees and commissions. PDL revenue is from high interest rate loans. CBFOs do not retain earnings, rather profits earned on high interest loans are distributed annually to group members pro rata to their savings accounts.

Savings

17. Gross savings as a percentage GDP in Malawi is 7.9% which is low compared other Southern African countries where the rate is typically double that of Malawi’s. (World Bank, 2012) Savings has, in fact, been decreasing in formal financial institutions from 3.8 million adults in 2008 to 3.4 million in 2014 (an 11% decline), resulting in a 2% decline in gross savings at a national level. The two main savings providers by volume of accounts/ members are commercial banks and CBFOs. In terms of market share by deposits, banks are by far the largest providers with K 190.3 billion (USD 456.5 million).[61] Two other significant savings providers are retirement funds with K 17.6 billion (USD 42.3 million) and SACCOs with K 3.7 billion (USD 8.8 million) CFBOs have an estimated combined 2% of deposits outstanding.[62]

Figure 2: Use of Savings

About 20% of savings are used for recurring living expenses, 7% for farming expenses, and the rest for various consumer, medical, educational or emergency needs.

18. Over half the adult population in Malawi does not save (58%), and only 27% of those that do, save in a financial institution. Informal savings has by contrast, increased sharply in recent years and over one million adults save via CBFOs. Despite a decline in formal savings, the proportion of adults

[61] See: Reserve Bank of Malawi. https://www.rbm.mw/
[62] These are 2013 numbers. USD conversions are also 2013.

using multiple savings providers has increased over the same time, indicating demand for different type of savings products. Only 22% of those who save informally also use other institutions, though most also saving at home (e.g., cash or small liquid assets such as livestock - FinScope, 2014)). Men saved more in formal institutions, women more in informal organizations. Overall levels of saving were on par in 2008 for men and women, but female adults experienced a greater decrease in saving usage by 2014. Over 38% of farmers and 34% of labourers save at home compared to only 13% and 5% in formal financial institutions respectively. Over 60% do not save at all, or save in the form of inflation protected "vehicles" (e.g., small livestock).[63] Some 36% and 25% of famers and labourers use CBFOs, particularly VSLAs. Some 20% of MSMEs use CBFOs, but over 24% and 17% also use banks and/or SACCOs. There are over 1 million subscribers to AirTel and TNM mobile money services, many in rural areas, however, only a fraction of those accounts is active. Value saving on MNO systems is very short term and by law MNOs cannot pay or make interest on account balances.

19. The hassle, distance, and cost of saving in formal financial institutions, lack of attractive savings products and of electronic payments infrastructure are the main constraints to more formal savings in rural areas. Many poor people also simply do not have the money to save, or if they do, they require highly liquid vehicles formal and informal sources often cannot provide. VSLAs and MNOs provide low value savings products mostly for low income clients, while banks provide a range of saving products for wealthier clients.[64] Rapid inflation ensures short-term savings and offers negative real returns however. When interest rates, fees, and transportation costs are included, the attractiveness of formal savings further declines. CBFOs offer positive interest when gross returns including low transaction costs and distribution of profits are considered. MNO saving services see the greatest savings value erosion due to lack of interest paid, but are popular as very short term storage, particularly for funds transfer purposes.

Credit

20. Commercial banks loans totalled K234 billion, compared to CBFOs, PDLs, and MFIs whose loans totalled between K5 and K6 billion respectively. SACCOs had K3 billion in loans outstanding. Just 4% of Malawian adults, mostly salaried employees, used credit from a formal provider in 2014, or just over half of those who used credit in 2008 (from 480,000 adults to 270,000). Commercial banks have the most formal clients with 17% of adults. MFIs, PDLs, and SACCOs account for 6% of credit clients. Banks dominate the total loan book, accounting for 91% of total credit (mostly large corporate clients, MSMEs, and high-net worth individuals). Over 50% of borrowers get their credit from informal providers which account for only 2% of the total loans outstanding. MNOs have recently developed lending products which rely on subscribers SIM cards, cell phone payment history, and mobile money transaction records as means to secure against and assess credit risk. This innovative approach is limited to a small number of subscribers however.

21. Despite costs and low levels of access, Malawians borrow often. In 2014, almost all adults reported to have taken a cash or in kind goods loan within the preceding 12 months. (FinScope, 2014) RBM reports that 21.5% of credit from banks is directed to the agriculture, forestry, fishing and hunting sector. These are loans are almost exclusively to larger commercial enterprises, particularly in the tobacco sector. Just 4% of farmers have formal credit and this, again, is

Figure 3: Commodity exchanges and finance in Malawi.

Malawi is one of the few African countries with two functioning commodity exchanges and a warehouse receipt financing system. The Afrikaner Commodity Exchange (ACE) doubles as a warehouse manager and facilitates credit through agreements with several commercial banks. While most banks still require the depositors of grain to have a forward contract to release finance, First Merchant Bank provides loans up to 70% of the value of the stored products and the depositor is free to sell through the commodity exchange to the highest bidder. As experienced by a recent grant project funded under IFAD's RLEEP, there are opportunities to expand warehouse receipt financing, improve its conditions and scale it down to organised smallholder farmers and rural SMEs. In addition, a pre-harvest financing scheme linked to ACE has been piloted successfully and is being up-scaled during the current season. The scheme provides inputs for soybean farmers on credit which is recovered through ACE from proceeds of the auction.

[63] FinMark Trust (2014). FinScope Consumer Survey Malawi 2014.
[64] Only VSLAs currently serve clients at or below Malawi's average income. Alternative informal savings group options serve a range of incomes (averaging from K 8,403 or USD 20, to K 32,836 or USD 79).

almost entirely directed towards tobacco farmers. Another 8% to 12% of Malawians also borrow for agricultural inputs or on farm assets primarily from informal sources such as input suppliers.[65] There are few aggregate statistics available, but the practice, while widespread, is not broadly available to smallholder farmers, limited primarily to organized value chains such as tobacco and dairy. Such lending lacks the formalization to achieve scale or maximize benefits to farmers and input providers alike.

22. Bank lending to the agricultural sector has largely concentrated on seasonal lending for tobacco accounting for 50% of agricultural loan portfolio of leading banks. In addition, tobacco companies also lend a sizeable amount to farmers. A high level of value chain organization is key. In response to the recent decline of the tobacco market, some banks including First Merchants Bank (FMB), CDH and the Opportunity Bank of Malawi (OBM) have been trying to diversify their loan portfolio into other commodities such as tea and sugar, as are some tobacco companies. Some other agribusiness companies are engaged in pre-financing out-growers in high-value crops such as chilli. Often, value chain finance arrangements involve partnerships between banks, off-takers, input suppliers, NGOs and donors, sometimes facilitated by partial credit guarantees.

23. Overall use of informal credit has increased significantly since 2008 from 340,000 to 1.1 million people, this despite average interest rates on loans of 240% on a relatively low average loan size of K8,250 or USD 15. The average formal sector interest rate, by contrast, is much lower at 30% to over 40% due in large part to the RBM's fight against inflation in Malawi (i.e., high benchmark interest rates). This causes most formal credit to be short term in nature with an estimated 95% of all loans with terms of one year or less. There is no evidence of over-indebtedness in Malawi, although data on this limited (as noted, NPLs at some banks are more than 20%). Malawians do not seem to take on too much debt. While data is scarce, FinScope reported in 2014 that only 0.3% of adults indicated using credit to pay off another loan – usually an indication of over-indebtedness. Input suppliers often also provide valuable credit to smallholders on an in-kind discount basis in return for harvest.

24. For many Malawians, cost of credit includes substantial transportation, fee, and other related expenses which are particularly onerous for the rural poor. Beyond cost, access to formal credit is constrained by collateral availability, an inefficient judicial system, bank preparations to comply with Basel II requirements, and investment opportunity costs (e.g., the relative profitability and security of investing deposits in government treasury bills/bonds). Also, many commercial banks over lent to SMEs in middle of the last decade further increasing their conservative lending practices.

25. While CBFO credit usually has a higher interest rate, it is highly accessible (e.g., low transaction costs, no collateral or identification requirements). Many CBFO group members, however, do not want/need credit, either because they have no productive purpose for it, or because amounts are too small for productive purposes beyond petty trade or paying for some agricultural inputs. Moreover, loans are made available to one or two members monthly so timing of loan availability may not coincide with a household's funding needs. A major benefit to CBFOs, particularly VSLAs, is not credit, but the annual lump sum pay out, or profit distribution, received at the end of a group's lending cycle (usually one year and typically paid in September-December).[66] Indeed, many members participate in VSLAs as a forced saving vehicle and the desire to participate in the profit distribution which can reach K 30,000 to K 70,000 (USD 60 to USD 100) in the typical rural CBFO group.[67]

26. For most farmers, CBFOs can be helpful but do not necessarily satisfy their credit needs given the irregular nature of farm income and annual working capital required for seeds, and fertiliser. Notably and again, CBFO loan and distribution sizes are small, allowing for limited productivity enhancing investments. Timing of loan availability and distribution also limit the value of CBFO loans. Rural household generally need funding pre-harvest, pre-school year, and pre-planning when savings are unavailable or exhausted, and when CBFO loans and distribution may not be available.

[65] Cenfri. (2015). Making Access Possible, Malawi.
[66] The lump sum payment consists of a member's savings plus proportional share of accumulated profits from loan income. The share is based on the amount of each members' savings.
[67] This assumes a 15-member group saving between K400 and K700 per week.

Additionally, without a formal legal identity systematically linking CFBO groups and members to formal institutions is challenging. While some groups have established formal bank accounts, the potential of using CBFO participation information as credit risk data or for group collateral, for example, remains the exception rather than the rule. Potential exists to link CBFOs to formal institutions offerings is a substantial opportunity, particularly for high economic performance households.

27. It is not just farmers either. MSMEs, particularly, high-potential rural MSMEs, are not well served by CBFOs for the same reasons. Similarly, formal financial sector credit, even when backed by collateral, is still too expensive and institutions too risk averse for much rural or agricultural MSME lending beyond short term working capital loans to occur. The relatively recent commercial bank SME credit bubble, exacerbated by the lack of an affordable and operational credit bureau, cost and capacity demands of monitoring many smaller loans, and a lack of easy payment system further complicate farmer and SME lending.

Payments and Transfers

28. The predominant form of payment in Malawi is cash. About 80% of adults receive their income in cash and only 5% through the bank. Some 95% use cash to purchase most of their consumer items and just 0.3% of payments in Malawi are through electronic channels. (FinScope, 2014 and BTCA, 2013) An estimated 75% of the total value of payments made in Malawi is through cash. Some 23% of salaried employees receive incomes through a bank, and 14% of Malawians receive a portion of their income in-kind. MSMEs receive 90% of income in cash. Bank accounts are used primarily for basic deposits and withdrawals and a very small number of more complex payments. Cheques remain a major form of payments accounting for 79% of the value of retail transactions. ATM withdrawals account for 13% of the value of non-cash transactions, while internet banking accounts for 5% (normally high average value transactions by corporations and better off salaried employees). Only 11% of adults have bank cards which are used almost exclusively for ATM withdrawals. Just 0.8% of Malawian adults use debit cards and 0.2% have credit cards.

29. After savings, the second most used financial service are funds transfers, with 1.4 million Malawian sending or receiving money through formal or informal channels. Formal remittances doubled from 2008 to 2014 but are still limited at 12% all transfers (foreign remittances are only 1% GDP). Remittances are still largely made through family and friends, the simplest, least expensive option despite evident risks. Some 24% of adults use some form of formal mobile transactions, most still involve cash (e.g. ATM and mobile money agent cash withdrawals). Six banks offer mobile services and four offer internet banking, but have less than a combined 50,000 subscribers. Only 4% of transactions are completely cashless. Mobile banking transactions constitute 14% of all non-cash transactions (1 million transactions per month). Only 25% of all mobile accounts were active in 2014 (i.e., used within 45 days). As with bank accounts, salaried employees use mobile money most (62%) and farmers 36% next most.

30. AirTel and TNM have 1.1 million mobile money subscribers (14% of Malawian adults). Mobile money transactions constitute about half of all non-cash transactions with 3.8 million transactions per month (ATM accounts for the second highest number with 28%, or 1.9 million withdrawals). The value of mobile money transactions grew 150% in 2013 from MKW 3.4 billion to MKW 8.6 billion in 2014. About 34% of the urban population compared to 15% in all areas use mobile money, primarily for airtime purchases, value transfer and bill payments (e.g., electricity, water, insurance premiums and loan repayments). Some mobile money agents also accept electronic money for goods and services. Cashing in and out at agents constitutes the largest proportion of the value of mobile money transactions, while airtime top-ups account for 39% of the value of total transactions.

31. There a several non-account financial service providers of note. Peoples Trading Centre and Zoona allow people to transfer money from in-store kiosks to receivers at any other company kiosk in the country. This service requires identification for pick up, a challenge for many Malawians. The Post Office's *Fast Cash* product is the most widely used remittance product in Malawi with 60,000 transfers monthly. The total value transferred rose 45% between 2013 and 2014 and had an average transaction value of K 7,800 (USD 18.7). The service requires no identification, and is available in all

180 post offices nationwide, although in more remote locations lack of electricity, network connectivity and lack of computers can limit speed of service.

32. Initially rudimentary interoperability between banks and mobile money providers limited electronic banking, mobile money, and transfer service growth. There is now good interoperability between banks and basic operability between MNOs. Malawi is still a cash economy, however, though this too is changing as the GoM has digitized salary payments and is looking to digitize social cash transfer payments. This will help expand electronic payments. So too will new, simpler business model for agents being adopted for MNO agents. Instead of a complicated system of remuneration based on types of transactions, MNOs now pay a flat 2% transaction commission and bonus of K 300 (USD 0.7) for signing up new phone subscribers. This has improved agent network growth vital for outreach, but with most agents earning as little as K 2,589 (USD 6.21 per month, or just 19% of what a stand-alone mobile money agents required), agents are not yet universally, proactive mobile money sellers. The combined MNO agent network is 18,000 strong but with an estimated 12,000 to 14,000 largely inactive or lacking the liquidity to provide critical cash out services the system growth is limited. That the 2011 Mobile Payments System Guidelines restricts interest income to be paid to the MNOs also limits growth, as does the regulated K 200,000 (USD) cap on mobile money value permitted in a single account.[68]

Macro level

33. In Malawi, financial sector development is led by the Reserve Bank of Malawi (RBM), an independent body responsible for monetary policy and for the oversight and supervision of commercial banks, microfinance institutions, SACCOs, capital markets, pension funds, and insurance. The Ministry of Finance is broadly responsible for government fiscal policy, and, in relation to the financial sector, is the lead institution for monitoring the implementation of the national financial inclusion strategy (led by the newly created Pension and Financial Sector Policy Division). Several other line ministries have inclusive or rural financial inclusive strategies which to various degrees complement that of the MOF.

34. Important progress towards good practice financial sector development has been made incrementally over the last 15 years, especially in the policy, legal and regulatory environment governing the financial sector. The Financial Sector Assessment program (FSAP) of World Bank and the GoM carried out a comprehensive assessment of Malawi's financial sector in 2007. A Financial Sector Development Strategy 2010 - 2016 resulted and was implemented with the support of World Bank Financial Sector Technical Assistance Project (FSTAP). The GOM, with the support of the World Bank, USAID, and DFID supported the Malawi's FSDS implementation through the Financial Sector Deepening Trust (FSDT) which supported financial sector development, including a strong emphasis on financial inclusion. In partnership with UNDP and United Nations Capital Development Fund, the GoM launched the Financial Inclusion in Malawi (FIMA) project in 2007 to create an inclusive financial sector. Through this, the GoM developed the National Strategy for Financial Inclusion (NSFI) for 2010-2015 which focused on improving the quality and diverse financial services delivery to those excluded from the financial sector. The MOF recently published the National Financial Inclusion Strategy for 2016-2020 which seeks to establish a shared vision for the sector to define core priorities for financial inclusion and strategic interventions and action, along with a broad implementation strategy. Rural financial inclusion is stressed in the strategy particularly as it relates to outreach and credit services. A Financial Sector Policy Unit was also recently established in the Ministry of Finance which chairs the Financial Inclusion Technical Working Group, a coordination structure for all financial inclusion topics

[68] According to the Mobile Payment System Guidelines 2011, "Interest earned or otherwise accrued to balances in the trust account shall not be to the benefit of or otherwise paid to the Mobile Payment Service Provider". Instead MNOs must use any interest accrued on corporate social responsibility projects. The guidelines also stipulate that the mobile money float should be kept in a trust account with a bank "whose usage shall be restricted to facilitating mobile payment transactions."

Table 1: National Financial Inclusion Strategy for 2016-2020

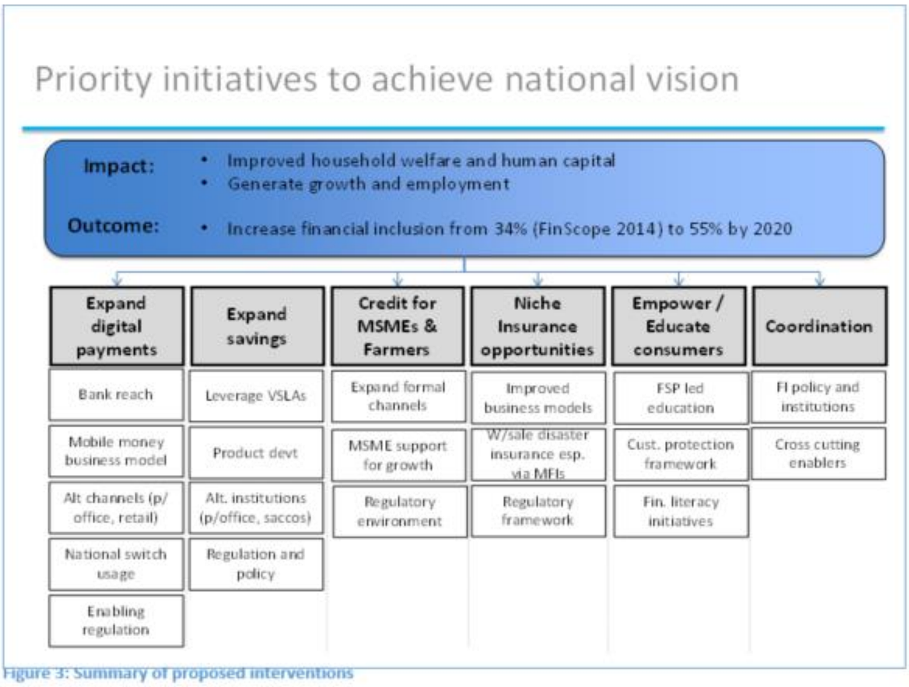


Figure 3: Summary of proposed interventions

35. The first comprehensive regulation for inclusive finance was the Microfinance Act of 2010 which provides for the regulation and supervision of commercial microfinance operations. The Act gives the Governor of the Reserve Bank powers to regulate and supervise the sector and provides defines legal conduct of microfinance business through registration of micro-lending of non-deposit taking, and deposit-taking microfinance institutions. The Act, alongside the Financial Services Act, introduces administrative penalties for non-compliance.

36. A credit reference bureau legislation was enacted in September 2014, complementing existing anti-money laundering legislation. The introduction of the Regulation of Interception of Communications and Provision of Communication-Related Information Act (RICA) is planned. This will require all SIM card owners to comply with know your client (KYC) requirements. In 2013,GoM proposed the Payments Systems Bill 2013 (Payments Bill) and the Reserve Bank (E-Money) Regulations, 2014. The Payments Bill will provide clarity and transparency mobile money and, more broadly, Malawi's payments systems and payment system providers. The E-Money Regulations detail regulatory arrangements for all stored value facilities such as mobile money, and includes the requirements for organizations issuing/storing e-money value and operating e-money payment/ transfer systems. E-Money Regulations will replace the existing Mobile Payment System Guidelines 2011. Rules will include provisions requiring MNOs to use a written contract with agents, to assume limited liability for the actions of agents, to train agents, and to profile agents profiling prior to signing-on with MNO.

Meso level

37. There are three key sector-wide players active in the inclusive financial sector of Malawi. The first is the Malawi Micro-Finance Network (MAMN) which represents 20 financial service organizations. Its goal is to facilitate the creation of an enabling environment for the development of a sustainable microfinance industry in Malawi. It does this by developing, promoting good practice and regulation, as well as by coordinating/facilitating the exchange of ideas, innovations and collective activities among members and stakeholders. The second is the Bankers' Association of Malawi (BAM). The BAM provides a forum for financial sector providers, primarily commercial banks, and stakeholders on matters of policy and of mutual interest. It interacts with GOM, the Malawi Stock Exchange, other public bodies, the press, the public, private associations and institutions. BAM has a

long-standing interest in inclusive finance, including a inclusion working group that was active until recently, and has played a substantial role in the National Payments Council (NPC) and the implementation of a payment system reform in Malawi. The Malawi Union of Savings and Credit Cooperatives (MUSCCO), has been a second-tier organization for the sector since 1993. MUSCCO advocates on behalf of SACCOs and provides a range of financial and non-financial services to its members. MAMN, BAM and MUSCO have all led/participated in donor funded development projects to support their membership and mandate. Other institutions at this level that FARMSE will interact may include Farmers Union of Malawi (FUM) and Canadian Cooperative Association (CCA). FUM is an umbrella body of farmers organizations in Malawi established in 2003, with an overall objective to ensure that farmers effectively and meaningfully participate in the improvement of their livelihoods through functional farmer associations, cooperatives and clubs. CCA in Malawi with IFAD support supports the consolidation and confederation of VSLAs in to cooperatives.

38. A VSLA Steering Committee convened by MoFEPD, the EPD division in collaboration with GIZ and other development partners and stakeholders, works to coordinate, promote, and advocate good practice VSLA development. Activities undertaken range from knowledge management on key innovations/lessons from the field, training, collaborative initiatives, networking, etc. The committee includes a range of stakeholders from CBFO support organizations, formal financial institutions, donors and GoM representatives. Additionally, there are two credit reference bureaus (CRB) working Malawi. They are regulated by the 2014 credit reference bureau legislation enacted September 2014 and amended in 2015. Formal financial institutions must use a one of two credit bureaus, but the bureaus typically only collects data only on larger loans clients as the cost of maintaining and buying records is too expensive for small loans. The CRBA credit bureau (South African owned) dominates the market and is the exclusive provider to most commercial banks, which, again, serves primarily large credit clients. A smaller nationally owned bureau also serves other financial sector organizations.

39. With support from the World Bank funded FSTAO project, the National Switch Initiative (NatSwitch) was launched in February 2015 to enable interoperability between all commercial banks. In addition, a Microfinance Hub is in the pipeline to connect the Microfinance sector to this system. Regulations for agency banking have recently been issued which will facilitate low-cost outreach mechanisms, and a warehouse receipt-financing bill is currently awaiting parliamentary approval.

Key Findings

40. There have been many positive developments in the Malawian financial sector, which has grown to develop a comprehensive slate of products, services and delivery mechanisms. Supported by a good practice regulatory environment and several capable meso level institutions, financial sector performance has been modestly positive in recent years.

41. This said, macro-economic volatility in Malawi creates substantial financial and non-financial market uncertainty and risk, affecting the financial system. Chronically high inflation, a rapidly depreciating currency, and an economy reliant on primary commodities vulnerable to exogenous price shocks and natural disasters, impart significant negative impact on financial services provider performance and outreach. Inflation undermines the value of savings and contributes to high lending rates. This makes credit, particularly long-term asset lending, unaffordable for most Malawians, but for the low-income and rural population in particular. Poor contract resolution and infrastructure further exacerbate lending expansion in rural Malawi. As it is unlikely the current high-inflation environment in Malawi will disappear in the short term, formal financial savings products -- save for the those who can take longer terms at formal financial institutions -- will likely constrain formal financial sector outreach (particularly of physical branches expansion to rural areas). In the medium term, VSLAs and to a lesser extent MFIs, will continue as the main provider of financial services in rural areas

42. Within this context, the development of an inclusive financial sector has been underway for some time in Malawi. And while there have been some good if modest strides towards greater access by the poor to formal finance, sector building efforts have created far more access for urban than rural

households. The advent of mobile banking and mobile money will change this, and building on gains made in urban microfinance and CBFOs, substantial gains for inclusive finance in rural areas is possible in the medium-term. For this to be happen, however, the ecosystem of financial institutions, products and services, as well a comprehensive supporting regulatory and policy environment must still be supported to overcome the low value, high transaction volume and cost of current rural financial service provision.

43. The demand for savings for consumption smoothing and unanticipated economic and/or household events is a first order priority for most rural households. Money transfers services (or mobile value transfer) is an important complementary means to meeting the same needs. Working capital loans for agricultural inputs, as well as small consumption loans are also vital for managing household economic cycles and unexpected events. Demand for larger loans, primarily for productive assets, is limited due to both the unfavourable macro-economic context in the country and a typically low household repayment capacity. Nonetheless, a substantial number of households and MSMEs lack asset credit to the great detriment of their own economic development and that of rural economic development generally.

44. Sustainably serving high-volume, low-value savings and transfer services demand has proven challenging. Use of the formal financial sector’s branch network and electronic banking service is limited and better designed to serve high-net worth and corporate clients. Banks are well-trusted, but they have a limited distribution footprint and are a costly option for most Malawians. Banks strategy also focuses on a small number of corporate clients who take larger, higher margin loans or make larger, lower administration cost saving deposits (leading to relatively higher financial margins on fund intermediation). The incentive for most commercial banks to expand services to lower income client markets is limited given the inevitable smaller per client contribution to revenue. Banking agents have the potential to increase formal financial sector outreach at a lower cost, but the relative comfort of existing revenue models, as well as a hangover from SME over lending, makes banks adverse to new market development. OIBM with its microfinance roots has a range of experiences reaching beyond the traditional commercial bank market - some more successful than others, and continues to find ways to reach rural clients (e.g., via banking through armoured trucks), yet has only reached a limited scale.

45. MFIs and SACCOs have better penetrated low income markets and rural areas to some extent, but are limited by internal management and human resource capacities, technology, and capital for on-lending (MFIs cannot legally collect deposits). As with banks, MFIs have not expanded a network of lower cost local agents and their product product/service offer is relatively expensive. Even given higher costs, these formal financial organizations provide low-value products well-suited to poor households. This said, the MFI typical low value, weekly or monthly repayment group credit product is not necessarily well tuned to the agricultural economic cycle of most rural households. There is some interesting innovation however. An IFAD funded project led by the MUSCCO, demonstrated clustering rural VSLAs can lead to the creation of a new, low income member driven rural SACCO. Similarly, the CUMO MFI links motorbike outreach to individual and VSLA group clients to overcome transaction costs in rural areas.

46. Clearly there are substantial business environment challenges to serving the low-income market generally, and the rural low income market more specifically. These constraints and formal financial sector business models have precluded substantial outreach and innovation for rural market development, leading to a generally poor understanding of and experience in these markets. Commercial banks have little expertise designing and delivering products and services beyond those intended for the commercial and salaried individual markets. Not surprisingly, commercial banks have limited exposure to and understanding of rural markets which can elevate risk perception and market potential.

47. Community based financial organizations like VSLAs, by contrast, have proven pivotal in the growth of inclusive finance in rural Malawi. Providing lower-value products (e.g., micro savings and credit) well-suited to poorer households, CBFOs have effectively penetrated both urban and rural

markets. They are not a panacea however. The scale of outreach and sustainability of some CBFO organizational types can be limited by internal capacities and on-lending liquidity, particularly in those cases where group formation is unstructured and informal. Those groups receiving support from international and national agencies with specialized group modalities tend to do well, some with an 80% sustainability rate. The relatively small size of loans and savings provided CBFOs, however, can limit household economic impacts to consumption smoothing and small, relatively expensive working capital loans. Annual profit distribution provides larger sums to members, but not large enough for asset purchase beyond small livestock or production tools. Moreover, most CBFO models are not well synchronized with the agricultural-based economic cycle of rural households which additionally limits their economic impacts.

48. Mobile network operators also have the potential to serve the low value, high transaction market. The introduction of MNO mobile money initially attracted over one million subscribers. Currently, an only estimated 100,000 or so are regular users. This is because current mobile money business models, have yet to stimulate the vibrant electronic payment ecosystem required to sustainably offer savings and transfer services at scale. That MNOs cannot legally offer interest on savings or invest aggregate stored value to make money, is a significant barrier to system expansion. MNO also offer their agents a less than compelling fee income business proposition, and unresolved agent liquidity issues only exacerbates challenges to systems growth. Limited liquidity particularly constrains mobile money outreach into rural areas as rural customers can walk or ride bicycles many kilometres to get cash only to be disappointed.

49. Lack of products/service beyond short term low-value, value storage, bill and air time payment services has also hindered growth and benefits of mobile money. Affordable, accessible micro and small credit products which can be originated and serviced on-line are available from both MNOs, another clear need, but is available in very limited quantities. Limited use of e-money for goods and service payments similarly constrains mobile money uptake, as does simple lack of phone access (60% adults do not access to a mobile phone despite the relatively good penetration of cellular infrastructure). Some complex MIS issues also must be overcome if consumers are to gain the enduring faith in the services so essential for self-sustaining mobile money market growth. A strong preference in Malawi for cash transactions, and relatively low levels of financial literacy only serve compound these challenges.

50. Finding the balance between low costs and incentivized bank and MNO agents may be the most critical piece to filling rural market financial service puzzle. Provision of other services, particularly credit, will be another. At present, no single financial institution - formal or informal - offers either the accessibility or the products and services required to sustainability meet the needs or rural households. A small number of ongoing, innovative partnership initiatives suggests scalable, cost-effective and profitable financial services are possible in rural areas. Given the proclivity to use cash in Malawi, and lack of financial service delivery agents, in the medium term at least, rural financial service development will be characterized by a transition from fewer physical financial transaction points, to more mobile service delivery. It will also require the development and adaptation of products and services to meet rural household needs. This will require FARMSE provide outreach and innovation support to service providers as they find sustainable paths to greater mobile financial solutions. It will also require supporting collective meso level sector development activities, as well as some limited macro level interventions to improve supporting policy and regulation, particularly of CBFOs which will require some form of formalization to facilitate group and member linkage to the formal financial sector. Indeed, meso and macro level stakeholders will require support to identify and guide strategies for expanding inclusive rural finance. This will include, most importantly, partnerships leading to attractive rural financial products, improved and interoperable access points which reduce payment and transfer costs, while laying the rails for improved access to both shot and long term savings and credit products.

Appendix 2: Poverty, targeting and gender

1. Malawi is divided into three regions (Southern, Central and Northern Regions) and 28 districts. The country has an estimated population of 16.8 million people;[69] the majority living in the Central and Southern regions (45% and 42% respectively).[70] About 85% of the population lives in rural areas, reflecting the predominantly agricultural nature of the household and the country's economy.[71] In 2013, rural households size averaged at 4.9 people. Rural to rural migration in the Northern Region has increased in recent years, followed by Central Region. The greatest mobility is observed in households having undergone divorce/separation or having lost the spouse. [72] Life expectancy in Malawi was 62.8 years of age.

A. Poverty

2. **Poverty levels.** Despite GoM and donor efforts to date, marginal progress has been made in poverty reduction over the past few decades – with only a 1.7% drop in the proportion of people living under the national poverty line between 2005 and 2010. Over 50% of the population still lives under the national poverty line and includes a growing number of ultra-poor food insecure households.

Table 1: Poverty in Malawi % population

Poverty level	Year	
	2005	**2010**
Poor	52.4%	50.7%
Ultra-Poor	22.3%	24.5%

3. Malawi's national poverty lines are consumption-based. People whose total consumption level is below MKW 37,002 are considered poor and those whose consumption is below MKW 22,956 as ultra-poor. Thus, the *food poverty* line reflects the monetary costs of purchasing basic food items to meet minimal dietary requirements established at 2,400 kilocalories per person per day. The poverty line adds to this, the cost of basic non-food needs.[73] Households falling below the food poverty line are commonly referred to as extremely/severely food ultra-poor. Households falling under the poverty line but food secure are referred to as poor.

4. **Spatial dimensions of poverty.** The absolute number of poor people is higher in the densely populated Southern and Central Regions, where poverty is also more severe. The Southern Region is highly succeptible to droughts and floods; this region has also been host to refugees fleeing from warfare in the neighbouring Mozambique. The Central Region is the better off region with the prevalence of poverty and ultra-poverty 10 points lower than in other regions of the country.

5. **Dimensions and causes of poverty.** Beyond income or consumption, it is estimated that 66.4% of the country's population lives under multidimensional poverty reflecting multiple health, education, and standard of living related deprivations, including: alarmingly high levels of maternal and child mortality and under nutrition, low access to electricity, cooking fuel, sanitation, and assets.[74] In 2014, Malawi ranked 173 of 188 countries in the Human Development Index.[75]

6. The combined effects of low agricultural production and productivity of smallholder farmers due to reliance on rain (over 60% of the population), use of very small plots of land with mostly degraded soil, gender inequality, limited access to markets and poor access to savings and credit products

[69] National Statistical Office, Population Projections Malawi. See: http://www.nsomalawi.mw./images/stories/data_on_line/demography/census_2008/Main%20Report/ThematicReports/Population%20Projections%20Malawi.pdf (accessed 14th October 2016).
[70] National Statistical Office. (2008). 2008 Population and Housing Census.
[71] National Statistical Office. (2012). Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.
[72] National Statistical Office. (2014). Integrated Household Panel Survey. Household Socio-Economic Characteristics Report.
[73] National Statistical Office. (2005). Integrated Household Survey 2004-2005, Volume I Household Socio-Economic Characteristics.
National Statistical Office. (2012). Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.
[74] OPHI. (2013). Country Briefing Malawi.
[75] UNDP (2014). Human Development Report 2014.

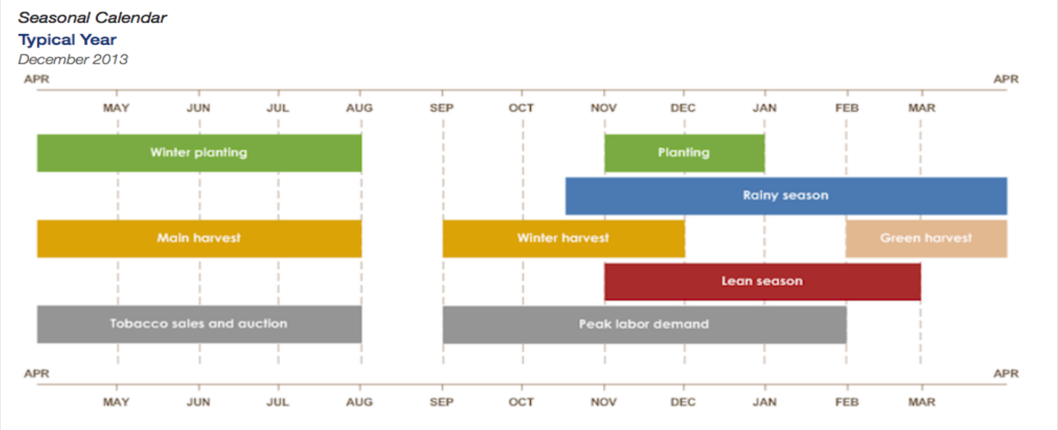
result in poor livelihood outcomes. Unexpected dramatic climatic events have increased, leaving most smallholder farmers highly exposed to severe, unpredictable extreme weather risks such as droughts and floods.[76]

7. Weak internal and external conditions do not only constrain rural households' agricultural yields, they also lack access to markets and other profitable economic opportunities. The poorest are unable to invest in productive assets, education, and savings, and remain chronically trapped in poverty. Combined, these factors result in high levels of poverty, food insecurity, malnutrition, and vulnerability to HIV/AIDS.

B. Rural Livelihoods in Malawi

8. Malawi is a predominantly rural country. Some 31% of the country's land area is suitable for rain-fed agriculture; 32% is marginal; and 37% unsuitable for agriculture. Average smallholder landholdings in Malawi are of 1.51 hectares, although 66% of cultivated plots are less than 0.81 hectares. Smallholder farmers strongly rely on maize, although cultivation of cassava, sorghum and potatoes is common in some areas of the country. Involvement in cash crops such as tobacco, cotton, sugar, and groundnut and in smaller value chains such as honey and milk enables better off households to income sources. Despite the existence of abundant water (Lake Malawi and a network of rivers) the country's irrigation potential is largely yet to be exploited – especially among smallholder farmers.[77] The country's substantial watersheds are believed to have the highest potential for developing smallholder agriculture. In addition, the rural economy is characterized by substantial volumes of petty trade and other forms of informal economic activity which enables households to diversify income sources.

Figure 1: Malawi agricultural seasonal calendar



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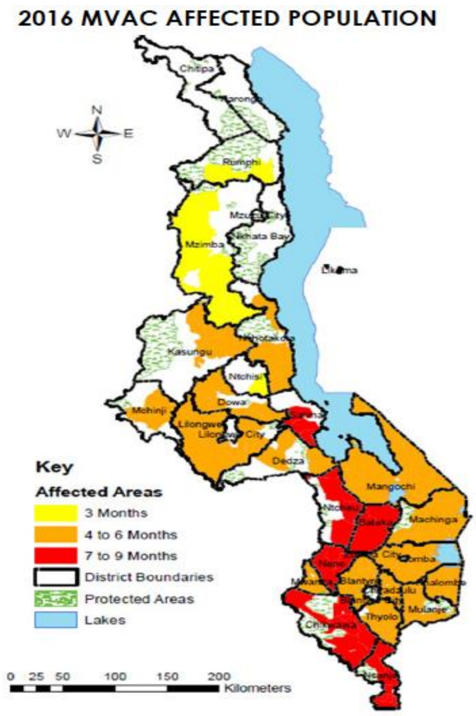
Source: http://www.fews.net/southern-africa/malawi

9. The rainy season in Malawi typically starts mid-October and runs through the end of April. The main planting season for maize and other local crops is between November and January. This is the most difficult economic time of the year for households. Even when there is sufficient rain, many households experience prolonged periods of hunger and are unable to meet food requirements, and many are unable to pay school fees and other basic needs. Vegetables harvested in February through to the end of April constitute the first agricultural output after the lean season; cereals are harvested immediately after between April and August, coinciding with the winter planting.

[76] Malawi Vulnerability Assessment Committee. (2016). National Food and Nutrition Security Forecast, April 2016 – March 2017. Bulletin No.12/16 Volume 1.
[77] National Statistical Office. (2012). Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.

10. Access for the poor to savings and credit services is still incipient in Malawi with only 34% of adults being served by banks and other formal financial institutions. Almost 15% rely solely on informal institutions to save or borrow money. Use of informal services is higher among women than men (16% vs. 13%, respectively). Overall though, use of financial services – formal and informal – is lower in rural areas (44%) than in urban areas (69%) and peri urban areas (58%). A large proportion of the population (51%) is reliant on loans from family and friends as they are excluded from financial services. (See Appendix 1 for more details). Households in Malawi save and acquire loans to improve their farming, address medical, school and food needs and cover other living expenses.[78]



Source: MVAC, April 2016. National Food and Nutrition Security Forecast, April 2016 to March 2017. Bulletin N.

11. Vulnerability factors affecting rural livelihoods. In 2010, droughts/irregular rains, price fluctuation for agricultural inputs, food and agricultural outputs constituted the major risks affecting household resilience.[79] It is estimated 6.4 million people will not be able to meet annual minimal food consumption needs in 2016.[80] No significant differences have been reported on the impacts of shocks on male and female-headed households in comparable situations.[81]

12. HIV and AIDS (national prevalence at 10.6%) and pervasive malnutrition are additional factors affecting household productivity and human capacity.[82] An analysis of food expenditure patterns highlights the poor nutritional content of lower income households, who spend very little on animal products, fats, and oils.[83] Child stunting patterns have improved over time but continue being alarming. Mean stunting among ultra-poor households in 2010 was still over 55%.[84] Nutritional challenges in Malawi compromise household productivity and wellbeing by increasing the probability of infectious diseases among children as well as the cognitive ability and thus the economic performance of future adults.[85]

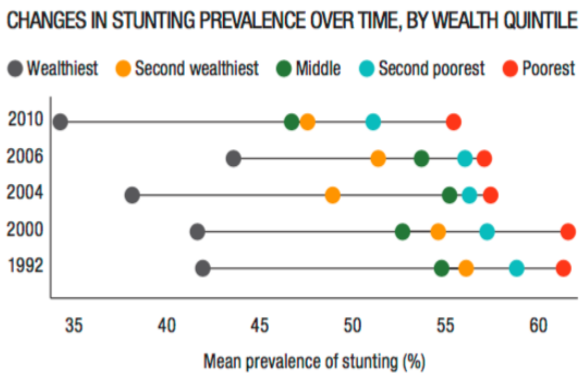
13. Vulnerable groups in Malawi include the elderly, the chronically ill, orphans and vulnerable children, persons with disabilities and destitutes.

[78] FinMark Trust (2014). FinScope Consumer Survey Malawi 2014.
[79] National Statistical Office. (2012). Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.
[80] The Malawi Vulnerability Assessment Committee. (2016). National Food and Nutrition Security Forecast, April 2016 to March 2015. Bulletin No.12/16 Volume 1.
[81] National Statistical Office. (2012). Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.
[82] National Statistical Office. (2010. Malawi Demographic and Health Survey.
[83] National Statistical Office. (2012). Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.
[84] International Food Policy Research Institute. (2015). Nutrition Country Profile, Malawi. Global Nutrition Report.
[85] The nutritional status of households in Malawi is a result of deficiencies in food availability due to low production and productivity, limited access primarily due to food inflation and poor utilization, manifested through poor feeding practices associated to dietary preferences, limited understanding of infant and young child nutritional needs and gender inequality. Data available up to 2011 indicates that food consumption in Malawi increased overall from 2004, but this was accompanied by a decrease in food quality or nutritional intake. The rise in food prices during this period partly explains this shift as households consume more lower cost foods. However, it is also recognized that a shift towards the consumption of a more diversified and nutrient rich diet which includes pulses, green leafy vegetables and animal products requires various demand and supply side interventions, including greater gender equality. See: IFRI. (2015). Mapping the Linkages of Agriculture, Food Security, and Nutrition. Malawi Strategy Support Programme.

C. Women and Youth

14. **Youth.** Defined as those aged 10-35, youth in Malawi constitute over 40% of the population.[86] Custom and tradition entail the submission of youth to parents and other (older) adults. Thus, youth do not generally participate in household or community level decision-making processes and their views are unrepresented in wider societal circles. In rural areas, youth and younger households tend to be poorer than those headed by 35-45 year olds not only due to the progressive accumulation of assets over time, but also because youth have limited access to productive assets such as land. This typically leaves youth in Malawi locked in unpaid or subsistence farming and poverty.[87] As in other countries in the region, anecdotal evidence indicates that youth in Malawi expect to engage in economic activities with quick returns, especially providing support services in agriculture or higher up in agricultural value chains or off-farm activities.

Figure 2 Malawi changes in stunting



Source: International Food Policy Research Institute, 2015.

15. **Gender roles and gender inequality.** Women represent 52% of the country's population and play an essential role at the heart of the household as prime food producers and carers. Women´s participation in income generating activities such as petty trade and services is prominent. Men play a key role is specific stages of the agricultural cycle such as preparing fields, marketing and deciding how to use income. Men have increased involvement in cash crops, however, according to interviewees men expect to find jobs that are few are far between.

16. Unequal workloads between men and women are not the only manifestation of gender inequality in Malawi. Despite being a predominantly matrilineal society, *de facto* control of productive assets is in the hands of men, first in women's male relatives and once married, in their husbands. Women do not usually participate in decisions that have a bearing on them, their households, and communities, due to the dominated of these spaces by men.[88] Women have lower literacy rates than men (57% vs. 74%), and generally lower access to opportunities and services that can improve their lives and that of their families (e.g., remunerated employment).[89] Women are also the prime victims of gender-based violence.[90]

17. **Women headed households.** Some 25% of households in Malawi are headed by women. Plots of cultivated land among women-headed households are smaller than those of men (average 0.81 hectares vs. 1.62 hectares among men). This is consistent with the fact that 57% of women-headed households live under the poverty line. [91]

18. In Malawi, 70% of women managing farming plots are widowed, divorced, or separated. A recent study considering the gender gap in agricultural productivity reveals that the key factors hindering productivity for women managing agricultural plots as follows (by order of importance):

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[86] National Statistical Office, 2008. 2008 Population and Housing Census.
[87] National Statistical Office, 2012. Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.
[88] National Statistical Office, 2010. 2010 Malawi Demographic and Health Survey.
[89] National Statistical Office, September 2012. Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.
[90] National Statistical Office, 2010. 2010 Malawi Demographic and Health Survey.
[91] National Statistical Office, 2012. Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.

a. Limited access to male labour;

b. Limited participation in the production and marketing of cash crops; and

c. Limited access to agricultural implements.[92]

D. Government Policies, Strategies, and Programmes

19. **Poverty reduction and rural development.** Malawi's Second Growth and Development Strategy 2011-2016 sets ambitious goals to reduce poverty. Integrated Rural Development is a key strategy to transform rural livelihoods through governance and decentralization, local economic development and investment, the expansion of rural financial services, local development planning and human capital development.[93]

20. **Agriculture sector policies and drivers.** The approval of the National Agricultural Policy in 2010 aimed to substantially raise sector performance and promote food security. Numerous sub-sector policies have been produced covering domains such as HIV and AIDS, extension, livestock development, conservation, irrigation, and others.[94] The Agriculture Sector-Wide Approach (ASWAp) drives strategic investment in relation to food security, the development of commercial agriculture and sustainable land (and water management). ASWAp includes two major programmes: The Farm Input Subsidy Programme (FISP) and the Green Belt Initiative (GBI). Together these programmes aim to substantially increase production and productivity and thus, food and income security.

21. **Nutritional policy environment.** Malawi´s Nutrition Policy and Strategic Plan 2007-11 and Guidelines acknowledge that poor nutrition is one of the major constraints to national development and progress. These documents constitute a multisector approach to nutrition.[95] The National Nutrition Committee (NNC) is responsible for coordination nutrition related interventions. In 2011, Malawi was the first country to launch Scaling Up Nutrition (SUN) a global movement to improve nutrition - highlighting the importance of the country's nutritional profile.[96]

22. **Social protection.** The Government has also developed an ambitious social protection system through the Malawi National Social Support Programme (NSSP).[97] Two components of the NSSP are worth mentioning: i) a social cash transfer programme (SCTP) in the process of being rolled out to the last set of 10 districts of the country in 2016 targeting labour constrained ultra-poor households; and ii) the Public Works Programme (PWP), which targets moderately poor households and non-labour constrained ultra-poor households by providing wages for labour in public works. The GoM and its development partners have recently taken steps to develop a graduation approach for ultra-poor labour constrained households into sustainable livelihoods to increase their resilience and promote their self-reliance.

23. **Equality of rights to men and women.** The constitution grants equal rights to men and women and prohibits sex-based discrimination. The National Gender Policy of 2011 reflects the government´s commitment the working on gender equality.[98] The Gender Equality and Women Empowerment (GEWE) Programme aims to accelerate efforts to advance gender equality and is currently being implemented in 13 Districts.[99] Anecdotal evidence indicates that the Malawi Gender Training Team (MGTT) established in 1996 requires resources and support to fulfil its mandate. In the

[92] UNWOMEN, UNDP, UNEP and the World Bank Group, 2015. The Cost of The Gender Gap in Agricultural Productivity in Malawi, Tanzania and Uganda.
[93] Ministry of Local Government and Rural Development. (2016). Integrated Rural Development Strategy.
[94] Ministry of Agriculture and Food Security (2010. The National Agricultural Policy: Promoting Agricultural Productivity for National Food Security and Economic Growth and Development Through Value Chain Development.
[95] Office of the President and Cabinet. (2007). National Nutrition Policy. Ministry of Health, 2007. National Nutrition Guidelines for Malawi.
[96] See: http://scalingupnutrition.org/sun-countries/malawi/ accessed 23rd November 2016.
[97] Ministry of Economic Planning and Development, August. (2012). Malawi National Social Support Programme.
[98] Ministry of Gender, Children, and Community Development. (2011). National Gender Policy.
[99] See: http://malawi.unfpa.org/news/gewe-gender-equality-and-women-empowerment accessed 10th November 2017.

legal domain, the Prevention of Domestic Violence Act was approved in 2006 and the Gender Equity Bill in 2012.

24. Promotion of gender equality is upheld in Malawi by the country being signatory to:

i) The convention on the Elimination of all Forms of Discrimination Against Women;

ii) The Convention on the Rights of the Child;

iii) The Beijing Platform for Action;

iv) The International Conference on Population and Development;

v) The Southern Africa Development Community Declaration on Gender and Development;

vi) The Protocol to the African Charter on Human and People's Rights on the Rights of Women in Africa; and

vii) The African Union´s Solemn Declaration on Gender Equality in Africa.

25. **Recognition of the role played by youth.** Youth development and empowerment are priority features of Malawi´s Growth and Development Strategy II. The National Youth Policy of 2013 aims to stimulate the participation of youth in the country´s development. The policy recognizes the role that youth play in rural development and the pressing need to render agriculture attractive to youth.[100] Equally important is the fact that policies and programmes contributing to rural development make explicit reference to the need to involve youth and for effective gender mainstreaming strategies to advance gender equality.

E. Socio-Economic Characterization of Households in Malawi

26. Development interventions generally classify rural households into the following categories: i) destitute households and other very poor people who have difficulties in meeting food consumption needs; ii) economically active but poor and vulnerable households; and iii) resilient households. Development interventions generally target the middle group and the better off group as they are better positioned to get involved in development and succeed in activities at lower costs. However, weather related shocks have exacerbated food insecurity in households with food consumption challenges. As mentioned, specific programmes have been developed in Malawi to specifically target very poor households.

27. A more detailed socio-economic classification of rural households in Malawi offers more precise characterization and the opportunity to reach households with targeted interventions that match their specific needs. A more accurate classification of households for the purposes of FARMSE is:

i) labour constrained ultra-poor households;

ii) non-labour constrained ultra-poor households;

iii) food secure but poor households;

iv) vulnerable households; and

v) resilient households.[101]

Table 2: Poverty in Malawi by Socio Economic Strata

Socio Economic Strata	% of Poor
Ultra-poor Labor Constrained	10%
Ultra-poor Non-Labour Constrained	15%
Poor but Food Secure	25%
Vulnerable to Poverty	25%
Resilient to Poverty	25%

28. These five groups represent a continuum of poverty/wealth, vulnerability, and resilience. The first two categories (ultra-poor, labour constrained and non-labour constrained households) represent those living under extreme/severe food poverty, as these households are unable to meet basic food needs. The third category (food secure but poor households) represents those living under the

[100] Ministry of Youth and Sports. (2013) National Youth Policy.
[101] While similar, these five categories cannot be strictly equated to the five socio-economic quintiles used in national level household surveys.

poverty line but are food secure. Together, these three categories represent 50.7% of the population of the country living under the national poverty line.

F. FARMSE Targeting Strategy

29. **Overall targeting approach.** FARMSE will combine a national and geographic targeting approach. Component 1.0 will support graduation of the poor from poverty by targeting both categories of ultra-poor households. The component is based on GoM existing graduation model which focuses on concentrating and coordinating efforts to move households out of poverty on a sustainable basis. Subcomponent 2.1 will support restructuring and consolidation of CFBOs, promoting, linkages with the formal financial sector, and secondly support formation of new CBFOs in the South North and Central areas of the country with a focus on areas underserved by CFBOs. Finally, subcomponent 2.2 will support innovation of financial products and services targeted to financial institutions within specified market areas. Care will be made to ensure that interventions are not (as far as possible) highly concentrated in a limited number of areas. **Identification of target regions, districts and communities** according to the application of the following criteria:

- Strategic opportunities for leveraging investments between programme components, other IFAD programmes, as well as existing and emerging livelihood enhancement and nutrition opportunities, including programmes implemented with the support of other donors related to value chain development, growing competitive advantage of an economic activity, in addition to new government investments;
- Suitable geographic and agro-ecological conditions for the success of underlying economic activity; and
- Poverty levels.

30. **Identification of target households.** The programme will target all socio-economic segments in rural Malawi through different programme components. Component 1.0 will focus on ultra-poor households. Sub-Sub component 2.1 will support CBFOs primarily targeting poor households and households vulnerable to poverty without excluding reaching into other socio-economic strata. Sub-component 2.2 will focus on food secure but poor households, vulnerable households, and resilient households as participation generally demands higher economic capacity.

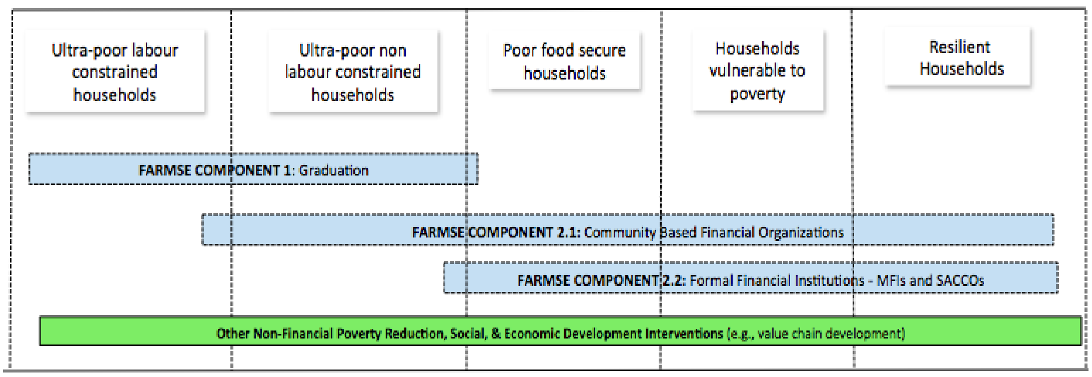
31. **Component 1.0 targeting.** Graduation activities will be implemented in targeted regions, districts, and communities. Selection criteria will include:

i) Poverty levels;

ii) Suitable geographic and agro-ecological conditions for the success of underlying economic activity;

iii) Opportunities for leveraging other programme investments (e.g., between programme components, other IFAD programmes, other donor, or government programmes); and

iv) Areas with notable competitive economic activity and/or with emerging livelihood enhancement and nutrition opportunities.



32. Programme approaches, structure and the targeting strategy will ensure that men and women of different ages across all socio-economic groups – including youth – are reached with impactful gender and age sensitive interventions and products. The programme will ensure lessons learnt from financial inclusion programmes are considered in programme design, planning, implementation, monitoring and evaluation and in knowledge products, especially related to effectively targeting women and youth.

33. **Special geographic targeting considerations.** FARMSE will seek to overlap graduation interventions with other financial sector support activities in the same areas/communities. Community level graduation programme activities will be first piloted in manageable sized projects and rolled out in a coordinated fashion once outcomes and best practices have been identified. Special attention will be made to implementing interventions in the Southern Region given the high presence of non-governmental organizations (NGOs) which has been reported to have led in some communities to high expectations of rewards given multiple programme participation requests from multiple agencies.

G. Special Programme Strategies to Enhance Programme Effectiveness

34. **Gender and youth strategy.** FARMSE will mainstream gender both within its managerial structure and policies, as well as at programmatic level. Women will be proactively given equal opportunities to participate in the management of the programme, access to training and promotions. The programme will adopt a non-harassment policy. PMU staff members will be trained on gender issues, socio-economic analysis, relevant household methodologies, HIV/AIDS and basic issues related to nutrition. Compliance with the programme´s gender and youth strategy will be sought among contracted organizations/individuals to undertake any programme related activity.

35. At programme level, FARMSE will identify measurable targeting objectives for women and youth. Where possible, the programme will actively ensure women and youth are encouraged and enabled to participate in programme planning and monitoring activities. The programme will ensure intervention opportunities are sensitive to the needs and preferences of women and youth.

36. **Household Methodologies.** The programme expects the integration of adapted Household Methodologies into community level activities for Component 1.0. The approach will equip households targeted by the programme to elaborate, execute, and monitor realistic household level vision/plan of what they would like to achieve in a few years. This requires households to analyse current situations and assess what they need achieve their goals.[102] Household Methodologies have been used in IFAD's IRLADP and SAPP programmes. The methodology has been adopted within the Department of Agriculture Extension Services (DAES) at the Ministry of Agriculture, Fisheries, and Water Development.[103] The programme will the DAES approach as a basis for Household Methodologies for FARMSE.

37. The analysis promoted in household methodologies enables household members to assess intra-household dynamics and subsequently identify gender and age power imbalances and effects on individual and household wellbeing. Given nutritional challenges in Malawi the programme will ensure that an analysis of intra-household distribution of food is also included with the view to promoting equal access of foodstuff among all household members.

38. Household methodologies unlock households´ economic potential and promote gender equality from within. As such, the programme will address structural factors constraining long term sustainability of development interventions, including: i) participation of men, women and youth in household and community decisions related to access, control and use of productive assets; ii) promotion of more equal access, control and use of assets and benefits derived from household livelihood activities; iii) promotion of equal enjoyment of benefits associated to programme interventions; and iv) joint decision-making on how to use loans accessed.

[102] IFAD. (2014). Household Methodologies: Harnessing the Family´s Potential for Change. Gender, Targeting and Social Inclusion.
[103] IFAD (2014). Case Study: Household Approach for Gender, HIV and AIDS Mainstreaming, Malawi. Gender, Targeting and Social Inclusion.

39. Experience in the use of household methodologies (including, for example, the Gender Action Learning System, GALS[104]) indicates that poorer households are better reached through individual mentoring directly at household level. This is consistent with the experience of graduation models for food insecure households including some implemented by BRAC, the Ford Foundation and CGAP and IFAD in Kenya, which involve intensive and direct mentoring of households. [105] Conversely, experience in the use of household methodologies shows that poor (rather than the poorest) households can be effectively reached through community based groups, such as VSLAs, SACCOs. This is consistent with findings from IFAD's SAPP experience in Malawi.

40. Household methodologies aim to generate profound changes at household level. Propelling household potential involves households adopting behaviour different to that supported by custom and traditions. Consistent with broader socio-ecological models, household methodologies involve working with individuals, households, communities, and other development players which bear effects in target communities. Moreover, the experience of IFAD's SAPP in Malawi indicates that a critical mass needs to be targeted at community level to generate a collective impulse for change.[106]

41. **Financial inclusion and nutrition.** Service providers implementing interventions in Components 1.0 and subcomponents 2.1 and 2.2 will provide information to beneficiaries to strengthen nutrition related knowledge related to nutrition security, namely: i) clarifying the difference between food consumption and adequate nutrition; ii) advising beneficiaries to assess their capacity to engage in savings and assume credit without foregoing food consumption needs; iii) advising beneficiaries on the health risks associated with shifting to highly processed foods often associated with socio-economic progress; and iv) providing women minimal information on how to improve breastfeeding and feeding practices among children aged 0-2 years of age to contribute to stunting prevention efforts.

H. Monitoring and Evaluation

42. FARMSE will monitor targeting effectiveness among households reached with household methodologies, including: planned vs. actual men and women reached (including young males and females); improvement in intra-household relations; improved sharing of tasks between household members; and participation of women in decision-making related to use of land for productive purposes. Use of data will be encouraged to fine tune operational strategies. Variables to be monitored will be selected in the next design mission.

[104] IFAD. (2014). Case Study: Gender Action Learning System in Ghana, Nigeria, Rwanda, Sierra Leone, and Uganda. Gender, Targeting and Social Inclusion.
[105] CGAP and Ford Foundation. (2014). From Extreme Poverty to Sustainable Livelihoods: A Technical Guide to the Graduation Approach.
[106] IFAD. (2016). SAPP Mid Term Review Report.

Targeting checklist	Design
1. Does the main target group – those expected to benefit most – correspond to IFAD's target group as defined by the Targeting Policy (poorer households and food-insecure)?	The programme dedicates an entire component to food insecure ultra-poor households, which aims to lift households to sustainable livelihoods. Other components will target poor yet more economically active/stable households.
2. Have target sub-groups been identified and described according to their different socio-economic characteristics, assets and livelihoods – with attention to gender and youth differences (matrix on target group characteristics completed)?	Components structure the programme to target different socio-economic groups. Characteristics – including description of assets and general livelihood strategies – are described in the PDR and have fully been considered in programme design.
3. Is evidence provided of interest in and likely uptake of the proposed activities by the identified target sub-groups? What is the evidence (matrix on analysis of programme components and activities by principal beneficiary groups completed)?	Programme components align with GoM strategies for poverty alleviation and rural development. Field level interviews with GOM, NGOs and community members confirmed the need, adequacy, and interest of proposed programme interventions.
4. Does the design document describe a feasible and operational targeting strategy in line with the Targeting Policy, involving some or all the following measures and methods:	The programme proposed a feasible targeting strategy among socio-economic groups structured through programme components.
4.1 ***Geographic targeting*** *– based on poverty data or proxy indicators to identify, for area-based projects or programmes, geographic areas (and within these, communities) with high concentration of poor people;*	Poverty is widespread in Malawi. Only Component 1.0 will target a specific geographic area. Subcomponent 2.1 are national scope but interventions will be selected to ensure equitable distribution of activities in the North, Central and Southern areas of the country. Subcomponent 2.2 will not have specific geographic targets, though interventions may be localized. FARMSE will attempt to have some programme interventions overlaps by area.
4.2 ***Direct targeting*** *– when services or resources are to be channelled to specific individuals or households;*	Component 1.0 will target 40% of women headed households. Targets for male participation in CBFOs will be set for CBFO group restructuring and formation in subcomponent 2.1. will target women 50% and youth 40%. Subcomponent 2.2 will target youth (40%) and women (50%).
4.3 ***Self-targeting*** *– when good and services respond to the priority needs, resource endowments and livelihood strategies of target groups;*	Programme interventions were designed considering the needs and priorities of rural poor households as expressed by GoM officials, the private sector, NGOs, and communities/household stakeholders. The choice of interventions addresses bottlenecks in Malawi´s smallholder agricultural economy which can be addressed to some extent with financial products and services, considering the capabilities and assets of each target group contemplated.

Targeting checklist	Design
4.4 ***Empowering measures*** *– including information and communication, focused capacity- and confidence-building measures, organizational support, to empower and encourage the more active participation and inclusion in planning and decision-making of people who traditionally have less voice and power;*	The programme will coordinate interventions with other stakeholders working in related or complementary fields both nationally and at the local level (most particularly for Component 1.0 and subcomponent 2.1). Programme launch will be supported with community sensitization activities. Information will be disseminated publicly at community level to enhance inclusion and transparent selection of beneficiaries. It will mobilize men and women of different ages and socio-economic status for each programme activity. Key empowering features to be promoted in Component 1.0 through household methodologies include: • Promotion of household planning and livelihood strategy development; • Analysis of gender roles and barriers within households, empowering household members to be the drivers of change; and • Increase participation and voice of youth in household and community affairs. For subcomponent 2.1, grantees supporting group formation will committee to gender and youth sensitive targeting and programmatic interventions.
4.5 ***Enabling measures*** *– to strengthen stakeholders' and partners' attitude and commitment to poverty targeting, gender equality and women's empowerment, including policy dialogue, awareness-raising and capacity-building*	Enabling measures such as the following will be integrated into the programme: • Transparent identification of beneficiaries; • Capacity building for transparent governance will be provided to CBFOs supported by the programme; • Raising the awareness among and requiring contractors follow the programme's targeting and gender approach; • Participation in relevant technical gender issues and poverty policy dialogue workgroups etc. include for example, Social Cash Transfer Task Force, the Village Savings, and Loans Association Committee, etc., as relevant; • Dialogue with relevant GoM line ministries including for example, the Ministry of Agriculture and other interested stakeholders on the use of household methodologies; and • Awareness raised among community leaders and other community members to promote household approach methods beyond targeted households.
4.6 ***Attention to procedural measures*** *– that could militate against participation by the intended target groups;*	The programme will clearly and publicly share targeting criteria at community level and will seek the involvement of targeted households – including vulnerable ones - in assessing programme progress and effectiveness. Geographical selection criteria will be developed with key stakeholders.
4.7 ***Operational measures*** *– appropriate project/ programme management arrangements, staffing, selection of implementation partners and service providers;*	TORs for all relevant staff will specify gender related responsibilities. Field team compositions will target an equal number of men and women. Performance of targeting will be monitored. The allocation of funds for special studies will help clarify performance challenges.
5. Monitoring targeting performance. Does the design document specify that targeting performance will be	The M&E framework will monitor target programme performance. In addition, the programme will conduct a

Targeting checklist	Design
monitored using participatory M&E, and be assessed at mid-term review? Does the M&E framework allow for the collection/analysis of sex-disaggregated data and are there gender-sensitive indicators against which to monitor/evaluate outputs, outcomes and impacts?	longitudinal study in the initial phase of implementation of Component 1.0 to assess the cost-effectiveness of graduation models tested. This exercise will inform the selection of indicators to be subsequently used in rolling out a larger graduation approach intervention. Both will ensure data collected is gender disaggregated and youth are accounted for separately. Outcome and impact indicators to be used for different programme components include: • Component 1: number of targeted household attaining food security, and number of targeted households using financial services • Component 2.1 – Number of women, men, and youth targeted; and • Component 2.3 – Number of women and youth targeted.

Appendix 3: Country performance and lessons learned

A. Country performance

1. IFAD's Country Strategic Opportunities Programme (COSOP) 2010-2015 supported four investment programmes: the Rural Livelihood Support Programme (RLSP); the Irrigation, Rural Livelihoods and Agricultural Development Programme (IRLADP), which was co-financed 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 project. A new project for the irrigation sector, the Programme for Rural Irrigation Development (PRIDE), will be fully operational in 2017.

2. The Malawi COSOP 2016-2022 notes that government capacity to manage and implement programmes is stretched. Most government budget and human resources for the agricultural sector goes to the Farm Input Subsidy Programme (FISP) which is reaching 50% of Malawi's smallholders, but lacks incentives for farmers to boost productivity. The World Bank's 2014 Country and Policy Institutional Assessment (CPIA) shows a negative trend for public sector management. Decentralisation 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 perceived high risks and limited returns.

B. Lessons learned from IFAD past interventions in Malawi

3. The main lessons learnt from the loan funded programmes are summarized below:

4. **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 its staff was not fully dedicated to the programme. This has negatively affected performance, causing a 3-year delay in implementation. RLEEP has a dedicated coordination unit under oversight of the Ministry of Local Government and Rural Development (MoLG & RD) that performs well. The lesson learnt is that a fully dedicated management unit enables efficient project implementation.

5. **Public extension services** use the lead farmers 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 to refine the approaches, for example by introducing farmer business schools and community animal health workers. The effectiveness of extension services could be further increased through complementary services by non-government and private service providers.

6. **Nutrition and food security.** The outcome of IFAD's Food Knowledge Attitude and Practices survey provided the baseline for the COSOP to mainstream nutrition.[107] The need for more rigorous nutrition intervention was confirmed and districts with high rates of stunting should be targeted. Project intervention should: i) lead to improved infant and young feeding practices; and ii) ensure regular growth monitoring to identify risks early for remedial interventions. All project should be nutrition sensitive which could entail the promotion of: i) nutritious plant products for subsistence and in value chains; ii) good post-harvest and food processing technology; iii) awareness through large scale campaigns and household level training.

7. **Gender and targeting.** In IRLADP and SAPP, the application of a household methodology Approach has helped household members develop joint visions, plans and make decisions on crops, revenues, and household resources. The household methodology is inclusive and addresses gender equality, while respecting household diversity. However, as experience in SAPP has shown, a household methodology is most effective when widely used within communities, as changes within the

[107] See: Food Knowledge, Attitude, and Practice (KAP) survey, IFAD Malawi, 2015.

households complement changes to broader socially norms. Three specific results expected from the use of household methodologies are relevant to FARMSE: i) adoption of gender norms that provide greater opportunities to both women and men; ii) increased household economic potential; and iii) promoting the involvement of youth in household and community affairs, as well as in the possibility of developing productive livelihood strategies.

8. **Policy engagement.** The Malawi COSOP 2010-2015 portfolio was well-aligned to Government's policies, but results were not systematically used to inform policy makers. Donor coordination and policy dialogue on agriculture in Malawi is undertaken through the Donor Committee on Agriculture and Food Security (DCAFS). IFAD's limited in-country presence has hampered its regular participation in the DCAFS. Alternative arrangements should be employed to ensure a steady transfer of project-based knowledge to policy makers and development partners.

9. **Good Agricultural Practices (GAPs) and climate-smart agriculture.** 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 t/ha. RLEEP supports double lining and improved storage in groundnuts, among other initiatives, which can increase marketable production by 50%. 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. There is, however, a need for better post-harvest practices, to boost marketability of produce along a 'Farming as a Business'-perspective.

10. **Sustainable irrigation development enhanced 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% (baseline) to 160%. Water user associations ensure long-term management, secure smallholder access to land and enable contract farming. New irrigation projects need to build on IRLADP's approach for securing land access. Catchment soil and water management are important to sustain the irrigation infrastructure and ecosystem.

11. **Rural Finance.** Limited access to rural finance services constrains agricultural development. COSOP 2010-2015 provided some support to improve access to rural finance, such as to funding village savings and loan association development. Farmers' demand however exceeds available services and credit remains expensive.

12. **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. RLEEP's approach to value chain development started with a national mapping exercise, followed by a consultative process to identify commodity chains with developmental potential. An innovative process has started recently whereby private sector companies identify the value chains and their restrictions. Private companies can apply to matching grants to address value chain issues, like IFAD's Public-Private-Producer Partnership (4P) approach. Economic modelling by IFAD/IFPRI confirms the potential for value chain development, including biofuels, and cash crops.[108]

13. **Climate change and vulnerability to external shocks.** Climate change in densely populated parts in Southern African is estimated to cause yield losses of about 20% by 2050.[109] Climate change has become a reality for Malawi's largely rain-fed agriculture, as evidenced by the various floods and droughts (the last drought affecting the country in 2015/16). Smallholders are particularly vulnerable to climate effects, and the promotion of good agricultural practices should include climate smart options, such as the use of weather forecasts.

[108] Rui & Thurlow 2016 Development of a Rural Investment and Policy Analysis (RIAPA) Modeling Toolkit.
[109] Wheeler and von Braun (2013) Climate change impact on food security, Science.

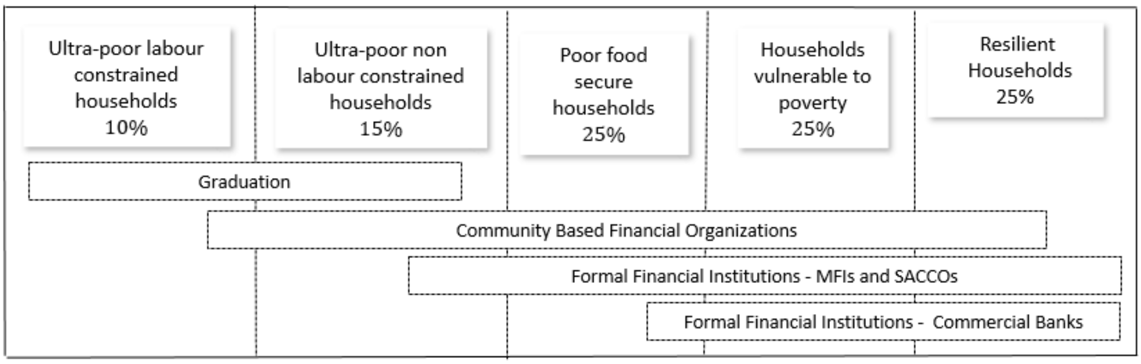
C. Lessons learned specific to FARMSE design

Components and Activities

14. **Geographic Distribution of Resources** - While the programme will be national in scope, some interventions will target strategically identified districts. This will be done to concentrate resources to maximize use of funds, and to test/identify effective, efficient, and replicable interventions for the purposes of scaling up. Lessons learned from past interventions show that planned overlap with complementary existing or planned new IFAD and or other donor interventions can multiple benefits to target groups. In the case of FARMSE, where programme activities from graduation through to MSME financing serve overlapping targeted socio economic strata, purposeful geographic intervention selection is highly desirable.

15. **Each socio-economic stratum requires differentiated interventions.** Within each socio-economic stratum, people of different ages and gender require a specific approach to attain food security, income, and asset development as their needs are different. While not exclusive to any group, some financial tools and interventions are more appropriate for one group than others. Graduation models will target the ultra-poor, while informal financial organizations such as VSLAs are better suited to the ultra-poor but non-labour constrained and poor but food-secure. Financial services offered by formal financial services providers are often more effective tools for households that are vulnerable to poverty and resilient households and MSMEs. The FARMSE design will seek to provide the most appropriate intervention for each target group, including youth, considering the specific needs of men and women and the use of gender sensitive approaches.

Figure 1: Socio economic strata and appropriate financial service



16. **Private Sector Partners.** Private sector partners require incentives to enter markets as well as attractive long-term profits to remain in them. Before entering a partnership for market development purposes, interventions must have credible market analysis which shows the commercial potential of a venture. Programme partner enterprises must also have a demonstrated will and capacity to sustain the market intervention over the time required to achieve profitability, otherwise the sustainability of proposed services/business activities will be at risk. Programmes working on a cost sharing basis with private enterprise can ensure long term partnership commitments.

17. **Terms of Partnerships.** Longer term partnerships are commonly appropriate for sector development programmes, particularly those in countries where relatively few market players exist. To ensure good performance, longer-term projects should be multi-phased and performance-based, on a cost sharing basis. Programmes should support private and not-for-profit organizations individually or in consortia, based on short-term or longer-term strategic partnerships if substantial sustainable benefits to project target groups and beneficiaries can be identified.

18. **Elite Capture.** Entering programmes with private sector enterprise often implies benefits will flow to high income beneficiaries. While this is practicably unavoidable, it is not necessarily undesirable as private enterprise can play key roles in developing agricultural and finance sector value chains to the benefit of the rural poor. Working with the private sector with the explicit and

measurable intention of creating substantial benefits to low income populations can avoid unnecessary elite capture. With appropriate processes and a strong targeting strategy, the risk of unnecessary elite capture or elite capture which does not translate into substantial target beneficiary impacts, can also largely be avoided. Programmes working on a cost sharing basis with private enterprise can minimize elite capture.

19. **Product market analysis.** When financial service providers attempt to design, or adapt financial services products for low income and/ or rural markets they often fail to undertake adequate market research, product testing, and/ or to develop the delivery capacity required to reach/or meet demand. The result is almost always poor product/service performance. Good practice product design requires an understanding of client needs which can be capture through a **Human Centered Design** (HCD) approach. HCD is an approach which recognized the centrality of client needs. This approach has worked well in many financial sector development activities as it starts with people and ends with solutions uniquely tailored to meet their needs.[110] Like participatory planning and development, client involvement is not a one-off activity. Rather it is an ongoing, iterative process integrated into market development activities. This approach can be at odds with the more rapid pace expectation of private sector actors. Where implemented to good practice levels, however, HCD has been shown to reduce market entry risks leading to improved prospects for sustainable product/services development.

20. **Co-Financing.** programs that involved private sector typically offer some form of co- financing arrangements for project development purposes. Projects must be able to strike a balance between providing sufficient incentive for a potential partner to engage in new market development and insisting on a reciprocal investment proving commitment to the commercialization of an opportunity. In lay terms, this is called insisting a business have “skin in the game” or that it has substantial time costs and capital at risk to prove their commitment and justify programme resources.

21. **Graduation models and livelihood opportunities.** The original graduation model implemented in Bangladesh developed by BRAC is commonly referred to as the “graduation approach”.[111] Results of the model in other countries provides encouraging but mixed results, suggesting it is not possible to predict *ex-ante* those who will benefit the most from the graduation approach.[112] Challenges in Bangladesh, for example, include the difficulty graduated households encountered marketing products intended to sustain them out of poverty.[113] This example underscores both the challenge and need for access to realistic sustainable livelihood opportunities for the graduating poor. The IFAD programme PROFIT in Kenya confirms strong technical expertise is required to operationalize and manage graduation programmes.

D. Programme Management

22. **Technical capacity -** both graduation and financial sector development programs typically rely on and require substantial, and specific technical expertise. This applies both to programme management and to programme implementation. Programmes without the technical expertise required often struggle to attract and assess the capacity of appropriate partner institutions. Monitoring and evaluation of partner performance can be equally challenging, a particularly important consideration for multi-phased, performance-based projects. At the project level for both graduation and financial sector programming, the capacity and resources must be available for sourcing highly capable technical assistance and for ongoing support of programme/field team training and development. In many cases, high-level technical assistance must be a condition project funding.

[110] For more information see: https://www.cgap.org/publications/what-human-centered-design-means-financial-inclusion for further information.
[111] CGAP and Ford Foundation. (2014). From Extreme Poverty to Sustainable Livelihoods. A Technical Guide to the Graduation Approach.
[112] IPA, September. (2016). Impact of the Graduation Approach: Findings from the CGAP – Ford Foundation Pilots.
[113] Representatives of the Malawi Team Visiting the BRAC Graduation Programme in Bangladesh (authors not cited). (2016). BRAC Bangladesh Study Tour Report from 29th November to 4th December 2015.

23. **Short Term or Sporadic TA is often insufficient –** Myriad past experiences show sporadic, short-term TA focusing on single technical challenge is typically insufficient to support financial service providers in developing appropriate and rural financing products/services. Financial institutions typically require substantial technical and operational capacity improvements beyond market research and product development.[114] Moreover, developing and implementing a sustainable rural outreach strategy also often implies institutional change process beyond the mere transfer of technical skills.

24. **Championing change is critical in the private sector –** Negative perceptions about the feasibility of profitably serving rural areas and agriculture are often rooted at all levels of an institution, from frontline staff to senior management to board members. A change in institutional perception is key to successful results on the ground and, as experience has repeatedly shown, a credible institutional champion is critical to changing mind sets. In Swaziland's Rural Finance and Enterprise Development Programme, a FSP was unable to advance outreach and improve performance despite consistent support due primarily because its ownership was not willing to change its business model. The champion, often the CEO, must ignite, and drive new product or market development processes, ensure support/guidance from qualified technical partners, build ongoing internal change management support, and manage institutional change risk.

25. **Funding Flow –** Private sector partners and market development interventions can be highly sensitive to timing issues, particularly when substantial private sector investment is at risk. In the RUFIP rural finance programme in Lesotho, funding for CFBO group formation was stalled for over 18 months resulting in not only lost opportunity costs, but also closure of groups due to lack of programmed support. Maintaining planned flow of investment funding will be critical in FARMSE for both financial institution and non-financial institution private sector partners to ensure both programme targets and co-financing commitments are met.

26. **Program oversight –** just as technical capacity is required at the management and the project implementation level, projects like FARMSE also require a high-level and engaged oversight body. Without such oversight, particularly as it relates to project partners meeting implementation targets and market development objectives, programming can fall behind the relatively fast-paced expectations of project partners – particularly private sector partners causing them to lose interest, not meet performance goals, or find other more profitable ways to spend time and capital.

[114] Examples include strengthening human resources (capacity and incentives to service new rural target groups), adjustments of the Management Information System (MIS) to adequately measure performance and make adjustments in a timely manner, but also investments in physical outreach capacity to reach remote rural clients, such as low-cost branches and mobile technologies.

Appendix 4: Detailed Programme Description

1. The overall goal of the Facility to Assist Rural Markets, Smallholders and Enterprise (FARMSE) is to reduce poverty, improve livelihoods and enhance the resilience of rural households on a sustainable basis. The project's development objective is to increase access to and use of a range of sustainable financial services by rural households and micro, small, and medium enterprises.

2. FARMSE will be a seven-year comprised of three components: (1) Component 1.0 - Ultra-poor graduation model; Component 2.0 Support to financial innovation and outreach; and Component 3.0 - Strategic partnerships, knowledge generation, and policy.

3. Component 2.0 has two subcomponents: Sub-Component 2.1 - Community based financial organization support which will fund expansion and innovation of CBFOs in rural Malawi; and Subcomponent 2.2 – Innovation and outreach facility (IOF) which will fund rural finance product/ service innovation and outreach. Component 3.0 also has two subcomponents both providing funding to macro and meso rural finance sector level interventions supporting policy, strategies and system in regard to components 1.0 and 2.0; they include: Subcomponent 3.1 – Support for Poverty graduation Policy and Systems; and Subcomponent 3.2 – Support for development of broader Rural Finance Policy.

Component 1.0 - Ultra-poor graduation model development and testing at scale

4. The **outcome** of this component is the capacity of ultra-poor households to graduate from poverty, improve food security and secure livelihood opportunities is improved. The **objective** of the component is to roll out a cost-effective, replicable model(s) to graduate households from ultra-poverty and food insecurity into sustainable, self-reliant livelihoods. A secondary goal of the design and is to reduce the cost of graduation from the benchmark USD 1,500 to between USD 800 to 1,000.

5. This component is based on the existing GoM graduation model which is similar to the universally tested BRAC model promoted by The Consultative Group to Assist the Poor (CGAP) and Ford Foundation. This component will be implemented by GIZ with overall oversight from the PMU.

Rational

6. According to the most recent poverty measurements of 2010, 24.5% of the Malawi´s population is unable to source/pay for the minimal energy / daily calorie requirements per person per day of the national food poverty line (22,956 Malawian Kwacha).[115] In fact, the country has seen a rising trend in the proportion of ultra-poor as persistent external shocks have eroded the resilience of vulnerable rural households with limited assets.

7. Government efforts to address the needs of the poorest became institutionalized in 2000 with the approval of the National Safety Nets Strategy which included: i) public works; ii) targeted nutrition; iii) targeted inputs; and iv) direct welfare transfers. A Government social cash transfer pilot started in 2006. The broader notion of social protection was after adopted shortly after by the government with the approval of the National Social Support Policy in 2009 and the first National Social Support Programme (NSSP) 2012-2016. [116] The NSSP was designed around five components: i) social cash transfers (locally known as Mtukula Pakhomo); ii) public works; iii) school meals; iv) VSLAs and v) microfinance. It aims to provide a continuum of support to the vulnerable and poor and is implemented with the participation of several ministries in partnership with non-governmental stakeholders.[117] NSSP II will be soon launched. Two of the five components are critical and relate to FARMSE design, and are discussed below.

[115] National Statistical Office, 2012. Integrated Household Survey 2010-2011: Household Socio-Economic Characteristics Report.
[116] Ministry of Economic Planning and Development, 2009. Social Support Policy: Social Support, a Right for All.
[117] Ministry of Economic Planning and Development, 2009. Social Support Policy: Social Support, a Right for All.

8. **The Social Cash Transfer Programme.** Labour constrained ultra-poor households represent about 10% of the country´s population. The social cash transfer programme (SCTP) managed by the Ministry of Gender, Children, Disability, and Social Welfare (MoGCDSW) targets this group. Its prime objective is to reduce poverty, hunger, and starvation, improve school enrolment and attendance, along with health and nutrition. Following the implementation of the first social cash transfer pilot in 2006, a concerted effort by the GoM with the support of a host of donors progressively roll outed out the programme to an increasingly larger population.[118] The GoM expected that the last set of 10 districts in the country not yet integrated into the programme will start receiving transfers by the end of the first quarter 2017. The structure and level of the cash transfer received by target households depends on the number of household members, and the number of people in the household attending primary and secondary school. Payments ranged from MKW 1,700 to MKW 3,700 for a one and four-person household respectively, with an additional MKW 500 for primary students, and MKW 1,000 for secondary students. (See Annex 1 for details). Payment methods include manual in-cash payments, bank transfers and e-payments, thought the bulk of payments are still in cash. [119]

9. An impact evaluation of the SCTP (2016) confirmed successful programme implementation and documented positive results across different aspects of household economies including: i) greater food security; ii) improved dietary diversity, education, health, household improvements, agricultural inputs and livestock; iii) school enrolment and attendance; and iv) a safer transition into adulthood for adolescent youth. The study also showed that female and male-headed households tend to use funds differently, with women spending more on children and men on livestock. Only 2% of study participants reported having saved a portion of funds received from the programme.[120] Other studies found that in the absence of credit and insurance, households can use cash transfers to improve their productive capacity. An estimated 61% of one sample group of recipients no longer had to work in for other farmers or to piece work due to their improved capacity to invest in agricultural inputs and livestock.[121]

10. **The Public Works Programme.** The Public Works Programme (PWP) targets the moderately poor and extremely poor households, which includes ultra-poor non-labour constrained households (or about 15% of the total population). The PWP provides income support (wage compensation for work on public works) and infrastructure that directly or indirectly benefits local communities. The programme is managed by the Ministry of Local Government and Rural Development (MoLG & RD).[122]

11. Despite women´s high participation in both programmes (NCSP and PWP), given the large proportion of women headed households among the ranks of the ultra-poor and deliberate efforts of the PWP in targeting women, a gender analysis of NSSP points to the need to strengthen gender mainstreaming. The study rightly points out that women's participation should not be equated to gender equality and that both programmes lack strategies to positively alter intra-household power relations. Another study goes further to stress the importance of monitoring and evaluating the gender impacts and outcomes of NSSP interventions and the acute need for gender training.[123]

12. **Graduation of ultra-poor households.** While the impact on households targeted by the NSSP is clear, it is uneven and, more importantly, does not offer a clear path to sustainable livelihoods for ultra-poor households. In this context, the GoM and its development partners recently began to investigate and make modest investments to develop a strategic graduation agenda and programme, drawing largely upon models operating in Bangladesh, Ethiopia, and Zambia. The mot well known is

[118] Donors: Global Fund to Fight AIDS, Tuberculosis & Malawi, the German Government, European Union, World Bank and Irish Aid.
[119] Amounts in USD 2015 dollars. Carolina Population Center, 2016. Malawi Social Cash Transfer Programme Endline Impact Evaluation Report DRAFT.
[120] Carolina Population Center, 2016. Malawi Social Cash Transfer Programme Endline Impact Evaluation Report DRAFT.
[121] FAO (date not visible). From Protection to Production: Productive Impacts of the Malawi Social Cash Transfer Scheme.
[122] Ministry of Economic Planning and Development, August 2012. Malawi National Social Support Programme.
[123] GIZ, 2015. A Rapid Field Assessment of the Gender Responsiveness of the Malawi Social Support Programme (MNSSP) for GIZ.

BRAC's "graduation approach/model".[124] First developed in Bangladesh, BRAC, with the support of CGAP and the Ford Foundation, has now employed its model in 10 countries. The model revolves around four pillars implemented over 18-36 months: i) meeting food security needs; ii) livelihood improvement interventions; iii) financial inclusion; and iv) on-going household mentoring. In mid-2014, the approach was implemented in the IFAD PROFIT programme in Kenya.[125]

13. Results of the BRAC model has provided encouraging but mixed results. First, evaluations indicate it is not possible to predict *ex-ante* who will benefit most from the graduation approach.[126] Second, and related, not all graduates succeed in finding sustainable livelihood opportunities. In BRAC experiences, for example, the marketing of products produced by "graduates" as a part of their long-term livelihood development has been "challenging".[127] This underscores the importance of exposure to, or development of sustainable livelihood opportunities associated with a graduation programme. Finally, the cost per beneficiary at around USD 1,500 is considerably beyond the budgets many governments can afford.

14. There are several ultra-poor graduation programmes in Malawi supported by various development partners in collaboration with GoM, including the Economic Empowerment Pilot Project in Mwanza District supported by the GOM, GIZ and COMSIP which targets 557 households receiving government social cash transfer beneficiaries. Inspired by the BRACs model, the programme is testing three approaches supplementing monthly cash transfers with: i) lump sum cash payment of 50,000 MKW only (USD 65-70); ii) financial literacy, business and livestock management, and horticulture training but no cash; and iii) training and lump sum payment.[128] The pilot aims to understand how SCTP recipients with different support can best improve their income streams and household wellbeing.[129]

15. The National Smallholder Farmers Association of Malawi (NASFAM) sponsors programme with an approach which loosely corresponds to a graduation programme. NASFAM facilitates access to life skills capacity building programme to enhance agricultural production and productivity, provides access to irrigation and farm inputs, and market access. Gender and HIV/AIDS are mainstreamed as crosscutting issues.[130]

16. The Overseas Development Institute was engaged in 2016 by the GoM to provide insights into how the BRACS model could be adapted to the Malawian context. Options for a Graduation Strategy from the SCTP were developed but have not been yet implemented. All options developed were designed to improve: i) immediate wellbeing and livelihood enhancement; and ii) improving human development outcomes for the next generation. Two adaptation features proposed by ODI for Malawi include an emphasis on more climate resilient animal husbandry and promotion of sexual, reproductive and child health care.

17. Beyond financial graduation models, IFAD and other agencies have tested household methodologies to move very poor and poor households as a means sustainable rural livelihood development strategy. There are numerous approaches but the creation by community groups and/or households of a realistic development vision is common to each programme. The methodology has been used successfully to support agricultural product value chains through the facilitated/community mentored integration of very poor households into the chain.[131] The Gender Action Learning System

[124] CGAP and Ford Foundation (2014), From Extreme Poverty to Sustainable Livelihoods. A Technical Guide to the Graduation Approach.

1. [125] There are no results on the approaches effectiveness available.
2. [126] IPA (2016), Impact of the Graduation Approach: Findings from the CGAP – Ford Foundation Pilots.
3. [127] Representatives of the Malawi Team Visiting the BRAC Graduation Programme in Bangladesh (authors not cited), 2016. BRAC
4. Bangladesh Study Tour Report from 29th November to 4th December 2015.
5. [128] GIZ, Overview on the Implementation of the Economic Empowerment Pilot Project in Mwanza.
6. [129] Results from the evaluation of the pilot should be available by the end of 2016.

[130] See: http://www.nasfam.org/index.php/membership-benefits accessed 10th November 2016.

[131] IFAD. (2014). Household Methodologies: Harnessing the Family´s Potential for Change. Gender, Targeting and Social Inclusion.

(GALS) household methodology supported by IFAD, has also shown that working to address household gender barriers can stimulate new behaviours impactful results for women, men, youth and children and unlock household economic potential.[132]

18. Two IFAD programmes in Malawi, the Irrigation Rural Livelihoods and Agriculture Development Project (IRLADP) and the Sustainable Agricultural Production Programme (SAPP), employ(ed) a household methodology approach.[133] In IRLADP, positive changes in gender power relations at household level were generated from the use of the methodology, increasing the incremental benefits of farming interventions promoted by the programme and the overall wellbeing of household members. The SAPP programme use of the household methodology was shown to have encouraging results on household welfare, but the programmes mid-term evaluation indicates the number of households targeted with the methodology is too low to generate the scale of desired change. The evaluation recommends more intensified scale of the methodology in the areas where it is being used.[134]

19. There is a clear need in Malawi to sustainably graduate households from poverty. Graduation and household models have shown promise in this regard particularly for the poorest socio economic strata. FARMSE will build off and extend current GoM and IFAD graduation and household methodology models implemented in Malawi. It will also learn and benefit from other existing approaches such as that of NSAFAM. The importance of exposure to improved livelihood opportunities is critical to maintaining household resilience and further improving household prosperity. Component 2.0 objectives seek to support the development of such opportunity and thus complements and furthers the graduation goals of Component 1.0.

Scope and structuring of funding

20. **Component 1.0** is based on GoM existing graduation model which focuses on concentrating and coordinating efforts to move households out of poverty on a sustainable basis, and is divided into two stages: selection of operational districts, based on existing GoM poverty statistics, and in collaboration with EPD, selection and assessment of qualifying ultra-poor households; Roll out the graduation process. Both stages of the component will be implemented by GIZ on with oversight from the PMU.

21. This model includes elements of household methodologies to address inclusive household planning and the promotion of gender equality for strengthen economic household potential. In the course of implementation model will also seek to:

i) improve applicability for labour constrained and non-labour constrained ultra-poor households;

ii) encourage household planning and improvement of intra-household relations;

iii) incorporate effective livelihood improvement measures or establishing effective synergies with livelihood programmes (e.g., value chain programmes in same area); and

Key Features of the Graduation Model for Ultra-Poor Households. The growing levels of ultra-poverty in Malawi calls for the need to find effective graduation pathways to sustainable livelihoods for ultra-poor households. Consistent with best international practise, models developed for Malawi could include the following:

i) Funds for meeting food security needs;
ii) Support for livelihood improvement such as training, linkages to markets, basic business skills;
iii) Support through regular household mentoring, including inter alia: addressing key information gaps to support household behaviour change to reduce vulnerability and support engagement in livelihood activities (e.g., HIV/AIDS, food production and/ or security issues, nutrition, linkages to relevant or community groups);
iv) Providing matching grants/capital investment to enhance livelihood activity;
v) Facilitating engagement in savings and credit groups or other financial services.
vi) Support for realistic and viable national livelihood development plan.

[132] IFAD. (2014). Case Study: Gender Action Learning System in Ghana, Nigeria, Rwanda, Sierra Leone, and Uganda.
[133] IFAD. (2014). Case Study: Household Approach for Gender, HIV and AIDS Mainstreaming, Malawi.
[134] IFAD. (2016). SAPP Mid Term Review Report.

iv) address other key vulnerability factors affecting household resilience to shocks.

22. Site selection for implementation will be determined based on GoM/GIZ current cooperation sites, but will generally target areas offering viable livelihood opportunities for graduating household members. Sites in North and Central Malawi are of interest given most similar graduation programming efforts have concentrated in the South. Target areas will also consider those with, or likely to be targeted by complementary development interventions (e.g., some form of sustainable rural livelihoods development).

23. GIZ may subcontract qualified national and/or international agencies to support implementation of graduation. Applicants will have substantial experience in the implementation of graduation/ community development initiatives and proven operational capacity in Malawi. Preference will be given to agencies with a record managing rigorous community level processes and household level interventions. Experience and interest in enhancing capacities around gender and youth programming will also be required. Alone, or in partnership with another organizations, grantees will implement proposed models approved by the programme.

24. A longitudinal survey with the baseline provided during research during the previous stage of work will also be commissioned for the roll out stage. The study will measure and track the impact of the graduation model both during implementation and after. It will assess the degree to which household graduate from poverty and if changes are sustainable. A research team with competencies and experience like those outlined for the longitudinal study in the first stage will managed the research.

25. **Roll out of effective graduation models.** The roll out will deploy the approved model(s) at scale to expand programme benefits and test replicability. A total of 15,000 households will be targeted, of which, approximately 40% will be women and 20% youth headed households. The rollout is expected to take place from year four onwards. Roll out sites will be selected based on representatively of large sections of rural Malawi and opportunities for household livelihood development. The implementation will be contracted to service providers as depending on the different stages. Grantees will be selected based on experience, their knowledge of gender and youth, but with a special emphasis on a capacity to manage small to medium community programmes. FARMSE will commission a qualitative study during the roll out stage to assess both the process and impact of implementation.

26. **Expected Costs**

The expected total cost of Component 1.0 is USD 15.8 million or about USD 900 per person supported, not including price and physical contingencies, duties, and taxes.

27. **Component 2.0 Support to financial innovation and outreach**

28. The **outcome** of this subcomponent is improved access to existing and innovate informal community based financial organizations savings and loans products.[135] The **objective** is to support CFBOs expanded outreach to poor but food secure households, households vulnerable to poverty, and resilient households in rural Malawi.

29. Component 2.0 has two subcomponents. The first is support for community based financial organizations (CBFOs), which will co-fund the restructuring, expansion and innovation of CBFOs in rural Malawi. The second subcomponent is the Innovation and Outreach Facility (IOF), which will support financial institutions and agricultural value chain participants develop and or increase the outreach of new/existing rural financial products and services.

[135] Informal CBFOs are commonly referred to as Village Savings and Loan Associations. CBFOs have two defining characters. First, they are informal, or unregulated by a government agency. Second, they are formed and managed by individuals who come together voluntarily. There many different CBFO models, many like VSLAs, and can include informal cooperative associations, village bank models, or variations of the VSLA model. See: IFAD, How to do Support community-based financial organizations, IFAD, 2014.

30. **Subcomponent 2.1 - Community based financial organization support**

The outcome of this subcomponent is to improved rural finance access through existing, new and innovative informal community based financial organizations (CBFO) savings and loans products. The **objective** is to support CFBOs expand outreach to poor but food secure households, households vulnerable to poverty, and resilient households in rural Malawi.

31. This sub-component has three activities: i). Mapping of existing CBFOs and assessing maturity status; ii).restructuring and consolidation of CBFOs; provide opportunities to additional skills and linking CBFOs and/or their members to formal financial institutions and high value markets. This will enhance smallholder income, asset and some livelihood/enterprise development opportunities; iii) Formation of new Groups.

32. Activities will lead to provision of basic, structured savings and credit services to financially excluded rural populations and provide opportunities to link CBFOs and/or their members to formal financial institutions. This will contribute to household income smoothing and/or to enhancing household income, asset, and livelihood/enterprise development opportunities.

33. This subcomponent will support CFBOs to provide financial services via a low-cost delivery mechanism targeting beneficiaries in the socio-economic stratum of poor but food secure households, households vulnerable to poverty, and resilient households. Where possible activities will overlap with efforts in Component 1 supporting ultra-poor households as they graduate from poverty. Funding will be available to CBFO support organizations with proven capacity to restructure and form new, good practice CBFO structured groups and/or innovate at scale existing group formation and methodologies. Organizations will respond to an expression of interest for two project types: i) group restricting and consolidation; and ii) group formation projects and group innovation projects.

Rationale

Options for appropriate financial services for all poor household types in rural Malawi are highly limited due to numerous supply and demand constraints. These include notably high transaction costs, poor product suitability for low-income households and agricultural producers, poor physical or mobile phone access, high interest rates on loans, and negative interest rates on savings. Because of these constraints, most rural poor neither save nor take on productive credit. In response, various types of community-based financial organizations (CBFOs), village savings and loans associations being the most common, have risen to provide basic financial services not only to the rural poor, but to urban poor and middle class alike.

34. CBFOs are easy to form and provide cost-effective financial services. Such services are good for income smoothing, but used alone are rarely adequate for households to develop the productive assets required to sustainably lift them out of poverty. While CBFO provide members the discipline to save (monthly or weekly), poor rural households typically only save in low volumes, the value of which are quickly eroded by high inflation. CBFOs can, however, offer positive net returns when low-transaction costs and year-end member profit distributions (i.e., savings plus interest on member loans) are considered.

35. On the credit side, costs and constraints of lending make credit from the formal financial sector unavailable or unaffordable for most Malawians, particularly those in rural areas. CBFO credit has risen in response. The low transaction cost, no collateral, and no identification requirements of most CBFOs makes it a highly accessible and desirable form of credit for most Malawians. But there are limitations. Annual interest rates of between 200% to 240% are much higher than formal credit (ranging 35% to 45%). CFBO credit is also only typically available in small amounts and for a very short term (often one month). As loans are only available to one or two members monthly, timing of loan availability may not suit/ coincide with a household’s funding needs (e.g., rural household need funding pre-harvest, pre-school year, and pre-planting). Many members do not want /need credit at all, either because they have no productive purpose for it or because they need larger productivity

enhancing loans. It is not just households/farmers either. Rural MSMEs, particularly, high-potential MSMEs, are not well served by CBFOs for the same reasons.

36. A major benefit of the CBFO model, particularly VSLAs, is not access to credit, but the lump sum annual pay out of a group's accumulated interest and savings. This amount is received at the end of a group's lending cycle (usually after one year of operation and typically paid out September-December).[136] Many members participate in groups as means to accessing the annual distribution which, while seemingly modest is significant for most rural households (payments can range between K 30,000 to K 70,000 or USD 60 to USD 100) per member).[137] Despite this benefit, the timing of the distribution, like the timing of credit availability, may not be ideal for households. Moreover, all group profits are typically distributed leaving the CBFO with a zero-balance at year end precluding larger loans and/or more capital availability for lending throughout a group lending and savings cycle.

37. Several CBFO support organizations such as CARE, CRS, and Christian Aid have substantial networks of CBFO groups each employing slightly different models. These and other organizations are also beginning to innovate approaches to resolve limitations in current models and to provide greater economic and social benefits to their members. Advances include inter alia improved savings methods, profit reinvestment, more timely access to credit, integration of household health, economic and gender trainings, and structure which promote/facilitate group and member entry into the formal financial sector. The accessibility and potential of CBFOs make them an integral part of the Malawian financial system, and critical vehicles for expansion of financial services and poverty reduction in rural Malawi.

Scope and structure of funding

Component 2.1 funding will be available to CBFO support organizations with proven capacity to form new or existing good practice CBFO structured groups.[138] Organizations will respond to an expression of interest for one or two project types:

38. **Mapping of existing CBFOs -** VSLAs have had the greatest success in Malawi in encouraging savings amongst rural populations. According to the NSFI (MoF, 2017) the number of members have grown from 86,000 in 2008 to 1.1 million in 2014. The first activity will take stock of the existing CBFOs (VSLAs, SILC, etc.) and assess their status. This will include 641 VSLAs mobilized under the IFAD supported Rural Livelihoods and Economic Enhancement Programme (RLEEP) with 10,684 members. Weak groups will be supported and their activities consolidated. Current figures from two NGOs suggest that about 600,000 CBFOs are active in Malawi. There are several other NGOs that have been mobilizing savings groups through VSLAs and other forms of CBFOs.

39. **Restructuring and Consolidation of CBFOs:** This activity will support the capacity building of CBFOs. The "VSLA plus" model will address inter alia agricultural and off-farm enterprise development, and group and member linkages to the formal financial sector. The development of agricultural enterprises will build on the experiences and lessons from RLEEP through the value chain development. RLEEP supported development of seven value chains namely: potato, groundnut, soya, dairy, sunflower, honey and beef. Farmer groups supported in these value chains have also been assisted to create VSLAs. Some VSLAs have been successfully linked to MFIs and formal financial markets while others have been consolidated to form SACCOs. These are the potential value chains to be supported under FARMSE. However, there should be no restrictions on selection of commodities but support agriculture enterprises that are relevant to the VSLAs. Further RLEEP initiated warehouse receipt system for six out of the twenty one warehouses constructed for farmer groups in rural areas. It is expected that FARMSE will scale up the warehouse receipt system to reach to the remaining warehouses and any other warehouse that may be certified by relevant warehouse receipt system operators.

[136] The lump sum payment consists of a member's savings plus proportional share of accumulated profits from loan income. The share is based on the amount of each members' savings.
[137] This assumes a 15-member group saving between K400 and K700 per week.
[138] IFAD, Lessons learned Community-based financial organizations

40. **Group Formation Projects** – This activity will support the mobilization and formation of new CBFOs. The objective will be to enhance the economic and social benefits accrued to members through CBFOs participation. Two or three CBFOs model innovations will be supported and tested by existing CBFOs support group/consortia. A limited expansion programme will test the replicability and scalability of the new models to be supported. This activity will target the formation of 5,000 new groups, reaching 90,000 members with 612,000 household members, with a focus on underserved rural areas in the North, Centre and South of the country, and 50% of members will be women and 20% will be youth.

41. The selection process for CBFO organisations that want to promote restructuring and group formation of CBFOs is outlined in the draft PIM in Appendix 11, but will be guided by the following five broad principles:

i) CFBO promoter must have considerable and proven international or national experience in the formation of CBFO groups;

ii) CFBO promoter must have sufficient operating capacity to support groups as per their group formation methodology;

iii) CBFOs portfolios of newly formed/restructured groups must have the potential for 80% sustainability rate after three years of operation;

iv) CFBO models must hold the potential to link with the formal financial sector including mobile money services;

v) CFBO methodology must be consistent with and or proactively support FARMSE gender, youth, and environmental principles;

vi) CFBO Support Organisations must be willing to roll out innovated model within its existing network on a co-financed basis; and

vii) CFBO Support Organisations must be willing to share knowledge gained in public fora

42. This activity will fund between 4 and 5 CBFO support organizations (international and national), leading to the restructuring of 16143 groups and formation of 5000 new groups, with 380,574 members and 2,283,444 household members. The projects selected will be concentrated in areas without substantial CBFO activities and where possible, will overlap with Component 1 and subcomponents 2.2 and 2.3.

Implementation and management

Component 2.1 will be managed by a dedicated CFBO specialist within the PMU. The Specialist would be familiar with various CBFO models and support organizations. His/her main responsibilities would: i) proactively seek CBFO support organizations for the EOI; ii) support qualifying CBFO development proposals; iii) recommending projects to an Investment Committee; iv) negotiate performance-based grant agreements with CBFO support organizations; and v) monitor implementation performance per benchmarks. Funding decision will be made by the Proposals Review Committee (PRC), composed as a sub-set of the Programme Steering Committee.

43. FARMSE would first make a call for expression of interest (EOI), proactively recruiting leading CBFO support organizations. CBFO support organisations will be permitted to apply for restructuring, development and formation of new groups. Approved project plans will be multi-phased and performance based. Estimated average cost per group for restructuring and consolidation will range between USD 840 and USD 1050.[139] Cost per groups for formation of new groups will range from US$ 600 to us $750.

[139] Cost per group are based in part on international experience and preliminary estimates made by CBFO support groups in Malawi.

44. **Expected Costs.** The expected total cost of subcomponent 2.1 is USD 16.779 million not including price and physical contingencies, duties, and taxes. Of this, an estimated USD 0.261 m will fund Group Mapping, USD 13.257 m will fund group capacity building and linkages, and USD 3.260 m will support group formation projects.

Sub-component 2.2 – Enhancing innovation and rural outreach of financial service providers

The outcomes for this subcomponent are two: i) new and innovative financial services and low-cost delivery mechanisms for poor rural households and MSMEs tested and introduced; and ii) proven and successful financial services and delivery mechanisms up scaled. The objective for this subcomponent is to support the development of financial services that meet the needs of rural target beneficiaries on a sustainable basis.

45. Activities under this subcomponent will support key players including FSPs to enter and expand outreach in rural areas through financial products, services and delivery mechanism innovations for a variety of client segments. Support will be provided on a demand-driven and cost-sharing basis through the Rural Finance Innovation and Outreach Facility (the Facility).

Rationale

Overall, formal financial institutions have made very little inroads into rural and agricultural finance. Few banks have ventured into this challenging field of banking successfully and there is a general lack of adequate products and delivery mechanisms to service rural markets. A small number of MFIs have rural presence but product offerings are largely limited to highly-standardized, small value group lending with short repayment schedules, and high interest rates. Some MFIs recently introduced individual loans for their most reliable clients and for some new customers. Several are also starting into tap into VSLAs to expand their client base. In addition, there are encouraging developments in the legal and regulatory environment and in mobile money operations. Combined, these recent trends provide important opportunities to address key challenges related to high costs of rural outreach.

46. Notwithstanding the challenging business environment, the single most important constraint undermining FSP willingness and ability to enter and expand rural finance is lack of understanding of and experience in these markets coupled with limited expertise in designing and delivering adequate products and services. Lack of exposure and understanding often leads to an exaggerated perception of risks which further discourages FSP from entering these markets. When FSPs do attempt to serve these markets they often also introduce products too quickly without proper market research, testing and delivery capacity, resulting in poor-performance - as was the case in Malawi during a small and medium sized enterprise lending bubble in the mid-200s.

47. In view of the limited experiences with rural and agricultural finance for low income groups, FSPs need exposure to international best practices and innovative approaches that have worked in other African countries. Exposure to international best practice and innovation can be provided through a combination of measures, including: i) workshops with experts and practitioners from other countries; ii) exchange visits; and iii) strong international/regional technical assistance. Technical assistance is most particularly needed to adjust promising approaches to local realities, institutional settings and market environments. TA is particularly important in the following areas: i) understanding the financing needs of poor rural households and micro, small and medium Enterprises (MSMEs) engaged in agricultural and non-agricultural activities, including those of women and youth; ii) designing new products and delivery mechanisms and/or adjusting existing ones to better meet these needs at lower costs and risks to both clients and FSPs; iii) bringing successful products and delivery mechanism to scale by making the necessary adjustments in internal processes and building staff capacity; and iv) enhancing the awareness and understanding of rural target groups of the new products and delivery mechanisms.

48. Experience has shown that sporadic, short-term TA focusing on single technical challenge is not sufficient to support FSPs in developing robust smallholder financing models and related institutional

capacity. Institutions often require substantial technical and operational capacity improvements areas beyond market research and product development.[140] Moreover, developing and implementing a sustainable rural outreach strategy implies an institutional change process beyond the mere transfer of technical skills. Negative perceptions about the feasibility of serving rural areas and agriculture in the profitable way are often deeply rooted at all levels of the institution, from frontline staff to senior management and board members. Successful introduction of new rural finance products requires a change in such perceptions based on successful results on the ground. While a champion in the institution must initiate and drive the process, guidance, and support from a reputable technical partner with a credible record of accomplishment is often critical to build internal buy-in, provide change management support, and manage the risk inherent in institutional change. A gradual, phased approach is required, one which allows FSPs to learn from initial results, make necessary adjustments, and build understanding and delivery capacity across the institution.

49. The size and timeframe of support should be sufficient to allow the recruitment of a strong technical partner to address a variety of technical issues and coach the FSP through the change process. The preferred model is to mobilise specialised international/regional TA to team up with local service providers in supporting FIs. The combination of international and local TA will bring fresh ideas into the country but have the capacity to adjust ideas to local conditions. It will enhance credibility from the perspective of the governing bodies of FIs and allow skills transfer to the national technical service expertise. Both companies and individual consultants can be employed, but in either case they must have proven ability to mobilize the different types of expertise required during the implementation process.

50. Experiences in Malawi and elsewhere show that non-financial institutions can and do play an important role in providing financial services to farmers and other rural low income populations or in facilitating such access. Such institutions include commodity exchanges, mobile money operators, input suppliers and off takers. In Malawi, agribusiness companies play an important role in providing input finance in the tobacco and sugar-cane sub-sectors, sometimes in collaboration with banks and MFIs, and such arrangements could be replicated in other structured value chains, such as dairy and certain fruits and vegetables. Malawi stands out as a country with two functioning commodity exchanges and a small but growing warehouse receipt system. Even though the system is currently used primarily by larger traders thought there is significant potential to expand existing infrastructure and business activities towards organized smallholder farmers and SMEs. Pilots of pre-harvest financing provided by input suppliers in collaboration with a commodity exchange show promise for replication. Partnerships between financial and non-financial institutions are often more effective in managing risks and reducing transaction costs, as they allow to tie in finance with input and output markets and harness the infrastructure of non-financial actors in rural areas.

51. While enhancing the supply of financial services is critical, the ability of the target clientele - poor rural households and MSMEs - to access and use these services is equally important. This requires sufficient awareness about the services, including their terms, conditions, and delivery mechanisms. Non-financial services are often critical to enhance the capacity of poor households and MSMEs in rural areas to access and use financial services effectively. Such services include the establishment and strengthening of farmer organisations, financial literacy, and business skills development, as well as technical training and extension services. For example, the use of mobile money and digital finance solutions requires sensitization and training of rural users with low literacy levels. Likewise, access to warehouse receipt finance requires smallholder farmers to bulk their produce at a certified warehouse. Experiences under a related IFAD project RLEEP shows the need for substantial investments in capacity development of farmer organizations and their members to fully understand the financial products to make full beneficial use of it. Preharvest financing arrangements

[140] Examples include strengthening human resources (capacity and incentives to service new rural target groups), adjustments of the Management Information System (MIS) to adequately measure performance and adjust in a timely manner, but also investments in physical outreach capacity to reach remote rural clients, such as low-cost branches and mobile technologies.

in contract farming and out grower schemes equally require farmer training and capacity development on organizational as well as technical matters.

Scope and structure of the IOF

The Facility would co-finance: i) client-centred/demand driven market research and feasibility studies; ii) design and pilot test new financial products and low-cost delivery mechanisms; and iii) rollout of successfully piloted products and services. The latter would include support for institutional strengthening, for increasing the FSP product delivery capacity, and the capacity of the target group to use new financial products and services. Funded projects should enhance sustainable access to rural financial services contributing to growing incomes, assets, and resilience of the targeted rural households. The IOF would be open to a broad range of FSPs. These would include financial sector service providers (e.g., banks, MFIs, SACCOS, leasing companies and insurance companies), as well as non-financial sector service providers (e.g., mobile network operators, input suppliers, agribusiness companies, warehouse operators and commodity exchanges).

52. **Financial Sector Service Providers -** The facility would support a broad range of financial services including, but not limited to:

i) Facilitating the access and maximizing the use of remittances, especially to rural areas, promoting financial inclusion and local business opportunities;

ii) Savings: easily accessible products, mobile-enabled products, commitment savings products for agricultural inputs, investments or school fees, and specific products for VSLAs, women, youth;

iii) Loans: cash-flow based multipurpose loans, agricultural production loans, postharvest and warehouse receipt financing, term loans and micro-leases, and specific products for women and youth;

iv) Insurance: crop and livestock insurance, health insurance;

v) Low cost delivery mechanisms (ICT, low-cost branches, and agency models); and

vi) Structured financing arrangements involving value chain partners (e.g., off takers, input providers, commodity exchanges, etc.).

53. **Non-Financial Sector Service Providers** - Non-financial institutions would be eligible for funding if they are engaged in financial service provision (or have the intention to do so), either directly or in partnership with financial institutions. Partnerships between financial institutions and other actors will be encouraged, as they often manage risks and reduce transaction costs more effectively. Examples projects for non-financial service provider projects would include:

i) In-kind input lending and equipment leasing, possibly combined with offtake agreements (through agribusiness or commodity exchanges);

ii) Upgrading or expansion of pre-harvest financing within contract farming or out grower schemes, through improved contract design (e.g., transparency of pricing) to enhance mutual trust, reduce side selling and enhance sale value to both parties;

iii) Blending risk management services (e.g., crop insurance, liquid guarantees) into value chain finance arrangements);

iv) Structured value chain finance arrangements involving multiple parties initiated by non-financial operators such as commodity exchanges, warehouse managers, and agribusiness; and

v) Partnerships between mobile money operators and financial institutions or agribusiness companies to enable/upgrade digital payment solutions.

54. Non-financial services focused activities can also be supported for either financial or non-financial sector partner projects if deemed critical to enhance the beneficiary groups' capacity to

access and use the financial services supported under the Facility. Examples include: i) the establishment and strengthening of farmer organizations; ii) financial literacy, management, and business development training; iii) establishment of market linkages; and iv) targeted extension services. Some funding could also be available in Component 3.0 to support macro and meso level interventions deemed important to the success of IOF activities.

55. The facility will have three funding windows guiding project selection:

i) Market research and feasibility studies;

ii) Pilot testing of innovative products and delivery mechanisms; and

iii) Scaling out successful financial services.

56. The windows together will offer funding support for product development at any point between conceptualization to commercialization. Prospective partners can choose to apply to the window that best suits the nature of development needs.

57. **Window 1: Market research and feasibility studies** – This window will support RBM in furthering initiatives on weather index insurance; ware house receipting bill and micro insurance among other interventions. The window will also support FSPs in identifying market opportunities, client needs, key product features and possible delivery mechanisms. It will also identify risks and risk mitigation measures, costs and revenues estimates, and possible partnerships for product introduction and roll-out. Research could will provide insights into the reasons why current service provider products and services are not being used and how they could be improved. Research results will provide evidence to support a decision to move to a pilot stage, upgrade existing products, or expand successful existing products. They can also inform a proposal for window 2 and 3.

58. Support under this window will allow made available to applicants for hiring specialized Technical Service Providers well-versed in market research and human centred design techniques,[141] and to conduct in depth market research beyond what a FSP can achieve with its own resources. To ensure ownership and relevance of research/feasibility studies, the FSP would designate a team that would work together with the TSP in the design and implementation of the fieldwork and interpretation of the results.[142]

59. In addition to market research, the TSP will conduct an institutional assessment of the FSP. This assessment would examine the capacity of the FSP to introduce the proposed products/delivery mechanisms and identify key bottlenecks that must be addressed in (e.g., training requirements, IT related challenges, other operational and procedural issues). Such assessment would be critical if the FSP wishes to request funding under the other two windows.

60. Depending on the scope of research and relevance to project objectives, the facility could provide financing of up to USD 50,000. Eligible expenditures include TA and logistic costs for undertaking fieldwork. The applicant would cover at least 20% of total costs through cash and/or in-kind contribution of staff time and transport. The window would also co-finance study tours and exchange visits enabling FSP decision-makers and operational staff to get first-hand insights into the experiences of FSPs in other countries with innovative and successful rural financial services. Study tours would be eligible if there is a clear link to the component objective and if the FSP can make a convincing case how the exchange would enhance its products and delivery mechanisms to the target population. The IOF would finance 50% of the total costs of and exchange to a ceiling of USD 10,000.

61. **Window 2: Pilot Testing and Innovation –** This window funding would support pilot-testing of product innovations and new low-cost delivery mechanisms. Based on prior market research (either

[141] Human Centered Design is an innovative approach to problem solving that starts with people and ends with solutions uniquely tailored to meet their needs. See https://www.cgap.org/publications/what-human-centered-design-means-financial-inclusion for further information.

[142] In exceptional cases, when an applicant has proven capacity to conduct high-quality market research, this would also be eligible for co-funding without external hiring an external TSP. In case, the applicant would want to apply to window 2 or 3, an institutional capacity assessment by an external TSP would be required.

via the market research and feasibility studies window or independently undertaken), funding would co-finance costs of piloting of researched product(s). It will finance the recruitment of a qualified technical service providers (s) - preferably a combination of international/regional and national expertise - to work with a dedicated FSP team. Activities would include developing and piloting product prototypes, conducting pilot tests, adjusting and refining product features, as well as costing, pricing and delivery mechanisms. Subject to commercial viability, a roll-out plan would be prepared to determine the human, financial, and technical resources and related training and investment requirements.

62. Eligible costs to be covered by this window would include TA, logistics cost related to fieldwork, staff training, adjustments of the MIS and ICT equipment. Support could also cover costs related to developing new product user material for prospective clients. The FSP would be expected to contribute at least 30% of total project costs, in cash or in kind. The matching grant ceiling would be USD 70,000.

63. **Window 3: Expanding Outreach** – This would support scaling up of proven products and delivery mechanisms. It can finance the rollout of products and services piloted under Window 2, but also existing products/services developed by FSP. Subproject proposals would be based on: i) proven product/delivery mechanism to be scaled up (in terms of profitability and relevance to the FARMSE target groups); and ii) a well-defined outreach strategy with clearly defined performance targets and milestones, supported by an independent institutional capacity assessment.

64. Eligible expenses under this window include national and international TA for staff training, draft manuals, and institutional change (e.g., adjusting processes and procedures and the MIS). The IOF could co-finance physical investment costs related to the roll-out, such as Information and communications technology (ICT) equipment, low-cost branches and agencies, vehicles, as well as incremental operating costs on a declining basis (e.g., client relationship officers). Such costs must be directly linked to the outreach targets and supported by financial projections showing profitability over a 2 to 3-year term. Finally, training and capacity development of prospective clients could be co-financed, if they are critical to outreach and financial targets, and enable the project target group to use the products and services effectively. Training can include, for example, targeted financial literacy and business development, organisational strengthening, or technical/agronomic matters.

65. To accommodate high impact projects which could lead to transformative change and reach many beneficiaries, a ceiling for matching grants under this window would be set at USD 1 million. FSPs would be required to contribute to 50% of the total subproject costs of which at least 30% should be in cash. Eligibility and selection criteria for proposals under each of the three windows will be developed during the next design mission. Selection criteria will include the following:

i) Development Impact: proposed activities must reach a defined FARMSE target socio economic stratum, either directly or indirectly through SMEs, with special emphasis on women and youth.[143] It must also be consistent with FARMSE's theory of change;

ii) Prospects for commercial viability: proposed product/delivery mechanism must project commercial viability based on credible evidence (e.g., through pilots, existing operations, or feasibility studies with realistic financial projections);

iii) Innovativeness: Extent to which products, services or delivery mechanisms are: i) new to the country, target group and FSP (in that order); and ii) add value for the project target group and the FSP;

iv) Strategic fit with FSP strategic plan and market positioning: projects should be in line with the strategic orientation of the financial service provider; and

[143] By addressing key bottlenecks of related value chain actors or market partners resulting in increased access to inputs, markets, and finance by the target group.

v) Feasibility and implementation capacity: the service providers and partners must have the technical capacity or credibly show they can develop the capacity to implement the project.

IOF Implementation

66. The IOF would will be managed by the programme's Chief Technical Advisor (CTA – a long term contracted technical expert attached to the PMU) with the support of Rural Finance/Microfinance (RF/MF) Specialist. (See below for overview of team expertise) These two would have substantial experience implementing technical assistance projects in rural and agricultural finance with a variety of FSPs, agriculture value chain actors, and Technical Service Providers. The teams main tasks would include: i) fine-tuning of the operational procedures of the facility; ii) screening the market and identifying high-potential partners that could be supported by the facility; iii) creating a roaster of reputable and qualified Technical Service Providers (national, regional, international); iv) actively reaching out to potential Technical Service Providers and applicants to raise their awareness on the IOF; v) providing guidance to applicants and Technical Service Providers in preparing proposals; vi) screening proposals received and making recommendations to the Investment Committee; vii) negotiating performance-based grant agreements with winning FSPs; and viii) monitoring implementation progress and performance according to milestones.

67. Technical Assistance (TA). All TA will be procured on a needs basis following GoM/IFAD procurement guidelines. Performance of TA will be assessed against contract-specific deliverables. The Programme will require a variety of technical assistance, some of which may not be available locally. Where TA is not available locally, they will be procured regionally/internationally, and in order to build local capacity, all international TAs will be paired with local TAs to the extent possible. It is, proposed that in order to ensure that procurement of TA does not slow down implementation, a pre-qualification system will be employed. This would entail identification of key capacity areas and advertisement for expressions of interest in local, regional and international media. Expressions of interest will be assessed based on the provided criteria and a database of pre-qualified TA produced. This would be used in inviting proposals by the Programme when needed. The Programme will be able to create the data base of experts once they have tested the market and established what type of capacity areas the programme will need after assessing of EOIs being received in the first one year. Rigorous internal and external technical review will be built in by subjecting applications that pass initial screening for a detailed review by external technical specialists. A Proposals Review Committee (PRC) will be established with the authority to review and approve or disapprove the applications, while ensuring professional confidentiality so that innovations, approached and products test and developed are not revealed to competitor or the general public.

68. Funding decisions will be made by the PRC comprised of 8 members including 3 independent experts on key thematic areas being covered by the facility to be recruited through a tender process, a representative of the MOF, a representative of Malawi Microfinance Network, a representative of Reserve Bank of Malawi, a representative of National Smallholder Farmers Association of Malawi, and a representative of Bankers Association of Malawi? The PMU Director will serve as a convenor and Secretary to the PAC.). The specific governance and decision-making structure of the Facility of the PRC are defined in the draft PIM in Appendix 11.

69. FARMSE would make calls for expression of interest (EOI for potential IOF Applicants. IOF Applicants passing the EOI stage would be invited to participate in a Call for Proposals (CfP) for Window 1. The IOF technical team (CTA and RF/MF specialist will help applicants identify suitable consultants for to support applicants as necessary. FSPs and their partners can apply several times to the IOF. While a sequencing of applications to the three windows will be encouraged (market research, followed by pilot testing, followed by roll-out), this will not be strictly required. For example, a FSP wanting to bring a proven and successful product to scale could apply directly to Window 3, if it can prepare a high-quality proposal based on convincing evidence and projections. An independent institutional assessment to assess capacities and identify key areas for technical support will be a pre-requisite for funding of outreach plans. In practice, most applicants are likely to use Window 1 to

prepare a proposal for Windows 2 or 3 and test their preferred TSPs on the job. The possibility of receiving follow-up support in a sequenced manner provides strong incentives to FSP and TSPs to prepare strong proposals and meet agreed performance targets.

IOF management

The IOF technical team will play a proactive role in promoting the facility, identifying Technical Service Providers and applicants, supporting them to prepare proposals, and, more importantly, back stopping subproject implementation. The latter includes monitoring progress and quality of project implementation by applicant and services providers, providing advice and "troubleshooting" if needed, and arbitrate in case of conflicts between Technical Service Providers and FSPs. This requires the team to have core technical skills in the main areas supported by the Facility. In view of the envisioned size of the Facility, a team of at least three technical experts would be required.

70. Chief Technical Advisor (international/regional advisor). The CTA will be a seasoned international/regional micro finance banking and specialist, and have solid knowledge in rural and agriculture finance. The incumbent should have first-hand experiences introducing rural and agricultural financial products and outreach mechanisms and in managing the related institutional change processes and well versed with agricultural value chains and rural markets, He/she should combine first-hand experiences and expertise in finance inclusive business models and MSME promotion as well as design and roll-out of financial services targeting smallholder farmers, women, youth and rural MSMEs. Working experiences in the financial sector, preferably banks and or MFIs, in Africa, as well as technical advisory work and experiences in managing contracts with Technical Service Providers would be requirements. The incumbent should be well versed with latest innovations and developments (e.g., digital finance and insurance) as well as proven models of rural financial services provision.

71. **Rural finance/Microfinance specialist** (national). The incumbent should have first-hand experiences with formal financial institutions, particularly microfinance institutions, and related technologies (e.g., MFIs, microfinance banks and SACCOs), and their application in rural areas. He/she should also be well versed with digital finance, linkage banking and other low-cost rural outreach mechanisms. Senior positions in either MFIs or mobile network operators would be ideal. The incumbent should be current with national, regional and global developments in rural/agricultural finance and digital finance.

Expected costs

It is estimated that there will be three rounds of CfPs during the project implementation period (year 2, 4 and 6). Each round is expected to fund an average of 10 subprojects under window 1, six subprojects under window 2 and three subprojects under window 3. The average grant sizes under the three windows are estimated at USD 50,000. USD 70,000 and USD 500,000, respectively. The resulting cumulative grant volumes are estimated at USD 1.5 million (Window 1), USD 1.26 million (Window 2) and USD 6.0 million (Window 3). The total subcomponent costs excluding the facility management amount to USD 15.675 million. Budget might be reallocated between Windows depending on demand during implementation.

Component 3 – Strategic Partnerships, Knowledge Generation, and Policy

The outcomes of this component are to strengthen institutions, policies and regulations supporting greater financial sector outreach and innovation. There are three objectives: i) strengthen macro level regulatory and financial sector policy guidance and institutional capacity; ii) strengthen meso level financial sector infrastructure organizations/enterprise; and iii) produce and distribute rural finance sector knowledge products which enhance the outreach and innovation potential of sector stakeholders.

Rationale

72. The potential outreach and innovation capacity of financial sector actors often relies on the existence of macro level policies and regulations shaping the operating environment. This can require interventions to support policy development and supporting actions via public sector actors such as line ministries, reserve or central banks, or quasi-public organizations such as para-state development banks or enterprise. Similarly, sector development can also depend on the capacity of institutions at the meso level providing a range of services and can include bankers' associations, credit bureaus, audit and consulting firms and agricultural input suppliers.

73. Some sector development initiatives at these two levels are readily identifiable while other become apparent as a sector develops. This component will support a range of macro and meso level interventions supporting Components 1.0 and 2.0. It will also fund a range of stakeholders at each of the macro and meso levels, as well as fund several knowledge products.

Subcomponent 3.1 – Support for Poverty Graduation Policy/Strategy and Systems

Activities for this subcomponent will support on-going efforts at the Division of Poverty Reduction and Social Protection in MoF to: i) develop the necessary policy, strategies and systems, supporting material and tools related to the identification and implementation of effective graduation models for ultra-poor households; and ii) disseminate information among relevant GoM ministries and other stakeholders. Anticipated activities include technical assistance support for policy guidance and development. It will also include a participatory process to develop the capacity of MOF NSSP and other relevant GoM ministries to ensure government wide buy-in and understanding of graduation programmes and models. This will include such things as training workshop (both national and international). It will also include commissioning of targeted (participatory) research and knowledge management diffusion tools for reaching out to various stakeholder groups.

74. The outcome of this subcomponent will be multi-ministerial support for good practice graduation approaches to poverty alleviation and enhanced capacity within the MOF NSSP to manage good practice graduation programmes.

Subcomponent 3.2 – Support for development of Broader Rural Finance Policy

This subcomponent has two activities one for each subcomponent of Component 2.0.

Development of rural finance policy and research support

75. This subcomponent will support the Pensions and Financial Sector Policy Division to develop a broad rural finance policy that recognizes ongoing work in agency and mobile money, collective efforts to improve the CBFO sector in order to improve rural financial access through better structured CBFOs. Such structures will increase benefits of participation, group sustainability, and linkages to the formal financial sector. The outcome of this sub component will be broad access to good practice rural finance knowledge. It will also facilitate a formal GoM recognition of such practice/s.

76. Activities will support sector stakeholder consultation/efforts to develop, create awareness, distribute and employ good rural fiancé practice guidelines. It will also work to develop mechanisms/ tools for formal financial sector actors to better understanding and link with CBFO groups, individual members, and member enterprise (individual or collective) on a commercially viable basis. It will also support a rigorous qualitative and quantitative research effort to determine linkage strategies and the outcome and impact of different CBFO models.

77. Support for basic CBFO sector data aggregation may also be provided (e.g., group number, status, location, size etc.). Funding of other knowledge products, stakeholder training and information dissemination activities, and CBFO sector activities will be considered. To implement these activities, the programme will identify and support an appropriate organization(s) able to convene and coordinate CBFO sector leaders and stakeholders (e.g., MAMN, MUSCCO, etc.). This organization will provide rural finance and CBFO thought leadership.

78. Specific activities of this subcomponent would include:) development of good practice Rural Finance Policy; ii) CBFO guidelines; iii) formal FSP guide to CBFO and a CBFO credit risk manual; iv) research on how best to link CBFOs to formal financial sector, CBFO impact assessment, and improving CBFO social and economic impact; v) support to Reserve Bank of Malawi, MoFEPD and other relevant GoM stakeholders capacity/knowledge of rural finance via workshops and trainings; and vi) support to informal CBFO working committee/s.

Financial service providers and agro-Industry sector development, policy and research support

To reach out to more financial institutions than those directly supported under Component 2.2, the project would establish partnerships with industry associations such as MAMN, BAM and MUSCCO. Specific support activities will be defined but could include: i) knowledge management on key innovations/lessons from the field; ii) development of training modules related to rural and agricultural finance for different target audiences (e.g., loan officers, credit committee members, executives and board members); iii) co-financing a feasibility study for a micro-finance Apex fund at MAMN; and iv) partnering with agricultural product input suppliers or warehousing companies to provide innovative smallholder finance products.

79. Through on site and possible regional/international trainings, this subcomponent will work to strengthen the capacity of the Pensions and Financial Sector Policy Division of the MOF in the areas of rural and agricultural finance. To enhance policy and programmatic coherence among relevant GoM ministries and development partners, a high-level Agricultural Finance Working Group will be established and chaired by the MOF. In addition, relevant public sector institutions and development partners, industry associations and financial institutions engaged in rural agricultural finance could participate. Such a working group could identify and address key policy and regulatory issues, and serve as a conduit for knowledge management and information sharing.

80. Potential activities will be further developed during the next design mission. Moreover, additional activities and/or partnership might be identified during program implementation on a demand driven basis. The Knowledge Management Officer of the PMU would manage the partnerships.

Appendix 5: Institutional aspects and implementation arrangements

1. The lead agency for project implementation would be the Ministry of Finance (MOF) with oversight of implementation will be provided by the Pensions and Financial Policy Division. The programme will have the following implementation bodies:

2. **Programme Steering Committee -** A multi-sector stakeholder programme steering committee (PSC), chaired by the Principal Secretary of MoFED, will be established to provide overall programme oversight, direction, and advice. The PSC will be made up of representatives of key stakeholders including, *inter-alia*, government ministries, farmer organisations, APEX bodies, the private sector, and development partners. The PSC would meet on a quarterly basis to review work plans and budgets, financial and progress reports, receive draft annual reports and approve all major programme decisions. The multi-sectoral composition of the PSC will ensure FARMSE's implementation complements rather than duplicates other government interventions and encourages private sector participation, harmonizing the programme's contribution with the GOM's strategic priorities and development objectives for the sector.

3. **Programme Management Unit -** Day to day coordination of project activities and select technical activities will be delegated to a stand-alone project management unit (PMU). Reporting to the Principal Sectary of MOF, the PMU will be granted authority to undertake all financial and procurement management activities, lead implementation and provide specialist technical inputs. It will be responsible for project accounting, withdrawal applications, keeping of project accounts, consolidating AWPBs, consolidating annual reports, correspondence with government authorities on issues related to the Financing Agreement (excluding technical implementation matters), document depository, procurement, submission of reports to IFAD and other related agencies/stakeholders, monitoring and evaluation, preparation, guidance and supervision of the MTR mission, commissioning the beneficiary impact assessment, and preparing the end-of-project evaluation. Other activities comprise the preparation of and support to supervision missions.

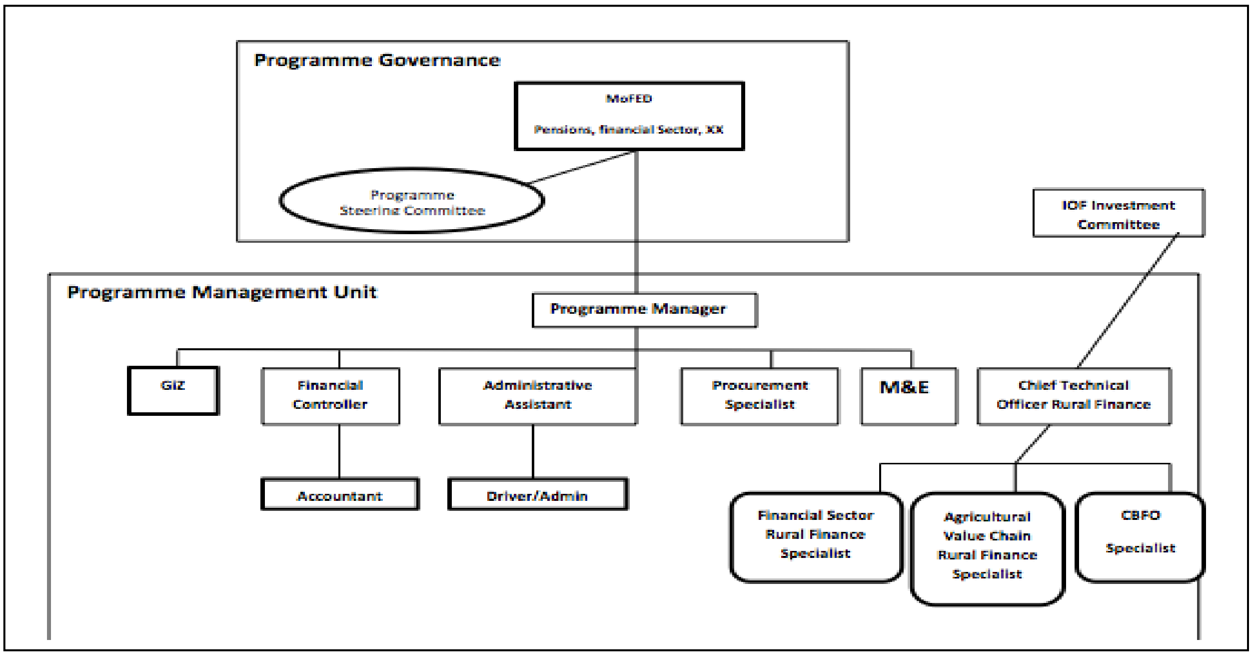


Figure 1 – FARMSE Programme governance and management structure

4. The PMU will be staffed with a: i) programme coordinator; ii) financial controller; iii) procurement officer; iv) monitoring and evaluation officer v) knowledge and communications officer; vi) rural/microfinance finance specialist vii) CBFO specialist; relevant support staff. In addition to this staffing, a highly specialised rural finance Chief Technical Advisor (international/regional) will be required on a long-term basis to guide and support activities to be implemented under Component 2.0, and support component 3.

5. PMU staff will be recruited through a competitive process following GoM procedures, acceptable to IFAD. Staff will be contracted based on time-bound, performance-based contracts. While some key staff will transition from RLEEP to FARMSE under new contracts, the recruitment and renewal of all key PMU staff will require prior consent from IFAD. Long-term technical specialists attached to the PMU will be selected as part of the PMU start-up activities with support from the IFAD rural finance technical unit. The PMU will be in Lilongwe.

6. The PMU will have two technical tasks. The will be to oversee and support the implementation of Component 1.0 and Component 2.0, the former to be managed by GIZ. The CTA will be in place for three years after which rural/microfinance specialist will assume responsibility for component activities. Second, the programme coordinator will be responsible for the coordination and management of Component 3.0 (See below). This will require substantial technical capacity in the fields of rural finance, agricultural finance, research/ knowledge generation product development, and monitoring and evaluation.

7. **Component 1 - Graduation of Ultra-Poor Households.** The programme will partner with GIZ for the implementation of Component 1.0. A working partnership agreement will be signed between the PMU and GIZ outlining programmatic implementation responsibilities, performance metrics and benchmark targets, and reporting responsibilities. The PMU will have the responsibility to oversight the performance agreement. GIZ will be responsible for providing the component implementation plan which will feed into the programme's annual work plans and budgets, and will report monthly to the PMU. GIZ will also be involved in and support all thematic reviews, semi-annual reports/workshops, the MTR, programme completion reporting, and learning and knowledge activities as required. More specific terms of reference, implementation contract memorandum of understanding, as well as implementation plan will be determined at the start of the programme.

Component 2.0 - Support to Financial Innovation and Outreach

Subcomponent 2.1 - Community based financial organization support

8. The implementation of sub component 2.1 will be undertaken by the PMU in collaboration with CBFO support organizations. A dedicated CBFO Specialist will manage this subcomponent and report to the CTA. The specialist will have the responsibility to lead subcomponent 2.1 from writing terms of expression of interest, recruiting qualified agencies, writing/ distributing call for proposals, preparing selection process document and decision making, working with the M&E team on monitoring and evaluation, to providing ongoing support to implementing partners. The specialist through the CTA will also provide input to the FARMSE annual work plan and budgets and will participate/support in FARMSE monitoring and evaluation, supervision, evaluation activities as required. A more detailed term of reference will be completed during the next design mission.

Subcomponent 2.2 - Innovation and Outreach Fund.

9. The CTA and the RF/MF will support the Innovation and Outreach Fund. The CTA will be the fund manager and will report monthly to programme coordinator (PC). Together they will be responsible for proactivity attracting project partners, writing terms of expression of interest, recruiting qualified agencies, writing/distributing call for proposals, preparing selection process document and decision making, providing ongoing support, and implementing partners. They will also provide input to the FARMSE annual work plan and budgets and will participate/support in FARMSE monitoring and evaluation, supervision, evaluation activities as required. A more detailed term of reference will be completed during the next design mission.

10. **Component 3.0 – Strategic Partnerships, Knowledge Generation, and Policy.** The PMU will be responsible for the implementation of activities in Component Three which will fund meso and macro level support mechanisms/developments of the rural financial sector. The programme coordinator, and the CTA will be responsible for the development of this components' input to the programme's annual work plan and budget and related strategy. Most activities in this component will be outsourced to relevant stakeholder organizations, although some coordination and facilitation activities will be the responsibility of team members. The team will be responsible for the selection and management oversight of any outsourced activity contracts, as well as monthly performance reporting.

11. **Project Start-up Phase.** To facilitate a prompt start-up, GoM supports transfer of a small core team from RLEEP (PC, FC, PO & M&E officer) and some resources, so long as this is done in line with GoM/IFAD policies and procedures. The PMU may commission technical support for the required start-up activities immediately after the signature of the Financing Agreement. Resources will be allocated for part of this process, including:

i) assessment and recruitment of the core RLEEP team transitioning to FARMSE;

ii) recruitment other core PMU staff. Additionally, the CTA and the other technical specialists will also be immediately sourced to provide critical, and time sensitive program structuring and start up activities;

iii) procurement of essential goods and services required during the start-up phase;

iv) formation of PSC; and

v) conduct of the first start-up workshop with partners (including, e.g., representatives of relevant ministries, GIZ, Reserve Bank of Malawi, key private and NGO sector stakeholders, donor organizations, and representative programme beneficiaries.

12. The MoFEPD will be responsible for start-up activities with the support of IFAD. Similarly, once contracted GIZ will also provide ongoing support as necessary to ensure Component 1.0 start-up activities are undertaken successfully.

13. **IFAD start-up support.** To improve start-up and early project performance, IFAD will support a three to five day facilitated start-up workshop where the project team and implementing agency staff will work together to understand the project design documents and develop a full and common understanding of the project. This activity will be reinforced by the participation of government and PMU, design mission staff, and key stakeholders. It will have the objective of communicating out the programme design and participatory mechanisms, while instilling greater ownership in the design process and in the programme itself.

14. The time sensitive nature of FARMSE activities and the demands on GoM representatives' time, FARMSE start-up activities are particularly critical to the success of the program. Table A 5.1 outlines major programmatic start up timing milestones. The launch of the graduation program is most critical given the time needed to select not only the operating districts but the target beneficiaries. Similarly, timing for subcomponent 2.1 is equally critical if the targeted number of rural households are to be served with CBFO financial services. Subcomponent 2.2 or the Innovation and Outreach Fund (IOF) will require substantial proactive developmental work with potential program grantees which makes an efficient start up process also critical to its long-term success. The modest absorption capacity and the challenging economic/development context in Malawi requires considerable programmatic discipline if output targets and outcomes are to be met.

15. Conditions for disbursement. The start-up funds require a designated and operating accounts (in USD) in a commercial bank acceptable to IFAD by the MOF. The first disbursement into the designated account requires:

i) A designated account and programme accounts will have been duly opened;

ii) The PMU, headed by the Programme Manager, shall have been fully constituted and adequately staffed with key staff including the Programme Coordinator and the Finance Director;

iii) A draft Programme Implementation Manual (PIM) will include a financial management module which has been submitted to IFAD for review. The financial management module will include inter alia a chart of accounts;

iv) An off-the-shelf accounting software will have been procured and coded with the FARMSE chart of accounts to facilitate generation of reports by component, expenditure category and financier; and

v) The Programme Steering Committee (PSC) headed by the Secretary to the Treasury of the MoFEPD or his designate will have been established.

FARMSE - Critical Start Up Activities

	Pre Project	Month														
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Finalize GIZ Agreement																
Finalize IOF Management Agreement																
PMU Established																
PMU TSPs Hired																
Finalize Component 1 Three year WPB																
Finalize IOF Launch Plans																
Call for EOI																
Component 2.1																
IOF																
Call for Proposals																
Component 2.1																
IOF																
Projects/Provider Selected																
Component 2.1																
IOF																

Annex A – Attachment 1: Terms of Reference for key PMU staff

Programme Coordinator

Job Title: Programme Coordinator
Recruitment: National

Contract: Three-year contract, with six months' probation period, and may be renewable based on identified need, performance targets and deliverables

Reports to:
- Programme Steering Committee (on matters related to the Financing Agreement with IFAD)
- Director, Investment and Debt Management Department, Ministry of Finance ([MoFEPD] on administrative matters)
- Director, Pensions and Financial Sector Policy Division of the MoFEPD on technical matters

Purpose

As a member and head of the Programme Coordination Office (PCO), the Programme Coordinator (PC) has the overall responsibility for the smooth, timely and high-quality management and implementation of the FARMSE. As head of the PCO, the PC is in charge of the day-to-day management of the Programme and the coordination of all its activities and partnerships. The PC liaises with relevant stakeholders in the government sector, financial sector (ranging from community-based finance to commercial banking) and agricultural and agribusiness sectors, the donor community as far as it supports or is interested in rural and agricultural finance, or financial systems development, and the International Fund for Agricultural Development as regards all matters pertaining to the Financing Agreement signed between the GoM and the Fund. The PC ensures coordination with the Pensions and Financial Sector Policy Division of the MoFEPD on technical matters under the MoFEPD and maintains close ties with the Programme Design Group.

Key Responsibilities and Duties

1. Develop an implementable programme of activities in accordance with the Financing Agreement and the Programme design documents;
2. Ensure timely submission of Annual Work Plans and Budgets (AWPBs), activity reports, financial reports, audit reports and others in accordance with the stipulated requirements;
3. Ensure the smooth management of the Programme in all facets and dimensions;
4. Coach, guide, mentor, inspire, monitor and supervise all staff in the PCO;
5. Ensure proper funding of activities all the time, and adequate use and absorption of funds as allocated;
6. Ensure that proper systems and procedures are established, contained in the respective manuals and fully adhered to by all respective persons and units;
7. Ensure updating of manuals, systems and procedures as required;
8. Maintain excellent relationships with partners and key actors in the government, financial and private sectors as well as with the relevant donor community, and coordinate activities with these as needed;
9. Assist potential and actual partners to conceptualize their projects, proposals and visions;
10. Introduce innovations generated inside and outside Malawi to other possible actors and replicators;
11. Guide and inspire the national dialogue on rural and agricultural finance, and on financial systems development, in particular as regards the ability of the financial sector to better serve the rural poor;
12. Provide oversight over the implementation of components 1 and 3;
13. Manage the knowledge management and technical assistance activities under component 3;
14. Provide guidance and expertise in the process of developing the Rural Finance Policy;

15. Ensure a proper set-up and functioning of the Planning, Monitoring and Evaluation (PM&E) systems and procedures, and that PM&E is properly anchored in all projects run by partners and grant recipients;
16. Prepare an annual report on the evolution of rural financial inclusion in Malawi and the progress made by the financial sector to improve the quality, outreach and depth of financial services to the IFAD target groups, including an overall assessment of the development of the financial sector; this report shall be published annually on the website managed by the PCO;
17. Prepare the AWPB in accordance with the Financing Agreement and IFAD procedures;
18. Contribute actively to the knowledge management activities of IFAD within the Eastern and Southern Africa Division;
19. Conceptualize all knowledge management activities under the FARMSE and ensure their proper implementation and most widespread dissemination;
20. In collaboration with the Financial Controller, ensure effective management and accounting of the FARMSE financial resources;
21. Participate in and lead the technical review and appraisal process of grant and partnership applications;
22. Ensure the most efficient and effective use of the financial resources provided by the GoM and IFAD;
23. Adequately prepare, guide and assist all incoming supervision, evaluation, backstopping etc. missions deployed by either GoM or IFAD;
24. Serve as secretary to the PSC;
25. Implement all written directions by the PSC, IFAD and MoFEPD as required;
26. Ensure that proper financial management and procurement systems are set up, and the full compliance of all persons concerned with the respective regulations;
27. Excel in transparency and accountability of all activities and duties performed, and set the standards for transparency and accountability in programme implementation;
28. Ensure that a website on rural finance will be established in the first twelve months after programme start and regularly updated;
29. Assume full responsibility over the assets received by the PCO and the prudent use of Programme-funded assets and resources.

Minimum Qualifications

- MBA/MSc/MA degree in economics/ agriculture economics,, finance, or law;
- At least 10 years of professional experience in national and regional microfinance/rural finance and other relevant fields;
- Practical banking experience nationally/regionally is will be a competitive advantage
- Excellent leadership qualities;
- Practical experience in leading and managing teams;
- Good understanding of accounting practices;
- Excellent communication skills;
- Excellent interpersonal skills;
- Full proficiency in English

Skills and Experience

- Proven technical leadership in banking and finance, micro and macroeconomics, and agriculture;
- Good understanding of agriculture, value chain development value chain finance, and rural development issues;
- Experience in the provision of technical assistance, supervision or evaluation of projects and programmes, in the private and/or public sectors;
- Good understanding of networking principles, lobbying and advocacy mechanisms, and the creation of alliances for joint initiatives;
- Good understanding of PM&E, planning approaches, results-based management, and similar;

- Proven capacity in the formulation and production of high quality written material, including among others research studies, impact assessment reports, publications for media, etc.;
- Demonstrable capacity to work with private sector, civil society, media and government sectors on evaluation and monitoring programs at a national scale, and to develop appropriate communication strategies and be an effective communicator in working with a diverse range of stakeholders;
- Strong people management skills, willing and able to foster cross-sector collaboration and partnerships to enhance program results;

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	Depth and relevance of educational background and publication records	15
2	Length, depth and relevance of professional and practical experience in rural, agricultural and microfinance, banking, leasing etc.	30
3	Extent of expertise in the technical domains of the Programme	20
4	Depth and length of management experience, in particular of donor-funded projects/programmes	20
5	Length and level of management positions held	10
6	Level of accounting, financial management and procurement experience and skills	5
7	Depth of understanding of rural and agricultural development issues and experience with value chain development and value chain finance	5
8	Depth of experience in designing, delivering and evaluating training for adults	5
9	Strong writing, analytical and interpersonal skills	10
10	Depth of experience in qualitative and quantitative research	10
11	Depth of experience with result-management and PM&E	10
	TOTAL	**140**

Chief Technical Advisor (CTA)

Job Title: Chief Technical Advisor
No. of positions: 1
Recruitment: International/Regional
Contract: Three-year contract, renewable based on need
Reports to: Programme Coordinator

Purpose

The Programme's development objective is to 'increase is to increase access to, and use of, a range of sustainable financial services by rural households and micro, small, and medium enterprises. The Programme will make investments under three components; (i) Ultra-poor graduation model development and testing at scale (ii) Support to Financial Innovation and Outreach (iii) Strategic Partnerships, Knowledge Generation, and Policy.
The Programme will be implemented through a wide range of institutions including; MoF, RBM, Apex Institutions, NGOs, banks, microfinance Institutions, other financial service providers including insurance and leasing companies, value chain developers, farmer organisations and community based financial institutions (groups, cooperatives, associations, clubs, VSLAs, etc). The Programme will interact and collaborate with various government ministries and departments, and other programmes within Malawi including other IFAD-funded programmes (PRIDE, SAPP,) and those under, UNDP, World Bank and USAID.

To strengthen the capacities of the PCO and the Pensions and Financial Sector Policy Division of the MOF to implement and oversee this Programme, it is proposed to hire an international Chief Technical Advisor for a period of three years, with an option for extension. The location will be Lilongwe, Malawi, with at least 25% field travel.

Key Responsibilities and Duties of the Chief Technical Advisor (CTA)

Maintaining a good understanding of the technological, operational, institutional and other innovations and good international practices on rural, agricultural and microfinance in the region and globally, the responsibilities include (but are not limited to) the following;

1. Advise the PMU on the logical and effective implementation of activities under component 2.2 and when needed support the system development of other components
2. Identify the capacity building needs of different implementers and advise on how these needs can be addressed to ensure their effectiveness in terms of Programme outcomes
3. Advise the PMU on how to enhance overall performance under the Programme
4. Support the PCO in developing appropriate strategies to inform potential partners of available project support under component 2.2, and also other components on need basis
5. Support the review and refinement of the Project Implementation Manual
6. Provide technical advice to implementing institutions on how to improve their products, processes, business strategies, research and other proposals in pursuance of their business and programme objectives and targets
7. Advise the RUFEP on how to enhance synergies with other programmes and review draft MOUs between the Programme and other partners
8. Advise the Programme to identify the best learning options for study tours and exchange visits
9. Coach mentor and train the rural/microfinance experts in all aspects of rural finance in general and effective implementation especially of component 2,2.
10. Review TORs, capacity interventions including training and ensure quality of deliverables
11. Support the PC and MoFEPD in coordinating and facilitating development to the rural fiancé policy.

12. Attend meetings/workshops under the Programme and offer advice/technical opinion with special focus on those that may affect Programme performance
13. Deal with any other matter relevant to Programme objectives as may be identified by the PMU and MoFEPD including training stakeholders on aspects immediately related to Programme implementation;

Qualifications for the Chief Technical Advisor (CTA)

Formal academic qualification in banking, rural banking, microfinance, management or financial economics with at least 10 years at a senior level in microfinance or rural banking institution or managing large rural finance projects with multiple partners in a developing country preferably in Africa. He/She should have extensive exposure to policymaking in rural finance, microfinance and financial inclusion. Experience with value chain financing, institutional strengthening and/or innovation in rural financial institutions will be strong advantages.

The person should be mature, team oriented professional with good analytical and good communication – able to make easily understandable technical inputs on rural finance and financial sector. He/ She should be able to strike rapport with personnel at different levels including policy makers international organizations and other stakeholders. A strong self-motivated individual working with no or minimal supervision and able to travel to the rural areas and meet tight deadlines. Excellent written and spoken English, fully conversant with computer use.

Minimum Qualifications

- MSc, MBA or MA in economics, banking and finance, social sciences, agricultural economics, or similar discipline;
- At least 10 years of practical experience in banking, leasing, microfinance, agricultural finance, of which at least 5 in managing a large programme, institutional;
- Good understanding of the functions of a financial system, the different types of financial institutions and their services, financial systems development, inclusive finance, value/supply chain finance principles and approaches as well as extensive exposure to innovations;
- Good understanding of institutional strengthening concepts and methods as well as how to operate an innovation facility;
- Excellent knowledge of innovations regionally and worldwide

16. Rural finance/Microfinance specialist (national). The incumbent should have first-hand experiences with formal financial institutions, particularly microfinance institutions, and related technologies (e.g., MFIs, microfinance banks and SACCOs), and their application in rural areas. He/she should also be well versed with digital finance, linkage banking and other low-cost rural outreach mechanisms. Senior positions in either MFIs and have some knowledge in mobile money operations. The incumbent should be current with national, regional, and global developments in rural/agricultural finance and digital finance.

17. CBFO specialist (national). The incumbent should have first-hand experience with CBFO group and group/network formation. She/he will have deep knowledge of the most used CBFO models and strong understanding of community development financial sector outreach. Understanding of socio economic impacts of CBFO models and model innovation will be required.. Must be well versed with the concept of linking CBFOs to the formal financial system.

National Rural Finance/Microfinance Specialist

Job Title: National Rural Finance/Microfinance Specialist
No. of positions: 1
Recruitment: National

Contract: Three-year contract, renewable based on performance
Reports to: Programme Coordinator

Purpose

FARMSE is a Programme funded by GoM, IFAD and communities. The Programme's development objective is to 'increase is to increase access to, and use of, a range of sustainable financial services by rural households and micro, small, and medium enterprises. The Programme will make investments under three components; (i) Ultra-poor graduation model development and testing at scale (ii) Support to Financial Innovation and Outreach (iii) Strategic Partnerships, Knowledge Generation, and Policy.
The Programme will be implemented through a wide range of institutions including; MoF, RBM, Apex Institutions, NGOs, banks, microfinance Institutions, other financial service providers including insurance and leasing companies, value chain developers, farmer organisations and community based financial institutions (groups, cooperatives, associations, clubs, VSLAs, etc). The Programme will interact and collaborate with various government ministries and departments, and other programmes within Malawi including other IFAD-funded programmes (PRIDE, SAPP,) and those under, UNDP, World Bank and USAID.

Key Responsibilities and Duties of the Rural Finance/Microfinance Specialist

Attain and maintain a good understanding of the technological, operational, institutional and other innovations and good national/regional/international practices on rural, agricultural and microfinance, and facilitate adoption of the same by FARMSE. He/she will work closely and understudy the Chief Technical Advisor. The specific responsibilities include (but are not limited to) the following;

1. Support/facilitate awareness creation of the programme and its objectives and goals among relevant stakeholders
2. Together with the CTA, develop/ensure implementation of relevant systems within the programme
3. Advise the PCO on the logical and effective implementation of activities under the different components, and in line with the GoM Financial inclusion strategy and/or relevant policies;
4. Identify the capacity building needs of different implementers and advise on how these needs can be addressed to ensure their effectiveness in terms of Programme outcomes
5. Advise the PCO on how to enhance overall performance of the Programme
6. Support the PCO in developing appropriate strategies to inform potential partners of available project support under all components
7. Support review and refinement of the Project Implementation Manual
8. Provide technical advice to implementing institutions on how to improve their products, processes, business strategies, research and other proposals in pursuance of their business and programme objectives and targets
9. Support the CTA to enhance synergies with other programmes and review draft MOUs between the Programme and other partners
10. Review TORs, capacity interventions including orientation/training and ensure quality of deliverables In collaboration with the CTA
11. In collaboration with the PC support the pensions financial sector policy division in the development, planning and implementing rural finance calendar of events and knowledge forums
12. Assist in the preparation and management of supervision, backstopping and evaluation missions;

13. Attend meetings/workshops under the Programme and offer advice/technical opinion with special focus on those that may affect Programme performance
14. Deal with any other matter relevant to Programme objectives as may be identified by the PCO and PFSPD including training stakeholders on aspects immediately related to Programme implementation

Qualifications of the Rural Finance/Microfinance Specialist
Formal academic qualification in banking, finance, project management or financial economics with at least 10 years at a senior level in microfinance or rural banking institution or managing large rural finance projects with multiple partners in a developing country preferably in Malawi and/or other African countries. He/she should have extensive exposure to policymaking in rural/agriculture finance, microfinance and financial inclusion. Experience with institutional strengthening and/or innovation in rural financial institutions will be added advantage.

The person should be mature, team oriented professional with good analytical and good communication – able to make easily understandable technical inputs on rural finance and financial sector. He/she should be able to strike rapport with personnel at different levels including policy makers, international organizations and other stakeholders. A strong self-motivated individual working with no or minimal supervision and able to travel to the rural areas and meet tight deadlines. Excellent written and spoken English, fully and also conversant with computer use.

Minimum Qualifications

MSc, MBA or MA in economics, banking and finance, social sciences, agricultural economics, or similar discipline;
At least 5 years of practical experience in rural and/or/agricultural finance, microfinance, banking, leasing,
Good understanding of the functions of a financial system, the different types of financial institutions and their services, financial systems development, inclusive finance, value/supply chain finance principles and approaches as well as extensive exposure to innovations;
Good understanding of institutional strengthening concepts and methods as well as how to operate an innovation facility;
Excellent knowledge of innovations nationally and within the region and other parts of the world;

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	MA, MBA or MSc	20
2	Length and variety of practical experience in banking, rural/agriculture finance and innovation	15
3	Depth of familiarity with the respective core knowledge: General Experience in Financial Inclusion, Institutional Capacity building, Training, Analysis, Report Writing, Workshop Facilitation, Networking Component 2: Experience in managing or working in an matching grants, innovation facility with extensive knowledge of community based finance and agent/cellphone/electronic- based products Component 3: Policy level engagements, knowledge management, supply/value	15 15 15

	chain finance, research and studies, organisation of public debates, workshops and fora, website management;	
4	Experience with project management, in particular those funded by International Finance Institutions	10
5	Experience/knowledge of M&E functions	10
	TOTAL	100

Community Based Financial Organization Specialist

Job Title: CBFO Specialist
No. of positions: 1
Recruitment: National

Contract: Three-year contract, renewable based on performance
Reports to: Programme Coordinator

Purpose

FARMSE is a Programme funded by GoM, IFAD and communities. The Programme's development objective is to 'increase is to increase access to, and use of, a range of sustainable financial services by rural households and micro, small, and medium enterprises. The Programme will make investments under three components; (i) Ultra-poor graduation model development and testing at scale (ii) Support to Financial Innovation and Outreach (iii) Strategic Partnerships, Knowledge Generation, and Policy.

The Programme will be implemented through a wide range of institutions including; MoF, RBM, Apex Institutions, NGOs, banks, microfinance Institutions, other financial service providers including insurance and leasing companies, value chain developers, farmer organisations and community based financial institutions (groups, cooperatives, associations, clubs, VSLAs, etc). The Programme will interact and collaborate with various government ministries and departments, and other programmes within Malawi including other IFAD-funded programmes (PRIDE, SAPP,) and those under, UNDP, World Bank and USAID.

Key Responsibilities and Duties of the CBFO Specialist
Attain and maintain a good understanding of developments and principles of community based financial institutions that include but are not limited to cooperatives, village savings and loans associations. The specific responsibilities include (but are not limited to) the following;

1. Support/facilitate awareness creation of the programme and its objectives and goals among relevant CBFO stakeholders
2. Support development of and implementation of relevant CBFO systems within the programme
3. Advise the PCO on the logical and effective implementation of activities under component 2.1, and in line with the GoM Financial inclusion strategy and/or relevant policies;
4. Identify the capacity needs of different of CBFO promoters/CBFOs and advise on how these needs can be addressed to ensure their effectiveness in terms of Programme outcomes
5. Support the PCO in developing appropriate strategies to inform potential partners of available project support under component 2.1
6. Provide technical advice to implementing CBFO promoters on how to improve their services, and processes,
7. Advise the FARMSE on how to enhance synergies with other programmes and review draft MOUs between the Programme and CBFO promoters
8. Support review and refinement of the Project Implementation Manual
9. Assist in the preparation and management of supervision, backstopping and evaluation missions;
10. Attend meetings/workshops under the Programme and offer advice/technical opinion with special focus on those that may affect Programme performance
11. Deal with any other matter relevant to Programme objectives as may be identified by the PCO

Qualifications of the CBFO Specialist
Formal academic qualification in community and rural development, rural finance, agriculture economics with at least 5 years at a mid- senior management level in microfinance or rural banking

institution. He/she should have extensive exposure to financial inclusion through cooperatives and VSLAs. Experience with institutional strengthening and/or innovation in rural financial institutions will be an added advantage.

The person should be mature, team oriented professional with good analytical and good communication – able to make easily understandable technical inputs on rural finance, especially in regard to cooperatives and VSLAs. He/she should be able to strike rapport with cooperatives networks/associations, VSLA promoters, relevant GoM ministries and other stakeholders. A strong self-motivated individual working with no or minimal supervision and able to travel to the rural areas and meet tight deadlines. Excellent written and spoken English, fully conversant with computer use.

Minimum Qualifications
BSc/ BA in economics, social sciences, community development, agricultural economics, or similar discipline;
At least 3 years of practical experience in cooperative/VSLA management, rural/agricultural finance, microfinance
Good understanding of financial inclusion, the different types of financial institutions and their services, financial systems development, value chain finance principles and approaches as well as extensive exposure to sector innovations;

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	BA/ BSc in social science/community development/ agriculture economics and /or relevant degree from a recognized university	25
2	Length and variety of practical experience in cooperative and village banking, rural/agriculture finance and innovation	20
3	Depth of familiarity with the respective core knowledge Experience in with cooperatives and VSLAs: Financial Inclusion, Institutional Capacity building, Training, Analysis, Report Writing, Workshop Facilitation, Networking Experience in managing or working in an matching grants	25 10
4	Experience with project management, in particular those funded by International Finance Institutions	10
5	Experience/knowledge of M&E functions	10
	TOTAL	100

Financial Controller

Job Title: Financial Controller
Recruitment: National

Contract: Three-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to: Programme Coordinator

Purpose
The Financial Controller reports directly to the Project Coordinator, and is responsible for financial management of the Programme and for maintaining all project accounts in good order. As head of the finance unit, the financial controller will take charge of all matters in the Programme accounting cycle. The Programme accounting cycle to be overseen by the Financial Controller starts from financial-related inputs in AWPB preparation and budget control, committing funds, disbursements and cash flow management in an effective and efficient manner, financial reporting to ensuring smooth audits and facilitation for supervision missions on all financial management aspects.

Key Responsibilities and Duties

1. Installation of appropriate accounting/reporting systems to ensure that the PCO and especially the Programme Coordinator are regularly informed of on-going financial activities and transactions. Ensure the FARMSE structure in terms of its components, sub-components, categories, activities, approval limits are accurately profiled in the GoM Integrated Financial Management System.
2. Ensure timely capture of FARMSE in the GoM budget as required by the GoM budgeting processes and calendars.
3. Communicate to all implementing partner institutions, service providers and grantee recipients their financial responsibilities, the funds available and how to access it, and the requirements of reporting and record keeping in accordance with prevailing government practices which are acceptable to IFAD.
4. Maintain all accounting records in a form appropriate for regular auditing (at least once a year).
5. Ensure that all project funds are used in accordance with the conditions of the loan agreements, with due attention to economy and efficiency, and only for the purposes for which the funds were provided;
6. Ensure that counterpart funds have been provided and used in accordance with the conditions of the loan agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
7. Ensure that all necessary supporting documents, records and accounts are kept in respect of all project activities, with clear linkages between the books of account and the financial statements presented to the financiers;
8. Ensure that designated accounts are maintained in accordance with the provisions of the loan agreement and in accordance with the financier's rules and procedures;
9. Ensure that the financial statements are prepared in accordance with International Public Sector Accounting Standards as adopted in Malawi;
10. Liaise with external auditors to audit the Programme accounts to meet the required submission dates by IFAD;
11. Oversee tax matters of the Programme, ensuring that tax exemptions for the procurement of goods for the Programme are secured at the appropriate time;
12. Process documentation and follow up on disbursements from the government and IFAD to ensure that releases are not delayed. Ensure that funds for Programme implementation are disbursed in a timely manner to enable Programme interventions to be carried out on time;
13. Prepare and submit regular withdrawal applications to IFAD and follow up to ensure that the Programme does not run short of liquidity;

14. Follow up on all project funds released to implementing partners for timely retirement and proper utilization;
15. Ensure that statements of expenditure (SOEs) are carefully compared for eligibility with relevant financial agreements and the disbursement handbook, and with budget control discipline;
16. Ensure that fixed assets are well accounted for and annual verification is undertaken of the condition of assets and their location;
17. Prepare informative management accounts in the form of monthly, quarterly, semi-annual and annual reports regarding aspects of Programme financial monitoring bringing out variances and advising implementers as to the limits of expenditure;
18. Act as a counter-signatory to Programme fund releases as required for Porgramme financial transactions and also sign as witness to contracts as much as possible;
19. Carry out any other activities that are assigned by the Programme Coordinator.

Minimum Qualifications

The candidate should have a Bachelor’s degree in accounting, and must be certified chartered accountant (ACCA/CIMA).

Skills and Experience

- At least eight years of relevant work experience, including at least four as a financial manager or accountant in government/donor projects or large institutions;
- Strong managerial skills and demonstrated capacity to manage people and interact with a wide range of private sector partners and government representatives;
- Knowledge of work planning, budgeting and reporting;
- Excellent quantitative and analytical skills;
- Computer-literate including accounting packages and well-versed in the use of Excel, Word and basic data base set-ups.

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	Depth and relevance of educational background - accounting background training at university level	20
2	Membership of the Institute of Chartered Accountants of Malawi or equivalent	20
3	Depth and length of project financial management experience, in particular of donor-funded projects/programmes	30
5	Level of understanding of project accounting software	10
9	Strong writing, analytical and interpersonal skills	20
	TOTAL	**100**

Procurement Officer

Job Title: Procurement Officer
Recruitment: National

Contract: Three-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to: Programme Coordinator

Purpose
The Procurement reports directly to the Programme Coordinator, and is responsible for managing procurement processes and contract administration aspects. As head of the procurement unit, the incumbent will be tasked to ensure compliance with GoM Procurement regulations and ensure due diligence to comply with IFAD Procurement Guidelines and handbook.

Key Responsibilities and Duties
1. Installation of appropriate procurement systems and procedures for effective planning and monitoring of procurements under the project;
2. Oversee preparation and consolidation of inputs to the Annual Procurement Plan;
3. Finalize, within three months after start of duty, a draft manual on procurement by partners (under component 2) and grant recipients (under component 2), which sets the minimum standards of compliance for the procurement of goods and services under FARMSE financing;
4. Continuously train (on the job) implementers in the preparation of terms of reference, specifications and proactive follow-up of these inputs in the bidding processes;
5. Prepare bidding documents based on acceptable bidding standards;
6. Ensure all prior review requirements such as obtaining of the No Objections from IFAD are complied with in a timely manner;
7. Ensure that all the due tendering processes are adhered to: sufficient publications, strict adherence to deadlines, transparency in communications with bidders, publication of bid results, etc.;
8. Ensure acceptable record keeping in procurement with at least a complete procurement file for each procurement from start to contract finalisation. Maintain all procurement records in a form appropriate for regular auditing and spot checks by supervision missions;
9. Communicate to all implementing entities and service provider their responsibilities and requirements with respect to procurement in keeping with prevailing government practices which are acceptable to IFAD;
10. Oversee the contracting process, including ensuring that Evaluation Committees have people with appropriate expertise;
11. Monitor implementation of contracts: report status and problems to the Programme Coordinator on a monthly basis; and intervene to address problem upon request by the Coordinator;
12. Ensure that goods and services financed have been procured in accordance with the loan agreement and the GoM procurement regulations;
13. Work with the Financial Controller to ensure that tax exemptions for the procurement of goods for the project are secured at the appropriate time;
14. Prepare quarterly reports of progress with implementation of the Procurement Plan, and regularly inform the Programme Coordinator of problems and make proposals to overcome bottlenecks;
15. Carry out any other activities that are assigned by the Programme Coordinator.

Minimum Qualifications
The candidate should have a Bachelor's degree in procurement and supplies and must be a member of the Malawi Institute of Procurement and Supply or equivalent.

Skills and Experience

- At least five years of relevant work experience, preferably including experience in procurement in government/donor projects or large institutions;
- Appreciation of the evolution of the public sector procurement reforms in Malawi;
- Ability to work well in teams and to interact with a wide range of private sector partners and government representatives;
- Knowledge and experience of matching grant processes;
- Knowledge of work planning and reporting;
- Excellent quantitative and analytical skills;
- Computer-literate and well-versed in the use of Excel and Word.

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	Depth and relevance of educational background- procurements	20
2	Membership of the Chartered Institute of Procurement and Supplies	30
3	Depth and length of project/ public procurement management experience, in particular of donor-funded projects/programmes	30
5	Level of understanding of management of matching grants	10
9	Strong writing, analytical and interpersonal skills	10
	TOTAL	**100**

Monitoring and Evaluation Officer

Job Title: Monitoring and Evaluation Officer

Recruitment: National or international, National preferred

Contract: Three-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables

Reports to: Programme Coordinator

Purpose

As a member of the Programme Coordination Office (PCO), the Monitoring and Evaluation Officer (ME Officer) ensures that the FARMSE has a robust, effective and manageable framework in place for planning, monitoring and evaluation. The ME officer also ensures that key implementing partners are capable of, and timely responding to planning, monitoring and evaluation needs with respect to tracking and reporting against targets laid out in financing and partnership agreements, and agreed results-based indicators as per the FARMSE logframe. The ME Officer will develop and maintain a strong communication and operational framework, which supports the PCO and programme implementation partners to work jointly in adhering to ME protocols, which leads to enhanced programme implementation and success in achieving the programme development objective. The ME officer also has a mandate to instil quality assurance, integrity, and accountability across ME functions.

Key Responsibilities

- In close collaboration with the FARMSE Programme Coordinator, develop, refine and roll out a robust and effective M&E system, which supports operationalisation of the FARMSE with respect to the programme logframe, M&E targets and indicators of success, and which meets the approval of key programme stakeholders;
- Integrate results-based management principles and approaches into the M&E system and processes to enhance intervention strategies, effective use of people and resources, mechanisms and approaches for results-based decision-making, and transparency and accountability throughout the programme life cycle;
- Provide necessary training, orientation and technical oversight to ensure implementing partners have appropriate M&E tools and capacities to meet agreed M&E tracking, assessment and reporting requirements;
- Ensure timely and responsive action where partners are failing to comply with M&E operational and/or reporting requirements, including support to enhance internal systems and coordinated action with PCO to review financing and partnership agreements as required;
- Ensure systematic approaches and practical linkages for using M&E data/information to inform and enhance PCO decision-making, and interventions and activities under the Knowledge Management sub-component.

Specific Duties

1. Support in the design and implementation of a M&E system based on key FARMSE programming tools including the logframe, programme design report and operation manuals;
2. Actively support in integrating use of the M&E system across programme operations, financing and partnership agreements and reporting frameworks within three months of programme start-up;
3. Support in the development and implementation of the Programme baseline data collection and analysis, including the design, testing and refinement of tools, identifying and sourcing credible data on Malawi's financial sector, managing partner input, data consolidation and production of a final baseline report;

4. Lead in the development of tools and approaches that the PCO and implementing partners can apply to enhance and facilitate data/information collection. Intensive support during first six months with on-going support on an as need basis thereafter. This will include among others: guidelines in understanding key FARMSE terminology, including financial terminology, guidance and application of sampling techniques, formats for standardizing and collating data information, templates for reporting, case study development, impact survey tools, and other relevant tools;
5. Support integration of RIMS into the M&E system by: working with stakeholders and implementing partners to ensure understanding and awareness of RIMS; ensuring implementing partners are capable of providing input for first- and second-level indicators (as incorporated into the FARMSE logframe); ensuring performance measurement of mandatory indicators;
6. Ensure timely completion of the RIMS reporting form in accordance with IFAD reporting deadlines;
7. Support results-based management approaches across all implementing partners by: calling for appropriate analysis in advance of setting targets and defining realistic expected results; clearly identifying beneficiaries and ensuring planned interventions and activities will meet their interests and needs; regular and systematic monitoring of progress towards results and based on programme indicators; working closely with partners to identify and manage risk in line with available resources; ensuring timely and proficient reporting in results achieved and resources involved;
8. Organise the reporting of all Programme implementing partners and assemble the quarterly and annual programme reports;
9. Develop a diverse range of mechanisms to support participatory PME and oversee their implementation. This could include regular partnership reviews, field-based activities to capture lessons learnt and input and ideas from target groups, as well as organizing forums, which capture Programme challenges, constraints and promote dialogue and identification of locally-owned solutions;
10. Establish robust procedures for performance reporting in accordance with the current Annual Work Plan and Budget (AWPB), including support for partners in developing relevant reporting procedures, formats, and quality assurance mechanisms;
11. Lead in the design and implementation of field-based M&E initiatives such as field missions, evaluation and impact assessments, case study development, etc.;
12. Assist the Programme Coordinator in the planning and implementation of research and development initiatives supported under the FARMSE including support in study design, sampling, qualitative and quantitative data collection and analysis, and reporting;
13. Assist in organizing and implementing learning events for sharing results of M&E exercises conducted by the Program and/or implementing partners;
14. Develop tools and instruments for the evaluation of training activities supported under the FARMSE;
15. Conduct evaluation polls immediately after training sessions and within 3-4 months after the end of a course or session, e.g. by using surveymonkey and similar tools;
16. Support in contracting and selecting a website development and management partner and assist with online data management and data monitoring.

Minimum Qualifications

- MSc degree in economics or social sciences with a minimum of 10 years' professional experience or BSc degree with minimum of 15 years professional experience;
- Demonstrable capacity to design and manage M&E systems, including the design of an appropriate implementation framework, development and testing of M&E tools and approaches, planning and overseeing field-based M&E activities, data management and reporting;
- Proven ability to design and manage diverse research initiatives from inception through to report writing;

- Sound understanding of and experience in supporting rural economic development programming;
- Proficiency in English.

Skills and Experience

- Strong capabilities in data collection, including instrument testing, field data collection, data entry, random quality control testing, data compilation and analysis;
- Extensive experience in designing and delivering training and capacity building in PME systems operationalisation, including development of training curricula, operational guidelines, and performance management;
- Proven ability and expertise in working with data management software and web-based applications for use in M&E management;
- Experience in establishing and managing robust M&E performance reporting across a diverse range and large volume of partners;
- Ability to plan and conduct structured and supportive field monitoring, including formal partner performance assessments, stakeholder reviews, etc.;
- Proven capacity in the formulation and production of high quality written material, including among others research studies, impact assessment reports, stories from the field, publications for media;
- Demonstrable capacity to work with private sector, civil society, media and government sectors on evaluation and monitoring programs at a national scale, and to develop appropriate communication strategies and be an effective communicator in working with a diverse range of stakeholders;
- Strong people management skills, willing and able to foster cross-sector collaboration and partnerships to enhance program results;
- Strong communication skills, especially writing skills;

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	Depth and relevance of educational background	15
2	Length, depth and relevance of professional and practical experience in ME	15
3	Extent of proven skills and experience in critical areas of ME system design and management	10
4	Depth and length of management experience	5
5	Ability to understand the position, the programme and his/her role in contributing to successful delivery	10
6	Depth of understanding of rural and agricultural development issues	5
7	Experience in designing training packages and delivering trainings for adults	5
8	Strong writing, analytical and interpersonal skills	10
9	Experience in qualitative and quantitative research	10
10	Working experience in bi- or multilateral projects	5
	TOTAL	**100**

Knowledge Management and Communication Officer

Job Title: Knowledge Management and Communication Officer
Duration: Aligned to the Programme duration
Recruitment: National

Contract: Two-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to: Programme Coordinator

Purpose

As a member of the Programme Coordination Office (PCO), the Knowledge Management (KM) and Communication Officer will lead the development, implementation, evaluation and continued improvement of KM and communication in the Rural Finance Expansion Programme (RUFEP). The officer will report to the RUFEP Programme Coordinator and will work closely with the Programme's Planning, Monitoring and Evaluation Officer.

RUFEP is a Programme funded by GRZ, IFAD and the participating communities. The Programme's development objective is to '***increase access to and use of sustainable financial services by poor rural men, women and youth'***. It is estimated that about 190,000 rural persons in Zambia over an eight-year period will, commencing from 2014, benefit from Programme activities. The Programme will make investments under two components: (i) Strategic Partnerships – by strengthening the capacity of policy, apex and financial service providers (FSPs) in the financial sector to address challenges that affect delivery of financial services in the rural areas; (ii) Innovation and Outreach Facility – by supporting institutions to pilot and roll out innovative, demand-driven rural and agricultural products and services. The Programme will be implemented through a wide range of institutions and, therefore, knowledge management and communication will be quite crucial.

Key Responsibilities and Duties of the Knowledge Management and Communication Officer

1. Conduct the research, including stakeholder analysis and needs assessment, and consultation needed to develop the communication and knowledge management strategy for RUFEP;
2. Undertake a study of the ICT environment in Zambia to assess the appropriateness of using modern ICTs as tools to support communication and KM in Programme activities;
3. Develop the strategy (using consulting services, if needed), building on the findings of the research and on own past experience;
4. Validate the strategy with the Programme Coordination Office and the Rural Finance Unit staff and key RUFEP stakeholders;
5. Develop an annual implementation plan and budget for the strategy;
6. Develop campaigns and information materials to support awareness raising and sensitization of key stakeholders;
7. Develop key messages about the Programme and articulate them in ways appropriate to the various target audiences;
8. Prepare user-friendly information sheets that detail key facts and figures about RUFEP in particular and rural finance in Zambia in general;
9. Interact with MoF communication unit staff and advise RUFEP staff on media engagement;
10. Oversee development and continued updating of a Programme website;
11. Support the development of appropriately targeted communication materials to support extension activities and to communicate new and relevant findings in the rural finance sector;
12. Synthesize reports and write thematic case studies, lessons learned and stories about successes emerging from Programme implementation;
13. Ensure that success stories, lessons and examples of best practice are packaged and shared within the country, with the Government and other development partners in Zambia, throughout the region and at IFAD corporate level;
14. Act as a link between RUFEP and the relevant IFAD's regional knowledge networks;

15. Ensure that systematic learning and knowledge sharing are fully embedded in Programme management and implementation;
16. Advise and support the Programme Coordinator, PM&E Officer and the other RUFEP and RFU staff, as may be required, on how to integrate knowledge management and communication into their daily work;
17. Design and implement a training programme for RUFEP staff, relevant government partners and other RUFEP stakeholders, as required, on KM and communication approaches, methods and tools;
18. Ensure that the Programme communication and KM strategy is continuously monitored and improved;
19. Undertake any other task as may be assigned by the Programme Coordinator.

Education and Experience

- University degree in communications, journalism or a related discipline. Higher education in a field related to rural finance or rural development would be an advantage;
- Minimum of five years of experience in communications and/or knowledge management in the rural development sector;
- Proven experience in designing and implementing successful communication and knowledge management strategies for sustainable development;
- Experience in or solid understanding of, use of modern information and communication technology (ICT) in development;
- Experience in the sphere of rural development project management and implementation, in particular a good basic knowledge of project M&E systems, will be a distinct advantage.

Competencies

- Strong written and oral communication skills;
- Strong analytical skills;
- Self motivated and creative thinker;
- Proven ability to work in teams;
- Strong social skills and open-minded;
- Excellent knowledge of modern communications tools, in particular web-based technology;
- Ability to work independently and with limited supervision.
-

Selection Criteria and Maximum Scores

NO.	CRITERION	MAXIMUM SCORE
1	Depth and relevance of educational background	10
2	Length, depth and relevance of professional and practical experience in Knowledge Management and Communication	30
3	Extent of proven skills and experience in critical areas of Knowledge Management system design	10
4	Depth and length of management experience	5
5	Ability to understand the position, the Programme and his/her role in contributing to successful delivery	10
6	Depth of understanding of rural finance issues	10
7	Depth of understanding of rural and agricultural development issues	5
8	Experience in designing training packages and delivering trainings for adults	5
9	Strong writing, analytical and interpersonal skills	15
10	Experience in qualitative and quantitative research	15
11	Working experience in bi- or multilateral projects	15
	TOTAL	**130**

Appendix 6: Planning, M&E and learning and knowledge management

1. FARMSE's approach to planning, monitoring and evaluation (M&E) will be compatible with corresponding GoM and IFAD policies and tools (e.g., IFAD Results and Impact Management System - RIMS). Guided by the Programme's logical framework, the M&E function will systematically record data and performance information at various levels as required (e.g., areas, districts), as well as household surveys.

Planning

2. **Planning cycle.** The main planning tools for SIRP comprise the Logical Framework, M&E framework - including its indicators and targets - and the Results Based Annual Work plan and Budget (RB-AWPB). The FARMSE Logframe provides indicators and targets of the overall project implementation from output over outcome, development objective to impact levels. The RB-AWPB will disaggregate targets by year and attach financial resources (IFAD grant, OFID loan, Government budget) to them. The RB-AWPB shall present financial and physical outputs and outcomes of the project for the given year, and report on cumulative achievements. The execution of the RB- AWPB will be monitored along the M&E framework of the project and reported to the Project Steering Committee (PSC) and IFAD in regular intervals (e.g., from quarterly to semi-annuals reports). The planning, monitoring and reporting cycle is essential for efficient management of the project and for achieving the agreed upon results.

3. **Results-Based Annual Work Planning and Budgeting (RB-AWPB) development.** The PMU will draft RB-AWPBs involving each level of programme participants, beginning with primary stakeholders. RB-AWPBs will identify activities per priorities areas through participatory planning. Together with the PMU, project partners will provide input to the RB-AWPB plans for review (to some extent these will follow partner performance based contracts). The PMU will review and consolidate project AWPBs based on the programme's overall operational and financial targets, and produce a programme-wide AWPB to be submitted to the PSC for review and approval. The RB-AWPB would be submitted to IFAD at least 60 days before the beginning of the proceeding programme year, for review and expression of 'No Objection'. The annual planning and implementation cycle will be aligned with GOM's planning cycle. The fiscal year goes from 01 July to June 30. A template in Excel will be made available in the Programme Implementation Manual (PIM) to facilitate the process and reporting.

4. **Annual reviews and planning.** Starting with the preparation of the RB-AWPB for Programme Year 2, the PMU will begin a process to review the previous year's performance, generate lessons learned and incorporate the experience in the proceeding year's AWPB. The review will summarize performance and challenges, highlighting the rationale and recommendations for the proposed activities. It will also reflect and document the planning system including project planning and approval processes (as applicable). The RB-AWPB would present programme background, experiences, and results as the basis for forward planning. It would also present the upcoming programme year's plan in summary, including costs (the financial summary with a Procurement Plan), and details of planned activities. An annotated RB-AWPB will be provided to the PMU and relevant project partners (i.e., GIZ and other project partners/ stakeholders as required). The plan will provide for staff capacity development and training as warranted.

5. **Coordination.** Each programme participant would ensure maximum co-ordination is achieved between the various activities at the project level. Co-ordination with governmental projects and other relevant on-going projects and programmes, particularly those of IFAD will be sought. Efforts to ensure overlap between Component 1.0 and subcomponent 2.1 but subcomponent 2.2 will be targeted. This will require some inter-project communications. A consolidated implementation plan would be prepared annually based on project participants AWPB to ensure synergies and

complementarities are identified. There would be semi-annual coordination meetings between all project partners along with additional meetings during supervision missions.

Supervision

6. FARMSE would be directly supervised by IFAD. Direct supervision would encompass four discrete processes: i) loan and grant administration; ii) procurement review; iii) audit review; and iv) supervision and implementation support. Direct supervision would be applied as a continuous process which requires on-going communication and engagement with the GoM and the PMU. Key supervision processes which would be applied are outlined below.

7. Loan and Grant administration would ensure fiduciary compliance, with focus on: i) compliance with legal covenants; and ii) financial management. The procurement review will focus on: ii) the procurement planning and processes; and ii) management and monitoring of contracts. Audit reviews will focus on: i) prior review of the ToR and appointment of the project audit; and ii) quality of the project audit.

8. Programme supervision with focus on: i) implementation performance and progress towards project objectives; ii) project investments, outputs, outcomes, and impact; iii) quality of AWPB, M&E and reporting; iv) effectiveness of the steering committee, project management, implementing institutions and service providers; v) good governance: transparency and participation; and vi) targeting and gender. Associated implementation support will provide advice for the following: i) efficient achievement of project objectives; ii) implementing and mainstreaming new approaches for example the integration of climate resilience as a core element across all IPs and component activities; iii) addressing operational issues and problems; and iv) generating lessons and articulating best practices.

9. The supervision process would guide the programme towards the achievement of strategic objectives and broader poverty reduction outcomes, while ensuring fiduciary compliance and responsiveness to the accountability framework. Several instruments would be applied to influence implementation: i) on-going policy dialogue with the GOM; ii) adjustment of annual work plans and budgets; iii) revision of implementation manuals; iv) undertaking of supervision and mid-term review missions; and v) legal amendments as appropriate.

10. IFAD will conduct joint field supervision missions with the MOFED twice per year. In addition, the MOFED will commission an independent external review at mid-term and end-of term. The evaluations will assess processes and results and draw lessons for future programming.

11. **Results based monitoring and evaluation.** Preliminary baseline and target values are to be established for the major indicators based on the data used for the economic and financial analysis. Regular partner project reports, semi-annual Logframe base reports, and the Learning and Knowledge Management (L&KM) function will facilitate learning and adaptation for improved performance.

12. The PMU will conduct a baseline survey of targeted areas to benchmark key indicators at the beginning of programme implementation and set targets against which programme progress will be monitored and impact assessed. The PMU will develop a detailed M&E plan at start up to guide the implementation of the programme at all levels.

13. **Programme M&E.** FARMSE's approach to planning, M&E and knowledge management system will be designed to generate comprehensive and reliable information, and to improve planning and decision-making for effective programme management towards results and impact. The system will inform FARMSE overall and project performance specifically. Both, programme and Results and Impact Management System (RIMS) indicators will be used to guide programme management and performance. The IFAD- RIMS manual and templates will be placed in the Programme Implementation Manual (PIM) for guidance. The PMU will have the responsibility for M&E system management.

14. The integrated M&E system will: i) measure the achievement of the logical framework indicators (including the RIMS); ii) assess the relevance of the project strategy, methodologies and implementation processes; iii) assess the performance of implementing agencies and external service providers; iv) assess project outcomes and impacts partner stakeholders including clients, specifically women and youth; v) identify successes and good practices; and vi) share knowledge as appropriate with project stakeholders to support dialogue and decision making. The system will provide performance transparency, respecting as necessary sensitive/proprietary partner information.

15. Beyond RIMs and Logical Frame work measures, other programme and project metrics will be developed by the PMU with the input of project stakeholders. This will include indicators, data collection, analysis and results dissemination.

16. Component 1.0 will have two streams of complementary data. First it will undertake a baseline study structured to provide the basis for a random control group trial research assessment of graduation impact. This will be used as a part of a longitudinal impact study of the targeted test graduation households. Second, two qualitative study of graduation model households will be undertaken to better understand the effect of graduation on household time use, productive decision making, gender relations impacts, etc.

17. Component 2.0 will require the development of a set of project partner performance metrics. A set of cores metrics will apply to all 2.2 projects (i.e., around profitability, efficiency, etc.). Another set of metrics will apply only specific projects (e.g., non-financial sector partners versus financial sector partners). All metrics beyond those related to FARMSE Logframe, will be developed with the concomitant aim of providing project partner, project partner stakeholders and the programme with performance data in support of improving project management. The will include development of a monitoring progress and provision of timely, actionable problem and opportunity identification (e.g., identify a growing client need or demand for service, identify market bottlenecks, etc.). It will also be used to support relevant policy dialogue. Performance data will be collected by partners and aggregated by the PMU.

18. **Logical framework.** The identification of appropriate indicators and methodologies to measure progress is critical. The FARMSE logical framework has been developed with the results hierarchy elaborated as per agreed programme components. It will constitute the basis for results-based M&E, and include an initial list of indicators to track programme progress and achievements. The Logframe provides measures for disaggregated performance by gender and youth. The list of indicators will be reviewed during project implementation, and can be adjusted.

19. **Programme Baseline Study.** A baseline will be designed and carried out at programme start-up in areas likely to be selected for activities related to at least one but preferably two components. The baseline studies will form the basis for assessing programme effectiveness and results achievement. The household survey shall be repeated at mid- term (programme year 3-4) and at programme completion. Repeated measurements allow for obtaining data and information required for assessing the performance and achievements of the programme over time. Baseline studies will include a target group and a control group, and will incorporate the Multi-dimensional Poverty Assessment Tool (MPAT). This will be essential to determine attribution of results to programme activities.

20. **Responsibilities.** Overall the responsibility for M&E activities will rest with the PMU M&E Officer and other assigned staff, with reporting to the PMU Manager. The M&E Officer will be also responsible for collecting and analysing data gathered from project service providers on an agreed reporting format and timeframe. The M&E officer will work with a short-term M&E technical expert to set up a simple, functioning reporting format, data aggregation system, report analytical process and reporting format. This will be done starting the first month after the M&E Officer is hired.

21. **Reporting.** The M&E staff will produce three core reports: i) a quarterly progress report by each implementation partner and service provider; ii) a semi-annual progress report; and iii) an annual progress report. The programme Logframe includes the draft indicators against which programme

performance would be monitored and the sources of data to be used. These indicators would be discussed and agreed at programme start-up. Draft reports will be shared with programme project partners and other relevant stakeholders. Comments and input would be consolidated by the PMU M&E staff, reviewed, and approved by the PSC prior to its submission to IFAD, and the GOM. In addition to these reports, the M&E team will also consolidate project performance input for Component 2.0 subcomponents monthly, providing trend analysis as projects are implemented. Aggregate core data and limited, non-proprietary project partner performance will be published on line monthly to update stakeholders on project performance and to foster friendly competition.

22. **Start-up workshop.** MoFEPD will organize a FARMSE start-up workshop, with the aim of presenting programme objectives and scope, roles and responsibilities to potential stakeholders, service providers and samples of beneficiaries. The workshop's timing and agenda will be agreed between GOM, IFAD and project partners and relevant stakeholders). The objective will be to have full buy-in and ownership of FARMSE by all stakeholders. The programme design report needs to be disseminated prior to a wide audience within the GOM, among potential project partners, and other stakeholders. Invitations to the workshop should be equally inclusive.

Learning and knowledge management (L&KM)

23. **Learning system.** Capturing and documenting lessons and innovations through ongoing data collection, monthly/semi-annual reports, and thematic studies will be an integral part of the L&KM. Disseminating reports and studies (in full or synthesized) will enable sharing of information and dialog facilitation with stakeholders. (See Component 3.0 for specific knowledge management activities). FARMSE will also have bi-annual and annual review meetings/workshops. Workshops will report on programme progress, lessons learned, challenges and solutions to implementation constraints. Workshops will be learning events as well, presenting the opportunity to influence the programming performance reviews. A short report of discussions will capture workshop results and provide feedback to the programme's planning and RB-AWPBs as a part of FARMSEs commitment to participatory, demand-driven planning and implementation commitment.

24. **Knowledge development and diffusion -** FARMSE will support the creation of replicable and scalable graduation approaches. It will also support the development of several innovative rural financial products, services, and delivery mechanisms. The PMU will work closely with project partners and the M&E function to capture the process, technical, management and impact learnings of these programme/ project experiences. The knowledge management function of FARMSE M&E will document and share knowledge through both internal (e.g., learning events, stakeholder workshop meetings, etc.) and external mechanisms (e.g., website, blogs, podcasts featuring project stakeholders, etc.). In addition, the programme would publish a semi-annual programme update online/newsletter based on good practices and human interest stories, ensuring information is gender sensitive, and reflects the success stories related to vulnerability reduction and livelihood diversification as a means of risk management.

Appendix 7: Financial management and disbursement arrangements

PART I: Introduction

Summary of Financial Management arrangements

1. A Financial Management Assessment (FMA) was undertaken as part of the programme design in accordance with IFAD requirements and Financial Management Division (FMD) guidelines on financial management assessment. The assessment is based on review of operation of the Programme Support Unit (PSU) of the IFAD financed Rural Livelihoods and Economic Enhancement Programme (RLEEP), Ministry of Local Government and Rural Development (MLG&RD), the IFAD financed Sustainable Agricultural Production Programme (SAPP) mainstreamed in the Ministry of Agriculture, the Programme for Rural Irrigation Development (PRIDE), the National Audit Office headed by the Auditor General and the Internal Audit of the Ministry of Finance. A review of previous supervision mission reports on financial management was also undertaken during the design mission.

Summary of strengths and weaknesses of the proposed FM arrangements

2. Summarised below are the key strengths and weaknesses based on proposed financial management arrangements under the Programme design.

Strengths

i) A stand-alone Programme Management Unit (PMU) will be established;

ii) Programme specific financial management staff will be recruited on performance based contracts. This will facilitate periodic performance evaluations prior to contract renewal and the staff will not be affected by mandatory transfers thereby ensuring continuity and retention of knowledge. The Financial Controller will be a chartered accountant and will have experience with project/donor financial management procedures;

iii) SAPP implemented TOMPRO stand-alone accounting software and RLEEP used Sage-ACCPAC accounting software, and these have facilitated real time data processing and reporting per component, expenditure category and by financier. FARMSE will also use a stand-alone accounting software as adaptation of a good lesson learned. It is proposed that TOMPRO be adopted (as it will in the new IFAD Programme PRIDE. This will allow for joint trainings, support, and programme knowledge sharing;

iv) Programme funds will flow into a designated account held at the Reserve Bank of Malawi with an operating account held in a Malawian commercial bank acceptable to both GoM and IFAD. To mitigate against delays in accessing of funds by PMU, the operating account will not be subjected to the Credit Control Authority (CCA) where withdrawals from the commercial banks are done by form of overdraft as in the case of SAPP;

v) Counterpart funds will be provided in a separate bank account accessible by the PMU with funds allocated on a quarterly basis to finance taxes and the welfare activities under GoM financing;

vi) The Programme will transact on the designated account held at the Reserve Bank with permission from the Accountant General's Office to meet expenditure on contracts entered into in USD and foreign travel trips; and

vii) The Auditor General will carry out statutory audits of the programme. This will ensure coverage of a good scope and timely submission of audit reports as in the case of SAPP.

Weaknesses

i) FARMSE is a rural finance programme for which MoFEPD, has limited staff capacity to handle technical requirements of the project;

ii) MoFEPD has an Internal Audits Unit, it has limited human resources to cover the audit of the MoFEPD and all the projects under the ministry; and

iii) As a practice in the portfolio, SAPP and RLEEP have not been submitting semi-annual interim financial reports to facilitate review of financial status of the programmes on a regular basis. This practice partially contributes to delays in finalising annual reports.

Capacity constraints to be addressed and operating changes to be made

i) There is a need to open a designated account at the Central Bank denominated in USD and an operating account denominated in MWK in a commercial bank acceptable to both IFAD and GoM to facilitate smooth funds flow. Under RLEEP, a designated account was opened in the Reserve Bank with an operating account being used as a drawing account with a Credit Ceiling Authority (CCA). The operations of the programme were characterised with funds transfer delays from the designated account to the operating account. There were challenges with reconciliations as the commercial bank (standard bank) would take long to claim refunds from or leave out some cheques in the claims leading to a number of queries at point of processing withdrawal applications. FARMSE operating account will not be subjected to the CCA but rather funds will be transferred to the operating account on regular basis based on cash projections;

ii) There will be a need to provide training to the PMU and the LPA as neither will have previous experience with IFAD financial management procedures/requirements, and management of rural finance projects;

iii) The project is complex with participation of a number of stakeholders including Community Based Organisations (CBOs)/NGOs. These have different systems and controls which may not be well managed to ensure proper use of financial resources. Internal Audit department of the Ministry will provide internal audit services to enhance internal controls of the programme. Internal audit reports produced together with action plans for implementation of recommendations will be shared with IFAD on a semi-annual basis as part of the FARMSE reporting requirements;

iv) The programmes in Malawi have been associated with start-up delays mainly arising out of protracted processes in setting up of PMUs, particularly recruiting the required staff like it has been under PRIDE. To address this shortcoming, FARMSE PMU will, build on the existing structures and mechanisms of RLEEP, allowing a seamless transition of key personnel and possibly some equipment relevant under the project by bringing into FARMSE key systems, lessons and experiences and fast track implementation start as other technical expertise of the programme are being recruited as a mitigation measure against delays. The staff being transitioned will be subjected to assessment as may be required to determine their suitability for the positions; and

v) Further, this can be addressed by providing start-up funds on the grant to accelerate start-up activities with a view to enabling Government to achieve accelerated programme implementation. It is proposed that IFAD will provide an advance of USD 0.5 million from the grant portion of the IFAD financing envelope in the form of start-up funds to facilitate a quick start-up of Programme activities. Start-up financing will be used to facilitate the transition from signing of financing agreement to entry into force when ratification takes place and implementation.

vi) Start – up advance will support some of the key start-up activities even in the pre-entry into force period to ensure basic systems and capacity will be in place by the time programme is declared having entered into force. The start-up advance will not be subject to conditions of effectiveness or disbursement. The advance will finance international and national technical assistance, temporary logistic support, LPA staff orientation, finalization of the draft Programme Implementation Manual (PIM), preparation of the first Annual Work plan and Budget (AWPB) and procurement plan, procurement of accounting software, and a start-up workshop, Programme launch and staff salaries of transitioned staff from RLEEP.

3. **Country context and inherent risk.** Malawi's inherent risk is high as measured by Transparency International's Corruption Perceptions Index (CPI). The country's annual CPI score in

2016 was 31(on a scale where 0 = high risk and 100 = low risk). This had been maintained from 2015 and is a decline, down from 33 in 2014. The 2016 CPI ranked Malawi at 120th of 176 countries, putting it in the medium -risk category. The publicly available 2011 Public Expenditure and Financial Accountability (PEFA) assessment report shows an overall deterioration in Public Financial Management performance since 2008 in the country. This change is most marked in the areas of budget credibility, accounting, recording and reporting, and external scrutiny and audit. After considering mitigation measures, the project level, the residual risk is assessed as ***medium***. (See Table 2 below)

4. Programme design has taken into consideration this risk profile and included mitigating measures at programme level. The main considerations include:

i) Programme Financial Controller will be a Chartered Accountant with experience in project management;

ii) The PMU will be supported with financial management and accounting technical assistance hired on performance-based contracts as part of implementation support;

iii) Where funds are required at district level, activity based advances will be transferred to the existing district bank accounts and subsequent advances will be done upon 100% justification of previous advances;

iv) A USD designated account will be opened in the Reserve Bank of Malawi and an operating account in a commercial bank acceptable to IFAD and GOM. To facilitate smooth funds flow, the operating account in the commercial bank shall not be subjected to the Credit Control Authority; and

v) The Programme will procure an off-the-shelf accounting software with modules necessary to facilitate budget control, ageing of advances and production of financial reports by component, expenditure category and financier and facilitate generation of SMART statements of expenditure (SOEs).

5. Financial Management conditions or covenants for Board presentation and conditions for withdrawal include:

i) The PMU shall have been fully constituted and adequately staffed with key staff including the Programme Coordinator, Monitoring and Evaluation Officer, Procurement Officer, a Technical Advisor (Rural Finance Specialist) and the Financial Controller;

ii) A Programme Implementation Manual (PIM) including a financial management module will have been drafted in the form and substance acceptable to IFAD. The financial management module of the PIM will include inter alia a chart of accounts;

iii) An off-the-shelf accounting software will have been procured and coded with the FARMSE chart of accounts to facilitate generation of reports by component, expenditure category and financier; and

iv) The Programme Steering Committee (PSC) headed by the Secretary to the Treasury of the MoFEPD will have been established.

6. As an exception to Section 4.08(a) (ii) of the general conditions, specific eligible expenditures of up to the equivalent of five hundred thousand United States Dollars (USD 500,000) for start-up activities proposed above. There are no further proposed exceptions to the conditions.

Part II: Programme Financial Profile

7. **Nature of programme eligible expenditures.** FARMSE expenditure categories will be assigned with respect to the guidance provided by standard flexcube expenditure categories. Eligible expenditures include the following expenditure categories: i) vehicles; ii) equipment and materials; iii) consultancies; iv) training; v) workshops; vi) grants and subsidies; vii) salaries and allowances; and viii) operating costs. The summary costs and financing plan are shown in Table 1. Detailed cost tables are presented in Appendix 9.

8. **Financing Plan.** Total FARMSE costs are estimated at USD 57.7 million over the seven –year programme implementation period. IFAD will finance 73 percent (USD 42 million) of the programme costs. Half of IFAD funding will be provided on loan at highly concessional terms, while the other half of IFAD funds will be provided as a grant. The Government will contribute USD 9.6 million (17%) out of which about USD 3.1 million (5%) will be financed from its Social Cash Transfer fund and USD 6.5 million (11%) will finance taxes and some duties[144]. Domestic private sector will contribute 11 percent of total project costs, USD 6.1 million through in-kind and cash contributions to sub-projects financed under the Innovation and Outreach Facility.

Table 4: Programme Financing Plan by Components (USD '000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise

Components by Financiers (USD '000)	**Govt taxes** Amount	**Govt cash transfer** Amount	**IFAD Loan** Amount	**IFAD Grant** Amount	**Private Sector** Amount	**Total** Amount
1. Graduation of Ultra-Poor Households	2,094	3,059	5,337	5,337	-	15,829
2. Support to Financial Innovation and Outreach	3,340	-	12,352	12,352	6,151	34,195
3. Strategic Partnerships, Knowledge Generation, and Policy	261	-	693	693	-	1,648
4. Programme Management and Coordination	822	-	2,618	2,618	-	6,057
Total PROJECT COSTS	6,517	3,059	21,000	21,000	6,151	57,728

9. Beneficiary/Private sector contribution will be both in-kind and in cash, mainly to match grants received from the programme for *Rural Finance Innovation and Outreach Facility*. These contributions will mainly fall under the grants and subsidies, and training expenditure categories. The contribution ratios will vary from window to window details of which are provided under component 2.2.

10. Programme activities will be implemented at different levels. At programme design, no funding has been earmarked to specific geographical location such as regional or district levels as the programme will be demand driven with the bulk of resources going to competitively awarded grants. Any private sector grantee will match grant amounts with a proportional contribution as provided for under the respective windows.

Implementation arrangements

11. **Implementing and participating organisations with fiduciary responsibilities.** The MoFEPD is the lead ministry, the borrower, and the LPA. Implementation will be through a standalone Programme Management Unit (PMU) composed of programme specific recruited staff headed by a Programme Coordinator. The Pensions and Financial Sector Policy Division of MoFEPD will be charged with the responsibility of overall administration and supervision of the PMU. A PSC will be formed and will be chaired by the Secretary to Treasury (MoFEPD - or his/her nominee), with other members including representatives from other Ministries and institutions with direct relevancy to the achievement of FARMSE's goal and development objective. The PSC will provide strategic guidance towards the achievement of Programme objectives and contribute to financial sector policy and strategic goals.

12. The FARMSE PMU professional team responsible for fiduciary aspects of the programme will be composed of a Programme Coordinator, Financial Controller, Accountant and a Procurement Officer. Other professionals and staff have been listed under programme management section. The FARMSE PMU will be the central financial management hub of the Programme, responsible for data processing, reporting and archiving of documents. Payments will be centralised at the PMU but where (if) district level payments are required, activity tagged advances will be transferred to the district existing accounts.

13. The following will be the roles and responsibilities of the other implementing organisations:

[144] Under the current practice, portions of taxes and duties in the programme costs are reimbursed by the government. However, duties and import excises are not reimbursed. This has been taken into account when preparing financing plan.

i) GIZ has been identified as a strategic partner in the implementation of the Programme's component 1. GIZ will implement the identified activities in component 1 within the PMU management structure, and on the basis of agreed AWPB that will form part of the programme AWPB. GIZ will separately enter into an MOU with GoM on the delivery mechanisms of the activities and will report to the PMU. Financial management, procurement and reporting arrangements will be in line with the MOU that GIZ will have entered into with GoM. Funds flows will be on a performance basis and to a bank account as shall have been agreed with GoM; and

ii) Any involvement of public/private institutions in the delivery of Programme activities will be treated as service provision, and will be translated into output-based contracts/MOUs with payments treated as reimbursable to the Consultant/Technical Support Team. Performance-based contracts will be the basis for payments to contractors and private Service Providers (SP). Any advance payment will be in line with public procurement provisions and stipulated in the contracts for service provision. For a service provider to be paid, an invoice will be submitted with evidence that agreed upon milestones have been achieved and full justification of reimbursable costs is provided. This will apply for direct supply of goods and services; and under grants where FARMSE will call for expression of interest to select grantees.

14. The MoFEPD has little direct experience with IFAD financial management procedures. Both the PMU and the MoFEPD staff involved in financial management of FARMSE will require training in IFAD financial management procedures. The financial management capacity under SAPP has not been adequate for the management of justifications which have persistently been received late (especially from the district level), negatively impacting the turnover of withdrawal applications.

15. FARMSE is a national programme. Programme implementation will be demand driven and selection of grantees, under grants an expenditure category to which most Programme costs will be applied. The granting process will be competitive and centrally managed by the PMU with support of technical service provider(s). Accordingly, a centralised financial management structure has been proposed.

Financial Management Risk Assessment

16. **Inherent risks, country issues, entity risks and project design.** Major country accountability issues affecting fiduciary environment and government accountability, transparency, and corruption factors are summarized as follows:

i) Transparency International's Global Corruption Perception Index score for 2016 was 31 (scale 0- high risk and 100 -low risk) in which Malawi ranked 120th of the 176 countries monitored and can be classified as medium risk;

ii) The Mo Ibrahim Index of African Governance (IIAG) rates Malawi as having deteriorated in its overall governance quality with a2015 ranking of 11th out of 54 countries on the continent, and 7th out of the 12 countries in Southern Africa. [145] The country has exhibited a slight downward trend of -0.2 points since 2011. Malawi's Sustainable Economic Opportunity score was the weakest under of the IIAG with a score of 36.3 down from 39.4, a deterioration of -3.1;

iii) The Accountability sub category of the IIAG index, which considers, among other factors, accountability, transparency and corruption, access to information, online services, and bureaucracy, was scored at 35.1%; and

iv) The Public Expenditure and Financial Accountability (PEFA) **is a methodology for assessing public financial management performance, and provides an evidence-based**

[145] A composite index based on four sets of concepts: (a) safety and rule of law, (b) participation and human rights, (c) sustainable economic opportunity, and (d) human development. See the Ibrahim Index of African Governance, Country Insights, Malawi, 2015 (http://www.moibrahimfoundation.org/iiag).

measurement of countries' public financial management systems. A Public Financial Management Assessment (PFMA) was undertaken under the auspices of the PEFA Program in 2011 as a follow-on assessment to one made in 2008. Compared to the 2008, Malawi saw a notable deterioration in 9 of 31 parameters considered. Notable weaknesses were found for: budget credibility; accounting, recording and reporting; and external scrutiny and audit.

17. Overall Malawi can be considered a high-risk country, characterized by deteriorating quality of governance and low quality of public financial management. FARMSE design has considered this risk, and proposed appropriate financial management safeguard measures to be put in place at project level. The FARMSE PMU will be a standalone, operate separate designated bank account in the Reserve Bank of Malawi and Operating bank account in a commercial bank acceptable to IFAD, and run a dedicated off-the-shelf accounting software. Substantial attention will be paid to the training of MOF.

Table 2. Summary of FM risks and mitigating actions

	Initial Risk Assessment	**Proposed mitigation**	**Final Risk Assessment**
Inherent Risk			
1. TI Index	-	-	M
Control Risks			
1. Organisation and Staffing	H	Par 19 - 20	M
2. Budgeting	M	Par 21 - 23	M
3. Funds Flow and Disbursement arrangements	H	Par 24 - 28	M
4. Internal Controls	H	Par 29- 39	H
5. Accounting systems, Policies and Procedures	M	Par 40 - 42	M
6. Reporting and Monitoring	H	Par 43 - 44	H
7. Internal Audit	H	Par 45 - 46	M
8. External Audit	M	Par 47	M
FARMSE Fiduciary Risk at Design	**H**		**M**

Financial Management and Disbursement arrangements

18. **Organisation and staffing.** The MoFEPD, which is the representative of the borrower, has been nominated as the Lead Programme Agency (LPA). It will take overall fiduciary responsibility of on all matters pertaining to FARMSE and ensure overall oversight for the implementation of Programme. This would include the provision of general policy directions for the implementation, coordinating, implementing, and ensuring coordination with other relevant agencies and supervision of the PMU (headed by the Programme Manager).

19. The PMU finance team shall be composed of a Financial Controller and an Accountant. The PMU finance team will be responsible for the accounting function of the Programme, such as funds flow (including following up justifications), preparation of annual financial statements, periodic financial reporting and overseeing the arrangements for audits in accordance with GoM procedures and IFAD's audit guidelines. The engagement of the finance team will be on performance based contracts and their responsibilities will be defined in TORs which will form the basis of annual performance evaluations. Sample TORs will be included in the draft Financial Manual. MoFEPD will be responsible for recruiting the programme staff. The selection process of the technical staff will be subject to IFAD No Objection. As part of start-up, the PMU finance team and relevant MoFEPD staff involved in financial management processes of FARMSE will receive training on the Programme accounting requirements including IFAD procedures and guidelines. They will also receive regular technical support including on the job training.

20. **Budgeting.** The programme will be implemented based on the approval of Annual Work Plans and Budgets (AWPBs). The budgeting process will be done jointly between PMU, participating programme partners and implementing agencies using a participatory approach. Led by the Programme Monitoring and Evaluation Officer (M&E Officer), the PMU will consolidate the AWPB, present it for approval by the Project Steering Committee (PSC) and submit the estimates to MoFEPD

for onward submission with request of No Objection to IFAD. The M & E Officer will ensure that budgets are prepared in sufficient detail to facilitate monitoring of programme results. A No Objection from IFAD will be required for each AWPB throughout programme implementation. The key risks are delays in submission of the AWPB for a No Objection, inadequate budget control and low performance on budgets arising out of slow activity implementation.

21. To facilitate good budget monitoring and control, PMU will provide budget templates to programme parties including implementing agencies that mirror its code/chart of accounts reflecting components, categories, and activities together with funding sources (IFAD and GOM, beneficiaries) as part of preparation for implementation readiness. Budgetary controls will be ensured through proper use and of the functionality of the off the shelf accounting software, timely posting of approved budget into the accounting software, producing budget performance reports and advancing funds to programme implementing partners, with indicative budget amounts on the activities to be carried out.

22. The annual planning and implementation cycle will be aligned with GOM's planning cycle, following the fiscal year from January to December. Detailed budget schedules will be included in the PIM.

23. **Disbursement arrangements and Flow of Funds.** Programme design has taken into consideration financial management requirements that will ensure loan and grant proceeds, and other financing sources will be used for intended purposes. The following summarises fund flow arrangements:

i) Bank Accounts – One USD designated account will be opened in the Reserve Bank of Malawi specifically to receive loan and grant proceeds. This account will be managed by PMU in accordance with GoM procedures;

ii) One programme operating account, in MWK will be opened in a commercial bank acceptable to both IFAD and GOM. To facilitate real time transfers from the designated account to the operating account, the operating account will not be subjected to the Credit Control Authority arrangements. The MWK operating account will be used for all local currency transactions while for transactions in respect of procurements undertaken/contracts entered in USD and foreign travel/foreign trainings authority will be sought from the Accountant General to draw USD from the designated account;

iii) Based on projected disbursements per semester, authorised allocation of USD 3 million has been proposed for the first two years of programme implementation. If this is deemed insufficient during implementation it can be increased. The threshold of direct payments from IFAD will be limited only to large payments of or over the equivalent of USD 100,000;

iv) The funds flow chart attached depicts the use of the standard disbursement methods including: i) direct payment method for bigger payments over USD 100,000; ii) use of designated account; and iii) reimbursement if the GoM has pre-financed any transactions. Detailed instructions for disbursements will be included in the Letter to The Borrower (LTB) issued for FARMSE and the PIM; and

v) Programme grantees will be required to open Programme specific accounts to facilitate easy reconciliation of the grants and traceability of funds. Bank statements for these accounts will be required as part of support documents to the periodical reports. The PMU will provide a report template for common use.

24. **FARMSE Funds Flow Chart.** The Programme will have external and domestic funding sources. External funding sources are the IFAD loan and grant, while domestic funding sources which include GOM, project implementation partners, and beneficiaries. IFAD loan and grant disbursements will be through a designated bank account in USD opened in the Reserve Bank of Malawi. One Programme operating account will be opened one in MWK, at a commercial bank acceptable to both IFAD and GOM, and managed by the PMU. The FARMSE PC and the Director, Pensions, and Financial Sector Policy Division, MoFEPD will be the principal signatories with a mandate of either to

sign payments. Domestic funding from the private sector will be earmarked for specific activities, to match funding coming from FARMSE. GoM will fund taxes and duties. Experience with SAPP and RLEEP show that the GoM has not been financing taxes on most procurements. Taxes have been pre-financed from loan and grant funds and the GoM has not been refunding the same to the programmes. Accordingly, to mitigate the risk of this occurring, a counterpart funds account will be opened and Government will be required to make allocations to the programme as part of the overall allocation to the MoFEPD. Beneficiary financing, both cash and in kind will be managed by beneficiaries, and as such will not require the opening of a bank account by FARMSE. The funds flow chart is attached Annex 1.

Key aspects of funds flow arrangements.

i) A single designated account handling all the principal funding sources, i.e. IFAD loan and IFAD grant funds;

ii) Joint withdrawal applications for the IFAD loan and IFAD grant in proportions to be defined in Schedule 2 to the Financing Agreement with clear instructions of where to charge indicated on each withdrawal application (see Fund Flow Chart, Annex 1);

iii) Co-financing will be on a parallel basis;

iv) The designated account will be opened in the Reserve Bank of Malawi while an operating account will be opened in commercial bank. There will be one operational bank account managed by the PMU;

v) Private service providers will be paid in accordance to contract stipulations;

vi) Project expenditures shall be eligible for financing if they are incurred during the Implementation Period. However, FARMSE expenditures may be incurred before entry into force. In this case – but on an exceptional basis and with the approval of the Executive Board – the project would benefit from start-up advance, in accordance with Section 4.08 of the General Conditions (GC).

25. **Financial management risk under disbursement and funds flow.** The financial management risks under the area of funds flow and disbursement include the following:

i) The nature of the Programme will result in some financial management difficulties particularly collating expenditure justification documents to support the statements of expenditure (SOEs) given the experience of SAPP where disbursements have been slow due to slow justifications;

ii) There is a risk of unsystematic capture of beneficiary contribution and counterpart funds, particularly that beneficiaries are required to manage their own contribution and maintain their own records;

iii) The programme is designed to deal with so many stakeholders including community based organisations and private sector who will receive financing. There is a risk that utilisation of funds and financial management by these stakeholders may not meet the requirements of GoM and IFAD; and

iv) The proposed mitigations for the financial management risks under the area are:

   a. In the TORs of the FC there will be follow up of justifications. This will enable PMU to carry out field visits to follow up justifications and handle posting of transactions from manual records submitted by implementing agencies and grant beneficiaries;

   b. Contracts and MOUs will specify the reporting requirements including formats and documents required by PMU; and

c. PIM will include a clear approach on accounting and forms for capture of beneficiary and counterpart contributions.

26. The use of designated account reconciliation as part monthly management account. This will reflect amounts withdrawn and not yet claimed clearly identifying advances.

27. **Internal Controls.** At the programme level, internal controls will be established to ensure that programme resources are utilised for intended purposes and that funds reach intended beneficiaries. GoM internal control systems appropriate for the PMU will be applied during implementation of FARMSE, modified to suit IFAD requirements. The general key controls should include:

i) Financial management manuals, policies, and procedures;

ii) Defined processes of Authorization;

iii) Fixed assets register, maintenance records and inventory checks;

iv) Periodic cash and bank reconciliations and review;

v) Evidence of/documents showing that funds, goods, or services have reached intended beneficiaries;

vi) Segregation of duties for budget control, proper use of accounting software, data backup, and storage of accounting records, etc.; and

vii) Established and rigorous monitoring, review, and reporting functions details of which will be included in the financial management manual.

28. The FM risks under the area of internal controls include the following:

i) Recruiting the personnel to manage grants and related activities, as MOFEPD does not have a pool of resources in rural finance;

ii) Selection and managing of the grantees to ensure the right grantees are appropriately selected and grants are used as proposed;

iii) Inadequate scope of internal audit which may not help enforce the prescribed internal control environment given the Programme scope and budgets; and

iv) Improper handling and storage of accounting records for a programme of national scope that is housed in rented premises.

29. To mitigate these risks, the following is proposed:

i) Adherence to the internal control framework will be verified during the internal and external audit exercises and reported to IFAD in the form of an internal audit report and Management letter, in line with IFAD's audit guidelines. Compliance to the internal controls will also be part of the fiduciary checks performed during supervision missions and external Audit; and

ii) As part of the controls, budget monitoring and control will be supported through the Programme accounting software and reflected in the financial programme partner reporting templates. Details on internal controls shall be provided in the PIM.

30. **Internal controls related to Innovation and Outreach Facility (IOF)** – The IOF will be implemented through matching grants. The IOF will be managed by a service providers (SPs) competitively selected for capability of managing similar matching, innovation or challenge grant programmes, and will operate under the direct supervision of the PMU. The matching grants will be replenished at point of disbursement to grantees and not when the grantees have fully utilised the grants. A performance-based (not input-based) payment schedule against which grants will have to be monitored will be included in grant contracts. Grantees shall have a clear business objective and operate in the formal sector (e.g. have a Bank account, keep financial records). They will be provided with trainings and reporting guidelines (including templates) to build their capacity to accurately account for the funds received before disbursements.

31. A grants manual, with a set of specific measures will be developed to guarantee transparency of the entire process and minimize the risk of fraud. These should include: i) detailed selection criteria (through a transparent process); ii) grant approval process; iii) grant management and monitoring system; iv) arrangements for linking disbursements with payment of the beneficiary's contribution (if required), including meeting any down payment requirement for contribution before disbursement of grant funds; v) involvement of commercial banking institutions; and vi) provision of technical assistance for beneficiaries.

32. Further, after the allocation of the grants under their respective windows, the borrower shall ensure that audits of the grant allocation process, approval and use of grant funds are carried out by the programme Auditor for small grants but recipients of large grants will be required to submit audit reports audited by independent service provider acceptable to IFAD. Provision of audit reports by large grantees will not exempt them from being visited or inspected by the FARMSE auditors and staff. Withdrawals from the grants category may only be made on condition that IFAD has determined that such audits are satisfactory.

33. **<u>Beneficiary contribution</u>:** Grantees will open specific bank accounts for receipt of grant funds and for banking their own contribution. They will however not be required to deposit their respective contribution into their own bank account in the same tranches as they expect to receive from the programme. Instead, they will keep analytical records as regards their own contributions and justify these where needed. Specific templates on the format and content of the reports will be provided by PMU.Transfers of grants will be in tranches based on achievements of certain milestones by the grantees as defined in the grant agreements. For bigger grants, it will also be allowed for FARMSE to pay the suppliers directly after the grantee has confirmed that they have paid the supplier their contribution on the matching grant.

34. Matching grants will be expensed at the point of disbursements and will be included in the withdrawal application at that point. If the programme was to wait for the grantees to submit their returns as was at the early years of implementation of RLEEP, it would quickly deplete the authorized allocation as the bulk of activities will be financed through matching grants.

35. Since grants will be expensed at the point of disbursement, the off the shelf accounting system will be able to provide ledgers for each grant thus necessitating a separate grant data base. The objective is to ensure that grantees are not paid beyond the grant ceiling and the agreed milestone bases payment is adhered to. A replication of the data base used under RLEEP will be done.

36. <u>Taxes and Grants</u>: The tax element in grants does not cause ineligibility for IFAD financing purposes as in other transactions. It will be taken that the tax element is paid from the portion contributed by the beneficiary.

37. <u>Nature of Accountability from Grantee</u>: The matching grant represents an arrangement of equal partnership between FARMSE and grantee and the accountability will be output-based as opposed to a series of paper work.

38. **Accounting Systems, policies, and procedures.** The TOMPRO accounting software that is being used by SAPP and has been proposed for PRIDE, will be used by FARMSE. Programme financial management will be guided by the financial management manual that will be part of the PIM.

39. **The financial management risks under this area include the following:**

i) The risk that the software may not be appropriately configured to facilitate production of required reports in the required formats and may not provide adequate budget control; and

ii) The software may not be procured on a timely basis.

40. To mitigate accounting systems risk for initial and residual risk FARMSE will procure the software during the early part of the start-up period. IFAD will undertake an implementation start-up mission(s) to progressively support the PMU's accounting capacity. This will allow the PMU to fulfill

requirements of the Smart SoEs approach. As part of start-up activities, FARMSE also develop a specific chart of accounts to be applied in TOMPRO. Under this area, the risk remains medium.

41. **Financial monitoring and reporting.** The objective of monitoring and reporting is to ensure that complete, accurate and timely reports are produced in accordance with International Public Sector Accounting Standards (IPSAS). The programme will use IPSAS cash basis accounting as is case with SAPP and RLEEP. The PMU will be the financial management and reporting hub, responsible for posting, reconciling, and reporting on programme finances. The PMU will prepare and present draft financial statements and statutory audit terms of reference for presentation to the National Audit Office, which upon completion will be submitted to IFAD in accordance with IFAD audit guidelines. In addition, to the annual audited financial statements, the Programme will submit interim financial reports on a six-monthly interval as per IFAD's interim financial reporting guidelines. Key financial management risks, assessed as high under the area of accounting systems include the following:

i) Failure to submit interim financial management reports by the Programme (under SAPP it has not been a requirement);

ii) Failure by the accounting software to produce reports in the required format and details;

iii) The PMU will provide IFAD with consolidated financial reports within agreed timeframes as follows:

   a. Quarterly or semi-annual consolidated interim financial reports (IFRs) as agreed with IFAD consisting of the following: Sources and Uses of Funds, Summary of Expenditures by Loan Categories and by Financing source (IFAD grant loan only), Financial performance by Financier and by Component, Statement of Expenditures/Disbursements - Withdrawal Application Statement, List of payments against contracts, Special/Designated Account Reconciliation Statement, Cash flow forecast and Progress report on Audit recommendations (The exact format and content will be agreed between the PMU and IFAD). The IFRs must also disclose any unjustified advances given to implementing partners. The IFRS are to be submitted to IFAD within 45 days following the end of each reporting period;

   b. Annual consolidated Financial Statements within four months after the end of the fiscal year, prepared in compliance with International Accounting Standards (IPSAS cash) and IFAD requirements. These Financial Statements are recommended to include: i) statement of project management responsibilities including a Management Assertion that project funds have been expended for the intended purposes as specified in the relevant financing agreements; ii) statement of cash receipts and payments (by category and by financier); iii) statement of cash receipts and payments (by component); iv) statement of comparative budget and actual amount; v) statement of Designated Account movements; vi) Statement of Designated Account Reconciliations; vii) SOE-Withdrawal Application Statement; and viii) Notes to the Financial

   c. Statements. The Financial statements must also disclose any unjustified advances given service providers/implementations partners (if any); and

   d. Annual consolidated audit report and a management letter within six months after the end of the borrower's fiscal year.

42. **Mitigations, Initial and residual risk in relation to financial reporting.** The PMU will provide technical backstopping to service providers to provide them with reporting templates reflecting budget activities for which activity tagged advances have been transferred. In addition, trainings for the MOFED at start up and during implementation will cover among other aspects reporting requirements including a reporting calendar. Entities failing to submit justifications within the required timeframe will not receive additional funding until full compliance has been achieved. The residual risk level is medium.

43. **Internal Audit.** Internal audits will be conducted to provide assurance that the programme is being implemented in accordance with the PIM, complies with GoM regulations and Programme financing covenants. The key risk is that internal audits will not be monitored to ensure adequate scope, reasonableness of recommendations and implementation of recommendations. There is inadequate experience with financial management and disbursement requirements of IFAD by the team at MOFED. The risk that internal audit, currently considered weak, may not provide the required service has been assessed as high.

44. Considering this risk, internal audit of the programme will be included in the audit plan of the internal audit department of MOFED to cover programme audits twice every year. Internal audit reports and action plans to implement audit recommendations will be shared with IFAD as a reporting requirement. FARMSE will include the department in the start-up trainings. Internal Audit services may be outsourced to a private firm.

45. **External Audit.** The programme statutory audits will be conducted on an annual basis by the National Audit Office (NAO) in accordance to IFAD audit guidelines. Statutory audits will provide mandatory opinions on the general purpose financial statements, operation of the designated account and the use of the SoE procedure. For the year ended 30 June, 2015 the GoM Auditor General/National Audit Office audited SAPP and the report was acceptable to IFAD. For the year 2016, the NOA has audited both SAPP and RLEEP and has expressed willingness to take on FARMSE. In accordance with the Auditor General's mandate, the office of the National Audit Office will carry out the audits or will have the discretion to appoint an independent private audit firm acceptable to the Fund which will be managed by the NAO. Statutory audit terms of reference will require the Fund's 'No Objection' on an annual basis.

Part VI: Implementation Readiness

46. The actions needed to mitigate financial management risks are summarised in the table below.

Table 3: Financial management risk mitigations

	Action	Responsible Party / Person	Target Date / Covenants
1	Constituting a PMU headed by a Programme Coordinator and obtaining IFAD No Objection on the recruitment.	MoFEPD/IFAD	Within first six months.
2	Compile the first AWPB and its related Procurement plan.	MoFEPD/PMU	Withdrawal condition.
3	Open the required bank accounts.	MoFEPD	Withdrawal condition.
4	Finalise the PIM that should include a comprehensive financial management manual with a comprehensive FARMSE chart of accounts.	PMU	Within first six months.
5	Establish a Programme Steering Committee headed by the Secretary to Treasury, MoFEPD.	ST/MoFEPD	Within six months.
6	Procure TOMPRO accounting software and configure it to meet the reporting requirements.	PMU with Technical assistance	Part of start-up activities.
7	MoFEPD internal auditors to provide audit services to FARMSE twice every year.	MoFEPD	From inception throughout implementation.
8	Office of the Auditor General to audit E-SAPP in accordance to IFAD audit guidelines.	MoFEPD/NOA/ IFAD	As part of each year's statutory audit requirements.

47. **FM Supervision plan.** The risk profile described above requires IFAD implementation support especially in the first years of implementation. Start-up resources should include sufficient support for facilitating the PMU to put in place the systems and controls to manage fiduciary aspects of FARMSE. In the first two years, it is proposed that there should be at least two IFAD missions supplemented by fiduciary follow-up missions to ensure financial management systems and tools are in place and implemented. The supervision plan for the first two years of programme will focus - subject to change - on the following actions:

i) At least two on-site visits that will involve inter alia visits to the implementing partners and conducting/updating the FM assessments;

ii) Detailed review of adequacy of the staffing arrangements at the PMU;

iii) Detailed review of the Project Financial Management and accounting procedures and performance of the financial staff of PMU and key implementing partners;

iv) Detailed review of the accounting software and financial reports produced by the accounting software and the use of budget controls by the PMU;

v) Review of flow of funds (and resolving any bottlenecks);

vi) Detailed review of the fixed asset register of the PMU;

vii) Detailed review of the operation of the designated and project accounts (including monthly reconciliations) at the PMU and key implementing partners;

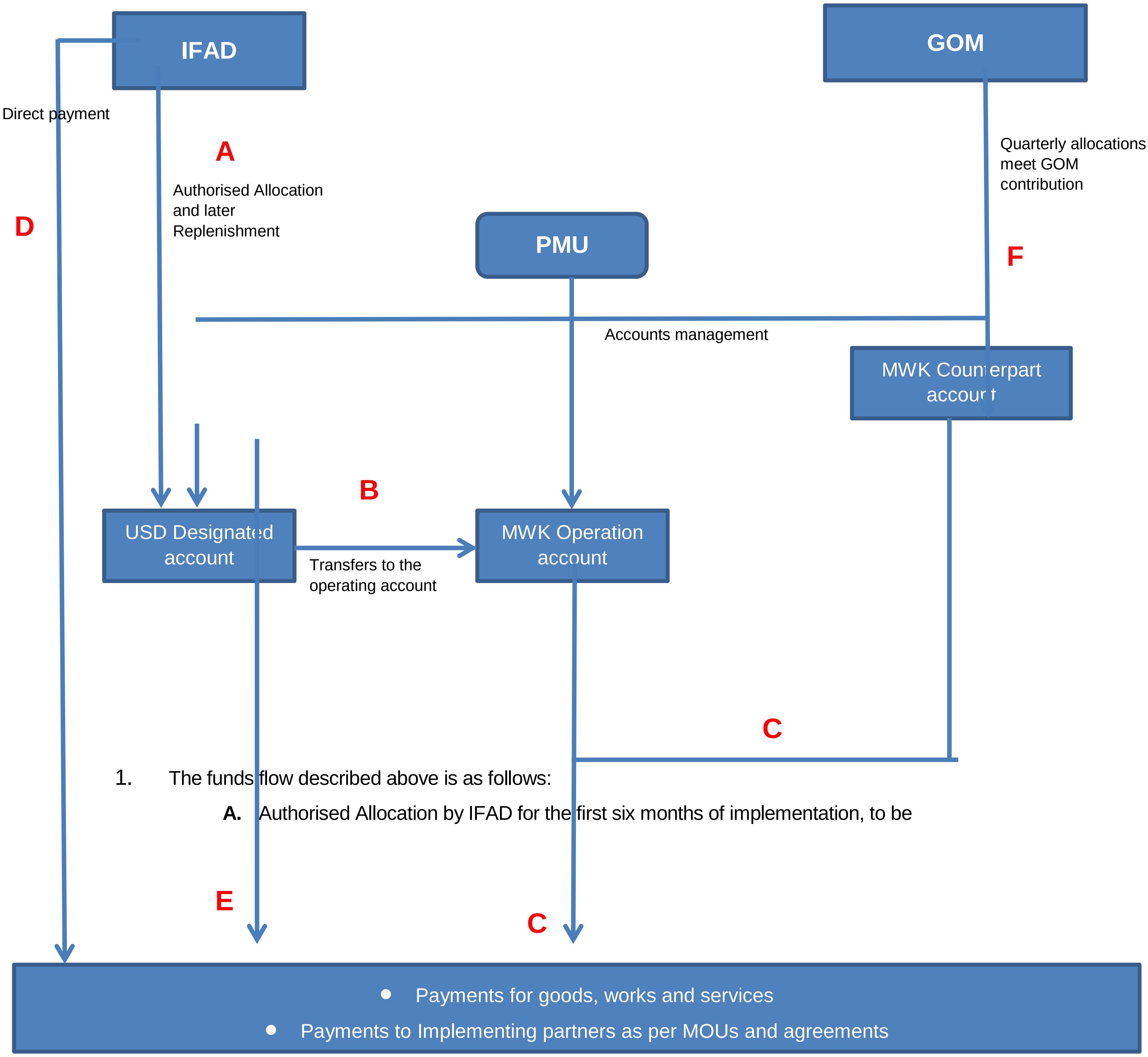
viii) Detailed review of records management, back up and the use of the SOE procedure and the applicable SOE-thresholds (adequacy of supporting documentation) by the PMU;

ix) Follow-up on contracting the project (independent) external auditors; and

x) Follow-up on work performed by the internal audit function.

48. The supervision process will be complemented by desk review of progress and financial reports, the program’s annual financial statements, internal audit reports, and annual audits.

Annex 1: Funds Flow Chart



1. The funds flow described above is as follows:

A. Authorised Allocation by IFAD for the first six months of implementation, to be

The funds flow described above is as follows:

A. Authorised Allocation by IFAD estimated at USD 3 million for the first six months of implementation, to be followed by periodic replenishments made based on withdrawal applications submitted by the PMU. Withdrawal applications will follow the signatory mandate as submitted to and approved by IFAD;

B. Periodical transfer from the USD Designated Account to MWK Operation account. The designated account and programme operating accounts will be managed by the PMU and will follow the approved signatory mandate. Withdrawals from the programme operating account will require the signatures from the Programme Coordinator and the Financial Controller;

C. Payments to suppliers, contractors, consultants or implementing partners by the PMU. These payments will be made from the operations account and the counterpart funds account.

D. Direct payment by IFAD for goods, works and services received by the PMU for amounts equal to or greater than equivalents of USD 100,000. These will be made on the basis of withdrawal applications submitted by the PMU.

E. Payments by the PMU in USD to suppliers, contractors, consultants or implementing partners.

F. Quarterly transfers from the Government for counterpart funds to meet GoM portion of expenditure in respect of taxes and duties where waivers will not apply.

Appendix 8: Procurement arrangements

1. IFAD's General Conditions provide for use of the Borrower's procurement regulations, provided they are deemed to be consistent with IFAD's guidelines. This is in line with the various commitments of the international donor community to work towards the increasing use of national systems where compatible with the donor requirement. Thus, procurement of goods and services including human resources to be financed from the proceeds of the loan will be done in accordance with the Government of the Republic of Malawi (GOM) procurement procedures. To ensure consistency, an assessment of the IFAD procurement guidelines and handbook and the national procurement systems is required as part of project design. This assessment has been done in two stages: (i) overarching country assessment; and (ii) project specific assessment.

2. **Overarching Country assessment.** The GoM has enacted a procurement law that governs public procurement in the Country. The applicable law and regulations are contained in: i) Public Procurement Act Number 8, 2003; ii) the Malawi Government Public Procurement Regulations of 2004; and iii) Desk Instructions for Public Procurement.

3. The GOM's legislative and regulatory framework will be used in the implementation of procurement activities under FARMSE in as far as they are consistent with IFAD's procurement guidelines. This is consistent with Part I, article 3(3) of the Public Procurement Act which provides that *"To the extent that this Act conflicts with procurement rules of a donor or funding agency, the application of* which *is mandatory pursuant to an obligation entered into by the Government, the requirements of those rules shall prevail; but in all other respects, the procurement shall be governed by the Act".*

4. The Public Procurement Act introduced a legal framework governing public procurement in Malawi. The framework provides for the establishment of the Office of Directorate of Public Procurement (ODPP), which, since becoming operational, has taken the lead on public procurement reform. Among the changes to the procurement system introduced by ODPP was the complete decentralisation of the procurement process to the level of each public entity. There was also a concerted effort to raise awareness of the newly established framework among public sector officials, the private sector, civil society, and the general population.

5. The design mission found the legal and regulatory framework to be sound for efficient public procurement. The Public Procurement Act and Regulations adequately establish the institutional framework required to support public procurement, the stages of the procurement process, the main methods of procurement and their conditions for use, and the conditions for review and auditing. Moreover, Regulations and Desk Instructions serve as a manual for procuring entities providing easy and simplified explanations and guidance. Finally, a comprehensive set of Standard Bidding Documents (SBDs) for a wide range of goods, works, and services has been issued to assist the procuring entities in the procurement process. The legal and regulatory framework in place thus represents a key asset in the development of sound and efficient procurement.

6. A Country procurement assessment by the UNDP indicates issues that still need to be addressed to ensure that procurement processes in practice are fully compliant with the legislative and regulatory framework. These include: i) few procuring entities use the SBDs; ii) many procuring entities do not have a copy of the Regulations and Desk Instructions; iii) the quality of technical specifications is often poor; iv) evaluation criteria are often poorly specified; v) awareness of procedures for review is limited; and vi) some procuring entities have experienced political interference in the procurement process.

7. **Procurement is not integrated in the budget formulation process.** At present, there is no linkage between budget and the procurement planning. Thus, procurement plans are made after budget allocation and approval – if made at all. ODPP is, however, making procurement planning compulsory.

8. **Procurement plans are not followed.** For those procuring entities that have developed consolidated procurement plans, carrying out procurements in accordance with the plan remains a major challenge. Poor planning skills, time constraints, and to some extent external interference and unplanned procurements constitute major obstacles.

9. **No completion reporting mechanism exists.** There is no feedback mechanism providing completion reports on the execution of major contracts. The procedures related to the preparation of completion reports appear to differ between procuring entities. Some entities report that: i) completion reports are prepared; ii) the process of preparing completion reports is often delayed; and iii) they do not prepare completion reports for major contracts. Also, most procuring entities have inadequate procurement competence levels and record keeping in procuring entities remains poor.

10. The assessment by ODPP encountered weaknesses related to the compliance and performance of the established control mechanisms. The following key issues were noted: i) auditors lack procurement proficiency; ii) weak enforcement of audit recommendations; iii) internal audit committees are not yet established; and iv) compliant decisions are currently not being published.

A. Project specific assessment

11. During the design mission, a procurement assessment was carried-out on SAPP operations in accordance with the IFAD procurement guidelines and handbook. The assessment found procurement processes to be partially satisfactory. A summary of the assessment is found in Table 1.

Table 1: Summary of Procurement Risks /Findings and Actions (Risk Mitigation Matrix)

Major findings	Actions proposed	Responsibility	Targeted date
Inadequate procurement planning and monitoring and follow-up of procurement activities.	a) Make procurement planning a requirement as part of the annual work plan and budget and involve procurement officers in planning. The first 18-month procurement plan will be adopted from the project design document and amended as appropriate following the IFAD recommended format. b) IFAD will provide training to procurement staff in the preparation and updating and monitoring of procurement plans in the IFAD recommended format. c) Make the use of simplified procurement plans mandatory for use in the local authorities.	Programme Coordinator and Procurement Officer.	During Project implementation.
Lack of capacity in procurement data management and maintenance of procurement audit trail at districts.	a) Procurement clinic on procurement records keeping to be provided to procurement staff of the FARMSE by IFAD at start up and during implementation by implementation support missions. b) As part of implementation readiness, IFAD will facilitate development of a checklist of procurement records that must be on each procurement file and make it a filing requirement.	Programme Coordinator and Procurement Officer.	At start up workshop and during Project implementation.
Lack of experience in contract administration and management.	Provide training to staff in contract management.	IFAD.	At start-up.

12. Under FARMSE procurement methods will differ as it relates to the spending thresholds found in Table 2.

Table 2: Procurement Thresholds*

	Threshold USD	Procurement Method
Goods	Up to 10,000	Request for Quotation (RFQ) using pre-qualified list.
	>10,000 - 200,000	National Competitive Bidding (NCB) prior review for goods or equipment contracts with a value of USD 50,000 and above.
	>200,000	International Competitive Bidding (ICB). Prior review by IFAD
Services	Up to 10,000	Least Cost Selection (LCS) - Other methods such as Fixed Budget and Quality Based Selection (QBS) may be used depending on the assignment.
	>10,000 – 20,000	Quality and Cost Based selection (QCBS)
	>20,000 – 100,000	QCBS- Expression of Interest/ Prior review by IFAD for services of value of USD 50,000 and above
	>100,000	QCBS- Expression of Interest/ International advertisement and Prior review by IFAD
Works	Up to 50,000	Request for Quotation (RFQ) using prequalified list.
	>50,000 - 1,000,000	NCB and prior review for works of USD 100,000 and above.
	>1,000,000	ICB and prior review.
*All goods, services and works procured through direct contracting will require IFAD prior review.		

13. **Procurement organisation structure.** FARMSE procurement will be managed by a Procurement Officer at PMU. A Procurement Officer will be responsible to the Programme Coordinator. He/she will handle all procurement aspects of FARMSE. The procurement officer will undergo appropriate training in IFAD procurement procedures during inception phase.

14. **Procurement planning.** Procurement planning will follow the GoM planning calendar. Due to the medium inherent risk ranking of the GoM procurement systems, IFAD prior review thresholds for FARMSE will be the equivalent of USD 50,000 for goods, services and works over the equivalent of USD 100,000. This may be reviewed depending on changing circumstances and on the performance of the project during implementation

15. The procurement plan for each year will be consistent with the project's AWPB and its target date of implementation including list of procurement of works, goods, and services to be procured under the project yearly with estimated cost and method of procurement detailed in appropriate formats for each budget year. Items procured outside the procurement plan and the related AWPB will be declared misprocurement and the related expenditure will be ineligible for financing from the grant proceeds.

16. To ensure all required procurement milestone steps are given due attention, the procurement plan template in the IFAD procurement handbook will be adopted. The first Procurement Plan (PP) will cover requirements of 18 months with subsequent plans covering 12 months. The PP will require IFAD No Objection when a new plan is prepared or a new procurement item is included into an already approved PP. The PP will require constant updating to reflect any changes in procurement status and new procurement actions.

17. The Secretary to Treasury will delegate powers to PMU to procure, and will appoint an Internal Procurement Committee (IPC) comprised of officers from MoFEDP and PMU. The IPC will be the overall approval authority as it will approve: i) all procurement plans; ii) draft advertisements and other bidding documents; iii) specific terms and conditions relating to contract amounts, completion periods, stages, and conditions of part payments; iv) all the contracts above US$10,000 (or as shall be specified in the Letter to the Borrower); and v) variations/amendments of contracts that have been cleared.

18. FARMSE procurement will follow the methods provided for in the public procurement act and regulations and IFAD Procurement guidelines. All International Competitive Bidding (ICB) procurements will be carried out and managed centrally at the PMU. National Competitive Bidding (NCB) and local shopping may be carried out at the district level in case bulking opportunities may not be feasible at the PMU. In this regard, implementing agencies including Component 1.0 implementation partner GIZ, must submit PPs for inclusion in the consolidated FARMSE PP. Efforts should be made by the Procurement Officer to ensure that the best contract packaging possible, including consideration of what lots can be bulked in a package for which it is possible to find a supplier or bulking opportunities.

19. The consolidated PP will be submitted together with the AWPB to the Programme Steering Committee for approval and thereafter to MoFEPD for inclusion in the annual Procurement Plan and later to IFAD for a No Objection as part of the FARMSE project AWPB.

20. **Bidding Documents:** The conduct of a transparent and successful procurement is dependent on the quality of bidding documents. Thus, to guard against misprocurements, it will be essential that bid documents are appropriately prepared. Under FARMSE, the GoM standard bid documents will be used and adapted to suit each specific procurement item. IFAD clearance of the Standard Bidding Documents under FARMSE will be a requirement. For ICB, the World Bank's Standard bidding document will be used.

21. All procurement financed from proceeds of the loan and grant will be exempt from national and local duties and taxes. All procurement will be executed only against approved PPs and AWPBs, specifying items to be procured, responsibility for the procurement and the appropriate procurement methods. IFAD missions and annual external audits will, on a sample basis review the procurement processes including bid documents. A detailed procurement cycle will be included in the PIM.

22. **Selection of consultants.** Consultants will be selected using the Quality and Cost Based Selection method in most cases. In special cases as specified in the Procurement Plan, the following methods could be used: i) Quality-Based Selection; ii) Least-Cost Selection; iii) Selection Based on the Consultants' Qualifications; and iv) ICB procedures will be applied for contracts estimated above USD 100,000. Contracts estimated at less than USD 50,000 will be awarded through NCB procedures. Shopping procedures will be applied for services below USD 10,000.

23. At the beginning of each year, the PMU will submit its proposed staff training, workshops, and study tours plan in the form of an annual action plan for the coming year, to be reviewed by IFAD as part of its No Objection to the AWPB. The plan will indicate the persons or groups to be trained, the type of training to be provided, indicative learning outcomes, the provider and the location of the training, and its estimated total cost.

24. **Contract Management.** The PMU will be held responsible for overall contract management, including: i) monitoring of performance of the implementing agencies and the local authorities; and ii) establishing contract management systems. The PMU contract management system will include: i) management of contract start-up issues; ii) opening and updating a contracts register; iii) monitoring of contract implementation; iv) claims management; v) contract amendments; and vi) contract completion. Details for these responsibilities will be included in the PIM.

25. Procurement records shall include the rationale for method of procurement, solicitation document including TOR/ specifications/bid documents, selection of the contract type, advertisement, record of sale of bids, record of receipt of bids, record of opening of bids, evaluation minutes and report, the justification for the award, award letter, acceptance letter, contract, and other correspondences related to the procurement. This is consistent with section 27 (1) – (4) of the GoM Public Procurement Act which require procuring entities to maintain records of its procurement proceedings, including decisions taken and the reasons for them and that such records shall be kept for a period of not less than five years from the date of completion of the procurement, or under special circumstances be kept beyond the period specified in that section in the manner and duration prescribed in the regulations. A checklist for the key information to be included in a procurement file

will be included with more details in the PIM. Related legal requirements will be included in the Financing Agreement and the Letter to the Borrower.

26. It should be noted that whereas the Public Procurement Act requires storage of documents for five years, IFAD requirement as provided for in the General Conditions is 10 years. In this case, IFAD requirements as contained in the General Conditions will prevail.

Appendix 9: Programme cost and financing

I. Introduction

1. This appendix describes the assumptions underlying the estimation of programme costs and financing plan for the Facility to Assist Rural Markets, Smallholders, and Enterprises (FARMSE). Detailed tables are annexed to this appendix.

2. FARMSE will be implemented over the seven-year period starting from mid-2018. Costs have been estimated on the basis of prices prevailing at the time of the first and final design missions that took place in late 2016 and 2017.

II. Key assumptions

3. **Programme duration.** The Programme implementation period will be seven years starting from around July 2018. The Programme completion and closure dates will be December 2024 and June 2025, respectively.

4. **Programme structure.** The programme has three technical and one non-technical components: (a) Graduation of Ultra-Poor Households; (b) Support to Financial Innovation and Outreach; (c) Strategic Partnerships, Knowledge Generation and Policy; and (d) Programme Management and Coordination. Details of each component are described in the relevant Working Papers.

5. **Inflation.** Largely due to negative climate events (droughts, dry spells and erratic rainfall) which significantly increased food inflation, an average local inflation rate over the past five years remained above 20 per cent. The inflation rate fell to 14.9 per cent in April 2017 in response to the Government interventions in stabilization of maize prices and tight monetary policies that decelerated both food and non-food inflation rates. The Economic Intelligence Unit (EIU) forecasts further deceleration of inflation rates to reach 8.1 per cent in 2021 provided that the Government's commitment to tight fiscal policy will remain unchanged and continued stabilization of currency outlook. The forecast however assumes no negative climatic events and no appreciation in US dollar. Measured in Consumer Price Index (CPI), annual average local inflation rates expected to be around 9.9 per cent in 2018, 9.2 per cent in 2019, 8.6 per cent in 2020 and 8.1 per cent in 2021. Furthermore, the EIU forecasts that the US CPI will decelerate from its current rate at 2.5 per cent (2017) to 1.9 per cent in 2021. These foreign and local inflation rates projections are used in the programme costing.

6. **Exchange rate.** At the time of the final design mission, an average official exchange rate was recorded at Malawian Kwacha (MKW) 720 =USD 1.0. This exchange rate was used to convert 2017 unit prices from MKW to USD. An exchange rate forecast of the EIU was used for the period of 2018-2020. The forecast suggests a further Kwacha depreciation against the USD reaching MKW 905 per USD 1.0 by 2020. Table 1 below presents the local and foreign inflation and exchange rates used for the analysis.

Table 1. Inflation and Exchange Rates

	Up to Programme Start	2018	2019	2020	2021	2022	2023	2024
Inflation (in %'s)								
Annual rates								
Local	7.0	9.9	8.6	8.1	8.1	8.1	8.1	8.1
Foreign	1.0	2.1	1.3	1.7	1.9	1.9	1.9	1.9
Exchange rates (Local/Foreign)								
Rates actually used	720.0	792.2	850.8	908.1	964.3	1,023.0	1,085.3	1,151.3
Constant purchasing parity rates	720.0	792.2	850.8	908.1	964.3	1,023.0	1,085.3	1,151.3

Source:
a. Economic Intelligence Unit, Country Report: Malawi, August 2017, United Kingdom
b. World Bank, Malawi Economic Monitor May 2017. Harnessing the Urban Economy, 2017, Lilonwe, Malawi

7. **Unit costs.** The Programme cost is expressed in 2017 constant prices. Costs of goods, services and consultants are based on costs recorded in ongoing contracts and on prevailing market prices. Salary rates of national staff are based on the current salary levels of RLEEP and PRIDE staff.

8. **Physical and price contingencies.** Physical contingencies of 5 per cent are applied to all costs except social cash transfers, vehicles and studies, consultancies and salaries. Price contingencies are based on the forecasted annual local and foreign inflation rates, and applied to all cost items.

9. **Taxes and duties.** Current Value Added Tax (VAT) rate at a 16.5 per cent is applied to all goods, services and inputs. Imported goods, services and inputs will be subject to import duties and excises in the range of 41.5 per cent and 96.5 per cent. Highest import duties and excises will be applied to vehicles at 96.5 per cent inclusive of import duty of 25 per cent, import excise of 55 per cent, and VAT of 16.5 per cent. No income taxes on international technical assistance are assumed because of short-term nature of their assignments. Social insurance charges at 15 per cent applied to salaries of national staff of the Programme Management Unit. As training activities will involve purchase of goods and services, a 5 per cent of training costs assumed to be in taxes. Taxes and duties applied in the programme costing are summarized in Table 2.

Table 2: Taxes, duties and foreign exchange by expenditure category

Expenditure category	% Taxes	% Duty/Taxes	% foreign exchange
Civil works	16.5	0	50
Vehicles (3000 cc and above)	96.5	17	60
Other Equipment and Materials	30	55	20
Studies and consultancies	16.5	0	50
Training	5	0	20
Co-funding	0	0	50
Operations and maintenance	16.5	0	10
Salaries and allowances	15	0	0

10. **Social cash transfers.** The Government is expected to contribute to implementation costs of Ultra-poor graduation models under the component 1. Total amount of the contribution, which will be directly paid by the Government to ultra-poor households, is estimated at USD 3.1 million.

III. Programme Costs Summary

11. Total programme cost inclusive of price and physical contingencies, duties and taxes, is estimated at USD 57.7 million. The cost includes a base cost of USD 54.8 million and physical and price contingencies of USD 2.9 million. The programme cost comprises of USD 20.7 million in local costs, USD 28.2 million in foreign exchange costs, and USD 8.8 million in taxes and duties. Investment costs represent 93 per cent of the base costs, with recurrent costs accounting for the remaining 7 per cent. Programme management and coordination costs account 10 per cent of total programme costs.

12. A summary breakdown of programme costs by components is presented in Table 3.

Table 3: Programme Cost by Components (USD '000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Project Components by Year -- Totals Including Contingencies
(USD '000)

	Totals Including Contingencies							
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	Total
1. Graduation of Ultra-Poor Households	899	2,406	3,706	4,355	3,262	1,178	23	15,829
2. Support to Financial Innovation and Outreach	153	6,250	4,688	5,818	5,666	7,008	4,449	34,032
3. Strategic Partnerships, Knowledge Generation, and Policy	2	92	193	547	393	511	75	1,814
4. Programme Management and Coordination	852	797	849	823	898	855	984	6,057
Total PROJECT COSTS	1,906	9,545	9,435	11,543	10,219	9,552	5,531	57,731

13. The Programme's summary and detailed cost tables are presented respectively in Annexes 1 and 2 to this Working Paper.

IV. Financing Plan

14. FARMSE will be financed by the Government of Malawi (GOM), IFAD, and private sector participants. The Government's contribution is estimated at USD 9.6 million (17%) out of which about USD 3.1 million (5%) will be financed from its Social Cash Transfer fund and USD 6.5 million will finance taxes and some duties (11%)[146].

15. IFAD will finance USD 42.0 million (73%) of the programme costs to be equally distributed between grants and loans. An IFAD loan of USD 21.00 million (36% of the total programme costs), would finance: 34 per cent of the Graduation of Ultra-Poor Households component (USD 5.3 million), 36 per cent of the Support to Financial Innovation and Outreach component (USD 13.3 million), 42 per cent of Strategic Partnerships, Knowledge Generation, and Policy component (USD 0.8 million); and 43 per cent of Project Management and Coordination (USD 2.6 million).

16. An IFAD grant of USD 21.0 million (36% of the total programme costs) would finance: 34 per cent of the Graduation of Ultra-Poor Households component (USD 5.3 million), 36 per cent of the Support to Financial Innovation and Outreach component (USD 13.3 million), 42 per cent of Strategic Partnerships, Knowledge Generation, and Policy component (USD 0.8 million); and 43 per cent of Project Management and Coordination (USD 2.6 million).

17. Local private sector participants are expected to contribute USD 6.1 million (11%) through in-kind and cash contributions to sub-projects financed under the Innovation and Outreach Facility.

18. The programme cost does not include contributions of GIZ to Graduation of Ultra-Poor Households component as this contribution will be implemented as parallel financing. Actual amounts of GIZ contribution will be known around November 2017.

19. Programme Financing Plan by components and subcomponents are presented in Table 4.

Table 4: Programme Financing Plan by Components (USD '000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise

Components by Financiers (USD '000)	**Govt taxes**	**Govt cash transfer**	**IFAD Loan**	**IFAD Grant**	**Private Sector**	**Total**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Amount**
1. Graduation of Ultra-Poor Households	2,094	3,059	5,337	5,337	-	15,829
2. Support to Financial Innovation and Outreach	3,316	-	12,283	12,283	6,151	34,032
3. Strategic Partnerships, Knowledge Generation, and Policy	289	-	763	763	-	1,814
4. Programme Management and Coordination	822	-	2,618	2,618	-	6,057
Total PROJECT COSTS	6,520	3,059	21,000	21,000	6,151	57,731

20. **Expenditure accounts and rules.** The expenditure accounts and financing rules (total allocation net of taxes) are summarised in Table 5 below.

[146] Under the current practice, portions of taxes and duties in the programme costs are reimbursed by the government. However, duties and import excises are not reimbursed. This has been taken into account when preparing financing plan.

Table 5: Expenditure Accounts by Financiers (USD' 000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders,

Expenditure Accounts by Financiers (USD '000)	**Govt taxes**	**Govt cash transfer**	**IFAD Loan**	**IFAD Grant**	**Private Sector**	**Total**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Amount**
I. Investment Costs						
A. Vehicles	49	-	125	125	-	300
B. Equipment and Materials	11	-	27	27	-	65
C. Goods, Services and Inputs	4,681	-	11,846	11,846	-	28,373
D. Studies and consultancies	1,149	-	7,169	7,169	6,151	21,638
E. Trainings and Workshops	13	-	124	124	-	262
F. Grants&Subsidies	-	3,059	-	-	-	3,059
Total Investment Costs	5,904	3,059	19,291	19,291	6,151	53,696
II. Recurrent Costs						
A. Operations and maintenance	122	-	308	308	-	738
B. Salaries and allowances	495	-	1,401	1,401	-	3,297
Total Recurrent Costs	616	-	1,709	1,709	-	4,035
Total PROJECT COSTS	6,520	3,059	21,000	21,000	6,151	57,731

Annex 1: Summary cost tables

Table 1: Programme Components Summary

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Components Project Cost Summary

	(MK Million)					(USD '000)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
1. Graduation of Ultra-Poor Households	6,344	4,341	10,685	41	27	8,811	6,029	14,840	41	27
2. Support to Financial Innovation and Outreach	10,735	12,789	23,523	54	60	14,909	17,762	32,671	54	60
3. Strategic Partnerships, Knowledge Generation, and Policy	505	696	1,202	58	3	702	967	1,669	58	3
4. Programme Management and Coordination	2,500	1,531	4,031	38	10	3,473	2,126	5,599	38	10
Total BASELINE COSTS	20,084	19,357	39,441	49	100	27,895	26,884	54,779	49	100
Physical Contingencies	16	7	23	30	-	23	10	33	30	-
Price Contingencies	6,860	5,783	12,643	46	32	1,584	1,336	2,920	46	5
Total PROJECT COSTS	26,961	25,146	52,107	48	132	29,501	28,230	57,731	49	105

Table 2: Expenditure Accounts Programme Cost Summary

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Expenditure Accounts Project Cost Summary

	(MK Million)					(USD '000)				
	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
I. Investment Costs										
A. Vehicles	42	167	209	80	1	58	232	290	80	1
B. Equipment and Materials	9	37	46	80	-	13	51	64	80	-
C. Goods, Services and Inputs	9,451	9,451	18,903	50	48	13,127	13,127	26,254	50	48
D. Studies and consultancies	5,793	9,526	15,319	62	39	8,045	13,231	21,276	62	39
E. Trainings and Workshops	138	35	173	20	-	192	48	240	20	-
F. Grants&Subsidies	2,106	-	2,106	-	5	2,925	-	2,925	-	5
Total Investment Costs	17,539	19,216	36,755	52	93	24,360	26,688	51,049	52	93
II. Recurrent Costs										
A. Operations and maintenance	329	141	470	30	1	457	196	652	30	1
B. Salaries and allowances	2,216	-	2,216	-	6	3,078	-	3,078	-	6
Total Recurrent Costs	2,545	141	2,686	5	7	3,535	196	3,730	5	7
Total BASELINE COSTS	20,084	19,357	39,441	49	100	27,895	26,884	54,779	49	100
Physical Contingencies	16	7	23	30	-	23	10	33	30	-
Price Contingencies	6,860	5,783	12,643	46	32	1,584	1,336	2,920	46	5
Total PROJECT COSTS	26,961	25,146	52,107	48	132	29,501	28,230	57,731	49	105

Table 3: Expenditure Accounts by Components (USD'000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Expenditure Accounts by Components - Totals Including Contingencies
(USD '000)

	Graduation of Ultra-Poor Households	Support to Financial Innovation and Outreach	Strategic Partnerships, Knowledge Generation, and Policy	Programme Management and Coordination	Total
I. Investment Costs					
A. Vehicles	-	-	-	300	300
B. Equipment and Materials	-	-	-	65	65
C. Goods, Services and Inputs	11,594	16,779	-	-	28,373
D. Studies and consultancies	1,065	16,575	1,721	2,277	21,638
E. Trainings and Workshops	110	-	93	58	262
F. Grants&Subsidies	3,059	-	-	-	3,059
Total Investment Costs	15,829	33,354	1,814	2,700	53,696
II. Recurrent Costs					
A. Operations and maintenance	-	-	-	738	738
B. Salaries and allowances	-	679	-	2,619	3,297
Total Recurrent Costs	-	679	-	3,357	4,035
Total PROJECT COSTS	15,829	34,032	1,814	6,057	57,731
Taxes	2,094	5,605	289	822	8,809
Foreign Exchange	6,458	18,424	1,051	2,297	28,230

Table 4: Programme Components by Year (USD'000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Project Components by Year -- Totals Including Contingencies
(USD '000)

	Totals Including Contingencies							
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	Total
1. Graduation of Ultra-Poor Households	899	2,406	3,706	4,355	3,262	1,178	23	15,829
2. Support to Financial Innovation and Outreach	153	6,250	4,688	5,818	5,666	7,008	4,449	34,032
3. Strategic Partnerships, Knowledge Generation, and Policy	2	92	193	547	393	511	75	1,814
4. Programme Management and Coordination	852	797	849	823	898	855	984	6,057
Total PROJECT COSTS	1,906	9,545	9,435	11,543	10,219	9,552	5,531	57,731

Table 5: Disbursement Accounts by Financiers (USD '000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Disbursement Accounts by Financiers
(USD '000)

	Govt taxes	Govt cash transfer	IFAD Loan	IFAD Grant	Private Sector	Total
	Amount	Amount	Amount	Amount	Amount	Amount
1. Works	-	-	-	-	-	-
2. Vehicles	49	-	125	125	-	300
3. Equipment and Materials	11	-	27	27	-	65
4. Studies and consultancies	1,149	-	7,169	7,169	6,151	21,638
5. Trainings and Workshops	13	-	124	124	-	262
6. Goods, Service and Inputs	4,681	-	11,846	11,846	-	28,373
7. Grants & Subsidies	-	3,059	-	-	-	3,059
8. Operations and Maintenance	122	-	308	308	-	738
9. Salaries and allowances	495	-	1,401	1,401	-	3,297
Total PROJECT COSTS	6,520	3,059	21,000	21,000	6,151	57,731

Table 6: Financing Plan

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Financing Plan
(USD '000)

	Foreign	Local	Total	Percent
Govt taxes	0	6,520	6,520	11.3
Govt cash transfer	-	3,059	3,059	5.3
IFAD Loan	13,899	7,101	21,000	36.4
IFAD Grant	13,899	7,101	21,000	36.4
Private Sector	432	5,719	6,151	10.7
Total	28,230	29,501	57,731	100.0

Table 7. Local/Foreign/Taxes by Financiers (USD '000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Local/Foreign/Taxes by Financiers
(USD '000)

	Govt taxes	Govt cash transfer	IFAD Loan	IFAD Grant	Private Sector	Total
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Amount**
I. Foreign	0	-	13,899	13,899	432	28,230
II. Local (Excl. Taxes)	0	3,059	7,101	7,101	3,430	20,692
III. Taxes	6,520	-	-	-	2,289	8,809
Total Project	6,520	3,059	21,000	21,000	6,151	57,731

Table 8. Financing Plan by Years (USD '000)

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Financing of Investment/Recurrent Costs and Financial Charges by Year
(USD '000)

	Financing							
	18/19	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
I. Investment Costs								
Govt taxes	142	710	1,058	1,302	1,200	892	599	5,904
Govt cash transfer	498	1,012	1,027	523	-	-	-	3,059
IFAD Loan	377	2,829	3,071	4,035	3,747	3,309	1,923	19,291
IFAD Grant	377	2,829	3,071	4,035	3,747	3,309	1,923	19,291
Private Sector	-	1,509	542	1,050	1,000	1,509	542	6,151
Total Investment Costs	1,395	8,889	8,769	10,945	9,694	9,018	4,987	53,696
II. Recurrent Costs								
Govt taxes	78	100	102	91	80	82	83	616
Govt cash transfer	-	-	-	-	-	-	-	-
IFAD Loan	217	278	282	253	223	226	230	1,709
IFAD Grant	217	278	282	253	223	226	230	1,709
Private Sector	-	-	-	-	-	-	-	-
Total Recurrent Costs	511	656	666	598	526	534	544	4,035
III. Financial Charges								
Govt taxes	-	-	-	-	-	-	-	-
Govt cash transfer	-	-	-	-	-	-	-	-
IFAD Loan	-	-	-	-	-	-	-	-
IFAD Grant	-	-	-	-	-	-	-	-
Private Sector	-	-	-	-	-	-	-	-
Total Financial Charges	-	-	-	-	-	-	-	-
Total Financing of Costs	1,906	9,545	9,435	11,543	10,219	9,552	5,531	57,731

Annex 2: Detailed cost tables

Table 1. Graduation of Ultra-Poor Households Component: Physical Quantities and Base Cost

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Table 1. Graduation of Ultra-Poor Households
Detailed Costs
(USD '000)

		Quantities								Base Cost							
	Unit	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
I. Investment Costs																	
A. Stock-taking of graduation models to be rolled out																	
Stock-taking exercise and identification of models	Lumpsum	1	-	-	-	-	-	-	1	250	-	-	-	-	-	-	250
B. Roll-out of effective graduation models																	
1. Training of staff	Session	-	-	-	10	15	15	10	50	-	-	-	20	30	30	20	100
2. Qualitative targeting or gender study	Study	-	-	-	1	-	-	-	1	-	-	-	50	-	-	-	50
3. Implementation of chosen graduation models /a																	
a. Implementation of chosen graduation models: Step 1 /b	Participant	7,500	15,000	15,000	7,500	-	-	-	45,000	488	975	975	488	-	-	-	2,925
b. Implementation of chosen graduation models: Step 2-5 /c	Participant	-	5,000	10,000	14,000	12,000	4,000	-	45,000	-	1,200	2,400	3,360	2,880	960	-	10,800
Subtotal										488	2,175	3,375	3,848	2,880	960	-	13,725
Subtotal										488	2,175	3,375	3,918	2,910	990	20	13,875
C. Technical Assistance for Implementation of Graduation Models																	
Unallocated TA	Lumpsum	0.2	0.2	0.2	0.2	0.1	0.1	-	1	136	136	136	136	68	68	-	680
Gender and targeting	Lumpsum	2	2	2	2	2	-	-	10	7	7	7	7	7	-	-	35
Subtotal										143	143	143	143	75	68	-	715
Total										881	2,318	3,518	4,061	2,985	1,058	20	14,840

\a targeting 15,000 households (cost is indicative / average and could vary between model(s) chosen)
\b Cost of TA associated with the implementation of Step 1 (cash transfer) of the model will be covered by GIZ through parallel financing
\c targeting 15,000 households (cost is indicative / average and could vary between model(s) chosen)

Table 2. Graduation of Ultra-Poor Households Component: Base and Total Cost

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Table 1. Graduation of Ultra-Poor Households
Detailed Costs
(USD '000)

	Base Cost								Totals Including Contingencies							
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	Total	18/19	19/20	20/21	21/22	22/23	23/24	24/25	Total
I. Investment Costs																
A. Stock-taking of graduation models to be rolled out																
Stock-taking exercise and identification of models	250	-	-	-	-	-	-	250	255	-	-	-	-	-	-	255
B. Roll-out of effective graduation models																
1. Training of staff	-	-	-	20	30	30	20	100	-	-	-	21	33	33	23	110
2. Qualitative targeting or gender study	-	-	-	50	-	-	-	50	-	-	-	54	-	-	-	54
3. Implementation of chosen graduation models /a																
a. Implementation of chosen graduation models: Step 1 /b	488	975	975	488	-	-	-	2,925	498	1,012	1,027	523	-	-	-	3,059
b. Implementation of chosen graduation models: Step 2-5 /c	-	1,200	2,400	3,360	2,880	960	-	10,800	-	1,245	2,528	3,603	3,147	1,069	-	11,594
Subtotal	488	2,175	3,375	3,848	2,880	960	-	13,725	498	2,257	3,556	4,126	3,147	1,069	-	14,653
Subtotal	488	2,175	3,375	3,918	2,910	990	20	13,875	498	2,257	3,556	4,201	3,180	1,102	23	14,817
C. Technical Assistance for Implementation of Graduation Models																
Unallocated TA	136	136	136	136	68	68	-	680	139	141	143	146	74	76	-	719
Gender and targeting	7	7	7	7	7	-	-	35	7	7	7	8	8	-	-	37
Subtotal	143	143	143	143	75	68	-	715	146	148	151	153	82	76	-	756
Total	881	2,318	3,518	4,061	2,985	1,058	20	14,840	899	2,406	3,706	4,355	3,262	1,178	23	15,829

\a targeting 15,000 households (cost is indicative / average and could vary between model(s) chosen)
\b Cost of TA associated with the implementation of Step 1 (cash transfer) of the model will be covered by GIZ through parallel financing
\c targeting 15,000 households (cost is indicative / average and could vary between model(s) chosen)

Table 3. Support to Financial Innovation and Outreach Component: Physical Quantities and Base Cost

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Table 2. Support to Financial Innovation and Outreach
Detailed Costs
(USD '000)

		Quantities								Base Cost							
	Unit	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
I. Investment Costs																	
A. Community Based Financial Organizations Support																	
1. Mapping of existing CBFOs																	
Engagement of Service Providers for mapping exercise	Lumpsum	-	0.5	0.5	-	-	-	-	1	-	125	125	-	-	-	-	250
2. Building and prospering CBFOs /a																	
Engagement of Service Provider for CBFO building and prospering	Group	-	2,000	2,850	2,850	2,850	2,850	2,743	16,143	-	1,512	2,155	2,155	2,155	2,155	2,074	12,204
3. Formation of new groups /b																	
Engagement of Service Provider for formation of new groups	Group	-	600	880	880	880	880	880	5,000	-	360	528	528	528	528	528	3,000
Subtotal										-	1,997	2,808	2,683	2,683	2,683	2,602	15,454
B. Enhancing Innovation and Rural Outreach of Financial Service Providers																	
1. International Technical Assistance /c	Person year	0.5	1	1	1	1	1	0.5	6	75	150	150	150	150	150	75	900
2. Window 1: Market research, feasibility studies and exchange visits /d	Lumpsum	-	7	3	6	4	7	3	30	-	438	188	375	250	438	188	1,875
3. Window 2: Innovation and pilot testing /e	Lumpsum	-	4	2	3	3	4	2	18	-	400	200	300	300	400	200	1,800
4. Window 3: Outreach /f	Lumpsum	-	3	1	2	2	3	1	12	-	3,000	1,000	2,000	2,000	3,000	1,000	12,000
Total Investment Costs										75	5,985	4,345	5,508	5,383	6,670	4,064	32,029
II. Recurrent Costs																	
A. Recurrent cost of Component 2.1																	
1. In-country travel for supervision and implementation support /g	Person day	-	500	500	500	500	500	500	3,000	-	30	30	30	30	30	30	180
B. Recurrent cost of Component 2.2																	
1. Chief Technical Advisor	Person year	0.5	1	1	0.5	-	-	-	3	75	150	150	75	-	-	-	450
2. In-country travel for supervision and implementation support /h	Person day	25	50	50	50	25	-	-	200	2	3	3	3	2	-	-	12
Total Recurrent Costs										77	183	183	108	32	30	30	642
Total										152	6,168	4,528	5,616	5,414	6,700	4,094	32,671

\a May involve engagement of multiple service providers costs are expressed in terms of number of groups to be formed/stengthened
\b May involve engagement of multiple service providers costs are expressed in terms of number of groups to be formed/stengthened
\c Includes TA for management of the Innovation Facility, as well as start-up related TA
\d Private sector contribution will be in cash and/or in-kind.
\e Private sector contribution will be in cash and/or in-kind.
\f Private sector contribution will be in cash and/or in-kind.
\g Per diem costs inclusive of transport and lodging
\h Per diem costs inclusive of transport and lodging

Table 4. Support to Financial Innovation and Outreach Component: Base and Total Cost

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Table 2. Support to Financial Innovation and Outreach
Detailed Costs
(USD '000)

	Base Cost								Totals Including Contingencies							
	18/19	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
I. Investment Costs																
A. Community Based Financial Organizations Support																
1. Mapping of existing CBFOs																
Engagement of Service Providers for mapping exercise	-	125	125	-	-	-	-	250	-	130	132	-	-	-	-	261
2. Building and prospering CBFOs /a																
Engagement of Service Provider for CBFO building and prospering	-	1,512	2,155	2,155	2,155	2,155	2,074	12,204	-	1,569	2,270	2,311	2,355	2,399	2,353	13,257
3. Formation of new groups /b																
Engagement of Service Provider for formation of new groups	-	360	528	528	528	528	528	3,000	-	374	556	566	577	588	599	3,260
Subtotal	-	1,997	2,808	2,683	2,683	2,683	2,602	15,454	-	2,073	2,958	2,877	2,932	2,987	2,952	16,779
B. Enhancing Innovation and Rural Outreach of Financial Service Providers																
1. International Technical Assistance /c	75	150	150	150	150	150	75	900	75	150	150	150	150	150	75	900
2. Window 1: Market research, feasibility studies and exchange visits /d	-	438	188	375	250	438	188	1,875	-	438	188	375	250	438	188	1,875
3. Window 2: Innovation and pilot testing /e	-	400	200	300	300	400	200	1,800	-	400	200	300	300	400	200	1,800
4. Window 3: Outreach /f	-	3,000	1,000	2,000	2,000	3,000	1,000	12,000	-	3,000	1,000	2,000	2,000	3,000	1,000	12,000
Total Investment Costs	75	5,985	4,345	5,508	5,383	6,670	4,064	32,029	75	6,060	4,495	5,702	5,632	6,975	4,415	33,354
II. Recurrent Costs																
A. Recurrent cost of Component 2.1																
1. In-country travel for supervision and implementation support /g	-	30	30	30	30	30	30	180	-	31	32	32	33	33	34	195
B. Recurrent cost of Component 2.2																
1. Chief Technical Advisor	75	150	150	75	-	-	-	450	77	156	158	80	-	-	-	471
2. In-country travel for supervision and implementation support /h	2	3	3	3	2	-	-	12	2	3	3	3	2	-	-	13
Total Recurrent Costs	77	183	183	108	32	30	30	642	78	190	193	116	34	33	34	679
Total	152	6,168	4,528	5,616	5,414	6,700	4,094	32,671	153	6,250	4,688	5,818	5,666	7,008	4,449	34,032

Table 6. Strategic Partnerships, Knowledge Generation, and Policy Component: Physical Quantities and Base Cost

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Table 3. Strategic Partnerships, Knowledge Generation, and Policy
Detailed Costs
(USD '000)

		Quantities								Base Cost							
	Unit	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
I. Investment Costs																	
A. Rural finance policy development, policy support and dissemination																	
1. Development and distribution of good rural finance policy	Lumpsum	-	0.15	0.15	0.15	0.4	0.1	0.05	1	-	75	75	75	200	50	25	500
2. Study on the effectiveness and impact of CMBFI models	Lumpsum	-	-	-	-	-	1	-	1	-	-	-	-	-	349	-	349
3. Support for CBFO sector data aggregation	Lumpsum	-	-	-	0.5	0.5	-	-	1	-	-	-	100	100	-	-	200
4. Knowledge dissemination workshops	Workshop	-	2	2	2	2	2	2	12	-	4	4	4	4	4	4	24
Subtotal										-	79	79	179	304	403	29	1,073
B. Financial service providers and agro-industry sector development, policy and research support																	
1. Knowledge management on key innovations/lessons	Lumpsum	-	-	0.25	0.25	0.25	0.25	-	1	-	-	19	19	19	19	-	75
2. Development of training modules related to rural and agricultural finance	Lumpsum	-	-	0.5	0.5	-	-	-	1	-	-	75	75	-	-	-	150
3. Feasibility study for Microfinance APEX fund	Study	-	-	-	1	-	-	-	1	-	-	-	200	-	-	-	200
4. Training for MoFED staff /a	Session	1	1	1	1	1	1	1	7	2	2	2	2	2	2	2	14
5. Knowledge dissemination workshops	Workshop	-	2	2	2	2	2	2	12	-	4	4	4	4	4	4	24
Subtotal										2	6	100	300	25	25	6	463
C. Support for poverty graduation policy and systems																	
1. Development of policy, guidance and supporting material (Graduation)	Lumpsum	-	-	-	0.25	0.25	0.25	0.25	1	-	-	-	27	27	27	27	109
2. Knowledge Dissemination Workshops	Workshop	-	2	2	2	2	2	2	12	-	4	4	4	4	4	4	24
Subtotal										-	4	4	31	31	31	31	133
Total										2	89	183	510	360	459	66	1,669

\a rural and agricultural finance training

Table 7. Strategic Partnerships, Knowledge Generation, and Policy Component: Base and Total Cost

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Table 3. Strategic Partnerships, Knowledge Generation, and Policy
Detailed Costs
(USD '000)

		Base Cost								Totals Including Contingencies							
	Unit	18/19	19/20	20/21	21/22	22/23	23/24	24/25	Total	18/19	19/20	20/21	21/22	22/23	23/24	24/25	Total
I. Investment Costs																	
A. Rural finance policy development, policy support and dissemination																	
1. Development and distribution of good rural finance policy	Lumpsum	-	75	75	75	200	50	25	500	-	78	79	80	219	56	28	540
2. Study on the effectiveness and impact of CMBFI models	Lumpsum	-	-	-	-	-	349	-	349	-	-	-	-	-	389	-	389
3. Support for CBFO sector data aggregation	Lumpsum	-	-	-	100	100	-	-	200	-	-	-	107	109	-	-	217
4. Knowledge dissemination workshops	Workshop	-	4	4	4	4	4	4	24	-	4	4	4	4	4	5	26
Subtotal		-	79	79	179	304	403	29	1,073	-	82	83	192	332	449	33	1,171
B. Financial service providers and agro-industry sector development, policy and research support																	
1. Knowledge management on key innovations/lessons	Lumpsum	-	-	19	19	19	19	-	75	-	-	20	20	20	21	-	81
2. Development of training modules related to rural and agricultural finance	Lumpsum	-	-	75	75	-	-	-	150	-	-	79	80	-	-	-	159
3. Feasibility study for Microfinance APEX fund	Study	-	-	-	200	-	-	-	200	-	-	-	214	-	-	-	214
4. Training for MoFED staff /a	Session	2	2	2	2	2	2	2	14	2	2	2	2	2	2	2	15
5. Knowledge dissemination workshops	Workshop	-	4	4	4	4	4	4	24	-	4	4	4	4	4	5	26
Subtotal		2	6	100	300	25	25	6	463	2	6	105	321	27	28	7	496
C. Support for poverty graduation policy and systems																	
1. Development of policy, guidance and supporting material (Graduation)	Lumpsum	-	-	-	27	27	27	27	109	-	-	-	29	30	30	31	120
2. Knowledge Dissemination Workshops	Workshop	-	4	4	4	4	4	4	24	-	4	4	4	4	4	5	26
Subtotal		-	4	4	31	31	31	31	133	-	4	4	34	34	35	35	146
Total		2	89	183	510	360	459	66	1,669	2	92	193	547	393	511	75	1,814

\a rural and agricultural finance training

Table 8. Programme Management and Coordination: Base Cost

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Table 4. Programme Management and Coordination
Detailed Costs
(USD '000)

		Quantities								Base Cost							
	Unit	18/19	19/20	20/21	21/22	22/23	23/24	24/25	Total	18/19	19/20	20/21	21/22	22/23	23/24	24/25	Total
I. Investment Costs																	
A. Vehicles, Equipment and Materials																	
1. Vehicles																	
a. 4 W vehicle	Unit	1	-	-	-	-	-	-	1	90	-	-	-	-	-	-	90
b. Pick ups	Unit	3	-	-	-	1	-	-	4	150	-	-	-	50	-	-	200
Subtotal										240	-	-	-	50	-	-	290
2. Equipment																	
a. Computer set with software and printer	Set	10	-	-	-	2	-	-	12	20	-	-	-	4	-	-	24
b. Multifunctional printer/coopier/scanner	Set	1	-	-	-	-	-	-	1	5	-	-	-	-	-	-	5
c. Financial & accounting software	Set	1	-	-	-	-	-	-	1	10	-	-	-	-	-	-	10
d. Projector	Set	1	-	-	-	-	-	-	1	1	-	-	-	-	-	-	1
e. Digital camera with GPS Coordinates	Unit	3	-	-	-	-	-	-	3	2	-	-	-	-	-	-	2
Subtotal										37	-	-	-	4	-	-	41
3. Office furniture /a	Set	15	-	-	-	-	-	-	15	23	-	-	-	-	-	-	23
Subtotal										300	-	-	-	54	-	-	354
B. Studies and Workshops																	
1. Programme M&E																	
a. Baseline Survey	Study	1	-	-	-	-	-	-	1	20	-	-	-	-	-	-	20
b. Mid-term review	Unit	-	-	1	-	-	-	-	1	-	-	38	-	-	-	-	38
c. M&E and supervision	Unit	1	1	1	1	1	1	1	7	5	5	5	5	5	5	5	35
d. Programme completion report preparation	Unit	-	-	-	-	-	-	1	1	-	-	-	-	-	-	100	100
Subtotal										25	5	43	5	5	5	105	193
2. Workshops																	
a. Start up workshop	Workshop	1	-	-	-	-	-	-	1	2	-	-	-	-	-	-	2
b. Implementation Review Workshops	Workshop	2	4	4	4	4	4	4	26	4	8	8	8	8	8	8	52
Subtotal										6	8	8	8	8	8	8	54
Subtotal										31	13	51	13	13	13	113	247
C. Audit /b	Unit	1	1	1	1	1	1	1	7	5	5	5	5	5	5	5	35
D. International Technical Assistance /c	Person year	0.5	2	2	2	2	2	2	12.5	75	300	300	300	300	300	300	1,875
Total Investment Costs										411	318	356	318	372	318	418	2,511
II. Recurrent Costs																	
A. Salaries of PMU staff /d																	
1. Professional staff																	
a. Programme Coordinator	Person year	1	1	1	1	1	1	1	7	48	48	48	48	48	48	48	336
b. Financial Controller	Person year	1	1	1	1	1	1	1	7	42	42	42	42	42	42	42	294
c. Procurement Officer	Person year	1	1	1	1	1	1	1	7	42	42	42	42	42	42	42	294
d. Rural Finance/Microfinance Specialist	Person year	1	1	1	1	1	1	1	7	42	42	42	42	42	42	42	294
e. CBFO Specialist	Person year	1	1	1	1	1	1	1	7	42	42	42	42	42	42	42	294
f. Knowledge & Communication Officer	Person year	1	1	1	1	1	1	1	7	42	42	42	42	42	42	42	294
g. Gender & Targeting Specialist	Person year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
h. M&E Specialist	Person year	1	1	1	1	1	1	1	7	42	42	42	42	42	42	42	294
i. Accountant	Person year	1	1	1	1	1	1	1	7	24	24	24	24	24	24	24	168
Subtotal										324	324	324	324	324	324	324	2,268
2. Support team																	
a. Administrative & Office Assistant /e	Person year	1	1	1	1	1	1	1	7	12	12	12	12	12	12	12	84
b. Driver /f	Person year	2	2	2	2	2	2	2	14	12	12	12	12	12	12	12	84
Subtotal										24	24	24	24	24	24	24	168
Subtotal										348	348	348	348	348	348	348	2,436
B. Operating Costs																	
1. Per diems for in-country travels /g	Person day	100	500	500	500	500	500	500	3,100	6	30	30	30	30	30	30	186
2. Office rental	Month	12	12	12	12	12	12	12	84	10	10	10	10	10	10	10	67
3. PMU office maintenance	Month	12	12	12	12	12	12	12	84	36	36	36	36	36	36	36	252
4. Vehicle O&M + insurance	Per Year	3	3	3	3	3	3	3	21	21	21	21	21	21	21	21	147
Subtotal										73	97	97	97	97	97	97	652
Total Recurrent Costs										421	445	445	445	445	445	445	3,088
Total										831	763	801	763	817	763	863	5,599

\a This includes furniture for the PCO staff and the Board/Meeting Room
\b Audit will be conducted by the Government, but PMU covers operational costs of it
\c Includes TA for management of the Innovation Facility, as well as start-up related TA
\d Salaries are based on computations made for the design of PRIDE
\e Bombines functions of receptionist. Salary computed as the minimum of the National Professional Project Support Personnel Salary Scale (Annual Gross) at Level 3. It includes a gratuity of 10%.
\f Salary computed as the minimum of the National Project Support Personnel Salary Scale (Annual Gross, November 2013) at Level 1. It includes a gratuity of 10%.
\g DSA is set by the Government, and is inclusive of transport and lodging

Table 8. Programme Management and Coordination: Total Cost

Republic of Malawi
Facility to Assist Rural Markets, Smallholders, and Enterprise
Table 4. Programme Management and Coordination
Detailed Costs
(USD '000)

	Base Cost								Totals Including Contingencies							
	18/19	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**Total**
I. Investment Costs																
A. Vehicles, Equipment and Materials																
1. Vehicles																
a. 4 W vehicle	90	-	-	-	-	-	-	90	92	-	-	-	-	-	-	92
b. Pick ups	150	-	-	-	50	-	-	200	153	-	-	-	55	-	-	208
Subtotal	240	-	-	-	50	-	-	290	245	-	-	-	55	-	-	300
2. Equipment																
a. Computer set with software and printer	20	-	-	-	4	-	-	24	20	-	-	-	4	-	-	25
b. Multifunctional printer/coopier/scanner	5	-	-	-	-	-	-	5	5	-	-	-	-	-	-	5
c. Financial & accounting software	10	-	-	-	-	-	-	10	10	-	-	-	-	-	-	10
d. Projector	1	-	-	-	-	-	-	1	1	-	-	-	-	-	-	1
e. Digital camera with GPS Coordinates	2	-	-	-	-	-	-	2	2	-	-	-	-	-	-	2
Subtotal	37	-	-	-	4	-	-	41	38	-	-	-	4	-	-	42
3. Office furniture /a	23	-	-	-	-	-	-	23	23	-	-	-	-	-	-	23
Subtotal	300	-	-	-	54	-	-	354	306	-	-	-	59	-	-	365
B. Studies and Workshops																
1. Programme M&E																
a. Baseline Survey	20	-	-	-	-	-	-	20	20	-	-	-	-	-	-	20
b. Mid-term review	-	-	38	-	-	-	-	38	-	-	40	-	-	-	-	40
c. M&E and supervision	5	5	5	5	5	5	5	35	5	5	5	5	5	6	6	38
d. Programme completion report preparation	-	-	-	-	-	-	100	100	-	-	-	-	-	-	113	113
Subtotal	25	5	43	5	5	5	105	193	26	5	45	5	5	6	119	212
2. Workshops																
a. Start up workshop	2	-	-	-	-	-	-	2	2	-	-	-	-	-	-	2
b. Implementation Review Workshops	4	8	8	8	8	8	8	52	4	8	8	9	9	9	9	56
Subtotal	6	8	8	8	8	8	8	54	6	8	8	9	9	9	9	58
Subtotal	31	13	51	13	13	13	113	247	32	13	54	14	14	14	128	270
C. Audit /b	5	5	5	5	5	5	5	35	5	5	5	5	5	6	6	38
D. International Technical Assistance /c	75	300	300	300	300	300	300	1,875	77	311	316	322	328	334	340	2,028
Total Investment Costs	411	318	356	318	372	318	418	2,511	419	330	375	341	407	354	474	2,700
II. Recurrent Costs																
A. Salaries of PMU staff /d																
1. Professional staff																
a. Programme Coordinator	48	48	48	48	48	48	48	336	49	50	51	51	52	53	54	361
b. Financial Controller	42	42	42	42	42	42	42	294	43	44	44	45	46	47	48	316
c. Procurement Officer	42	42	42	42	42	42	42	294	43	44	44	45	46	47	48	316
d. Rural Finance/Microfinance Specialist	42	42	42	42	42	42	42	294	43	44	44	45	46	47	48	316
e. CBFO Specialist	42	42	42	42	42	42	42	294	43	44	44	45	46	47	48	316
f. Knowledge & Communication Officer	42	42	42	42	42	42	42	294	43	44	44	45	46	47	48	316
g. Gender & Targeting Specialist	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
h. M&E Specialist	42	42	42	42	42	42	42	294	43	44	44	45	46	47	48	316
i. Accountant	24	24	24	24	24	24	24	168	24	25	25	26	26	27	27	181
Subtotal	324	324	324	324	324	324	324	2,268	331	336	341	347	354	361	368	2,438
2. Support team																
a. Administrative & Office Assistant /e	12	12	12	12	12	12	12	84	12	12	13	13	13	13	14	90
b. Driver /f	12	12	12	12	12	12	12	84	12	12	13	13	13	13	14	90
Subtotal	24	24	24	24	24	24	24	168	24	25	25	26	26	27	27	181
Subtotal	348	348	348	348	348	348	348	2,436	355	361	367	373	380	388	395	2,619
B. Operating Costs																
1. Per diems for in-country travels /g	6	30	30	30	30	30	30	186	6	33	33	34	34	35	36	211
2. Office rental	10	10	10	10	10	10	10	67	10	10	11	11	11	11	11	76
3. PMU office maintenance	36	36	36	36	36	36	36	252	39	39	40	41	41	42	43	284
4. Vehicle O&M + insurance	21	21	21	21	21	21	21	147	23	23	23	24	24	25	25	166
Subtotal	73	97	97	97	97	97	97	652	78	105	107	109	111	113	115	738
Total Recurrent Costs	421	445	445	445	445	445	445	3,088	433	466	473	482	491	500	510	3,357
Total	831	763	801	763	817	763	863	5,599	852	797	849	823	898	855	984	6,057

Appendix 10: Economic and Financial Analysis

I. Introduction

1. The Facility to Assist Rural Markets, Smallholders and Enterprise (FARMSE) aims at reducing poverty, improve livelihoods and enhance resilience of rural household in sustainable basis. It's development objective is to increase access to and use of sustainable financial services by rural households and micro, small and medium enterprises (MSMEs). To achieve this, FARMSE will invest in (i) graduation of around 15,000 ultra-poor households from poverty and food insecurity into sustainable and self-reliant livelihoods; (ii) improved outreach of financial services and products by informal community based financial organizations and formal financial service providers to around 417,800 households who are poor, vulnerable and resilient to poverty; and (iii) strengthened national policies and regulations to enhance financial inclusiveness. Additionally, the FARMSE will assist the programme households to address key issues that exist in each stage of value chains starting from production to marketing. The programme investments will be implemented under three technical components that are summarized below.

2. **Component 1. Graduation of ultra-poor households** will scale up a cost-efficient, effective and replicable graduation model that aims to assist ultra-poor households to graduate from poverty. Graduation model approach consists of five non-sequential steps that target ultra-poor households with different interventions based on availability of household labour for productive activities. S*tep 1* of the graduation model supports *labour constrained ultra-poor* households with social cash transfers to smoothen their consumptions and training. The step 1 activities will be implemented by GIZ and costs will be financed jointly by GIZ and Government of Malawi (GOM). Steps 2-5 of the model support *labour unconstrained ultra-poor* households with training, mentoring and financial services and one-time lump-sum cash grant (called asset transfer) to invest in productive assets and working capital. The latter steps if the model will be financed by IFAD and GOM.

3. **Component 2. Support to Financial Innovation and Outreach** will invest in increased outreach of financial services and products to rural population through (i) expansion and strengthening of *informal* community based financial organizations such as Village Saving and Lending Associations (VSLAs) and (ii) support to *formal* financial service providers (FSP). Target beneficiaries for this component are poor but food secure households, households vulnerable to poverty and resilient households.

4. **Component 3. Strategic Partnerships, Knowledge Generation, and Policy** will increase the capacity and knowledge base of rural financial sector organizations through (a) strengthening macro level regulatory and financial sector policy guidance and institutional capacity; (b) strengthening meso level financial sector infrastructure of organizations and enterprises; and (c) production and dissemination of rural finance knowledge products.

II. Methodology

5. Using the cost benefit analysis methodology, the financial and economic analysis examines financial and economic viability of the programme investments in graduation models and improved outreach of financial services and products to rural population measured through gross and net margins, returns to family labour, internal rate of return (IRR) and net present value (NPV) of incremental benefits.

6. The financial analysis assessed potential incremental costs and benefits projected to (i) ultra-poor labour unconstrained households participating in graduation model who would receive capacity building support and asset transfer funds to be invested in productive assets and income generating activities; and (ii) poor but food insecure households, households vulnerable to poverty and households resilient to poverty whose improved access to formal and informal financial services and products would result in increased investments in productive and income generating activities.

7. Incremental benefits to the programme investments are estimated by comparing the *future without programme* (WoP) and *future with programme* (WiP) net margins. The overall programme impact is calculated by aggregating benefits to the investments in the graduation models and rural finance outreach. The benefits were assessed for a period of 16 years, a period that allows capturing potential benefits to all households targeted during the entire programme implementation period, at

2017 financial prices, using economic discount rate of 5 per cent and financial discount rate of 12 per cent and assuming adoption rate in the rage of 30-50 per cent for all investments.

8. Financial prices of locally traded outputs and inputs are converted into economic prices by deducting direct agricultural subsidies and taxes and duties. Imported fertilizer are exempt from taxes which had been reflected. Financial cost of unskilled labour is converted into economic one using a shadow wage rate conversion factor of 0.60. The official exchange rate used in the analysis is Malawian Kwacha (MKW) 720 to USD 1.0. Value Added Tax rate is 16.5 per cent, import duty and excises for imported goods are in the range of 5.0 - 96.5 per cent.

9. Sensitivity analysis is conducted to test robustness of economic returns of the programme investments for four sensitivity variables: (1) a 20 per cent declines in benefit scopes; (2) a 20 per cent increase in the programme costs; (3) 1- and 2-year delays in programme implementation; and (4) a 20 per cent increases in incremental financial resources to be made available by VSLAs.

III. Key assumptions

10. **Beneficiaries.** Total estimated number of targeted households is 432,800. This include around (i) 15,000 ultra-poor households who would benefit from the graduation model interventions; (ii) 380,600 poor, vulnerable and resilient households who would benefit from expansion of informal financial services and products; and (iii) 37,200 households from formal financial services and products.

11. Beneficiary households are likely and/or expected to participate in more than one programme activity. Ultra-poor households, for instance, may graduate from ultra-poverty and/or become members of VSLAs. To minimise double counting, the analysis assumed that around 30 per cent of households will benefit from improved access to informal (component 2.2) as well as formal (component 2.1) financial services and products. Please refer to Table 1 for assumptions on target beneficiaries.

Table 1: Summary of Target Beneficiaries

	Target Number of Beneficiaries			
COMPONENT	Ultra-Poor Households	Poor Households	Vulnerable Households	TOTAL:
1. Graduation of ultra poor households	**15,000**	**-**	**-**	15,000
				-
				-
2.1: Community based financial organisation support	-	190,287	190,287	380,574
2.2: Financial innovation and outreach facility	-	18,600	18,600	37,200
TOTAL:	**15,000**	**151,801**	**151,801**	**432,774**
At various adoption rates and participation in multiple activities				
1. Graduation of ultra poor households	**15,000**	**-**	**-**	15,000
				-
				-
2.1: Community based financial organisation support	-	133,201	133,201	266,402
2.2: Financial innovation and outreach facility	-	9,300	9,300	18,600
TOTAL:	**15,000**	**142,501**	**142,501**	**285,002**

12. **Benefits.** Main benefits expected from the programme investments include increased and more sustainable sources of household incomes, improved food security, reduced risks of distress sales of households' assets in response to shocks and reduced vulnerability to poverty. Although all households except ultra-poor labour constrained households are likely to receive these benefits, scopes as well as benefit accumulation timelines may differ from one group to another. As for the labour constrained ultra-poor households, lessons learned from the past graduation models suggest that these households, that are largely head by children or elderly or disabled adults, are less likely to graduate from poverty and require longer term social and economic assistance and labour availability to achieve it. In the short run, potential benefits to them will be mainly in terms of household consumption smoothening. Because of this reason as well as uncertainty about the total costs of social cash transfer support, the analysis excluded potential benefits to the ultra-poor labour constrained households. Please refer to para 2 of Introduction section and relevant sections of Project Design Document (PDR).

13. **Unquantified benefits**. There are multiple potential programme benefits that were excluded from the analysis because either they are unquantifiable in financial terms or due to lack of data.

These benefits are: (i) consumption smoothening to ultra-poor labour constrained households through social cash transfers as amounts of parallel financing by GIZ is currently unknown; (ii) potential interest rate earnings by VSLA member households; (iii) potential profits and savings to participating FSPs resulting from a portfolio growth and reduced transaction costs; (iv) the potential savings to borrowers/savers through improved delivery mechanisms; and (v) prevented distress sales of household assets by poor and vulnerable households in response to negative climatic or price shocks.

14. **Potential investment priorities.** Rural population of Malawi is predominantly engaged in crop production (98% of rural population) and farm wage employment or *ganyu*[147] *(48%)* followed by off-farm self-employment (27%), livestock production (23%) and non-farm wage employment (14%)[148]. When consumption based wealth of households is considered, shares of per capita income from crop production and agricultural wages are highest for poor and relative poorer households. In contrary, contributions of non-agricultural wage per capita and non-farm self-employment per capita in total household income is greater for richest households although crop and livestock incomes remains the determining source of income for them too.[149] The analysis therefore assumed that future investment priorities would be closely aligned with the types of economic activities that poor and vulnerable households are currently engaged.

15. **Labour.** In general, there is no shortage of labour for agricultural activities in rural Malawi. In terms of the programme households, ultra-poor labour unconstrained households expected to have sufficient family labour for own farming activities and earn income through *ganyu*. Poor and vulnerable households hire labourers to supplement family labour or use animal labour during agricultural peak seasons.

16. **Prices.** Prices for inputs and outputs are 2017 prices collected from farmers, traders, markets and M&E database of RLEEP and PRIDE. The programme interventions in value chain development support may lead to increases in prices of outputs either through improved farm practices or improved access to markets and market information. This is however expected to be offset by increases in prices of outputs in response to increased demands for them. Therefore, prices for all investment costs, agricultural inputs and outputs, except for maize, were kept constant for the entire programme period.

17. Maize prices that are highly sensitive to production levels. In past decade, prices went through dramatic fluctuations in response to climatic events such as droughts, dry spells and erratic rainfalls. Frequency and severity of such events continues to increase and the trend forecasted to continue in the future.[150] The analysis attempted to capture future impacts of climatic events on maize prices by applying the frequency of negative climate events, scales and scope of production losses, and maize price volatility recorded during 2012-2015.

18. **Loan interest rates and terms.** In average, VSLAs provide loans at 10 per cent interest rate per month on flexible terms. An average monthly interest rate of micro-financing institutions for a six-month loans is 14 per cent. These terms and rates were used in the analysis.

19. **Discount rate.** Discount rate in the financial analysis assumed at 18 per cent, which corresponds to an official interest rate on a long term lending set by Reserve Bank of Malawi. Economic discount rate assumed at 5 per cent, which corresponds to a long-term growth projection for Malawi.[151]

20. **Programme costs.** The financial base cost of the programme in 2017 prices, inclusive of physical contingencies, estimated at USD 54.8 million. The programme cost components are distributed in the following proportion: (1) Graduation of ultra-poor households (27 per cent); (2) Financial innovation and outreach (59 per cent); (3) Strategic partnerships, knowledge generation and policy (3 per cent), and (4) Project management and coordination (10 per cent). The economic base cost of the programme was estimated by removing all taxes and duties from the financial base cost.

[147] Ganyu is a short term employment in farms and plantations.
[148] World Bank. Jun. 2016. Malawi Poverty Assessment. World Bank Group. Washington DC.
[149] ibid
[150] World Bank. Dec. 2015. Malawi: Agricultural Sector Risk Assessment, World Bank Group, Washington DC.
[151] Economic Intelligence Unit, IMF.

21. **Benefit scopes and accumulation phases.** Adoption or success rate of 30 per cent assumed for households whose access to finance will be only through VSLAs based on average VSLA size and savings budgets. Adoption or success rate of 50 per cent applied for households who will access both informal and formal financial resources. Benefit accumulation phases correspond to the programme implementation phases over a 7 year period. Assumptions on the benefit accumulation phases and adoption rates are summarized in Table 2.

Table 2: Beneficiary Phasing and Adoption

	Target HH	Project Year							
		Y1	Y2	Y3	Y4	Y5	Y6	Y7	Total
Ultra Poor Household (Graduation)	**15,000**								
coverage rate		0%	11%	22%	31%	27%	9%	0%	**100%**
adoption rate		50%	50%	50%	50%	50%	50%	50%	**50%**
no. of HH		-	*833*	*1,667*	*2,333*	*2,000*	*667*	-	**7,500**
cumulative no. of HH		-	833	2,500	4,833	6,833	7,500	7,500	
Poor Household (VSLA)	**133,201**								
adoption rate		30%	30%	30%	30%	30%	30%	30%	**30%**
no. of HH		-	*4,914*	*7,050*	*7,050*	*7,050*	*7,050*	*6,847*	**39,960**
cumulative no. of HH		-	4,914	11,964	19,013	26,063	33,113	39,960	
Poor household (VSLA and FFS)	**18,600**								
coverage rate		0%	18%	14%	18%	16%	20%	14%	**100%**
adoption rate		50%	50%	50%	50%	50%	50%	50%	**50%**
no. of HH		-	*1,657*	*1,285*	*1,673*	*1,518*	*1,905*	*1,262*	**9,300**
cumulative no. of HH		-	1,657	2,942	4,615	6,133	8,038	9,300	
Vulnerable Household (VSLA and FFS)	**18,600**								
coverage rate		0%	18%	14%	18%	16%	20%	14%	**100%**
adoption rate		50%	50%	50%	50%	50%	50%	50%	**50%**
no. of HH		-	*1,657*	*1,285*	*1,673*	*1,518*	*1,905*	*1,262*	**9,300**
cumulative no. of HH		-	1,657	2,942	4,615	6,133	8,038	9,300	
Vulnerable Household (VSLA)	**133,201**								
coverage rate		0%	12%	18%	18%	18%	18%	17%	**100%**
adoption rate		30%	30%	30%	30%	30%	30%	30%	**30%**
no. of HH		-	*4,914.00*	*7,050*	*7,050*	*7,050*	*7,050*	*6,847*	**39,960**
cumulative no. of HH		-	4,914	11,964	19,013	26,063	33,113	39,960	
Totals	**318,602**	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Y6**	**Y7**	
Total Number of HH		-	13,975	18,337	19,778	19,135	18,577	16,219	**106,021**
Total Cumulative HH		-	13,975	32,312	52,090	71,225	89,802	106,021	

22. **Additional incremental financing.** As discussed above, the programme will to invest in enhanced financial services and products to rural areas through supports to formal and informal financial service providers. Incremental financing that will need to be made available by these service providers over the programme period is estimated at USD 107 million, assuming an 80 per cent loan recovery rate, an average lending term of 6 month for agricultural loans, and multiple use of loans by some beneficiaries during the programme duration.

Table 3. Incremental financing requirements

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	**Total**
Numbers of households																		
Poor (VSLA)	hh		4,914	7,050	7,050	7,050	7,050	6,847	-	-	-							39,960
Poor (VSLA &FSP)	hh		1,657	1,285	1,673	1,518	1,905	1,262	-	-	-							9,300
Vulnerable (VSLA)	hh		1,657	1,285	1,673	1,518	1,905	1,262	-	-	-							9,300
Vulnerable (VSLA&FSP)	hh		4,914	7,050	7,050	7,050	7,050	6,847	-	-	-							39,960
Loan requirements																		
Poor (VSLA)	MKW/hh		22,690	-	-	-	-											
Poor (VSLA &FSP)	MKW/hh		-	-	312,233	-	-	-	-	-	-							
Vulnerable (VSLA)	MKW/hh		137,084	445,255	611,674	82,194	-	26,105	34,364	43,685	9,507							
Vulnerable (VSLA&FSP)	MKW/hh		618,377	396,094	-	-	-	-	-	-	-							
Loan requirement																		
Total loan requirement	MKW M		3,377	7,380	10,602	8,970	8,370	10,447	8,464	9,860	7,034	672	309	503	558	366	65	**76,977.64**
Total loan requirement	USD M		4.69	10.25	14.73	12.46	11.63	14.51	11.76	13.69	9.77	0.93	0.43	0.70	0.77	0.51	0.09	**106.91**

23. **Data sources.** The indicative investment models are prepared based on field level data that represent existing and future farm management practices, crop and livestock productivity parameters, labour requirements, and types and costs of financial products and services provided by VSLAs and local financing institutions. These data were collected under the current IFADs RLEEP, PRIDE and other development partners such as CARE and CRS. Additionally, statistical data of the local districts, monitoring and evaluation data of ongoing IFAD programmes and projects, and findings of various studies conducted by research institutes and development agencies are used.

IV. Financial Analysis

a. Production models

24. **General.** The analysis developed five crop and two livestock production models to represent predominant production activities. Crop models demonstrate intensified production of: (i) rainfed maize; (ii) rainfed groundnuts; (iii) rainfed soya bean; (iv) rain-fed potato; and (v) irrigated potato through investment in a low-cost treadle pump. Livestock production models demonstrate investments in purchase of: (i) two goats; and (ii) one dairy cow.

25. In the WoP situation, the crop models present the current productivity and profitability levels that are much below optimum due to combination of factors including use of poor quality seeds, application of minimum levels of or no use of fertilizers and agrochemicals, inadequate farm practices and technologies that do not respond to increasing climate shocks. Similarly, present productivity levels of dairy cow and goats are very low largely because of poor animal health and nutrition as households have limited access to animal feed, animal health services and products and use inadequate animal husbandry practices. Limited or lack of access to financial services and products for majority of rural households is a main determining factor that explain afore-discussed issues. Negative climatic events such as droughts, dry spells and erratic rainfalls frequency and severity of which are stubbornly increasing, is another contributing factor to steady declines in productivity levels leading to increases in food insecurity and prices of major food crops for human and animal consumption.

26. In the WiP situation, combination of improved access to financial services and products, improved farm practices and management, climate resilient technologies, and improved access to markets (value chain support)is expected to enable farm households to substantially increase crop and livestock productivity and profitability through (i) timely application of optimum levels of quality inputs for crop and livestock production; (ii) adoption of new climate smart technologies and farm practices; and (iii) improved animal health and nutrition. Although the value chain interventions would result in improved access to markets, potential benefits in terms of favorable prices for agricultural and livestock outputs are not measured.

27. **Maize production model.** This model would be an example for an improved maize production on 1.0 ha of agricultural land through investments in higher quality seeds, fertilizer and pest control, and improved farm management and climate smart agriculture practices. Maize is a main staple crop, which is produced for both home consumption and market. Despite availability of market demand for maize, the production remains low. Farmers are reluctant in investing in improved inputs, technology and farm practices for numbers of reasons including poor access to seeds, agrochemicals, negative climatic events, and access to finance. In the WoP scenario, (i) a smallholder household uses traditional and low input farming practices; (ii) maize yield is suboptimal at 1,700 kg, (iii) access to finance, quality seeds and extension services are limited; and (iv) harvest and post-harvest losses at 10 per cent due to inadequate farm practices, access to storage and market facilities and climate related shocks. The WiP scenario assumes: (i) yield increases to 2,890 kg and (ii) production losses declines to 5 per cent due to (iii) timely and adequate application of improved seeds, agrochemicals; and (iii) use of improved farm practices.

28. The cost of initial investments will be USD 152. The investment expected to result in increases in gross margins from USD 173 to USD 266 that corresponds to an incremental return at USD 93. Returns to labour expected to increase from USD 2.2 to USD 3.2 per day.

29. **Groundnut production model.** This model too demonstrates intensification of groundnut production on 1.0 ha of rainfed land through investments in quality seeds, fertilizer and pest control, and improved farm management and climate smart agricultural practices. In the WoP scenario, (i) traditional and low input farming practices are used; (ii) groundnut yield is below optimum at 930 kg; (iii) access to finance, quality seeds and extension services are limited; (iv) harvest and post-harvest losses at 10 per cent due to inadequate farm practices, access to storage, processing and market facilities, and climate related shocks. The WiP scenario assumes that: (i) yield will increase to 1,320 kg; and (ii) production losses will drop to 5 per cent due to combinations of improved farm practices, timely and adequate application of improved seeds and agrochemicals, and improved access to storage and markets.

30. The cost of initial investments will be USD 214. The investment expected to result in increases in gross margins from USD 474 to USD 579 generating an incremental return of USD 122. Returns to labour expected to increase from USD 3.7 to USD 4.6 per day.

31. **Soybean production model.** Similar to other models, this model illustrates an intensified soybean production on 1.0 ha of rainfed land through investments in quality inputs, farm practices and technologies. The investments would result in increases in yield from 950 kg to 1,615 kg and reduction of losses from 10 percent to 5 percent.

32. The cost of initial investments will be USD 127. The investment expected to result in increases in gross margins from USD 104 to USD 161 generating an incremental return of USD 57. Returns to labour expected to increase from USD 1.0 to USD 1.8 per day.

33. **Rainfed potato production model.** The model demonstrates an improved potato production on 1.0 ha of rainfed land through investments in fertilizer, pest control, use animal labour for land preparation, improved farm management and adoption of climate smart agricultural practices. The investments expected to increase potato yields from 8,000 kg to 12,000 kg and reduce harvest and post-harvest losses from 10 percent to 5 percent.

34. The cost of initial investments will be USD 388. The investment expected to result in increases in gross margins from USD 303 to USD 454 generating an incremental return of USD 151. Returns to labour expected to increase from USD 14 to USD 19 per day.

35. **Irrigated potato production model.** The model illustrates investments in a treadle pump irrigation, improved agricultural inputs and farm practices that would allow switching form production of rainfed potato to irrigated potato on 1.0 ha land. The investments expected to increase potato yields from 8,000 kg to 19,000 kg and reduce harvest and post-harvest losses from 10 percent to 5 percent.

36. The cost of initial investments will be USD 516. The investment expected to result in increases in gross margins from USD 648 to USD 1,906 generating an incremental return of USD 517. Returns to labour expected to increase from USD 14 to USD 28 per day.

37. **Goat rearing model.** This model describes investments in purchase of two goats of traditional breed and improved animal husbandry practices. Traditional goat breeds are less prone to disease and require low maintenance costs. The goat meat is also the preferred choice of local population, and it is easily marketed through different outlets including direct consumers and butcheries. The model assumes purchase of two does and maintenance of the herd size at two does. Birth rates assumed at 1.5 per kidding with three kidding in two years and mortality rates 7 per cent for mature goats and 12 per cent per kids. One year-old kids assumed to weigh 15 kg and does 25 kg. Flock size expected to stabilize at six does. The 9-month-old kids will be sold live weight for MKW 14,000 each.

38. The initial investment cost is estimated at USD 138. The investment is expected to generate positive returns starting from the year 3 at USD 92. When a ten-year benefit accumulation period is assumed, the investment would yield FIRR of 29 per cent and FNPV of USD 100. The benefit to cost ratio would be 0.14.

39. **Dairy cow model** illustrates an investment in purchase of one dairy cow of local breed, improved animal husbandry and animal health and nutrition. The model assumes that with the adequate animal nutrition, health and management, the farmer will receive milk yield of 1,610 lt per cow over a 6-month lactation period. Although the barns in the country often poorly designed with inadequate ventilation and drainage, cattle health generally is good. Therefore, mortality rates are assumed at 8 percent for cattle and 15 per cent for calves (from birth to weaning and/or slaughter). Calving rate is assumed at 70 per cent. The herd size expected to be maintained at two dairy cows, and calves would be sold live weight before reaching one year old at MKW 200,000 each.

40. The total investment cost would be USD 505. The investment would generate a FNPV of USD 291 and a FIRR of 38 per cent. The benefit to cost ratio would be 0.1.

41. Financial results to crop and livestock production models are summarized in Table 4.

Table 4: Summary of financial results for crop and livestock models

	Gross margin (USD)		Incremental gross margin		Yield kg/ha/animal		Incremental costs	Return to labor (USD)	
	WoP	WiP	MWK	USD	WOP	WP	USD	WoP	WiP
Maize (rainfed)	257	447	136,867	190.09	1,700	2,890	81	3.2	5.3
Soybean (rainfed)	132	278	105,051	146	950	1,615	70	1.2	3.2
Groundnuts (rainfed)	546	785	171,579	238	800	1,320	139	4.4	6.3
Potato (rainfed)	648	966	228,816	318	8,000	12,000	281	14.4	19.3
Potato (irrigated)	648	1,906	905,857	1,258	8,000	19,000	517	14.4	28.2
Goat rearing (2 goats)	-	247	177,762	247			146	-	1.9
Goat rearing (improved husbandry)	-	-	-	-			-	-	-
Dairy cow	-	94	67,771	94		1,610	578	-	1.0

b) Household models

42. Potential FARMSE beneficiaries fall into five broad categories of poverty that represent various levels of endowment, monetary poverty, food security, family labour availability, vulnerability, and resilience to poverty. These categories are: (i) ultra-poor labour constrained; (ii) ultra-poor labour unconstrained; (iii) poor but food-secure; (iv) vulnerable to poverty; and (v) resilient to poverty. To simplify, the analysis grouped them into (i) ultra-poor; (ii) poor; and (iii) vulnerable.

43. Potential investment choices of target beneficiaries are illustrated through five indicative smallholder household models with different types and scales of assets. The models are summarized below and presented in Table 5.

a. **ultra-poor labour unconstrained households** receiving capacity building support and one time lump sum asset transfer grants of around USD 70 are presented through indicative investments models for a smallholder farming household operating 0.40 ha of rainfed land, of which 0.1 ha is currently not operated due to lack of financial resources, and investing in (i) improved production of maize (0.20 ha) and groundnuts (0.2 ha) and (ii) purchase of two goats;

b. **poor households** gaining access to informal financial services and products through its membership in the VSLA, are illustrated through a smallholder household model operating 0.70 ha of rainfed land and investing in intensified production of maize, groundnuts, and soybean;

c. **poor households** gaining access to both informal and formal financial services and products delivered by FSPs and VSLAs, are illustrated through a smallholder farm household model operating 0.70 ha of rainfed land and investing in (i) intensification of rainfed maize, soybean, groundnut, and potato production; and (ii) purchase of one goat;

d. **vulnerable households** accessing finance through its membership in VSLAs are presented through a smallholder farm household model operating 0.80 ha of rainfed land and investing in (i) intensification of maize, groundnuts, soybean and potato production; and (ii) increasing existing goat herd by one goat;

e. **vulnerable households** accessing financial resources and products through the VSLAs and FSPs are presented through a smallholder farm household model operating 0.80 ha of rainfed land and investing in (i) a treadle pump irrigation to produce irrigated potato on 0.50 ha of land; (ii) intensification of rainfed maize, groundnuts and soybean on 0.20 ha of rainfed land; (iii) one goat; and (iv) one dairy cow.

Table 5: Summary of With and Without Project Situations per Household

Production activities	Unit	Ultra-poor (graduation)		Poor (VSLA)		Poor (VSLA & FSP)		Vulnerable (VSLA)		Vulnerable (VSLA & FPS)	
		WOP	WIP	WOP	WIP	WOP	WIP	WOP	WIP	WOP	WIP
Crop production											
Maize (rainfed)	ha	0.20	0.20	0.40	0.40	0.40	0.30	0.20	0.20	0.20	0.15
Maize (rainfed, rented land)	ha	0.10	0.20			0.00	0.00				
Groundnut (rainfed)	ha			0.20	0.15	0.15	0.20	0.25	0.30	0.15	0.10
Soybean (rainfed)	ha			0.10	0.15	0.15	0.20	0.20	0.15	0.15	0.05
Potato (rainfed)	ha							0.15	0.15	0.30	0.00
Potato (irrigated)	ha									0.00	0.50
Total area	**ha**	**0.30**	**0.40**	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**
Livestock											
Goat (new investment)	head							1			
Goat (improved husbandry)	head		2				1		1		1
Dairy cow	head									0	1

44. Financing requirements for investment activities will vary from one household to another depending on investment choices. As presented in Table 5, financial needs of ultra-poor labour unconstrained households will be around USD 126 to be financed from the asset transfer grants of USD 70 and beneficiary contribution of USD 56. Investment choices of those households, who access only VSLA loans, are expected to require relatively modest amounts of investments. Poor households, for instance, are assumed to opt for less capital-intensive investment activities (crop production) that require investment at USD 63 to be funded from VSLA loans of USD 32 and household contribution of USD 31. Similarly, investment options of vulnerable households assumed to require USD 439 to be funded from VSLA loans of USD 190 and beneficiary contribution of USD 249. Highest loan amounts are expected for investments choices of poor and vulnerable households gaining access to both informal and formal financial services. Respective financial requirements of poor household expected at USD 815 to be funded from loans of USD 434 and beneficiary contribution of USD 381 and of vulnerable households at USD 1,203 to be financed from loan amount of USD 859 and household contribution of USD 344. It should however be noted that these financial requirements of households represent only the first year financial needs and some households are expected to receive loans in following years depending on their cash flows.

45. A summary of the financing requirement per household is presented in the Table 6.

Table 6: Household Financing

	Incremental production costs		Beneficiary contribution		Household loan requirement	
	MWK	USD	MWK	USD	MWK	USD
Ultra Poor Household (Graduation)	90,567	126	40,567	56	90,567	126
Poor Household (VSLA)	45,381	63	22,690	32	22,690	32
Poor household (VSLA and FFS)	586,528	815	274,295	381	312,233	434
Vulnerable Household (VSLA)	316,335	439	179,250	249	137,084	190
Vulnerable Household (VSLA and FFS)	866,325	1,203	247,948	344	618,377	859

46. **Financial returns to households.** As presented in Table 7, incremental incomes after financing are projected to be in the ranges of USD 184 to USD 1,203 with a lowest incremental net returns expected for poor households investing in rainfed crop production and highest returns to vulnerable households investing in intensification of crops and purchase of goats and dairy cow.

47. In general, all households are expected to generate substantial incremental incomes and have positive cash flows over an investment maturity period of 10 year. Cash flow analysis also suggest that poor households will need loans only one time, whereas other households, except vulnerable household accessing VSLA loans, are likely to need loans two times. In contrary, the investment choice assumed for vulnerable households, who will access only VSLAs loans, suggest need for loans almost every year.

Table 7: Summary of Results for Household Models

	Net income after financing				Incremental income after financing /2		Incremental production costs	
	WoP		WiP \1					
	MWK	USD	MWK	USD	MWK	USD	MWK	USD
Ultra Poor Household (Graduation)	149,505	208	282,297	392	132,792	184	90,567	126
Poor Household (VSLA)	294,834	409	441,947	613	147,113	204	45,381	63
Poor household (VSLA and FFS) \2	279,105	387	864,253	1,199	585,149	812	240,195	334
Vulnerable Household (VSLA)	507,980	705	1,034,787	1,435	526,807	731	316,335	439
Vulnerable Household (VSLA and FFS)	809,492	1,123	1,336,284	1,853	526,792	731	866,325	1,203

1\ At investments full maturity w hich is assumed at ten years
* FFS = Formal Financial Services

48. Estimated financial rate of return to the overall programme is 26.3 per cent with financial net present value of USD 31.2 million and B:C ratio of 1.9. The programme is estimated to generate economic rate of return (ERR) at 19.3 per cent with economic net present value (ENPV) of USD 44.5 million and B:C ratio at 2.2.

V. Economic Analysis

49. Economic rate of return (ERR) to the programme investments is estimated at 19.8 per cent with economic net present value (ENPV) of USD 46 million.

50. *Sensitivity analysis.* The programme is moderately sensitive to changes in the programme benefits and costs. A 20 per cent declines in benefits drops the EIRR to 14.9 per cent and 20 per cent increases in programme cost reduces the base EIRR to 15.7 per cent. The programme is sensitive to delays in the benefit accumulation with a two-year delay in the programme implementation dropping the EIRR to 13.6 per cent. If VSLAs can make financial resources available to 50 per cent of households instead of currently assumed 30 per cent of households, EIRR will reach 91.8 per cent. Please see Table 8 for results of sensitivity analysis.

Table 7: Sensitivity Analysis

Sensitivity variables	Change	EIRR	ENPV
Base scenario	**0%**	**20.3%**	**15,638,679**
Project benefits	-10%	18.2%	11,120,390
	-20%	15.8%	6,602,101
	-50%	7.2%	-6,952,767
	10%	22.3%	20,156,969
	20%	24.2%	24,675,258
Project costs	10%	18.4%	12,684,258
	20%	16.7%	9,729,837
	50%	12.4%	866,572
Delay in benefit accumulation	1 yr	17.1%	10,393,470
	2 yrs	14.8%	5,116,282
Increases in VSLA loans	20%	20.3%	48,369,882

Appendix 11: Programme Implementation Manual

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Annexes

Annex 1: Annual Work Plan and Budget for Year 1 in IFAD format
Annex 2: Procurement Plan for first 18 months in IFAD format
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Government of Malawi

Facility to Assist Rural Markets, Smallholders, and Enterprise
FARMSE

PROGRAMME IMPLEMENTATION MANUAL

Draft version: October 2017

Contents

List of Acronyms

AFWG	Agricultural Finance Working Group
AWP&B	Annual Work Plan and Budget
BAM	Bankers Association of Malawi
CBFO	Community Based Financial Organization
CEO	Chief Executive Officer
COSOP	Country Strategic Opportunities Paper
CPIA	Country and Policy Institutional Assessment
CTS	Chief Technical Specialist
DPFSPD	Department of Pensions and Financial Sector Policy Division
EIRR	Economic internal rate of return
ENPV	Economic net present value
FARMSE	Facility to Assist Rural Markets, Smallholders, and Enterprise
FISP	Farm Input Subsidy Programme
FMA	Financial Management Assessment
FMD	Financial Management Division
FSP	Financial Service Providers
GAP	Food Agricultural Practice
GDP	Gross Domestic Product
GOM	Government of Malawi
HCD	Human Centered Design
HDI	Human Development Index
IFAD	International Fund for Agricultural Development
IPC	Internal Procurement Committee
IRLADP	Irrigation, Rural Livelihoods, and Agricultural Development Programme
M&E	Monitoring and Evaluation
MGDS	Malawi Growth and Development Strategy II
MIS	Management Information System
MLGRD	Ministry of Local Government and Rural Development
MMFN	Malawi Micro-Finance Network
MNO	Mobile Network Operators
MOA	Ministry Agriculture
MOFEPD	Ministry of Finance, Economic Planning, and Development
MPAT	Multidimensional Poverty Assessment Tool
MSMEs	Micro, Small and Medium, sized Enterprise
MUSCCO	Malawi Union of Savings and Credit Cooperatives
MWK	Malawian Kwacha (unit of currency)
NAP	National Agriculture Policy
NGOs	Non-governmental organization
NSSP	National Social Support Programme
OIBM	Opportunity International Bank of Malawi
PCN	Project Concept Note
PFSPD	Pensions and Financial Sector Policy Division of the MOF
PIM	Programme Implementation Manual
PLC	Payday lending companies
PMU	Programme Management Unit
PRIDE	Programme for Rural Irrigation Development
PRC	Proposals Review Committee
PSC	Programme Steering Committee
RB-AWPB	Results Based Annual Workplan and Budget
RBM	Reserve Bank of Malawi
RIMS	Results and Impact Management System
RLEEP	Rural Livelihoods and Economic Enhancement Programme
SACCO	Savings and Credit Cooperative Organizations
SAPP	Sustainable Agricultural Production Programme
SECAP	Social, Environmental and Climate Assessment Procedures

SME	Small and medium sized Enterprise
TA	Technical Assistance
TOR	Terms of Reference
TSPs	Technical Service Providers
USD	United States Dollar
VSLAs	Village and Savings and Loan Associations

I. Overall introduction to this manual

1. The purpose of this manual is to provide a comprehensive set of guidelines, tools and formats, to facilitate programme management from inception through to closing. As a management tool, the manual contents reflect the Programme design, and the overall implementation framework with respect to key principles and approaches to be applied, planned intervention strategies, partnership arrangements, fiduciary controls, and planning, monitoring and evaluation, and reporting. The Manual should be considered as a living document; when it comes to practical application and usage, if aspects prove challenging, or out of context, there should be appropriate mechanisms in place for rectification and improvement as this will lead ultimately to improved programme delivery.

2. The Manual is made of components or sub-manuals, which can be referenced as a whole or independently. For example, sub-manuals for components 1, and 2 - whilst they are anticipated to lead to common outcomes, and drive progress to achieving the Programme Development Objective (PDO), they require different management approaches with respect to eligibility criteria, funding disbursement mechanisms, partner management, etc; this is reflected in the respective manuals for each component.

3. This Manual is an internal management document. Whilst parts of it can be shared with implementing partners (e.g. selection criteria, Logical Framework and indicators, Planning, Monitoring and Evaluation (PM&E) requirements, templates for data collection, reporting formats, etc.), the documents should not be distributed as a whole.

4. The Manual provides instruction for contractual arrangements, fund management, reporting, etc. Therefore, it requires compliance on the part of programme management and staff. Failure to work within the framework of the Manual will be considered as breach of responsibility.

II. 1.0 INTRODUCTION

5. **Programme Objectives.** The overall goal of FARMSE is to reduce poverty, improve livelihoods and enhance the resilience of rural households on a sustainable basis. The Programme's Development Objective (PDO) is to increase access to, and use of, a range of sustainable financial services by rural households and micro, small, and medium enterprises.

6. **Outcomes.** Five major programme outcomes are expected that would lead to achieving the PDO: (i). the capacity of ultra-poor households to graduate from poverty, improve food security and secure livelihood opportunities improved (ii). The capacity of ultra-poor women headed households and youth graduate from poverty iii). Improved access to structured and sustainable CBFO financial services (iv). Enhanced capacity of FSPs to deliver demand-driven services in rural areas v). improved access to sustainable financial services to women and youth vi). Rural finance sector support organisations capacity and knowledge increased. These outcomes will be measured through the following indicators, which will apply to all three components:

a. a national model for graduating ultra-poor from poverty developed, tested at scale, and approved by GOM

b. outreach of rural financial services serving 432,774 individuals with sustainable financial services; and

c. sustainable financial services innovation introducing five new/improved sustainable financial products, services or delivery mechanisms targeting rural beneficiaries.This is expected to contribute to improved resilience and improved food security and nutrition.

7. **Programme Implementation approach.** The proposed principles of engagement for programme design are as follows:

a. While not exclusive to any target socio-economic household, some financial tools are more appropriate for one than others. Graduation will target the ultra-poor, while informal financial organizations such as CBFOs are better suited to the ultra-poor but non-labour constrained and poor but food-secure. Financial services offered by formal FSPs are most effective for households vulnerable to poverty and resilient households. The FARMSE design will provide the most appropriate intervention for each group, including youth, with gender sensitive approaches;

b. The programme will be national in scope with some interventions targeting strategically identified districts to test concentrate resources and test/identify effective, efficient, and replicable interventions for scaling up. Where possible, components/ activities will overlap geographically and with IFAD programme areas, to maximize impact and potential for scaling up;

c. The programme will support private and not-for-profit organizations individually or in consortia, often in long-term, multi-phased and performance-based partnerships. Private sector participation will be on a cost sharing basis;

d. To ensure the GOM’s ability to successfully manage and oversight programme implementation, a competitively selected Programme Management Unit (PMU) team, technically qualified to manage a financial inclusion programme will be supported with training and long term technical capacity support; and

e. Programme partners will be required to employ high-calibre international, regional, and national financial sector experts as required to ensure effective project implementation.

III. 2.0 PROGRAMME COMPONENTS

8. The PDO will be achieved through three components: (a) Ultra-poor Graduation Model; b).Community Based Financial Organisations (CBFO) and (c) Strategic Partnerships, Knowledge Generation and Policy. Under Component 1 GIZ will lead the implementation working through the PMU while under Component 2 potential partners seeking support will have to apply under pre-defined windows and under well-defined procedures. Several approaches for the approval of proposals have been envisaged, with a mix of internal and external assessments, through which all initiatives to be supported will be approved. For Component 3 a support framework will be jointly elaborated that requires approval under the Annual Work Plan and Budget (AWPB), initiatives undertaken under Component 3 will be conducted in accordance with the AWPB, with the choice of interventions and activities being more at the discretion of the Programme Management Unit (PMU) than those proposed under the partnership and grant agreements concluded under components 1 and 2.

2.1 Component 1:Ultra-poor graduation model

9. This component will support on-going government efforts in developing and delivering effective graduation programmes in rural areas to reduce extreme poverty levels among both ultra-poor labour constrained and non-labour constrained households. The component will be overseen by the PMU and led by GIZ with the participation of the National Social Support Programme, under the Ministry of Finance (MoFEPD, NSSP) who together are piloting a modest graduation programme in Mwanza District southern Malawi. FARMSE will follow the graduation concept adopted by the GoM and where applicable borrow aspects from the universally tested *Consultative Group to Assist the Poor (CGAP)/Ford Foundation model. This model essentially has 5 steps targeting: consumption support; savings; technical skills transfer and asset transfer. IFAD support will only be applied from stage 2 to stage 5 of the graduation stages. GoM and its other partners, including GIZ, will support the stage 1 which involves targeting and*

provision of grants for consumption support or smoothing out life shocks. The details of cooperation will be worked out between GoM and IFAD. In addition piloting activities will be excluded given that it will shorten the overall programme implementation time and curtail achievement of its objectives and as the country has already piloted many graduation models, no additional pilots will be necessary.

10. The expected Outcomes of this Component are that the capacity of ultra-poor households to graduate from poverty, improve food security and secure livelihood opportunities is improved; and ii) the capacity of ultra-poor women headed households and youth graduate from poverty is improved. The **objective** of the component is to develop and test at scale a cost-effective, replicable model(s) to graduate households from ultra-poverty and food insecurity into sustainable, self-reliant livelihoods. A secondary goal of the design and testing is to reduce the cost of graduation from the international benchmark of USD 1,500 to between USD 800 to 1,000.

2.2 Component 2: Support to Financial Innovation and Outreach

11. The outcome of this subcomponent is improved access to existing and innovate informal community based financial organizations savings and loans products.[152] The **objective** is to support CFBOs expanded outreach to poor but food secure households, households vulnerable to poverty, and resilient households in rural Malawi. This component will seek to overcome numerous barriers to financial services to the rural poor. It will support the development of informal and formal financial services best suited to ultra-poor non-labour constrained, poor but food-secure, vulnerable to poverty, and low income but resilient to poverty households, emphasizing savings and credit for on and off farm enterprise. This component will also employ financial interventions within select value chains to enhance economic returns to smallholder participation and value chain efficiency. The component has two subcomponents:

12. **Subcomponent 2.1 - Community Based Financial Organization support (CBFO).**This sub-component has three activities; i). Mapping of existing CBFOs and assessing maturity status; ii).Building capacity of CBFOs: provide opportunities to additional skills and linking CBFOs and/or their members to formal financial institutions and high value markets. This will enhance smallholder income, asset and some livelihood / enterprise development opportunities; iii).Formation of new Groups. This will contribute to household income smoothing and/or to enhancing household income, asset, and livelihood/ enterprise development opportunities.

13. For all the three activities, Matching Grants will be provided to experienced CBFO support groups/consortia for the preparation of a detailed proposal with multi-year project implementation plan. Selected proposals will be awarded service contracts on a competitive basis for multi-year, multi-phased, performance based contracts. Funding will be given to organizations with a proven track record in CBFO promotion or to a consortia capable of rapidly and sustainably expanding their network of member groups in targeted rural areas with the Promoter contributing 40% of the cost and the Programme contributing 60%. Actors will comprise i). Operators desirous to expand sustainable savings and credit intermediation models ii). Value chain developers and ii) secondary or apex organisations.

14. **Subcomponent 2.2 – Innovation and Outreach Facility (IOF).** The outcome for this subcomponent is to enhance the capacity of FSPs to deliver demand-driven services in rural areas. The objectives are two: i) increase access to new and innovative financial services and low-cost delivery mechanisms for poor rural households and MSMEs; and ii) to support the scaling up of proven financial services and delivery mechanisms. Activities under this subcomponent will support FSPs wishing to enter and expand outreach in rural areas. Support will be provided on a demand-driven and cost-sharing basis through the Rural Finance Innovation and Outreach Facility (IOF). The IOF would address FSP’s lack of experience in rural financial markets and limited expertise in designing and delivering products/ services

[152] Informal CBFOs are commonly referred to as Village Savings and Loan Associations. CBFOs have two defining characters. First, they are informal, or unregulated by a government agency. Second, they are formed and managed by individuals who come together voluntarily. There many different CBFO models, many like VSLAs, and can include informal cooperative associations, village bank models, or variations of the VSLA model. See: IFAD, How to do Support community-based financial organizations, IFAD, 2014.

targeting low-income rural clients and MSMEs. Critically, a lack of exposure to rural markets leads to an exaggerated perception of risks which further discourages FSP from entering these markets. The IOF would address these constraints by facilitating FSP exposure to successful international best practices/innovations which have worked in other African countries, and access to high-quality technical assistance (TA) to identify promising approaches and adjust models to institutional settings and market environments. Products and services could be within the financial sector value chain or could be opportunities related to the development of an agricultural value chain.

15. The IOF will have three funding windows: i) market research and feasibility studies to support FSP market opportunities identification, risks, market entry costs and revenues; ii) pilot testing of product innovations and/ or delivery mechanisms; and iii) expanding outreach of piloted products/ services and/or delivery mechanisms. Prospective partners can choose to apply to the window that best suits the nature of development needs. All projects will be cost shared with FSP partners and chosen on a competitive basis.

16. **Non-Financial Sector Service Providers** will also be eligible for support if they are engaged in financial service provision (or have the intention to do so), either directly or in partnership with FSPs. Partnerships will be encouraged as they can often manage risk better and reduce transaction costs than a single institution alone. Examples projects for non-financial service providers would include *inter alia*: value chain finance arrangements between FSPs, input suppliers, agribusiness companies, warehouse operators and commodity exchanges or partnerships with mobile money operators for digital payment solutions. Some non-financial services activities will also be supported if deemed critical to enhance beneficiaries' capacity to access and use financial services supported under the IOF, such as, for example, strengthening farmer organizations or basic financial literacy support, market linkages establishment, or targeted extension services.

17. The component provides for matching grants in varying degrees depending on the capacity and the needs of the participating institution under the CBFO support organisations and the three IOF windows. The operations of this component will be governed by the details elaborated in the PIM. The PIM provides a detailed description of the respective partnership arrangements, windows (notably edibility and selection criteria, grant ceilings, and co-financing requirements, etc.), procedures and mechanisms for application processing, administration of grants, various formats (such as evaluation form, grant agreements. Rigorous internal and external technical review will be built in by subjecting applications that pass initial screening for a detailed review by external technical specialists. A Proposals Review Committee (PRC) will be established with the authority to review and approve or disapprove the applications, while ensuring professional confidentiality so that innovations, approaches and products tested and developed are not revealed to competitors or the general public.

Financial Innovation and Outreach Support

	Community Based Financial Organisations Support	**IOF: Window 1: Market research and feasibility studies**	**IOF: Window 2: Pilot Testing and Innovation**	**IOF: Window 3: Expanding Outreach**
Eligible Applicants	CBFO support organisations, ii) Value chain developers and iii) secondary or apex farmer organisations, FSPs	Technical Service Providers (TSPs), Research agencies and institutions, Input suppliers, agribusiness companies, warehouse operators, and commodity exchange.	Technical Service Providers (TSPs), FSPs Input suppliers, agribusiness companies, warehouse operators, and commodity exchange	FSPs, MNOs, electronic & money transfer operators &Fintechs Input suppliers, agribusiness companies, warehouse operators, and commodity exchange
Main Activities Supported	Mapping exercises for old groups, Farmer Groups support, CBFO –FSP dialogue, CBFO – High value market players dialogue and mobilisation of	TA and logistic costs for undertaking fieldwork. Study tours and exchange visits	Developing and piloting product prototypes, conducting pilot tests and adjusting and refining product features	National and international TA for staff training, draft manuals, and institutional change ICT equipment, low-cost branches and agencies, vehicles

	Community Based Financial Organisations Support	IOF: Window 1: Market research and feasibility studies	IOF: Window 2: Pilot Testing and Innovation	IOF: Window 3: Expanding Outreach
	groups.			
Matching Ratios	Matching Grant for 60% of total costs for 36 months	Matching Grant for 80% of total costs for 12 months and 50% for study tour and exchange visit	Matching Grant for 70% of total costs for 36 months	Matching Grant for 70% of total costs for 36 months. 20% contribution by promoter should be in cash
Maximum Grant Amount	US$ 100,000[153] – US$ 450,000	US$ 50,000. US$ 10,000 for study tour and exchange visit	US$ 70,000	US$ 1,000,000
Average Grant Size	US$82 and $ 390,000	US$ 25,000	US$ 50,000	US$ 750,000

2.3 Component 3: Strategic Partnerships, Knowledge Generation, and Policy.

18. The outcome of this component is to increase the capacity and knowledge bases of rural financial sector support organizations, and has three objectives: i) strengthen macro level regulatory and financial sector policy and institutional capacity; ii) strengthen financial sector organizations/infrastructure; and iii) produce and distribute rural finance sector knowledge products which enhance the outreach and innovation potential of sector stakeholders. The component has two subcomponents.

19. **Subcomponent 3.1 – Support to Poverty Graduation Policy Systems** activities will support efforts at the Division of Poverty Reduction and Social Protection in Ministry of Finance to develop policy, capacity related to the identification of effective graduation models, and to disseminate good practice graduation information within the GOM and to other stakeholders.

20. **Subcomponent 3.2 – Support to Development of broader Rural Finance Policy** has two activities one for each subcomponent of Component 2.0. The first will support CBFO sector development, policy, and research with the goal of improving FARMSE target group access to and benefits derived from structured CBFOs, including greater links to the formal financial sector. It will also facilitate formal GOM recognition of good practice CBFOs (but *not* their regulation or supervision).[154] The second activity relates to subcomponent 2.2 and would support financial service providers and agro-Industry sector development, policy, and research. This will be done in partnership the MOFEPD, the Reserve Bank of Malawi (central banks), and industry stakeholders such as The Malawi Micro-Finance Network, the Bankers Association of Malawi and the Malawi Union of Savings and Credit Organizations. Both activities would include support for key innovations/lessons knowledge management, financial training modules, feasibility study for a micro-finance apex fund, rural finance policy capacity building at MOFEPD, or the establishment of a high-level Agricultural Finance Working Group.

IV. 3.0 TARGET GROUPS AND TARGETING STRATEGIES

21. Target groups. FARMSE categorizes rural households as: i) labour constrained ultra-poor; ii) non-labour constrained ultra-poor; iii) food secure but poor; iv) vulnerable; and v) resilient.155

22. The groups represent a continuum, characterized by diverging levels of poverty/ wealth, vulnerability and resilience. The first two categories (ultra-poor, labour constrained and non-labour constrained households) represent those living under extreme/severe food poverty as they are unable to meet basic food needs. The third category, food secure but poor households, represents households living under the poverty line that are food secure but unable to meet all other basic needs. Together,

[153]US$ 100, 000 for new groups and US$450,000 for restructured groups.

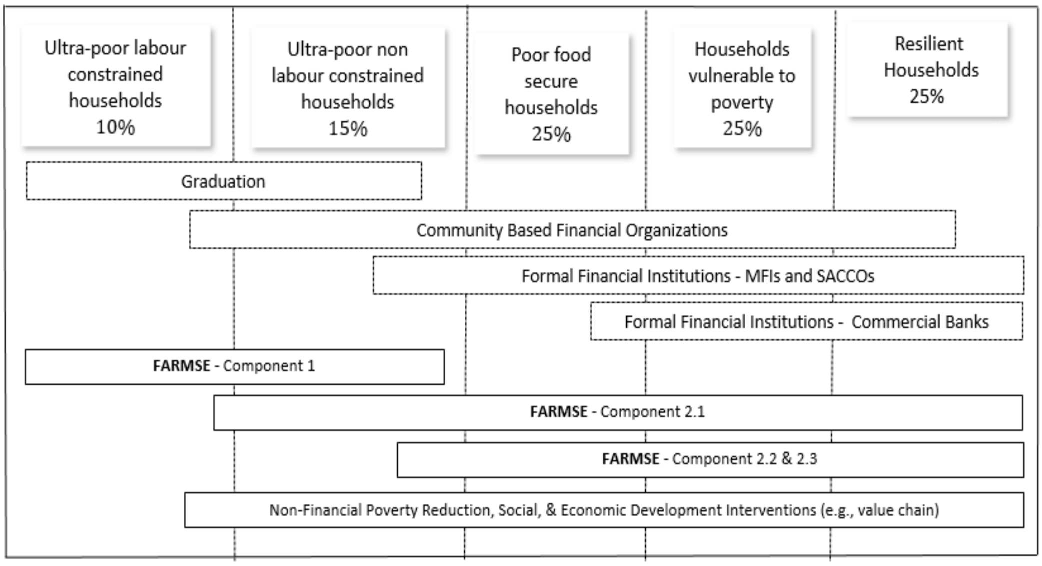
[155] While similar, these five categories cannot be strictly equated to the five socio-economic quintiles used in national level household surveys.

these three categories represent 50.7% of the Malawian population living under the national poverty line. Vulnerable households are the economically active, whose performance in agricultural activity allows for the regular sale of produce in markets and the use of cheap labour from poorer households. These economically active households tend to have additional small complementary sources of income. While over the poverty line, these households are vulnerable to shocks which can result in loss of assets and falling back into poverty.

23. Recognizing the role played by financial inclusion in poverty alleviation, FARMSE was designed to meet the financial inclusion needs of the first four categories of poor and vulnerable households, and within these, the condition of women and youth who are more likely to be excluded without specific targeting efforts.

24. In addition to needing to meet food consumption needs, very poor households require productive assets to develop livelihood activities. Savings and access to small credit supports such a transition. CBFOs play a crucial role in supporting households living under the poverty line who are food secure and vulnerable to poverty for consumption needs, livelihoods enhancement, and meeting foreseen and unforeseen education or health related expenses. Credit and savings also enables these households, as well as households vulnerable to poverty, to strengthen their livelihood strategies. Formal FSPs, such as SACCOs and MFIs, offer more economically active and resilient households the possibility of accessing funds to build strengthened and or diversified livelihood activities, including those in agricultural or micro/ small enterprise.

25. Component 1.0 will target 15,000 ultra-poor households in a graduation model roll out, of these 30% will be women headed households and 20% youth. Component 2.1 focuses on CBFO group expansion and innovation and will reach 380, 574 target beneficiaries, of which 20% will be youth and 30% women. Component 2.2 will directly reach an estimated 417,350 target beneficiaries and 1.68 million indirect beneficiaries (household members), of which an estimated 30% will be women, and at least 20% will be youth.



26. Targeting Strategy. Although FARMSE will be a nation-wide programme, its geographic coverage will be clustered based on two distinct targeting mechanisms: i) selection of participants for Component 1 will be based on pre-identified criteria ensuring that targets for women and youth are met; and ii) self-selection through use of low income appropriate financial services for Component 2.

27. The FARMSE targeting strategy is socio-economic based as different programme components will target households with different socio-economic characteristics to meet their specific needs. Specific geographic areas (e.g., districts with clusters of villages) will be selected based on concentrations of

ultra-poor households. Preference will be given to areas which overlap with other FARMSE components, and/or other complementary government/donor activities, and in areas where with some livelihood opportunities for the poor exist (e.g., growing agricultural product value chain). Sites in North and Central Malawi are of interest given that most similar graduation programming efforts have concentrated in the South.

28. Component 1.0 will be GoM graduation concept, and will be rolled out by GIZ with oversight of the PMU. The graduation programme will be rolled out in a coordinated fashion in several areas with representative socio-economic population distributions. The tested GoM model will be sensitive to the needs and capacities of youth and women; women-headed households are common among the ultra-poor. Participating households will be selected based on pre-identified criteria.

29. Component 2.0 will focus on financial service provision targeting poor but food secures households, households vulnerable to poverty, and resilient households. The programme will facilitate access to financial services based on self-selection. This approach relies on the expansion of existing and new financial services and/or related interventions that meet target households needs/demands, but are largely unattractive to higher income households. This targeting strategy is not exclusive to reaching households in other socio-economic strata with lower or higher income. Many financial sector interventions also have geographic limitations based on implementing FSP’s area of operations (e.g., location of branch/agent network), which can introduce some bias towards urban areas. Measures to ensure programme benefits are as widely distributed nationally as possible. Partner financial service sector operating areas will be selected based on: i) commercial activity potential (agriculture and trade/ services); ii) agricultural product value chains with development potential; iii) poverty reduction and employment creation potential; iv) financial services demand, particularly among target socio-economic households; and v) existence of complementary government/donor programmes. The programme could support value chain financing interventions located in urban areas if benefits of interventions flow substantially to target rural households. Proposed financial sector projects will be encouraged to consider linkages with existing IFAD programmes (Sustainable Agricultural Production Programme- SAPP, and Programme for Rural Irrigation Development-PRIDE) or operate in past programme areas of the Rural Livelihoods and Economic Enhancement Programme (RLEEP).

30. **Gender and youth mainstreaming strategy.** A key element in FARMSE’s targeting strategy is inclusion. Success in gender mainstreaming and social inclusion at the programme level will be possible through appropriate FARMSE management/staff capacitation and operational policies. Women will be proactively offered equal opportunities to participate in programme management and gaining access to training and promotions. The programme will adopt a non-harassment policy. PMU staff members will be trained on gender issues, socio-economic analysis, household methodologies and HIV/AIDS. Compliance with the programme´s gender and youth strategy will be required among organizations/individuals contracted to undertake programme activities. Likewise, the PMU will be mandated to proactively raise the awareness of partners and contractors to use pro-poor development methods sensitive to gender and youth needs/interests.

31. The programme will proactively reach out to individuals or households to ensure women and youth have access to opportunities offered by FARMSE, including mechanisms integrated in programme design facilitating their access to information, engagement, representation and participation in programme activities and interventions .At programme level, FARMSE will identify measurable indicators for women and youth for each programme component and sub-component. The programme will actively engage and enable women and youth to participate in programme planning and monitoring activities. The programme will also ensure intervention opportunities are sensitive to the needs and preferences of women and youth. A gender analysis of all financial products and services will be made to ensure to the extent possible, the financial, economic, and social impacts of services are gender positive. Partner financial and non-financial organizations will also be assessed for their gender sensitivity. FARMSE will monitor targeting effectiveness (planned vs. actual men and women reached – including young males and females) using gender and youth-disaggregated, participatory monitoring and evaluation (M&E). FARMSE will monitor the impact of products and services on target groups, together with key gender

equality outcomes which will include *inter alia:* improved intra-household relations; improved sharing of tasks between household members; and participation of women in decision-making related to use of land for productive purposes. Use of data will fine tune operational/intervention strategies.

32. **Gender and youth strategy.** A key element of inclusion and targeting is the application of mechanisms to facilitate the involvement of youth and women in programme interventions. A Household Methodology adapted for the Malawian context will be employed for Components 1.0. This approach will equip targeted households to elaborate, execute, and monitor a realistic household development plan to become more resilient.[156] The use of household methodologies aims to unlock households´ economic potential and promote gender equality from within. As such, the approach addresses structural factors hindering the long term sustainability of interventions, including: i) participation of men, women and youth in household and community decisions related to access, control and use of productive assets; ii) promote more equal access, control and use of assets and benefits derived from household livelihood activities; and iii) promote equal enjoyment of benefits associated to programme interventions. Component 2.1 will also encourage active inclusion through household methodologies and/or similar approaches via CBFO group formation methods employed by CBFO support organizations. As this subcomponent, will be demand driven, there is no guarantee as to the nature of such targeting, though inclusion strategies will be strongly encouraged.

V. 4.0 IMPLEMENTATION ARRANGEMENTS

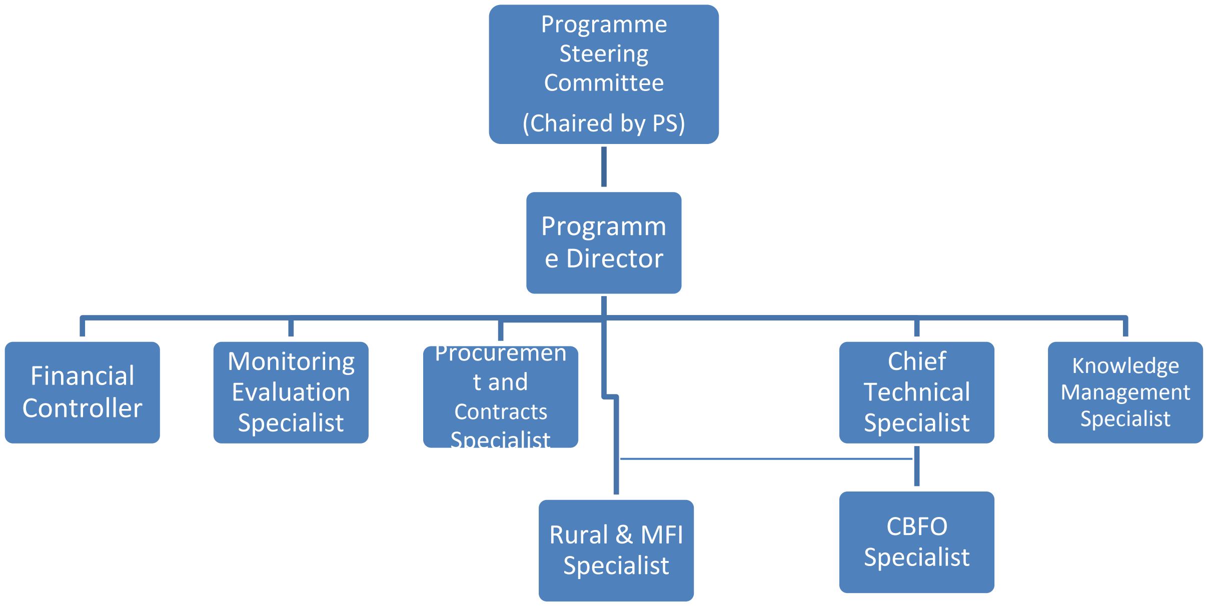
33. **Programme oversight.** The implementation of FARMSE would be jointly undertaken by several agencies and organizations working within their specialised fields of competence. This calls for sound coordination of the different agencies and stakeholders which would be achieved through the establishment of the Programme Steering Committee (PSC) and the PMU.

34. **Programme Steering Committee (PSC).** A multi-sector stakeholder PSC, chaired by the Principal Secretary of MOFEPD, will be established to provide overall programme oversight, direction, and guidance. The PSC will have representatives of key stakeholders including, *inter-alia*, government ministries, farmer organisations, APEX bodies, the private sector, and development partners. The PSC would meet on a quarterly basis to review work plans and budgets, financial and progress reports, receive draft annual reports and approve all major programme decisions. The multi-sectoral composition of the PSC will ensure FARMSE's implementation complements rather than duplicates other government interventions and encourages private sector participation, harmonizing the programme's contribution with the GOM's strategic priorities and development objectives for the sector.

35. **The Programme Management Unit.** The PMU would be hosted by MoFEPD as lead agency. The Department of Pensions and Financial Sector Policy will house the PMU. It would be responsible for day to day management, consolidation of AWPBs, Procurement Plans, Progress, and Financial Reports, and will co-ordinate the procurement of goods, works and services. The PMU will manage monitoring and evaluation, and provide support to implementation and supervision missions.

36. The PMU will be staffed with: i) Programme Director; ii) Financial Controller; iii) Procurement and Contracts Specialist; iv) Monitoring, Evaluation Specialist; v) Knowledge Management and Communication Specialist; vi) Chief Technical Advisor to be assisted by specialists (one each for CBFOs, and another for Rural and Micro Finance; and vii) relevant support staff. The CTA, with regional and international knowledge, will be engaged for a period three years to build capacity of the Technical Team, in particularly the Rural and Micro Finance Specialist. The CTA will be the head of the technical team who will be responsible for implementation of all the three components and reporting to the Programme Director.

[156] IFAD, October 2014. Household Methodologies: Harnessing the Family´s Potential for Change. Gender, Targeting and Social Inclusion.



37. **Programme implementation and Technical Assistance.** Component 1 will be overseen by the PMU and led by GIZ with the participation of the National Social Support Programme, under the Ministry of Finance. Component 2 will be overseen by the PMU and led by the CTS with CBFO support organizations, value chain stakeholder organizations and FSPs as implementing agents.

38. **Technical Assistance (TA).** All TA will be procured on a needs basis following GOM/IFAD procurement guidelines. Performance of TA will be assessed against contract-specific deliverables. The Programme will require a variety of technical assistance, some of which may not be available locally. Where TA is not available locally, they will be procured regionally/internationally, and in order to build local capacity, all international TAs will be paired with local TAs to the extent possible. It is, proposed that in order to ensure that procurement of TA does not slow down implementation; a pre-qualification system will be employed. This would entail identification of key capacity areas and advertisement for expressions of interest in local, regional and international media. Expressions of interest will be assessed based on the provided criteria and a database of pre-qualified TA produced. This would be used in inviting proposals by the Programme when needed. The Programme will be able to create the data base of experts once they have tested the market and established what type of capacity areas the programme will need after assessing of EOIs being received in the first one year. Rigorous internal and external technical review will be built in by subjecting applications that pass initial screening for a detailed review by external technical specialists. A Proposals Review Committee (PRC) will be established with the authority to review and approve or disapprove the applications, while ensuring professional confidentiality so that innovations, approached and products test and developed are not revealed to competitor or the general public.

39. **Supervision.** The FARMSE would be directly supervised by IFAD. Direct supervision would encompass four processes: i). loan and grant administration; ii) procurement review; iii) audit review; and iv) supervision and implementation support. Direct supervision would be applied as a continuous process which requires on-going communication and engagement with the GOM and PMU. Key supervision processes include: i) ensuring fiduciary compliance with the loan and grant administration; ii) assessing programme performance; iii) guidance towards the achievement of the programme's strategic objectives; and iv) conducting supervisory missions.

VI. 5.0 FINANCIAL MANAGEMENT

40. A Financial Management Assessment (FMA) was undertaken as part of the programme design in accordance with IFAD requirements and Financial Management Division (FMD) guidelines on financial management assessment at design. The assessment was based on review of operation of the Programme Support Unit (PSU) of the IFAD financed RLEEP, Ministry of Local Government and Rural Development (MLGRD), the IFAD financed SAPP mainstreamed in the Ministry of Agriculture, the National Audit Office headed by the Auditor General and the Internal Audit of the Ministry of Finance. A review of previous supervision mission reports on financial management was also undertaken during the design mission.

41. The results find a low fiduciary risk if the PMU composition, management responsibilities, and implementation activities proposed by the design are followed. While FARMSE will be the first IFAD programme led by the MoFEPD, the ministry has substantial experience with other donors and the FMA found that GoM systems provide adequate controls to ensure proper management of programme funds. That the Pension and Financial Policy Division of MoFEPD, the designated FARMSE manager, ensures the importance of a strong, supportive PMU and of the proposed management training activities. (See Appendix 7 for details)

42. **FARMSE Financial Management Organization Structure.** Given the above assessment which represents a moderate fiduciary risk, the following arrangements will apply. A separate Programme Management Unit will be set up for FARMSE with a fully-fledged finance section staffed by one Financial Controller and one Assistant Accountant competitively recruited and paid for from Programme funds. These will be recruited on an initial three year contract basis. This includes the review and approval by IFAD of the: (i) recruitment process; (ii) terms of reference of the officers; and (iii) post review of the selected officers prior to the issuing of the contracts. The recruited officers will have to be trained in the IFAD-specific financial management requirements.

43. **Proposed funds flow arrangements.** The Programme will open a Designated Account in USD at the Reserve Bank of Malawi and a Programme account in Malawian Kwacha (MWK) in a commercial bank acceptable to the Fund. The proposed FARMSE envisions a number of partnerships and this comes with financial management implications. Programme implementation under components 1 and 2 will largely rest with selected partner institutions and grant recipients.

44. To provide assurance of strong internal controls, MoFEPD will ensure regular internal audit activity provided by the internal audit unit of the Ministry. Supervision missions would report on the activity of the internal audit by reviewing Programme reports and assessing management's responsiveness to recommendations. Internal controls will also be verified during an annual audit undertaken by the Auditor General or by an acceptable designated third party. In compliance with IFAD's General Conditions, FARMSE's financial statements shall be audited on an annual basis in accordance with IFAD audit guidelines. The audit reports together with the related management letters shall be submitted to IFAD no later than six months after the end of each fiscal year. Financial management arrangements including, staffing, budgeting, accounting, funds flow, disbursements, financial reporting, internal controls, and auditing are detailed in Appendix 7.

45. **Financial Management for partnerships under Component 1.** GIZ is expected to provide parallel financing to compliment IFAD and GoM funding. Given the size of the funding, the following financial management arrangement will be detailed in the PIM and included in the partnership agreements:

GIZ will open a specific bank account for the FARMSE funds:

- To access FARMSE funds, evidence by way of bank statements will be provided by GIZ that it has put its *pro rata* contribution on the bank account in advance.
- GIZ will provide counterpart staff, in addition to the Graduation Specialist, to participate in the FARMSE AWPB events to ensure their respective parts of the budgets have been well captured. That is, the AWPB preparation process will be participatory.
- Budget overruns will not be allowed beyond 5% without prior written concurrence from

the PMU. Thus, GIZ will be required to make use of agreed budget control tools. • GIZ will receive an initial float that will be managed on a replenishment basis on submission of certified Statement of Expenditures (SOEs) subject to the SOE in the letter to the borrower as amended from time to time by the Fund depending on the assessment of the fiduciary risk. Initially this is proposed as USD 50,000. The same replenishment system that FARMSE will use to access IFAD loan funding will cascade to GIZ. • The PMU will, in addition to the SOEs, require financial reports to be able to capture the transactions of GIZ in the FARMSE consolidated financials. • GIZ will be required to grant FARMSE's internal and external auditors full audit cooperation. This will include collaboration with the IFAD supervision missions.

46. Both IFAD, and GoM require that the Programme be well managed and supervised to ensure that loan/ grant proceeds are used only for the purposes for which they were granted, with due regard to economy, efficiency, and sustainable achievement of the Programme's development objectives. In order for the implementing agencies and all those involved in the Programme's financial management such as external auditors to have a common understanding and approach to the various aspects of project financial management, it has been found necessary to describe the financial management and accounting arrangement as part of the Programme Implementation Manual (PIM). The layout of the section is as follows:

Part	Description	Coverage Summary
A	General Internal Control Principles	Systems would mean nothing without internal controls. This part describes the generic internal controls that can be adapted in any scenario including those that may have not been covered in this manual.
C	Managing the FARMSE Cash and Bank transactions	FARMSE will apply the International Public Sector Accounting Standards (IPSAS)- cash basis of accounting- as adopted by GoM and therefore the management of cash and bank transactions is key to clean audit opinions. This manual lays out the salient internal controls needed in the management of cash and bank transactions. The pace at which the special accounts are replenished has a direct bearing on the success of Programme Implementation. The manual includes cash flow management tips.
D	Monitoring and Following-up FARMSE advances	A series of imprest advances to facilitate trainings/ capacity building activities at various focal areas, ministries, local governments, departments, Agencies, NGOs, etc. This manual is responding to the challenge that there are many implementing agencies but then there is a need to ensure that financial control is achieved without impairing the pace at which the Programme is implemented.
E	Controlling Commitments and Creditors	Commitment and creditors control. The risk of over-committing the Programme beyond available resources has to be dealt with right from the start. The manual describes specific management tools to achieve effective commitment accounting.
F	Care and Custody of Fixed Assets	Fixed Assets accounting/ controls. Even though under the IPSAS cash basis of accounting, fixed assets may be expensed, the disclosures of the Programme financed fixed assets is required. The manual illustrates the controls needed to ensure that the Programme's fixed assets are protected from misuse.
G	Summary of the bookkeeping Strategy	Management accounting through progress reporting. Progress reporting is a formal requirement and senior management have to availed with timely analytical information about the state of financial affairs, budget execution, analytical value for money reviews etc. The manual explains the bookkeeping strategy and the specific formats for the progress financial reports.
H	Financial Reporting and application of Public Sector Accounting Standards in	Annual Financial Reporting in accordance with the International Public Sector Accounting Standards (IPSAS) as adopted by GoM. The Programme has to be able to prepare a complete set of financial

Part	Description	Coverage Summary
	the Malawian Context	statements in accordance with the IPSAS for timely presentation to the external auditors. The manual offers guidelines to enable Programme management to fulfill its statutory responsibility regarding the preparation of a complete set of financial statements and thus the external auditors will not be provided with only a trial balance but a complete of financial statements comprising: o Executive commentary o Statement of financial position o Budget Execution statement o Notes and policies used in the preparation of the financial statements o Disclosure schedules such as fixed assets registers, off-balance sheet items etc.

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
A. General Internal Control Principles	**Section: IV A**	**Responsibility: All implementing Staff.**
Topic	**Coverage**	
Definition:	Internal control system is a whole system of controls, financial and otherwise, instituted by management in order to carry out the business of FARMSE in an efficient and orderly fashion, ensure adherence to Programme's policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as 'internal controls'. In designing and developing the various systems and procedures set out in this manual, care is taken to ensure that the pertinent internal controls are integrated in these systems as a means of strengthening them. Hereunder is a list of some of the most common and important controls, which are generic to most operations of the Programme.	
Segregation of duties:	These are designed to reduce the opportunities for someone to perpetuate and/or conceal errors or irregularities in the normal course of their duties. A single individual should not be able to originate a transaction, authorize it, process/ implement it, check it and close it off.	
Authorization:	Designed to provide reasonable assurance that transactions, events from which they arise and procedures under which they are processed are authorized in accordance with the laws, FARMSE's regulations, AWPBs and management policies.	
Approvals:	Designed to provide reasonable assurance that authorized individuals approve recorded transactions in accordance with management's general or specific criteria. Examples: Specific transactions are approved by persons having authority to do so in accordance with established policies and procedures; ▪ Key records are matched before a transaction is approved (e.g. matching invoices with LPOs and GRNs, etc.) ▪ Prior to acceptance, changes to data in existing files are independently approved, evidenced by documentary approval of input before processing.	
Documentation and records:	These are designed to provide reasonable assurance that transactions and events are properly recorded. Examples: ▪ Pre-numbered forms are used to record all of the Programme's transactions, and accountability is maintained for sequence of all numbers used. ▪ Transaction documents, e.g. invoices, delivery documents, etc.,	

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
A. General Internal Control Principles	**Section: IV A**	**Responsibility: All implementing Staff.**
Topic	**Coverage**	
	are date stamped and tracked to ensure that they are recorded on a timely basis. ▪ Source documents are canceled after processing to provide assurance that the same documents shall not be reused and shall not result in recording transactions more than once. Also, only original documents are used to process transactions.	
Safeguard access to and use of assets and records:	These controls are designed to protect assets and records against physical harm, misuse or unauthorized access. Examples: ▪ Secured facilities are used when appropriate, and access to critical forms and equipment is limited to authorized personnel only. ▪ Assets and records are protected against physical harm. ▪ Access to programs and data files is restricted to authorized personnel.	
Acknowledgement of task performance:	Controls providing for tasks performed to be acknowledged through signature, initials, rubber stamps, etc.	
Management and Accounting controls:	Controls in this category are designed to provide independent checks on the validity, accuracy and completeness of processed data. Examples: ▪ Calculations, extensions, additions and accounting classifications being independently reviewed. ▪ Subsidiary ledgers and records are reconciled to the general ledger. ▪ Management reviews performance reports. ▪ The Programme promptly follows up on complaints from Grantees, suppliers, customers, employees and others. ▪ Actual operating results are compared with approved budgets, and variances are explained.	
Organizational Controls:	Presence of an organization plan/chart, which defines and allocates responsibilities, and identifies clear lines of reporting.	
Systems Controls and Security:	These controls are applied and inbuilt within the Accounting Package to protect data from accidental or deliberate threats which might cause unauthorized modification, disclosure or destruction. ▪ Accessibility levels need to be provided to prevent unauthorized amendment, adding to, deleting or re-arranging the data, or extracting the information that forms the data. These accessibility limits should be in form of log on and passwords. A basic password structure shall be applied based on access limits. ▪ Reports should not be produced or disclosed in any manner incompatible with their purposes. ▪ Regular backup of data requires to be maintained. The backup requires to be done on a daily basis and copies need to be kept off premises. ▪ Proper shut down procedures need to be put in place only by authorized officers. Network should not be left on unattended.	

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS

B. Cash and Bank Management	**Section: IV C**	**Responsibility: Financial Controller**

Topic	**Guidelines**
Core Values/ Principles:	▪ The finance unit of FARMSE will protect and enhance the financial resources of the Programme through effective cash management, timely replenishment of special account. These responsibilities will be conducted in an ethical and efficient manner, guided by the financing agreement, letter to borrower, GoM financial management requirements, and this implementation manual and in the best interests of achieving agricultural commercialization in Malawi. ▪ The purpose of cash management is to fulfill the fiduciary responsibilities of the FARMSE in handling, securing, and disbursing the funds of the Programme. Cash management policies and controls assure the safety of Programme liquid assets, provide required liquidity for operations, and obtain the best banking relationships. ▪ The finance unit will strive to ensure that cash flow constraints due to delayed replenishments of imprest accounts are not mentioned by implementers as reasons for delayed Programme Implementation.
Management tools that have to be put in place:	▪ All cash books whether in respect of the special account or the operational accounts will be embedded in the double-entry accounting package. No manual cash books will be entertained. ▪ The accounting package should be able to do interactive bank reconciliation-no off the-system bank reconciliations will be entertained. ▪ The accounting package should be able to export cash book entries into excel to allow for ease preparation of withdrawal applications in the formats prescribed in the letter to the borrower. ▪ Payment vouchers should be generated by the accounting package to allow for instant posting of the transactions in the accounting package- this way no back log of un-posted transactions will be entertained. ▪ The PSU will acquire a PAID rubber-stamp to cancel documents at the point of payment to avoid presenting the same documents for settlement more than once. ▪ There will be a fire proof safe to store cash- even though this will be limited to only petty cash. Other things to be kept in the safe will include blank cheques and receipt books. ▪ Strictly, the payment vouchers will be <u>electronically</u> printed by the accounting package to ensure timely data capture.
Cash and Bank Internal Controls:	• The pre-numbered cheques should be used with strict observance of serial continuity, which should be regularly independently checked.
	• Access to blank cheques should be restricted to the Financial Controller.
	• Petty cash disbursements should be operated under an imprest system with restriction on IOU use
	• Periodic independent counts should be carried out.
	• Replenishments should be approved by the Financial Controller and National Programme Director
	• Adequate procedures for initiation, processing and authorisation of payments
	• Adequate cut-off procedures should be in place.
	• All recorded disbursements should be in exchange for value received by RLEEP for the period. In particular, there should be controls to ensure that:
	• There are adequate procedures for approving payments with back-up or supporting documentation.
	• There are procedures for cancellation of documents to prevent re-use, e.g. all payment documents are stamped PAID after payment.
	• Evidence of payments to suppliers and 3rd parties.
	• Rules for issuing open cheques are adequate.
	• Expenditure is eligible for disbursement under the AWPBs
	• Adequate cut-off procedures are in place.
	• There should be controls to ensure that payments are accurately and correctly calculated. In particular:

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
B. Cash and Bank Management	**Section: IV C**	**Responsibility: Financial Controller**

Topic	**Guidelines**
	• Cheque amounts should be agreed to supporting documents.
	• Regular comparisons of actual payments with budgets should be made and investigations of any anomalies or variances carried out.
	• Management should take interest to follow-up creditor queries, long-outstanding reconciling items on bank reconciliation statements.
Cheque Payments	▪ In general no payment shall be made without an approved payments voucher. ▪ Payments shall only be made on the basis of original supplier's invoices and/or other properly raised requests for payment only. No payments shall be made on the basis of duplicates or photocopies of such documents. ▪ Payments shall be made only to the persons named in the vouchers or their accredited agent and wherever possible shall be made by means of direct bank transfer or crossed cheques. Where payments are made in cash signed receipts (duly stamped where necessary) shall be taken at the time of payment. Except where an amount is receivable for official purposes (e.g. by way of temporary imprest) or for his or her own account (e.g. in payment of subsistence allowance) payments shall not be made to officers of FARMSE. ▪ If the recipient of a payment in cash is unable to write, he or she shall make his or her thumb print mark in acknowledgement of receipt, the act being witnessed by an officer of FARMSE other than the paying officer. The witness shall certify on the payment voucher that the payments were made to the persons entitled to receive them. ▪ Where the paying officer is in doubt as to the identity of any person drawing payment in cash, he or she shall require that person to produce proof of identity (e.g. a driving license) or to have his or her identity attested by a third person who can be identified, who shall sign the voucher as a witness to the payment. ▪ The date of recording of a payment transaction is the date when a cheque payment voucher (PCV) is generated. ▪ Cheques shall always be crossed unless there are compelling reasons for opening them. Should it be necessary to open a crossed cheque, this shall be done by a "Crossing Cancelled" rubber stamp and counter-signed by the authorized signatories. ▪ All payment vouchers shall be properly supported with appropriate documents or sub-vouchers including requisitions, purchase orders, a suppliers' invoices, delivery notes and an inspection/goods received notes. ▪ All payments shall be made when, or as soon as possible after, they are due and the preparation of payment vouchers and their submission to the appropriate paying officer shall not be delayed. For the avoidance of doubt, payments shall be made, as far as possible, within 30 days after receipt of invoices or demand notes presented upon satisfactory performance or delivery of goods and or services. ▪ In circumstances where it is not possible to issue a cheque e.g. where an error has been made in writing out the cheque, the cheque shall be cancelled. To avoid any possibility of subsequent misuse, the cheque shall be clearly marked "Cancelled" and the top right-hand corner of the cheque torn off. They shall then be filed in chronological order among the paid cheques received from the Bank. ▪ All payments shall be entered in the cashbook immediately they are made and the cheque number shall be inserted on the payment voucher as soon as the entry in the cashbook has been made. ▪ The dates on cheques shall be the dates when they are written/printed. ▪ Every officer signing a cheque shall satisfy him or herself that the cheque is correctly drawn and that the payee and the amount correspond with the details of the relevant invoices and/or receipts. Under no circumstances shall an officer sign a cheque, which has not been fully completed in all respects or one for which if any other information known to him/her would bar the

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
B. Cash and Bank Management	**Section: IV C**	**Responsibility: Financial Controller**

Topic	**Guidelines**
	payment. ▪ In the event of cheques issued by the Programme being reported as lost or mislaid before they are cashed, the bank shall immediately be advised to stop payment of the cheque, acknowledgement of this instruction being obtained. The payee shall be requested to provide a written indemnity against any loss being sustained by Programme because of the missing cheque and he or she may then be issued with a replacement cheque. If the original cheque is found before a replacement cheque is issued, the bank shall be requested to lift the stop order. If the original cheque is found after a replacement cheque is issued, it shall immediately be cancelled. ▪ Unless expressly authorized, under no circumstances shall payments be made before they are due, or stores be purchased before they are required, merely because funds which would not otherwise be utilized are available under an item. Nor shall the unexpected portion of an item be drawn for the purpose of setting it in reserve to meet impending payments or be carried to a deposit or similar account for that purpose.
Payment Vouchers	All payments shall be supported by payment vouchers, which shall be <u>electronically generated by the system in triplicates</u> and shall contain or have attached thereto full particulars of the service for which payment is made, such as dates, numbers, distances, rates etc. so as to enable them to be checked without reference to any other document. An authorizing officer shall, therefore, be held personally responsible for ensuring: - (a) that the services specified have been duly and competently performed; (b) that the prices charged are either according to contracts or approved scales or are fair and reasonable according to appropriate rates; (c) that authority has been obtained as quoted; (d) that the calculations and castings have been verified and are arithmetically correct; (e) that the classification of the expenditure is correct; (f) that there are sufficient funds uncommitted in the relevant budget line to meet the expenditure; (g) that the persons named in the voucher are those entitled to receive payment; and (h) that any supplies purchased have been recorded. The signature of officers on payment vouchers and certificates shall be in ink or ballpoint pen. Stamped facsimile signatures shall not be used. Only the original payment voucher or certificate shall be signed, copies, if any, of the voucher being initialed only. The name and designation of the officer signing a voucher shall be typed or written legibly below the signature To avoid the possibility of a duplicate payment being made on a voucher, as soon as a voucher has been paid, the officer making the payment shall stamp "PAID" across the face of the voucher and accompanying documents. In the event of a duplicate or irregular payment being made because of a failure to comply with this provision, the paying officer responsible for the omission may be liable to be surcharged with the amount of any loss. Except as may be specifically authorized by the Programme Director, no officer shall certify a voucher for payment to himself or herself nor can the National Programme Director approve a payment to him/herself. In the event of an authorized payment being made in consequence of an incorrect certificate on a voucher, the officer giving the certificate shall be held responsible and the amount may be surcharged against him or her, and he or she may also be subject to disciplinary action.

<table>
<tr><th>FARMSE</th><th colspan="2">FINANCIAL MANAGEMENT ARRANGEMENTS</th></tr>
<tr><td>B. Cash and Bank Management</td><td>Section: IV C</td><td>Responsibility: Financial Controller</td></tr>
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<tr><th>Topic</th><th>Guidelines</th></tr>
<tr><td></td><td>Payment vouchers shall be prepared in such a way as to prevent fraudulent alteration of, or addition to, the figures or details given on them. Any alterations on payment vouchers shall be initialed by the officer signing the voucher, or by the receiver or paying officer, according to the part of the voucher in which the alteration is made.
Separate payment vouchers shall, as far as possible, be used for separate items of expenditure or for the payment of different services, especially in cases in which each service has been separately authorized. One voucher, however, may be used for any number of separate items if it is deemed necessary e.g. where the separate items or services have been delivered by one supplier or payee.
In cases where officers present claims for small payments made by them, supporting documents, shall be produced whenever practicable. When supporting documents cannot be obtained, the officer shall certify that the charges have been incurred solely upon the Programme service and actually paid by him or her.</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Unpresented Cheques:</td><td>The following procedures will be adopted by the paying officer if cheques issued by them remain unpresented for longer than six months from the date on which they were drawn:
Raise a journal voucher debiting the amount of the cheque to the bank account and crediting “Creditors Account”, and quoting on the journal voucher the number and date of the original payment voucher and cross-referencing the cashbook entries.
Should the original payee request for payment, enquiries will be made to establish that payment has not been made and if no reason is found to the contrary payment may be made as a debit to the “Creditors A/C”.</td></tr>
<tr><td>Bank reconciliation Statements:</td><td>The main object of bank reconciliation is to ensure that the bank transactions in the General Ledger bank account tally with the bank statement, during a defined period, normally a month.
All bank accounts shall be reconciled monthly with bank statements by an officer, who, if possible, shall take no part in the receipt or disbursement of funds. Bank reconciliations shall be prepared and submitted to the Financial Controller by the 15th day of the subsequent month.

Bank reconciliation steps:
If the bank statements and advices are not received by 10th of the following month, follow up shall be made with the bank.
Check the deposits made in the systems generated cashbook against the bank statements to see if there are any deposits not credited on the bank statements.
Check the credit advices against the bank statements to see if any unidentified credits are shown.
List items from the previous reconciliation statement, if any, and from the cash books such as:
a. Unpaid cheques and /or vouchers
b. Deposits in transit
c. Corrections for miss-codings and key data input errors
d. Unidentifiable items
Items in the bank statements but not recorded in the cashbook (e.g. Bank Charges, direct credits, interest earned, etc.) shall be posted using a Journal Voucher (JV). Ensure that such transactions are supported by bank advice</td></tr>
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FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
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	slips. ▪ After reconciliation, the person preparing it shall sign and handover it to the Financial Controller (FC) for review. ▪ FC shall review and approve the bank reconciliation. ▪ Cheques that remain unpresented for more than two months shall be followed up and the evidence of such action documented. Those over six months shall be written back and the corresponding expenditure reversed. ▪ The Financial Controller shall file for audit purposes and references, reconciliation statements and any other working papers that may be required to verify the accuracy of the entries in the accounts. **Review and Follow-up Action** ▪ The bank reconciliation statements shall be reviewed and approved by Financial Controller, who shall: a. Ascertain that the reconciliation is supported with a list of outstanding cheques. b. Review the reconciliation and seek explanations for any significant or long outstanding items. c. Ensure that proper adjusting entries have been made. d. Check that follow-up letters in respect of unidentifiable items have been written to the banks. e. Check that the banks have attended to the follow-up letters.
Bank Accounts signatories:	▪ The Special Account will require joint signatures of PMU and MoFEPD. The Signatories will be agreed between IFAD and GoM at the start of the Programme and the respective Specimen Signatures will be forwarded to IFAD. The specimen signatures for the officers required to sign on withdrawal applications will also be availed to IFAD. ▪ The active signatories to the Operational Account will also be agreed between IFAD and GoM at the start of the Programme. The most active signatories will be the Programme Director and the Financial Controller, and a Cheque will require a minimum of two signatories.
Expenditure Commitment:	Requisition form for goods or terms of reference for services shall be established by the FARMSE implementing unit, which lodges the requisition, signed by the head of the unit and approved by the Programme Director through the Financial Controller. The requisition form shall include clear information on goods and/or services requested and terms of reference. The requisition form will be transmitted to the Financial Controller who will verify to ensure the eligibility of the expenditure as far as Annual Work Plan and Budget is concerned, and makes sure of fund availability on the budget line on the concerned bank account. **The Financial Controller will ensure that the Vote book is completed before the payment is passed up-wards for further processing. The National Programme Director will not approve payments or sign contracts unless the vote book is updated.** In case of insufficiency, he/she will examine the possibility of fund transfer from item with surplus amount to finance the budget line in deficit and recommend for a formal request from GoM and IFAD. He/she will then submit the proposal to National Programme Director for submission to GOM and IFAD for appropriate budget revisions. • The requisition duly approved by the National Programme Director is transmitted to Internal Tender Committee.

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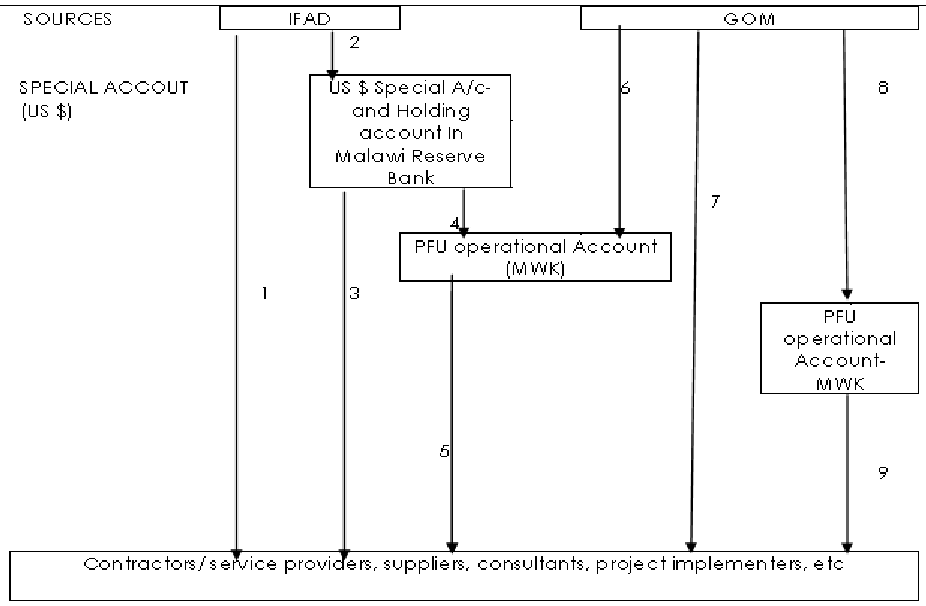
Topic	**Guidelines**
	• The head of the FARMSE implementation unit which submits the requisition form shall provide further information on specificities of goods and services he/she requests.
Flow of Funds	
Explanation for each of the lines on the flow of funds fig:	• **Line 1.** Direct payments from IFAD to suppliers, etc for disbursements valued with a minimum value of USD 20 000 There is also an option to pay for contracts above USD 20 000 from the Special Account or operational account at PSU and then seek replenishment from IFAD. • **Line 2.** Initial allocation into the Special Account (advance) and subsequent replenishments. The Special account will be initiated with an advance of USD 1,000,000 as stipulated in the financing agreement. This advance will be replenished until towards programme closure when recovery of the advance starts to take place. With the replenishment system, the full initial advance should always be reconcilable within the replenishment cycle as any ineligible expenses incurred will be replenished back. Towards programme closure the advance to the Special Account will be recovered by IFAD; by way of justification of expenditure accounted for by the programme. When recovery commences, the programme will submit SOE justifications and will not be replenished in full, with a portion going to the credit of the advance account. Should the full advance not be fully recovered by presentation of SOEs to justify the use thereof, the amount outstanding not justified is to be refunded to IFAD. • **Line 3**. Payments in foreign currency for goods supplied, works executed and services rendered from the Special Account. • **Line 4**. Transfer of IFAD funds from the special account to PSU operational accounts for covering eligible local costs in Malawi Kwacha; • **Line 5**. Payments of IFAD portion of local costs in Malawi Kwacha. Common items will be bulked and centrally procured at the PSU. • **Line 6**. GOM cash transfers to the Programme to meet taxes and duties components of transactions. Unlike line 8, this line is transaction specific, where there is need to write-out a single cheque to a supplier/ contractor

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	covering the taxes as well; in that case GoM will be required to first make the transfer. In accordance with the financing agreements, taxes should never be pre-financed using the IFAD grant/loan resources. • **Line 7**. GoM currently prefers to pay directly to the suppliers, thus the counterpart contribution will either be through tax waivers by exempting the Programme or direct payments to the suppliers. • **Line 8**. For small procurements such as stationery and office suppliers that tax waiver/ programme tax exemption is not practicable and thus GOM may have to avail a small General imprest to the PSU for such items to avoid the programme pre-financing some of the taxes on the small procurements. • **Line 9**. PSU pays the GoM counterpart contribution to the suppliers/ implementers.
Risk of failing to record a non-cash transaction	As is common with many projects, a number of programme transactions will be settled without the cash flows passing through the PSU and this creates a risk of not recording the transactions in the accounting system since the bank reconciliations (that would have flagged a reminder of the non-recording of a transaction) would still agree. Examples of the transactions that are at a risk of not being recorded include (a) the direct payments from IFAD – line one on the flow of funds; (b) GoM payments directly to the suppliers by way of tax exempting the Programme – line 7 on the flow of funds; (c) private sector making a contribution directly without the cash flow passing through the PSU – line 12 **Suggested Remedy** The following remedies have been suggested (a) the Financial Controller at the PSU will be expected to post those transactions in the accounting system using Journal Vouchers as they do not have to go through the cash books; (b) just like bank reconciliations will be done monthly, on a quarterly basis there should be a reconciliation between the PSU records and the IFAD's historic transaction detailed statements regarding the IFAD transactions; (c) additional analytical reviews should be done by the PSU on the data coming out of the accounting system such as by applying the VAT rates on the transactions expected to have got tax waivers and comparing the results with the recorded GOM contributions.
The bulking-up of procurements through the PSU creates a risk of either charging the loan account for transactions that characteristically are chargeable on the grant and vice versa.	The risk associated with bulked transactions; especially those, paid for by the Direct Payments method, is that the application may earmark one source of funding; say the IFAD loan, when in fact some of the transactions being paid for are chargeable on the IFAD grant. The result would be one funding source getting overdrawn while the other remaining with significant available balances and yet reallocations across different sources can be difficult. **Suggested Remedy** The PSU in completing replenishment applications will exercise due care and earmark the items being procured to their respective components with a view of properly completing the replenishment/ direct payment applications. For a bulked up transaction lot it may be necessary to complete two replenishment applications depending on the components to which the transactions relate to, and therefore the appropriate funding source.

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B. Cash and Bank Management	**Section: IV C**	**Responsibility: Financial Controller**

Topic	Guidelines
Ineligible expenses on taxes paid on small procurements	A review of the operations of the two IFAD supported projects in Malawi has revealed that the Government contribution in form of foregoing taxes is by giving tax exemption to the Programmes that are 100% IFAD supported, a case in point being the RLEEP. The arrangements works very well for the larger procurements but gets impracticable for the smaller procurements such Stationery, office sundries; where the tax components of the transactions get pre-financed using the IFAD resources. The amounts individually may appear immaterial but with time they can accumulate to substantial amounts. This could result in audit qualifications, cash flow challenges as the imprest would have been reduced; and generally a breach of the financing agreements. **Suggested Options** (a) One way of dealing with the risk is to have well planned procurements even for the small items. For example stationery and office sundries for six months could be procured. This way it would be possible to find supplier who would understand the operation of the Malawi tax systems and not charge VAT for supplies to a tax exempt programme. With organized procurements even of such items as stationery that appear small, the amounts involved become attractive to formal market suppliers. (b) Another way is to issue framework contracts to properly procured suppliers of such items that appear to be small such as office stationery. With such frame contracts, the contract sum would be sufficiently significant to apply the government approach of clearing taxes. (c) Another way is for government to avail the programme a reasonable imprest such that the refunds of the pre-financed taxes can be made instantly, and with such an arrangement, the principle would be no taxes should be pre-financed unless the cash to refund back is instantly held by the PSU. (d) Given that the replenishment system that IFAD uses does not systematically replenish the tax components of transactions, any such taxes that have been pre-financed would reduce the cash flow available in the replenishment cycle and this would be revealed by the Special Account reconciliation that will usually be attached to replenishment applications. A discrepancy on the Special Account reconciliation will always be investigated by the PSU at the chief executive level. Therefore the inception trainings in the IFAD disbursement procedures for the PSU staff will not be restricted to the accounting personnel but should be extended to the non-finance managers such as the Programme Director, the Procurement Specialist, the Monitoring and Evaluation Officer to enable these also appreciate the idea of such tools as Special Account reconciliations in trailing the whereabouts of the initial advance to the Special Account. If the Special Account reconciliation that will usually attached to replenishment applications is consistently in agreement from the first replenishments to Programme Closure, then the Special Account recovery would be guaranteed to be smooth.
The FARMSE-Cash-Flow Management Tips	Cash-flow planning will be the one of the core-functions of the Financial Controller. The Finance Unit will strive to ensure that cash-flow is not mentioned as one of the constraints hindering the pace of Programme Implementation. The following tips are available: ▪ ACF grants will be replenished for on a cash-basis at PSU level- as opposed to waiting for the grantee to report having fully utilised the grant. ▪ Bigger payments of over USD 20,000 will be paid for by the direct payments method. This method will however, be subjected to tighter internal controls, and will be recorded in the accounting package just like the in-country cheque payments. ▪ Advances to implementing agencies will be activity specific to be retired immediately after the activity is accomplished as opposed to sending general

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
B. Cash and Bank Management	**Section: IV C**	**Responsibility: Financial Controller**

Topic	Guidelines
	imprest advances to a wide range of implementing agencies. ▪ The Financial Controller will formally present in management meeting, monthly and quarterly cash flow forecasts to identify potential cash deficits early enough and take necessary actions. By inference, this means that the Financial Controller together with the Procurement Officer will keep in appropriate soft ware the status of all commitments including the signed ACF grant agreements. ▪ Withdrawal Applications to replenish the special account will be submitted as soon as the minimum amount of 20% of the initial advance is attained without any delay. ▪ The Loan/ grant proceeds will not be used to finance any of the counter-part contributions, such as taxes because such a practice will immediately eat into the working capital because the system will declare it ineligible. ▪ To ensure speedy processing of Withdrawal Applications, they should be proof checked for any errors, carefully ticked against a check list that accompanies it, and the usually attached special account reconciliation should never be allowed to get out of balance. ▪ A register of WA in the pipeline should be maintained and these should be appropriately aged. As soon as the standard agreed lead time to process the WA is exceeded, an inquiry should be sent to IFAD. ▪ FARMSE should establish good banking relationship with bankers, so that in periods of peak, cheques can be honoured against pending transfer from the Special to the Operational Account.

	FINANCIAL MANAGEMENT ARRANGEMENTS	
C. Follow-up of Advances	**Section: IV D**	**Responsibility: Financial Controller**

Topic	Guidelines
Advances:	▪ In performing the day-to-day activities of the Programme, it will sometimes be found necessary to advance funds to staff or implementing units on the basis of the estimated cost of the activity to be carried out. When a lot of funding is tied-up in advances to implementing agencies, cash flow constraints will recur. Therefore advances will strictly activity tagged to be retired immediately the activity is complete. Even though advances are to be kept to a minimum there monitoring/ follow-up will be very important and therefore the following tools are being suggested: ▪ The recording of accounting information in respect of advances and generally accounts receivable shall be done through the debtors' module or debtors control account and not through the general ledger. ▪ Any funds advance made to the staff or implementing agency shall be authorized by the National Programme Director. ▪ The funds advanced shall be debited to the personal account of the respective individual or implementing agency to be embedded in a debtors' module or the debtors control account depending on the accounting package to be installed. ▪ Funds in respect of advances shall be accounted for immediately after the purpose for which they were made has been accomplished, but in any case not later than 48 hours. After the lapse of 48 hours, such funds shall be recovered from the individual's monthly salary at the end of the month, if by the time of preparing the payroll no accountability has been submitted or in the case of implementing agencies, other sanctions will be sought. ▪ No additional advances shall be given to a person/ implementing agency with

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
B. Cash and Bank Management	**Section: IV C**	**Responsibility: Financial Controller**

Topic	**Guidelines**
	an outstanding advance (i.e. funds remaining unaccounted for). ▪ Where an advance is required, a requisition shall be initiated by way of an Advance Requisition and Claim Form to the National Programme Director through the Financial Controller. ▪ After the National Programme Director has authorised the requisition, it shall be forwarded to the accounts department for processing in the same manner as for cheque payments. ▪ When the purpose for which an advance was requested has been accomplished, the individual concerned shall forward, to the finance department, receipts and other relevant supporting documents under the cover of a memorandum through his/her head of implementing unit. ▪ In the finance department, a Journal Voucher (JV) shall be prepared to which the supporting documents shall be attached. The JV shall reverse the original entry by crediting the personal account of the individual concerned. ▪ The JVs shall be approved by the Financial Controller ▪ JVs shall be allocated numerical numbers and filed in sequential order. ▪ Any funds that remain unutilised after the completion of the activity for which the advance was given will be passed on the Finance Unit for which a receipt will be issued. Such funds will be banked intact.

RLEEP	FINANCIAL MANAGEMENT ARRANGEMENTS	
D. Commitment and Creditor Control Tips	**Section: IV E**	**Responsibility: Financial Controller Procurement Officer**

Topic	**Guidelines**
Commitments and creditor control tips	▪ Cash-flow management and commitment control are interrelated. However, commitment control is even more relevant in eliminating ineligible expenses. Under commitment accounting, accounting officers are not supposed to enter any contracts or issue local purchase orders unless they are certain of the source of finance to settle the obligation. Under this procedure, there is no reason why creditor account should remain unsettled for over a month. ▪ Therefore, the Financial Controller will ensure that no Commitment is entered into unless it has sufficient provision in the AWPB and this cannot be achieved unless the standard GoM vote book is put to use as a management tool. No contract will be signed unless the commitment column of the vote book is updated. ▪ Having provision in the AWPB is one thing and having the immediate cash flow is another, and therefore the tools discussed in the preceding section regarding the monthly and quarterly cash flow forecasts should be able to fix this. ▪ Other tips regarding commitment and creditor control include the following: ▪ Maintenance of a contracts register as per format to be contained in the Letter to the Borrower. ▪ Establishment of a confidential system to receive complaints from creditors-this can also detect some frauds. ▪ Presentation of creditor age reports with explanations as to why some accounts may have remained unsettled for long.

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS

E. Care and Custody of Fixed Assets	Section: IV F	Responsibility: Financial Controller Procurement Officer

Topic	Guidelines
Vehicles:	▪ The management of Programme's vehicles shall be vested in the Procurement/ Contracts Officer. Vehicle management shall include insurance, repairs and maintenance, fueling, control of movement, boarding and disposals, etc. ▪ Vehicles shall be kept in good state of repair at all times. Repairs shall be carried out by designated Workshops or Garages. Prior to any repairs being undertaken, quotations shall be solicited for. The decision as to which Workshop/Garage to execute the repairs shall be arrived at in accordance with procurement guidelines regarding tendered procurements. ▪ Where vehicles are damaged as a result of accidents and the insurance firms assumed responsibility, the Procurement Officer shall satisfy himself or herself that garages chosen by the insurance firms are of good repute and capable of executing the repairs in a proper manner. ▪ Drivers and other officers using official vehicles shall be responsible for ensuring that such vehicles are taken for regular service as recommended by the manufacturers; ensuring that vehicles are parked overnight in safe and secure places free of pilferage of accessories like spare wheels, jacks, windscreens, etc.; ensuring that the vehicle devices are in good operational order; ensuring that the tools, first aid kits and fire extinguishers are in good working order; checking oil and water adequacy and; cleanliness of the vehicle. ▪ Programme vehicles shall be insured. The type of vehicle insurance (third party or comprehensive) shall depend on the state of a particular vehicle. ▪ All fuel shall be drawn using fuel cards. Fuel cash advances to DAs or other implementing agencies shall not be allowed without exceptional documented justification. In the worst case scenario, fuel coupons may be used where the fleet cannot be accommodated by the fuel cards. ▪ Fuel card usages are to be reconciled and efficiency rates computed by the accounts staff every month on a sample basis. The statements from the fuel stations should be corroborated to the vehicle log movement sheets that will be maintained. ▪ The format to use in the computation of the fuel efficiency rates is given here below. Efficiency rates that are out of the average will be formally investigated and such exceptions will be included in the monthly management accounts.
	Fuel Efficiency Computation Format: (see table below)
	▪ In addition to the Vehicle asset register each vehicle shall have a Log Sheets recording its history, performance, servicing, overheads, repairs, etc. in sufficient detail for periodic assessments to be made of its performance compared with its cost of upkeep. ▪ All vehicles shall have Log Movement Sheets (LMSs) recording among other things the following particulars: Driver's name, Department, Vehicle registration number, Journey being undertaken, reason for the journey, signature of driver undertaking the journey, signature of authorising officer for the journey being undertaken, record of mileage at the start and end of the journey, record of fuels and lubricants being procured for the journey, etc. ▪ Periodically the Procurement Officer shall conduct spot-checks of LMSs to ensure that they are being used properly. ▪ Private use of Programme vehicles shall be restricted to the basic minimum. Where, however, this is absolutely necessary, the application shall be

Period Sampled	Kilometres covered	Fuel Usage	Amount of Fuel per KM	Remarks

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
B. Cash and Bank Management	**Section: IV C**	**Responsibility: Financial Controller**
Topic	**Guidelines**	
	authorised by the National Programme Director. The vehicles shall be driven by an authorised driver	
General Fixed Assets:	▪ All documents proving ownership of fixed assets like Title Deeds, Logbooks, Licenses, etc., shall be kept under the custody of the Financial Controller. A safe shall be maintained for these documents and the keys shall be kept by said officer. ▪ Fixed assets will be expensed under the respective component and expenditure categories in accordance with GoM requirements. All fixed assets shall be recorded in Fixed assets registers, the entries being supported by procurement documents and store issue vouchers, which shall bear references to the folios of the Fixed assets Register. Fixed assets shall remain recorded in the ledgers until they are sold or destroyed after condemnation, or written off with due authority. ▪ A fixed Assets register shall be maintained to record pertinent information of each asset including date of purchase, cost (and subsequent valuation), serial numbers where appropriate, depreciation policy and rates, location, movement, etc. This register shall show the articles in the custody of each officer. ▪ When the occupant of an office, or other person having charge or use of the equipment or furniture changes, the goods or equipment in their custody shall be physically checked a designated officer and the check acknowledged by the incoming officer as evidence of his or her having taken over the goods or equipment. ▪ Once in a while, at least once a year, arrangements shall be made for all fixed assets in the inventory ledgers to be physically checked against ledger records. As far as possible, the check shall be carried out by officers having no responsibility for the maintenance of the fixed assets records. Any deficiencies or damage not caused by fair wear and tear shall be treated as a loss and shall be brought to the attention of the National Programme Director. ▪ Movement of fixed assets shall be recorded by completion of an Asset Movement Form duly authorized and approved by the National Programme Director or his delegated officer. This form shall be used to update the fixed assets Register. ▪ All Fixed Assets of the Programme shall be distinctly marked, labeled or engraved with inscriptions to expressly identify them as the property of the Programme. When Assets are ordered to be sold FARMSE's inscriptions shall be obliterated.	

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
F. Bookkeeping Strategy	**Section: IV G**	**Responsibility: Financial Controller**
Topic	**Guidelines**	
Accounting Software to be installed:	▪ At the PSU, a simple off-the shelf accounting package will be used to facilitate Programme specific financial reporting, in accordance with the chart of accounts shown in annex 1. The following books of account shall be integrated within the accounting package either as modules or as control accounts. o General Ledger o Cash books o Advances/ debtors ledger o ACF Grants/ creditors module ▪ FARMSE will maintain a centralized accounting system using simple accounting software that should be set-up to able to produce FARMSE-wide accounts.	

<table>
<tr><td colspan="2">FARMSE</td><td colspan="2">FINANCIAL MANAGEMENT ARRANGEMENTS</td></tr>
<tr><td colspan="2">F. Bookkeeping Strategy</td><td>Section: IV G</td><td>Responsibility: Financial Controller</td></tr>
<tr><td>Topic</td><td colspan="3">Guidelines</td></tr>
<tr><td></td><td colspan="3">The accounting system should be set-up to be able to generate financial information in the following dimensions:
o Expenditure trends by components
o Expenditure trends by categories
o Expenditure trends by Financiers IFAD, GoM, and Beneficiary Contributions
o Sources and uses of Funds
o Statement of financial position showing financial assets and financial liabilities
o Commitments
o Budgetary control information to ensure expenditures do not exceed set limits
o Receivables in form of replenishment applications in transit and any refunds that may be due from Government. Pre-financing of counter-part contribution using the IFAD financing is discouraged and this will be promptly detected through the Special Account reconciliation that will be attached to all replenishment applications and will be an integral part of the annual audited financial statements.
▪ To the extent possible IFAD projects are implemented within existing borrower's structures and therefore the off-the shelf accounting package to be installed will be a very basic one to compliment the already existing procedures and to enhance compilation of information needed to effectively and properly manage FARMSE. Given such simplicity, the package should be able to export data into Microsoft excel, and thus a lot of data manipulation will be done after data has been exported into excel.</td></tr>
<tr><td></td><td colspan="3"></td></tr>
<tr><td></td><td colspan="3">With the off-the shelf accounting package, the project accounts will be posted using the double-entry accounting principle. The examples of the double-entries to be passed at each stage in the funds-flow are illustrated above:</td></tr>
<tr><td>Double-entry mechanics</td><td colspan="3">
<table>
<tr><th><u>FLOW LINE as per the chart above .</u></th><th>FLOW DESCRIPTION</th><th>SPECIFIC DOUBLE ENTRY</th></tr>
<tr><td>1.</td><td>From IFAD to suppliers/ grantees for a cost of goods, works, grants and services at not less than U.S. $ 20,000 (Direct Payments)</td><td>Dr: expense Account per chart of accounts in annex 1

Cr: IFAD ledger a/c</td></tr>
<tr><td>2.</td><td>Initial deposit into the special account and subsequent replenishments</td><td>Dr: Special Account
Cr: IFAD Ledger a/c</td></tr>
<tr><td>3.</td><td>payments in foreign currency for goods supplied, grants, works executed and services rendered</td><td>DR: expense Account per chart of accounts in annex 1

Cr: Special A/c</td></tr>
<tr><td>4.</td><td>Transfer of IFAD funds from the special account to operational account for covering eligible local costs in MK</td><td>Dr: Operational Bank A/c

Cr: Special Account

May need to be done through an inter-bank transfer account.</td></tr>
<tr><td>5.</td><td>Payments of IFAD portion of local costs</td><td>Dr: expense Account per chart of accounts in annex 1

Cr: Operational Bank A/c</td></tr>
</table>
</td></tr>
<tr><td></td><td colspan="3">With the chart of accounts attached as annex 1 and the double entries suggested above the following guidelines will be followed to obtain financial information in the required information dimensions:
• To generate information <u>category-wise and by financier-</u> retrieve the trial balance or income and expenditure statements without sub-accounts. When this data is exported into Microsoft excel, with the budget as a comparative, expenditure trends category-wise will be easily be processed.</td></tr>
</table>

FARMSE	**FINANCIAL MANAGEMENT ARRANGEMENTS**	
F. Bookkeeping Strategy	**Section: IV G**	**Responsibility: Financial Controller**

Topic	**Guidelines**
	• To generate information component-wise and by financier, similarly export the trial balance into Microsoft excel and sort by the description column and align data as appropriate. • The expenditure trends by cost centre can be analyzed through the same component-wise data above since each cost centre relate to a specific sub-component. • Sources and uses of funds statements will be a typical income and expenditure statement coming out of the accounting package. • Statement of financial position will be the balance sheet that the system can generate • Commitments will be recorded off the accounting package in the vote books and contracts register. However the data on commitments will be analyzed and summarized component-wise and category-wise such that the expenditure trend tables exported into excel from the accounting package can be enriched with a commitments column. • Once the budget is approved, it shall be entered in the accounting package and thus all reports can be processed with budget comparative information. • Any receivables will have been recorded and will appear on the balance sheet coming out of the accounting package. Specifically the accounting package should be able to generate information about pre-financed taxes and other ineligible expenses refundable by GoM. That means there should a systematic method of debiting the GoM receivable account for any such ineligible expenses at the point they get incurred. For example if MK 100,000 was incurred on acquisition of a piece of equipment inclusive of taxes of MK 20,000 and it is established that the full MK 100,000 was paid from the IFAD funds, the following entry would be passed: Debit expense a/c- 80,000; Debit GoM Receivable account- Balance sheet 20,000; Credit Bank- 100,000 • When the GoM actually effects the refund into the Programme bank accounts the following two entries will be passed in the accounting system: **(a) To recognize the cash in flow: Debit Bank- 20,000 Credit- GoM Receivable A/c Balance Sheet- 20,000** **(b) To recognize the expense and GoM contribution- Expense a/c 20,000; credit GoM contribution- 20,000** • By viewing the balance sheet one should be able to tell how much is tied up in the pre-financed counter-part contributions and any other ineligible expenses such as withheld funds. If information is received from IFAD that funds have been withheld due to ineligibility and it is established that the GoM will be required to make the refunds back into the Special Account the following entries shall be passed. Debit: GoM receivable a/c- balance sheet; Credit appropriate expense a/c that had been charged initially. The GoM receivable account will be appropriately retired on receipt of the actual refunds into the Programme Special or operational bank accounts.
Financial Progress Reports	▪ Up-to-date financial information should be included as part of progress reports. Sufficient information must be made available about what money is spent on, how much is spent on what and what the results are. Half yearly and annual reports are to be submitted to IFAD. Within the Government of Malawi, financial reports will be submitted to the Treasury- the Accountant General's office. The Accountant General's office will guide the PSU regarding the format to use and the applicable budget codes against which to report, as it understood that these will be much more compressed than the chart of accounts attached in annex 1. As GoM is moving to implement Integrated Financial Management System (IFMS); the PSU at an appropriate time will compile a matrix that compares the FARMSE chart of accounts and the GoM IFMS chart of accounts, for ease of manipulation of FARMSE accounting data for within GoM reporting should the need arise from time to time.

FARMSE	**FINANCIAL MANAGEMENT ARRANGEMENTS**	
F. Bookkeeping Strategy	**Section: IV G**	**Responsibility: Financial Controller**

Topic	**Guidelines**
	• <u>Monthly management accounts will be prepared to aid management decision and control.</u> The format of each of the components of the monthly financial report is given in annex 2. The monthly management accounts will include the following basic information and will be prepared by the PSU and shared with the implementing agencies. ▪ Budget Execution Report. A budget actual comparison of the expenditures incurred component-wise and category-wise. The actual expenditure should be prepared according to the bookkeeping strategy described earlier. It also includes a list of commitments entered into and still to be paid; analyzed component-wise and category-wise. A commitment is a signed contract or issued Local Purchase Order. ▪ Statement of financial position (financial assets and liabilities) ▪ Statement of commitments (off-balance sheet)- the contracts register ▪ Bank Reconciliation Statement. o With reference to the outline of annual reports, the finance section and accounting personnel need certainly make contributions regarding the following parts of the annual report: ▪ Financial Progress Summary ▪ Detailed AWBP- Based progress review ▪ *<u>Financial Progress Summary of the Annual Report</u>* o The data for this section comes from the financial controller who should use the accounting package to enter, analyze and report on all financial transactions. Based on the detailed information in the accounting system, summary tables should be prepared on the overall financial performance and status of the project. This would include as a minimum: ▪ Expenditure trends by component; ▪ Expenditure by trends by category; ▪ Disbursement by financier(sources of funds); including Government and beneficiary contributions (local contributions); and ▪ The status of project accounts. o Each of the main project components has an approximate budget in the project design. Each component pursues its objective, and jointly the components should contribute to achieving the overall project goal. In this regard, the balance between the components, in terms of implementing activities, achieving outputs and using up the associated budget, is important. When expenditure under a certain component falls far behind the planned expenditure, this should be cause for concern, the reasons should be investigated and action taken. Financial progress by component (fig. below) should provide the information that is necessary to detect such an imbalance in expenditure. The information should also be useful to assess whether budgeting is realistic and to track expenditure over time. As an option, expenditure by component compared to the project budget can also be presented using graphs.

Component	AWPB	Actual (MK)	Actual (USD)	Exp/Bud (%)	Total Project Budget	Total Cumulative Expenditure	Cumulative Exp/Bud (%)

	▪ Similar to components, the total budget of the project can be broken down according to types or categories of expenditure as per the loan agreement. These categories are not supposed to be overspent. The reason is the same as

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
F. Bookkeeping Strategy	**Section: IV G**	**Responsibility: Financial Controller**

Topic	**Guidelines**
	described under components: there is certain balance in the project design, between different items and activities on which money should be spent. If this balance is lost, for example because far more money than expected is spent on allowances and very little is spent on studies and training, certain aspects of the project should fail to work as expected. When expenditure under a certain category approaches the limit while other categories have a much lower level of expenditure, the reasons should be investigated. Financial progress by category should provide the information that is necessary to detect such situations, which may lead to reallocation.
	▪ It is important to track the cumulative disbursement for each financier, in relation to the total amount committed, in order to know how much money the project has left. The information on cumulative disbursement should be recorded by financier and by category and periodically compared to the disbursement data at IFAD. ▪ Beneficiary contribution, e.g. by the private sector and community contributions in form of labour and material contributions, should have to be captured at field level and converted into monetary value, using a system of standard record forms and rates. In practice though, as it could be difficult to convert in kind contributions to monetary value, an attempt should still be made to capture community contribution. ▪ Project management should be fully aware of the status and performance of all project related bank accounts, and relevant information should be included in the annual reports. ▪ *What to include in Detailed AWPB-Based Progress Review as part of the Annual Report* o This annex of the annual report is devoted to presenting implementation progress over the past year at the detailed level of individual planned activities. This annex would therefore present the findings of the most fundamental monitoring activity: o What is actual implantation progress of planned activities? o What is the actual cost compared to what was budgeted? This is a rather detailed review and the simple accounting package may not offer much. The vote books will provide the required level of detail.

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
G. Annual Financial Reporting and Audits	**Section: IV H**	**Responsibility: Financial Controller**

Topic	**Guidelines**
Financial Reporting:	For the annual financial statements to be presented for audit, the modified cash basis of Accounting should be used. Thus the financial reporting in accordance with the public sector requirements in Malawi will be very simplified not requiring the application of very complex commercial environment International Financial Reporting Standards. However, the International Public Sector Accounting Standards as adopted by GoM will be adhered to the extent of the agreed to modification to include on the statement of financial position, the financial assets and financial liabilities. • Generally, transactions are recognized only at the time the cash flows take place; • The expenditure on acquisition of fixed assets is not capitalized – thus fixed assets are written-off on acquisition and the wear and

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
G. Annual Financial Reporting and Audits	**Section: IV H**	**Responsibility: Financial Controller**

Topic	Guidelines
	(depreciation) of those assets is not recorded in the books of accounts; • Prepaid expenditure/advances is written-off during the period of disbursement; • The recognized "Modification" is as follows: o Invoices for goods and services which are outstanding on the date of the closure of the fiscal year are recognized as liabilities for that specific fiscal year. o Loans and advances are recognized as assets/liabilities at the time of disbursement and related interest is recognized only when disbursed. Regarding the annual financial statements IPSAS cash basis as the modified, the following will be the integral components: • Responsibility statement • Executive commentary • Statement of revenue and expenditure with two comparatives, the approved budget and previous year's actual. This should recognise the following amounts for the reporting period: o total cash receipts of the entity showing separately a sub-classification of total cash receipts from IFAD, GoM, and other internally generated resources. Monetary receivables arising in the period are recognized. o total cash payments including prepayments of the entity showing separately a sub classification of total cash payments using a classification according to the programme components and expenditure categories. • Statement of financial position (financial assets & liabilities): The balance sheet should include only financial assets and financial liabilities. Non-financial assets are not admissible on the statement of financial position prepared under the IPSAS basis of cash accounting.In accordance with IPSAS cash basis, FARMSE is encouraged to disclose in the notes to the financialstatements information about the assets and liabilities of the entity; • Cash flow statement with two comparatives, the approved budget and last year's actual • Special Account Reconciliations in the formats to be prescribed in the Letter to the Borrower. • Notes to the financial statements.
Audit Reports:	▪ Section 5.02(a) of the Financing Agreement stipulates that the Auditor General shall be responsible for the audit of the financial statements relating to the Programme. In the event that the Auditor General chooses to appoint external auditors to audit the financial statements relating to the Programme, such appointment shall be carried out in accordance with the procedures and criteria set forth in the Fund's "Guidelines on Project Audits (for Borrowers' Use)" as may be amended from time to time, and shall be subject to the prior approval of IFAD. ▪ Section 5.02(b) of the Financing Agreement provides that the Borrower shall have the financial statements relating to the programme audited each fiscal year by such auditors in accordance with International Standards of Auditing and the IFAD "Guidelines on Project Audit (Borrower's Use)" as they may be amended from time to time. ▪ In accordance with Section 9.03 of the General Conditions, the Borrower shall ensure that in addition to the audit reports on the financial statements, the auditors shall provide: ▪ an opinion on the certified statements of expenditure and the operation of the Special Account; and ▪ a separate management letter addressing the adequacy of accounting and

<table>
<tr><th colspan="2">FARMSE</th><th colspan="2">FINANCIAL MANAGEMENT ARRANGEMENTS</th></tr>
<tr><td colspan="2">G. Annual Financial Reporting and Audits</td><td>Section: IV H</td><td>Responsibility: Financial Controller</td></tr>
<tr><td>Topic</td><td colspan="3">Guidelines</td></tr>
<tr><td></td><td colspan="3">internal control systems.
▪ The Lead Programme Agency shall deliver to IFAD a certified copy of the audit report within 6 months after the end of the fiscal year, i.e. not later than 30 September of the following year, and submit its reply to the Management Letter to the auditors and to IFAD within one (1) month after the receipt of the audit report.
▪ All expenditures disbursed on the basis of SOE should be audited annually by the Auditor General, or external auditors appointed by them and acceptable to IFAD in accordance with provisions of Section 9.03 of the General Conditions and a separate opinion of the auditors in respect of the statements of expenditures must be included in the certified audit report which must be submitted to IFAD.
▪ The suggested formats of the financial statements to be presented for external audits are attached as annex 3.</td></tr>
<tr><th colspan="2">RLEEP</th><th colspan="2">FINANCIAL MANAGEMENT ARRANGEMENTS</th></tr>
<tr><td colspan="2">H. Procurement</td><td>Section: IV I</td><td>Responsibility: Procurement Officer</td></tr>
<tr><td>Topic</td><td colspan="3">Guidelines</td></tr>
<tr><td></td><td colspan="3"></td></tr>
<tr><td>Procurements:</td><td colspan="3">▪ No procurement thresholds to guide the determination of which Procurement method to apply have been put in the financing agreement. The Programme is supposed to formally move to national systems in the spirit of the Paris Declaration on Aids effectiveness.
▪ The Public Procurement Act (No. 8 of 2003), which came into force on 21 August 2003, provides legal basis of the GOM's public procurement system. It sets out the organizational structure of the procurement system and establishes the basic principles which all procurement rules In accordance with the Public Procurement Act, The Public Procurement Regulations were issued in 2004 to provide a more detailed framework of rules to implement the objectives of the Act and govern all public procurement. In addition the Office of the Director of Public Procurement has issued Desk Instructions to implement the principles and rules in the Act and Regulations by providing step-by-step procedures for all aspects of the procurement cycle.
▪ The Director of Public Procurement has also issued standard bidding documents and forms, to provide working documents for implementation of public procurement activities. The use of standard documents is mandatory for all procuring entities.
▪ The PSU will be a procurement entity in its own right and will follow GoM regulations to the extent that they are consistent with the IFAD procurement guidelines and the loan agreement. Given the uniqueness of the Programme, and the fact that GoM thresholds are restrictive of International Competitive Bidding the following thresholds have been suggested:

▪ ICB: USD 100,000 equivalent or more
▪ LCB: USD 10,000 equivalent or more but less than USD 100,000
▪ Local Shopping: USD 5,000 t0 USD 10,000
▪ Direct Contracting: less than
▪ It is a requirement under the IFAD Procurement guidelines that each AWPB should have an 18 month procurement plan, even though the AWPB covers 12 months. The procurement plans will contain details of the procurement methods applicable. In preparing the procurement plans, the procurement specialist at the PSU will track common items that can be bulked and centrally procured at the PSU. In addition, all items whose value is over USD 20 000 and thus requiring competitive bidding and in some cases prior review and non-objection from IFAD will be centrally procured at the PSU. The risk of breaking</td></tr>
</table>

FARMSE	FINANCIAL MANAGEMENT ARRANGEMENTS	
G. Annual Financial Reporting and Audits	**Section: IV H**	**Responsibility: Financial Controller**

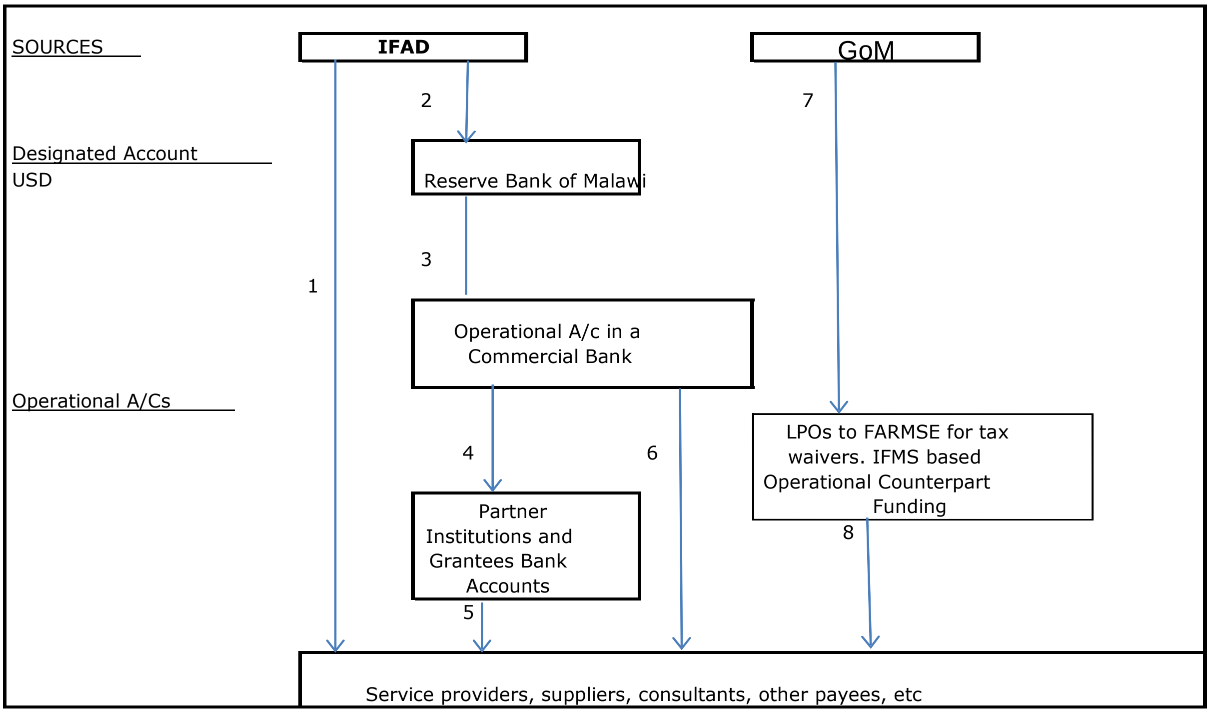
Topic	Guidelines
	procurement lots in order to avoid the USD 20 000 threshold should be mitigated at the planning stage; by identifying common items to be included in a single procurement lots and thus tagged to one procurement method. ▪ Mis-procurements could cause a transaction to be declared ineligible and therefore it is important that as part of start-up training, all the PSU and identified implementing agencies be oriented in the IFAD/GOM procurement guidelines, and as indicated before all MOUs with implementing agencies will specify the procurement methods and procedures and whether the PSU will be involved or not. ▪ Procurement of goods and works would be in accordance with IFAD guidelines. In addition, due diligence will be exercised to ensure that the procurement of consultancy services would be in accordance with Government procedures acceptable to IFAD.

47. Financial Management under Component 2: Support to Financial Innovation and Outreach Facility. Matching grants by their nature create unique financial management challenges. Under FARMSE, these matching grants will be for CBFO support organizations and the Innovation and Outreach Facility windows. All the grants will have varying levels of grantee contributions.

- Matching grants pose unique accounting issues
- ✓ How to deal with the counterpart contribution;
- ✓ Under cash basis, how to account for matching grants in the accounting system;
- ✓ The need for specialized data base for matching grants;
- ✓ The tax elements in grants;
- ✓ The nature of accountability on the side of the grantees.

- While the specialized Financial Innovation and Outreach (FIO) manual will be developed as part of the PIM, it is important to explain in the appendix the accounting approach:
- ✓ A Beneficiary contribution: Grantees will not have to deposit their respective contribution into their own bank account in the same tranches as they expect to receive from FARMSE. Instead, they will keep analytical records regarding their own contributions and justify these where needed. Transfers of grants will be in tranches, based on achievements of certain milestones by the grantees as defined in the grant agreements. For bigger grants, it will also be allowed for FARMSE to pay the suppliers directly after the grantee has confirmed that they have paid the supplier their share of the matching grant. This is likely to be the case where external international TA is recruited under the grant agreement.
- ✓ Matching grants will be expensed at the point of disbursements and will be included in the withdrawal application at that point. If the FARMSE was to wait for the grantees to submit their returns, it would quickly deplete its initial deposit. A grant, once given, is a grant expensed; the rest will be left for monitoring and evaluation/follow up by the Technical Specialists and the Monitoring and Evaluation Specialist.
- ✓ Since grants will be expensed at the point of disbursement, a simple off the shelf accounting package system will not be able to provide ledgers for each grant thus necessitating a separate grant data base. The objective is to ensure that grantees are not paid beyond the grant ceiling and the agreed milestone bases payment is adhered to.
- ✓ Taxes and Grants: It should be emphasized that the tax element in grants does not cause ineligibility for IFAD financing purposes as in other transactions. It will be taken that the tax element is paid from the portion contributed by the beneficiary.
- ✓ Nature of Accountability from Grantee: The matching grant represents an arrangement of equal partnership between FARMSE and the grantee and the accountability will be output-based as opposed to a series of paper work.

Figure 2: The FARMSE flow of funds chart



48. The funds flow chart above depicts the use of the standard International Financing Institution (IFI) disbursement methods including: (i). direct payment method for bigger payments over USD 50,000; (ii). use of designated account; and (iii). reimbursement if GOM has pre-financed any transactions. As FARMSE has very few physical goods to procure, the use of the special commitment procedure is unlikely.

VII. 6.0 MONITORING AND EVALUATION

49. FARMSE's approach to planning, monitoring and evaluation (M&E) will be compatible with corresponding GOM and IFAD policies and tools (e.g., IFAD Results and Impact Management System - RIMS). Guided by the Programme's logical framework, the M&E function will systematically record data and performance information of programme partner performance implementation, as well as household surveys.

Planning

50. The main planning tools for FARMSEwill comprise the Logical Framework, M&E framework including its indicators and targets, and the Results Based Annual Workplan and Budget (RB-AWPB). The logframe provides indicators and targets for programme implementation from output over outcome, development objective to impact levels. The RB-AWPB will break physical targets up by year and attach financial resources to them. The RB-AWPB shall present financial and physical outputs and outcomes of the programme for the given year, and report on the accumulative achievements. The execution of the RB- AWPB will be monitored along the M&E framework of the programme and reported back in regular intervals from quarterly to semi-annuals reports. The cycle of planning, monitoring and reporting is essential for efficient management of the programme and for achieving the results as agreed.

Results based monitoring and evaluation

51. FARMSE's approach to planning, M&E and knowledge management system will be developed to generate comprehensive and reliable information, to improve planning and decision-making for effective programme management towards results and impact. The system will inform FARMSE overall and programme performance. Both, programme and Results and Impact Management System (RIMS) indicators, at each level will be used to guide programme management and performance. The IFAD-RIMS manual and templates will be placed in the Programme Implementation Manual (PIM) for guidance. The PMU will have the responsibility for M&E system management.

52. Preliminary baseline and target values are to be established for the key indicators based on the data used for the economic and financial analysis. The PMU will conduct a baseline survey of targeted areas to benchmark key indicators at the beginning of programme implementation and set targets against which progress of the programme will be monitored and impact assessed. A detailed M&E plan to guide the implementation of the programme at all levels will be developed by the PMU within the first few months of implementation.

53. The integrated M&E system will: i) measure the achievement of the logical framework indicators (including the RIMS); ii) assess the relevance of the programme strategy, methodologies and implementation processes; iii) assess the performance of implementing agencies and external service providers; iii) assess programme outcomes and impacts partner service providers/stakeholders including clients, specifically women and youth; iv) identify successes and good practices; and v) share knowledge as appropriate with programme stakeholders to support dialogue and decision making. The system will provide performance transparency, respecting as necessary sensitive/proprietary partner information.

54. Beyond RIMS and Logical Frame work measures, other programme and programme metrics will be developed by the PMU with the input of programme stakeholders. Component 1.0 will have two streams of complementary data. First it will undertake a baseline study structured to provide the basis for a random control trial research assessment of graduation impact. This will be used as a part of a longitudinal impact study of the targeted test graduation households. Second, two qualitative studies of graduation model households will be undertaken to better understand the effect of graduation on household time use, productive decision making, gender relations impacts, etc.

55. Component 2.0 will require the development of a set of programme partner performance metrics. Data required for CFBO groups will be provided by programme partners and will include basic programme performance indicators including number of groups, number of members, location, some basic form of performance/sustainability. A set of cores metrics will apply to all 2.2 programmes (i.e., around profitability, efficiency, etc.). Another set of metrics will apply only to each specific programme (e.g., non-financial sector partners versus financial sector partners). All metrics beyond those related to FARMSE logframe, will be developed with the concomitant aim of providing programme partner, programme partner stakeholders and the programme performance data in support of performance management. This will include development of a monitoring process with provision of timely, actionable problem and opportunity identification outputs (e.g., identification of TSPs and FSPs conflicts, client need/demand for financial services, market bottlenecks, etc.).Data will also be used to support relevant policy dialogue. Performance data will be collected by partners and aggregated by the PMU monthly, and reported on a quarterly.

56. **Programme Baseline Study.** The FARMSE baseline study will be designed and carried out at programme start-up in areas likely to be selected for at least one component activities, preferably two. The baseline study will form the basis for assessing programme effectiveness and results achievement. The household survey shall be repeated at mid- term (or programme year 3-4) and at programme completion. Repeated measurements allow for obtaining data and information required for assessing the performance and achievements of the programme over time. Baseline studies will include a target group and a control group, and will incorporate the Multidimensional Poverty Assessment Tool (MPAT). This will be essential to determine attribution of results to programme activities.

57. **Reporting.** The M&E staff will produce three core reports: i) a quarterly progress report by each service provider; ii) a semi-annual progress report; and iii) an annual progress report. The programme

Logical Framework includes the draft indicators against which programme performance would be monitored and the sources of data to be used. These indicators would be discussed and agreed at programme start-up. Draft reports will be shared with programme partners and other relevant stakeholders. Comments and input would be consolidated by the PMU M&E staff, reviewed, and approved by the PSC prior to submission to IFAD, and the GOM. The M&E team will also consolidate programme performance input for Sub components 2.1 and 2.2 monthly, providing trend analysis as projects are implemented. Aggregate core metrics and limited, non-proprietary (to be negotiated) project partner performance data will be published on-line quarterly to update stakeholders on project performance and to foster friendly competition.

58. **Start-up workshop.** MOFEPD will organize a FARMSE start-up workshop, with the aim of presenting programme objectives and scope, roles and responsibilities to potential stakeholders, service providers and samples of beneficiaries. The workshop's timing and agenda will be agreed upon between GOM, IFAD and key programme stakeholders (e.g. GIZ). The objective will be to have full buy-in and ownership of FARMSE by all stakeholders. The programme design report needs to be disseminated prior to a wide audience within the GOM, among potential programme implementation partners, and other stakeholders. Invitations to the workshop should be equally inclusive.

Learning and Knowledge Management (L&KM)

59. **Learning system.** Capturing and documenting lessons and innovations through ongoing data collection, monthly/semi-annual reports, and thematic studies will be an integral part of the FARMSE L&KM. Disseminating reports and studies (in full or synthesized) will enable sharing of information and dialog facilitation with stakeholders. FARMSE will also have bi-annual and annual review meetings/workshops. Workshops will report on programme progress, lessons learned, challenges and solutions to implementation constraints. Workshops will be learning events as well, presenting the opportunity to influence the programming performance reviews. A short report capturing workshop discussions and results will provide feedback to the programme's planning and AWPBs as a part of FARMSE's commitment to participatory, demand-driven planning and implementation commitment.

60. **Knowledge development and diffusion.** FARMSE will support the creation of replicable and scalable approaches to graduation. It will also support the development of several innovative rural financial products, services, and delivery mechanisms. The PMU will work closely with programme partners and the M&E function to capture the process, technical, management, and impact learnings of these programme/project experiences. The knowledge management function of the M&E will document and share knowledge through internal (e.g., learning events, stakeholder workshop meetings, etc.) and external mechanisms (e.g., website, blogs, podcasts featuring programme stakeholders, etc.). In addition, the programme would publish a semi-annual programme update (online/print) and on various good practices and human interest stories. Knowledge activities will proactively pursue gender and youth issues, and present success stories related to vulnerability reduction and livelihood diversification as a means of household risk management.

VIII. 7.0 REPORTING

61. The provision of informative progress reports is a formal requirement; the Loan and Financing Agreements stipulate these requirements. The six-monthly and annual reports should be prepared and submitted to IFAD, the other co-financing institutions and all collaborating institutions. The main functions of progress reports are:

- Review current progress compared to planned activities, and expenditures compared to budgets;
- Provide overall status information on the Programme since it started – in terms of physical progress and total expenditure;
- Identify problems encountered during the reporting period and any remedial actions taken to resolve the problems;
- Analyse strength and weaknesses, opportunities and threats;

- Discuss quantitative and qualitative progress made in achieving the overall objectives; and,
- Provide strategic direction for the next planning cycle.

62. The primary importance of preparing progress reports is that it forces implementing agencies and Programme management to record data and review progress. Reflect on outputs, evaluate performance, and discover weaknesses that can be improved and successes that can be up-scaled. It is this process of reflection and analysis that matters; if done properly, the process would lead to better plans and implementation in the future.

63. Progress reports are the most tangible result of monitoring and, usually, a distinction is made between quarterly, six-monthly and annual reports. Monthly reports are not recommended although some implementing agencies may use monthly reports as part of their internal management systems. For IFAD Programmes/Projects, however, a month is generally too short to record significant change and prepare a consolidated report. Thus, six-monthly and annual reports will be produced. It is recommended that FARMSE liaises with the other IFAD-supported Programmes/Projects in the country to agree on a set of guidelines and a format for progress report writing.

IX. 8.0 PROCUMENT

64. Procurement of good and services will follow be guided by procurement procedures of IFAD and the Government of Malawi. Where there is a conflict of the guidelines, IFAD procurement guidelines will prevail.

X. 9.0 DRAFT OPERATING MANUAL -FINANCIAL INNOVATION AND OUTREACH - COMPONENT2

1.1 Introduction

65. This component will seek to overcome numerous barriers to financial services to the rural poor. It will support the development of informal and formal financial services best suited to ultra-poor non-labour constrained, poor but food-secure, vulnerable to poverty, and low income but resilient to poverty households, emphasizing savings and credit for on and off farm enterprise. This component will also employ financial interventions within select value chains to enhance economic returns to smallholder participation and value chain efficiency. The component has two subcomponents.

1.2 Justification

66. The journey from poverty to prosperity is not a singular accomplishment, but continual evolution towards greater household food security, income and asset accumulation, and livelihood opportunities. FARMSE intends to help graduate poor Malawians along the poverty spectrum from ultra-poor to poor but food insecure. FARMSE will work to support household economic development through access to financial services appropriate to each socio-economic level of poverty, including social payment graduation programmes, community-based financial organizations, financial cooperatives, MFIs, and commercial banks. Meeting the needs of rural households will require new and innovative products, services, and delivery mechanisms beyond what the financial sector currently offers. Supporting emerging and encouraging new institutional efforts and partnerships is required to overcome the multiple costs, volume, and product/ service design constraints facing sector development, as well as overcoming the sector's relative lack of experience and unclear risk perception of rural markets. FARMSE will support FSPs to develop demand-driven, simple to use, low monetary value, low transaction cost savings and loans products highly suitable for low income rural households. With a focus on formal financial services, FARMSE supported value chains will fuel economic opportunity for smallholder rural enterprise/ households on and/ or off-farm enterprises, creating employment and rural economic multipliers effects. Support to improved rural financial infrastructure (e.g., sector associations), policy, and regulation is also required.

Objectives and structure of this manual

67. The manual for component 2 is intended to provide the FARMSE management, and relevant monitoring and supervisory bodies with comprehensive explanations, guidelines and tools and formats to support FARMSE planning and implementation. The Manual begins by presenting the overall structure of the FIO component and goes on to present approaches for the implementation of the component.

68. The support provided under this component consists of matching grants. A matching grant is a one-off, non-reimbursable transfer to eligible grant recipients. Beneficiaries can only be legal entities, not individuals, and may comprise different types of institutions, including financial institutions, value chain operators, farmer associations and cooperatives and their apex bodies, and technical service providers. As regards the CBFO support organisations sub-component and the windows outlined below, other types of institutions, non-registered associations or governmental bodies are not eligible. Where licensed financial institutions are referred to, this applies to financial institutions licensed by and operating under RBM supervision and meeting capital adequacy norms, which are willing and capable to render additional services to the rural population or finance agricultural ventures (in a broader sense).

69. **Approaches adopted for the FIO.** In addressing these objectives the approach adopted by the FIO Facility will build on the following principles[157]:

- **Responsiveness** to the: (i) needs of the ultimate target groups of the FARMSE; (ii) needs of financial institutions desirous to improve and expand their services for the benefit of the ultimate target groups; and (iii) rapidly changing environment in which the financial sector operates, and to the need to become and remain competitive;
- **Accessibility** for a range of operators in the financial sector, ranging from banks to microfinance institutions, credit unions and other financial institutions, and value chain operators, such as agribusinesses, producer groups and cooperatives, and other value chain actors;
- **Transparency** of organization and management with predefined rules and procedures for operations and the changes of such rules;
- **Accountability** at all levels, including a “check and balance” management and decision making approach, with high quality technical assessments and sound approval mechanisms;
- **Efficiency** of all appraisal steps by means of constantly monitoring the duration of all steps;
- **Effectiveness** through the focus on sound, sustainable and innovative solutions to enhance access of the rural poor to financial services of all kinds, which have the potential to be replicated elsewhere;
- **Respect** for the autonomy and ownership of partner institutions and the need to protect intellectual efforts and innovative investments by preserving a professional secret.

70. **CBFO Support and IOF Windows.** The FIO is comprised of two sub components. CBFO support sub-component and the IOF sub-component. The IOF sub-component is divided into three windows.

CBFO Support Organisations Facility

71. VSLAs have had the greatest success in Malawi in encouraging savings amongst rural populations. According to the NSFI (MoFEPD, 2017) the number of members have grown from 86,000 in 2008 to 1.1 million in 2014. This facility will support three activities: i) Mapping of existing CBFOs and assessing maturity status in order to establish the location and status of the groups; ii) Building capacity of CBFOs in order to provide opportunities for additional skills and linkages of CBFO members to formal financial institutions and high value markets. This will enhance smallholder income, asset and some livelihood/enterprise development opportunities; iii) Formation of new Groups in order to include beneficiaries that are currently excluded.

72. The targeted institutions under this facility are therefore; CBFO support organisations, Value chain developers, secondary or apex body organisations and FSPs. Support under this sub component will enable CBFOs either collectively or individually present themselves to FSPs as a bankable proposition,

[157] Adapted from the SAPP - Zambia Operating Manual for the Matching Grant Facility, 2nd Draft, July 2012

support those FSPs interested in linking with CBFOs to make the necessary changes in institutional set up, business strategies and processes to provide products and services that are suited to the needs of CBFOs and support CBFO members to acquire high level skills in their respective trades and increase production.

73. The activities in this sub component will include identifying interested partners, training of CBFOs and FSPs, mapping exercises to take stock of existing Savings Groups and their status, farmer Groups support, CBFO- FSP dialogue, CBFO- High value market players, dialogue and mobilisation of groups and improving or developing products and services.

Innovation and Outreach Facility

74. This subcomponent will support FSPs wishing to enter and expand outreach in rural areas. Support will be provided on a demand-driven and cost-sharing basis through the Rural Finance Innovation and Outreach Facility (IOF).The IOF would address FSP's lack of experience in rural financial markets and limited expertise in designing and delivering products/services targeting low-income rural clients and MSMEs. Critically, a lack of exposure to rural markets leads to an exaggerated perception of risks which further discourages FSP from entering these markets. The IOF will have three funding windows:

i. **Market Research and Feasibility Studies:** Research could provide insights into the reasons why current service provider products and services are not being used and how they could be improved. Research will provide evidence to support a decision to move to a product/service to pilot stage, upgrade existing products, or expand successful existing products.
   The targeted institutions under this window are therefore; Technical Service Providers (TSPs), Research agencies and TSPs. Support under this window will enable FSPs identify market opportunities, client needs, key product features and possible delivery mechanisms. It will also identify risks and risk mitigation measures, costs and revenues estimates, and possible partnerships for product introduction and roll-out.
   Activities will include hiring specialized Technical Service Providers (TSPs) well versed in market research and client demand/ needs assessment, support for logistics for fieldwork, study tours and exchange visits.
ii. **Pilot testing and Innovation:** This window will support pilot-testing of product innovations and new low-cost delivery mechanisms.
   The targeted institutions are Technical Service Providers TSPs and FSPs. Support under this window will be based on prior market research (via the Window 1 or credible internal research) and will enable piloting of research products. Activities will include developing and piloting product prototypes ,conducting pilot tests, adjusting and refining product features. Subject to commercial viability, a roll-out plan and budget could be prepared. Eligible costs to be covered by this window would include TA, some fieldwork costs, staff training, management information systems/information (MIS) and information and communications technology (ICT) updates and equipment. Support could cover costs of developing training material for prospective clients.

iii. **Expanding Outreach:** This window will support scaling up of proven products/ services and delivery mechanisms. It can finance rollout of products and services piloted under Window 2, but also existing products/services developed by the FSP. Proposals would be based on: i) a proven product/delivery mechanism to be scaled up for FARMSE target group; and ii) a well-defined outreach strategy with clearly defined performance targets and milestones.

   The targeted institutions are FSPs, MNOs, electronic & money transfer operators and Fintechs.
   Activities will include hiring national and international TA for staff training, draft manuals, and institutional change. The IOF could co-finance physical investment costs related to the roll-out, such as ICT equipment, low-cost branches and agencies, vehicles, as well as incremental operating costs on a declining basis.

75. Terms **and conditions for CBFO support and the three IOF Windows**

76. The following are the terms and conditions for CBFO support and the three IOF windows:

Terms and conditions for CBFO Support Organisations Facility		
Item	**Terms and conditions**	
Objectives	To improve access to structured and sustainable CBFO financial services and expand outreach to poor but food secure households, households vulnerable to poverty, and resilient households	
Direct Target Groups	Entities interested in mobilising, restructuring and linking with CBFOs to financial services and high value markets. These include: • CBFO support organisations • Value chain developers, • secondary apex body organisations • and FSPs	
Eligibility Criteria	• Legal registration • Familiarity with the promotion of CBFOs, and working in collaboration with FSPs and high value chain promoters • 2-years Audited Annual financial statements submitted to relevant supervisory body • Sufficient field and supervisory staff available • Clear implementation plan and schedule showing profitability of innovative activities and how they can be sustained after the funding period	
Selection criteria		Relative weight
• Proven capacity to form new and restructured good practice groups		10%
• Outreach to reach poor households (directly or indirectly through SMEs) and simplicity of processes and methods		15%
• Special features to reach women and youth, commercial viability		10%
• Provision of additional extension services, training or education or value chain development support		10%
• “Fit” of the project with the strategic plan and market positioning of proposing organization,		15%
• Technical capacity or credibly to implement proposed project		15%
• Potential replicability of proposed project/approach		10%
• Use of Village Agents/PSPs to lower unit cost of delivery and formation of new or restructured CBFOs		5%
• Uniqueness and innovativeness of new products to be enjoyed by CBFO members		10%
Examples of projects that can be supported	• Mapping exercises for old groups • Farmer Groups support to improve productivity • CBFO –FSP dialogue for linkages • CBFO –High value market players dialogue for linkages • Mobilisation of new groups	
Examples of projects that cannot be supported	• Automated FSP Product developments eligible under IoF • FSP-CBFO linkages that are not mutually beneficial • CBFO-High value market player linkages that are not mutually beneficial	
Items eligible for support	• Training of CBFOs and FSPs • Mapping exercises support costs • CBFO- FSP dialogue • CBFO- High value market players dialogue • Products and services that make CBFOs more sustainable	
Items not eligible for support	• Physical infrastructure • Vehicles • Board and lodging for participants	

	• Travel costs for participants
Documentation Requirements	• One year after the conduct of the measures: Brief certification prepared by the grantee on: (i) the number of members, value of savings and loans and profits realized by the groups during the year after termination of intensive support; and (ii) the external institutional linkages maintained by the CBFOs supported; and (iii) an assessment of the future prospects of sustainability of the supported • Record of activities Implemented

Terms and conditions for Market Research and Feasibility Studies Window		
Item	**Terms and conditions**	
Objectives	• To increase access to new and innovative financial services and low-cost delivery mechanisms for poor rural households and MSMEs • To support the scaling up of proven financial services and delivery mechanisms.	
Direct Target Groups	• Technical Service Providers (TSPs), Research agencies and TSPs etc.	
Eligibility Criteria	• Legally recognized body collaborating with licensed FSPs • Licensed FSPs • Audited financial statements for 2 years • Clear implementation plan and schedule	
Selection criteria		Relative weight
• Commercial viability		15%
• Outreach to reach poor households (directly or indirectly through SMEs) and simplicity of processes and methods		15%
• 'Fit" of the project with the strategic plan and market positioning of proposing organization,		10%
Technical capacity or credibly to implement proposed project		15%
• Special features to reach women and youth,		10%
• Profitability of the innovation, product or services to be developed under the proposal		15%
• Uniqueness and innovativeness of the proposal		10%
• Potential replicability of proposed project/approach		10%
Examples of projects that can be supported	• Market Research • Institutional assessment • Study tours and exchange visits	
Examples of projects that cannot be supported	• Long term academic courses • All projects in Window II and III	
Items eligible for support	• TA • Logistic costs for undertaking fieldwork • Transport costs	
Items not eligible for support	• Infrastructure costs • Vehicles • Travel cost for participants Board and lodging for participants	
Documentation Requirements	• One year after the conduct of the measures: Brief certification prepared by the grantee on: (i) the number of members, value of savings and loans and profits realized by the groups during the year after termination of intensive support; and (ii) the	

	external institutional linkages maintained by the CBFOs supported; and (iii) an assessment of the future prospects of sustainability of the supported • Record of activities Implemented

Terms and conditions for Pilot Testing and Innovation Window

Item	Terms and conditions
Objectives	• To increase access to new and innovative financial services and low-cost delivery mechanisms for poor rural households and MSMEs • To support the scaling up of proven financial services and delivery mechanisms.
Direct Target Groups	• FSPs, MNOs, Input suppliers, agribusiness companies, warehouse operators, and commodity exchange etc.
Eligibility Criteria	• Legally recognized body collaborating with licensed FSPs • Licensed FSPs • Audited financial statements for 2 years • Clear implementation plan and schedule

Selection criteria	Relative weight
• Commercial viability	15%
• Outreach to reach poor households (directly or indirectly through SMEs) and simplicity of processes and methods	15%
• 'Fit" of the project with the strategic plan and market positioning of proposing organization,	10%
Technical capacity or credibly to implement proposed project	15%
• Special features to reach women and youth,	10%
• Profitability of the innovation, product or services to be developed under the proposal	15%
• Uniqueness and innovativeness of the proposal	10%
• Potential replicability of proposed project/approach	10%

Examples of projects that can be supported	• Savings products including mobile enabled services • Commitment savings products • Investment or school fees products • Cash flow multi-purpose loan products • Warehouse receipt financing • Crop and livestock insurance
Examples of projects that cannot be supported	• All projects in Window I and III • Products without prior market research
Items eligible for support	• Technical Service Providers (TSPs • Logistic costs for undertaking fieldwork • Staff training • Transport costs • Management information systems • Information and Communication Technology updates • Equipment
Items not eligible for support	• Infrastructure costs • Vehicles • Travel cost for clients • Board and lodging for clients
Documentation Requirements	• One year after the conduct of the measures: Brief certification prepared by the grantee on: (i) the number of members, value of savings and loans and profits realized by the groups during the year after

	termination of intensive support; and (ii) the external institutional linkages maintained by the CBFOs supported; and (iii) an assessment of the future prospects of sustainability of the supported • Record of activities Implemented

Terms and conditions for Expanding Outreach Window

Item	Terms and conditions
Objectives	• To increase access to new and innovative financial services and low-cost delivery mechanisms for poor rural households and MSMEs • To support the scaling up of proven financial services and delivery mechanisms.
Direct Target Groups	• FSPs, MNOs, Input suppliers, agribusiness companies, warehouse operators, and commodity exchange etc.
Eligibility Criteria	• Legally recognized body collaborating with licensed FSPs • Licensed FSPs • Audited financial statements for 2 years • Clear implementation plan and schedule

Selection criteria	Relative weight
• Commercial viability	15%
• Outreach to reach poor households (directly or indirectly through SMEs) and simplicity of processes and methods	15%
'Fit" of the project with the strategic plan and market positioning of proposing organization,	10%
• Technical capacity or credibly to implement proposed project	15%
• Special features to reach women and youth,	10%
• Profitability of the innovation, product or services to be developed under the proposal	15%
• Uniqueness and innovativeness of the proposal	10%
• Potential replicability of proposed project/approach	10%

Examples of projects that can be supported	• Savings products including mobile enabled services • Commitment savings products • Investment or school fees products • Cash flow multi-purpose loan products • Warehouse receipt financing • Crop and livestock insurance
Examples of projects that cannot be supported	• Products without prior piloting
Items eligible for support	• Technical Service Providers (TSPs • Staff training • Draft manuals • Transport costs • Management information systems • Information and Communication Technology updates • Equipment • Low cost branches and agencies • Vehicles • Training and capacity development of prospective clients
Items not eligible for support	• Travel cost for clients • Board and lodging for clients
Documentation Requirements	• One year after the conduct of the measures: Brief certification prepared by the grantee on: (i) the number of

	members, value of savings and loans and profits realized by the groups during the year after termination of intensive support; and (ii) the external institutional linkages maintained by the CBFOs supported; and (iii) an assessment of the future prospects of sustainability of the supported • Record of activities Implemented

XI. 10.0 GRANT APPRAISAL UNDER COMPONENT 2

77. **Appraisal of grants for grants under CBFO support and the three IOF Windows.** A number of formal steps of appraisal of grant applications are envisaged. A rigorous appraisal requires that three different technical instances review applications and decide its merits. In order to avoid compromises, these three instances would have to conduct their review in a pre-determined sequence and independent of each other. This also implies that no person engaged at one level could participate again at another. For transparency and accountability purposes, full documentation of the steps and the outcomes is expected at the end of each step.

78. There are two main phases for grant approval, concept note and proposal phase. If a proposal successfully passes the internal review at the concept note stage, they progress to write a full proposal which is subject to internal and external technical review, and an independent approval body.

79. **Duration of processing.** The processing of grant applications, starting from the receipt of the concept note to the approval by the Proposals Review Committee (PRC), shall be done with all due diligence and as short as possible. For all project applications received, the duration of processing until disbursement of the first tranche shall be measured and monitored. For this purpose, the PMU will be required to install or create a database for all applications received which will permit an assessment of the duration of all appraisal steps. The database shall contain the dates of the main steps of the grant process, namely, the receipt of concept notes and proposals, when decisions are made, and when applicants are informed. The database may also track the following:

(i) All disbursements
(ii) Dates of receipt of periodical implementation reports
(iii) Dates of receipt of financial reports and
(iv) Project closure

The following targets for the average duration of processing shall be aspired:

Table 1: Average duration of main appraisal steps for grant processing	
Steps	**Max wks.**
CONCEPT NOTE PHASE	
Receipt of Concept Note	0
Acknowledgement of Receipt of Concept Note	0.5
Internal Review	2
Notification to Applicant	0.5
Sub-Total	***3***
PROPOSAL PHASE	
Proposal Workshop (two weeks after Notification to Applicant)	2
Supplementary Questions	1
Proposal Submission	1
Decision on compliance of application with Manual by PMU	0.5
Acknowledgement of receipt	0.5

Selection and Recruitment of External Reviewers, and Transmission of Applications to Reviewers	0.5
Receipt of Technical Reviews by External Reviewers	1.5
CTS Prepares Proposal Summaries for PRC (concurrent with External Reviewers)	1
IRC Reviews Proposal Summaries and Proposals prior to PRC submission	1
PRC Meeting Called and Proposals Submitted	2
PRC Meeting held, proposals Reviewed and decisions made	0
Offer Letter Notification of Applicant on Decision of PRC, sends Detailed Implementation Plans and Disbursement Request Form and arranges Pre-implementation Workshop	1
Grant Recipient Accepts Offer	1
CTS Prepares Grant Agreement	0.5
Pre-Implementation Workshop	0.5
Grant Recipient submits Detailed Implementation Plan, and Disbursement Request	1
Finance Process Disbursement Request	0.5
Disbursement of first tranche to grant recipient	0.5
Sub-Total	***16***
TOTAL	**18**

i. Concept Note Phase

80. **The concept note phase** is designed to filter out any projects and organisations that do not meet's general provisions. Concept notes are received in either hardcopy, at the office, or softcopy, sent to the FARMSE email address. The Procurement Specialist or designated officer receives the concept notes, inputs the receipt of the document into the database, which tracks the number of days/weeks between actions taken by the PMU on a project, and allocates the project a unique identifier. The role of this database is to track and monitor the time taken between receiving a concept note (or proposal), reviewing the proposal and notifying the applicant. The concept note phase should take no longer than four weeks from receipt of the concept note.

81. The Procurement Specialist or designated officer then forwards the documents to the CTS who records the project in the pipeline management tool. The role of the pipeline management tool is for the CTS to closely manage the project pipeline.

82. The IRC is chaired by a representative from the Pensions and Financial Sector Policy (PFSP) Department in the Ministry of Finance, Economic Planning and Development (MOFEDP),the senior staff from the PMU comprise the rest of the committee. The Procurement Specialist or designated officer keeps the minutes for the meeting. The IRC has three options, “approve”, “reject” or “defer approval”. They can defer approval if they feel the concept has merit, but requires clarification on information that is immaterial to the approach. A decision is reached via simple majority vote.

ii. *Proposal Phase*

83. The Procurement Specialist collates the IRC comments and notifies the applicant as to whether they were successful in moving to the proposal phase and informs them of the next steps, including a proposal workshop, which is to be held within two weeks of notification. The date of review and notification are recorded in the database.

84. The PMU informs the Applicant, in the notification letter, that they are provided with four weeks to write the proposal from date of notification. The proposal require significantly more information, including:

- Compliance; date the organisation was registered, and date of the last board meeting;

- Organisation overview: Mission, vision and values, organisational history, governance structure, management overview, a description of their systems and processes, and their current products/services and their portfolio;
- An overview of their current projects and any similar projects they may have undertaken;
- A simplified income statement and balance sheet, along with their sources of funding, and portfolio information to show their financial capacity;
- Then a detailed description of how they intend to implement the project, including a detailed explanation of each activity, task and deliverable/output required achieve the project objectives;
- The applicant must also complete a logframe, and identify project risk and mitigation strategies;
- If they are using a technical implementing partner, they must describe the capacity of the technical implementing partner and their role within the project.

85. As mentioned, Applicants are invited to a proposal workshop within two weeks of date of notification to submit a full proposal. The purpose of the proposal workshop is to walk the organisation through the proposal format and answer any questions about the proposal process. The proposal workshop is held with multiple applicants where possible with the aim of being as efficient as possible. Following the proposal workshop, the applicant is expected to submit their proposal within two weeks.

86. Because the proposal workshop is held with several organisations, some organisations may not want to share detailed information about their project design. As such, organisations have up to one week after the proposal workshop to submit supplementary questions. The PMU will respond to the supplementary questions within 2 days.

87. Applicants can submit their proposal either as a hardcopy, directly to the FARMSE office, or softcopy, via email. Applicants are expected to submit four weeks after the transmission of the proposal notification letter. The Procurement Specialist or designated officer receives the proposals and records the date of receipt in the database. He then notifies the applicant of the receipt of the proposal.

88. **First level review.** The proposal is passed to the CTS who conducts an initial review of the proposal to ensure all the sections are complete, and assess its compliance with all terms and conditions and eligibility criteria. Because of the concept note phase, it is expected that the vast majority of proposals and organisations will meet the terms and conditions and eligibility criteria. Any proposals that the CTS does not believe meet the terms and conditions or eligibility criteria are sent directly to the PD for a secondary review. If further clarification is required, then the PMU will notify the applicant in writing seek clarification. The proposal will then be deferred to the next review cycle. At this stage, the PMU may not reject the proposal outright, unless it is clear that the proposal and organisation do not meet the requisite criteria and will not be able to proceed through the proposal review stage. This decision is unlikely to be made at this stage, due to the concept note phase and the support provided (proposal workshop). However, if such a decision is made, the PMU, via the Procurement Specialist or designated, will notify the applicant, detailing why the proposal did not meet the criteria and request a meeting to discuss the areas of non-compliance. If the applicant can correct the areas of non-compliance, they are free to resubmit the proposal with the modifications. The PMU must inform the PRC), who oversee the approval of proposals, about the decision not to progress the proposal, providing a detailed justification for the decision. The CTA may not make a unilateral decision to reject a proposal.

89. The PD and CTA have fortnightly meetings to discuss the proposal pipeline, in addition to daily communication about day-to-day work. These meetings are an opportunity for the PD to oversee the progress of each proposal and identify any proposals that may not meet the terms and conditions and eligibility criteria, and CTA to provide justification for progressing each proposal. This is a critical management tool for keeping the pipeline moving and to ensure that the Programme is operating efficiently. The CTA uses the pipeline management tool to report to the PD.

90. **External reviewers.** The initial review by the CTA will also enable the PMU to select appropriate External Reviewers who will review the proposal prior to the PRC. The PMU will establish a roster of highly qualified domestic and international experts in each area. Consultants will be invited through a public invitation to submit their expression of interest to support FARMSE. The invitation will be made

through different media, including relevant local print and internet media. In the future, FARMSE will periodically review and update the consultant's database. A clear terms of reference will be developed and used to assess the applicants.

91. An external reviewer shall be accredited, or deleted from the list, upon a joint decision made by the IRC. Reviewers are paid a fixed honorarium per case reviewed, which will be agreed by the PSC as a maximum of USD250 per case. Any increase over this amount requires the non-objection of IFAD. They will be contracted using an Indefinite Delivery, Indefinite Quantity[158] (IDIQ) contract which allows the PMU to quickly mobilise the reviewers rather than having to draw up new contracts for each proposal reviewed.

92. The PMU will send the full proposal (minus any additional supporting documentation, such as printed/bound financial audits, etc.) to the External Reviewers, along with an MS Excel based external review score sheet which guides them through the scoring of the proposal. The scoresheet requires the External Reviews to score set criteria on a range of 1-5, with 1 being sub-standard and 5 being excellent. The PMU provides guidance to the External Reviewers on how to complete the scoresheet and is on hand to answer any concerns/questions that may arise. The scoresheet mirrors the grant proposal, the external reviewers score questions that cover the following topics:

i) Organizational capacity; governance, systems, current and past performance, and financial capacity
ii) Interventional analysis; Problem statement and context analysis, outreach and scale, the implementation approach, sustainability, social and environmental impact and innovation
iii) Project budget; value for money
iv) Technical implementing partner assessment; Implementing partner capacity; project role, and partner arrangements.

93. The scoring sections are weighted, the weighting may be adjusted as the Programme develops and we review more proposals using this template.

94. There is also a brief narrative section which asks the external review to give the strengths and weaknesses for the technical and financial aspects of the proposal and any recommendations they might have for improving the proposal.

95. 158. The external reviewer can print, sign and scan the file, or add a digital signature and PDF the document. If the external review is local, they can bring a hardcopy to the office, but it is ideal to send the completed file via email to the PMU.

96. **Summary analysis of proposal.** Immediately after the proposal has been received, the CTS begins to develop a summary analysis of the proposal, which will be submitted to the IRC and PRC along with the full proposal. The summary analysis includes the following information:

- Introductory information about the organization and project;
- Internal and External Reviewer ratings and recommendations;
- Proposal SWOT analysis (this may be upgraded to a TOWS analysis in the future);
- Analysis of the organizations institutional and financial capacity;
- Analysis of the organizations past and current performance with similar projects;
- An overview of the project implementation goals, objectives and approach;
- Analysis of the budget and financing plan;
- Assessment of the proposed Gantt chart;
- Analysis on the sustainability and scalability of the proposed activities;

[158] IDIQ contracts are most often used for on-call service contracts. Minimum and maximum quantity limits are specified in the basic contract as either number of units (for supplies) or as dollar values (for services). An IDIQ contract allows for a certain amount of contract process streamlining.

- Analysis of the organizations M&E systems and approach;
- Assessment of the potential effect on the key issues of nutrition, environment and social inequalities; and
- An assessment of the technical implementing partner if the grantee intends to use one.

The summary analysis is designed to follow the proposal flow and support the IRC and PAC in their review of the full proposal.

97. **Internal Review Committee.** The IRC is chaired by a representative from the Pensions and Financial Sector Policy (PFSP) Department in the Ministry of Finance, Economic Planning and Development (MoFEDP), the senior staff from the PMU comprise the rest of the committee. Once the concept has been approved by the IRC at the concept note phase the organisation is deemed eligible and the concept valid. Therefore, during the proposal stage the full IRC is involved once the CTA has completed the summary analysis. As the CTA completes each summary analysis, the document is sent to the IRC for review and assessment via email. The IRC scores the proposal in the same way that the External Reviewers have done, using the same template, and this is added to the summary analysis along with any additional comments. The IRC comprises of the:

(i) PFSP Representative;
(ii) Programme Director;
(iii) Chief Technical Advisor
(iv) Rural and Microfinance Specialist
(v) CBFO Specialist
(vi) Procurement Specialist;
(vii) M&E Specialist

Meetings of the internal review committee will be held every month subject to cases pending for clearance. The IRC is chaired by the PFSP representative.

98. As has been previously stated, it is anticipated that the vast majority of the full proposals will be compliant and meet all the terms and eligibility criteria, having gone through the concept note phase and initial review by the CTA. However, even at this stage, the IRC may identify issues that need further clarification, or in some cases they may identify some projects, that following previous interventions by the PD and CTA to seek clarification, are not compliant. Therefore the IRC may make the following decisions:

Approval: Where the proposal is deemed to be compliant with all terms and conditions, the IRC would decide to proceed with the appraisal and prepare its rating of the proposal along the selection criteria;

Defer Approval: In case additional information or clarification would be needed, the CTA would be tasked to obtain such from the applicant and re-submit the proposal to the next IRC; and

Reject: In case the proposal would not be compliant with the conditions as laid down in this manual, the CTA would inform the applicant accordingly, by detailing exactly where the proposal would not be compliant, and by inviting the applicant to work on areas of weakness and re-submit at a future date.

99. In case the IRC would deem the proposal not to be compliant with the terms and conditions, the CTA through the PMU would inform the applicant in writing of probable areas of non-compliance of the proposal with the guidelines and conditions and invite its representatives for a discussion on how such areas of non-compliance could be adjusted to make the proposal compliant. The applicant is free to:

(i) Accept such a meeting and any eventual proposal made by the PMU; and
(ii) Modify the proposal accordingly and resubmit.

100. In case the IRC would deem a proposal to be non-compliant with the rules and regulations, and the applicant would insist on maintaining the application as it was submitted, the PD would inform the applicant about the rejection. The PMU must also inform the PAC about the decision not to progress the proposal.

101. Another function of the IRC is to review and provide comment on the summary analysis as provided by the CTA and ensure that it covers all the areas required for the PRC and that it accurately represents the proposal.

102. **Proposals Review Committee.** The final instance of grant appraisal for the Financial Innovation and Outreach Component will be the PRC. The PRC is comprised of eight members, as follows:

(i) A representative from Reserve Bank of Malawi (RBM);
(ii) A representative from the Ministry of Finance, Economic Planning and Development (MoFEDP);
(iii) A representative of the board of directors of Bankers Association of Malawi
(iv) A representative of the board of Malawi Microfinance Network,;
(v) A representative from the National Smallholder Farmers Association of Malawi
(vi) Three private sector representatives recruited through a tender process; these shall preferably be persons familiar with banking and finance, but not be actively engaged in the financial sector.

- The PD is not a member of the PRC, but serves as convenor of and secretary to the PRC, facilitates presentation of the cases submitted for approval, and responds to queries. Other experts may be co-opted as the need arises upon majority decision. Neither the PD nor co-opted experts shall have voting rights at the PRC.
- The appointment of the institutional representatives is done by the Steering Committee of the FARMSE upon nomination by the respective Chief Executive Officer, or other authorized representative, of the respective institution and the results of the open recruitment/tender process.
- All members of the PRC are requested to indicate at the beginning of the first session of the PRC any affiliation and/or economic interests with financial institutions, potential service providers and other relevant institutions. Persons with affiliations and/or economic interests in an institution applying for a grant under FARMSE or seeking to supply goods or services under a contract shall be excluded from the deliberations and decisions as regards this particular case, and shall not be replaced by other persons. A member of the PRC who fails to fully declare her or his affiliations and economic interests shall automatically cease to be a member of the PRC. In such cases, the chairperson of the PRC will notify the respective chief executive officer accordingly.
- All nominated PRC members who fail to attend three consecutive meetings will automatically cease to be members of the committee. In such a case, the PD informs the respective chief executive officer of the institution concerned and requests for a new appointment or start a new recruitment process, as the case may be.
- The PRC undertakes a comprehensive assessment of each application, checks compliance of a proposal with all terms and conditions, ensures that all procedures are complied with and appraises the proposal along the selection criteria. The PRC is not permitted to change any part of the proposal they received. The PRC ultimately decides on the rejection or approval of an eligible application. In case a proposal is rejected, the reasons for rejection have to be detailed in the minutes of the session.

- The PRC uses the proposal approval guidelines. The PRC does not score the proposal, but uses the weightings as an indication as to the importance they should give to each consideration when they are reviewing the proposal.
- Following a detailed discussion about the merits and shortcomings of a proposal, a committee member proposes a decision, which must be seconded by another committee member before a vote is taken. A decision is reached by simple majority.
- The PRC will be convened about every six to eight weeks by the Programme Director. The quorum at PRC meetings is attained if 5 out of the 8 members are present; decisions are made with the majority of votes, i.e. at least five votes, in favour of a support or 3 if the quorum is 5; if this majority is not attained, the proposal is deemed to be rejected.
- The decisions of the PRC are final.
- All documents to members of the PRC shall be circulated in electronic format at least one full week before the meeting. In addition to a standardized presentation of each single proposal, a summary sheet covering essentials of all projects shall also be circulated to the PRC members. The documents shall include in tabular form the scoring of each proposal along the selection criteria as made by the external reviewers and the IRC.
- All members of the PRC shall receive an allowance compensating them against the time spent and efforts made to render competent and professional advice to the Committee. The allowance shall be fixed in terms of the net time spent at PRC meetings, and shall amount to USD 30 per full hour.

103. **PRC sub-committee.** For grants below a value of USD 30,000, the PRC will establish a sub-committee authorised to make decisions on its behalf. This committee is comprised of four members of the PRC. The members will be elected with a simple majority by the PRC from among volunteers. The quorum required for decisions of the sub-committee is four members, and decisions require a majority (i.e. three out of four). This committee will be operational once at least five regular meetings of the PRC have been held. After one year of functioning, the PRC may increase the approval limit to USD 70,000 per case. The minutes of the meetings of the sub-committee will be submitted to the full PRC through the PD.

104. **Minutes.** The chairpersons of the IRC and of the PRC ensure that minutes of all meetings are properly kept by the Procurement Specialist or designated officer. The secretaries of the IRC and the PRC will, respectively, submit the minutes of any meeting via email within one week to all members. The final version of the minutes shall be distributed to all members attending the respective session immediately upon finalization, as well as to all members of the IRC.

105. **Exclusions from decision making.** Members of the PRC are not permitted to attend meetings of the IRC or act as external reviewers. Members of the PMU are not entitled to act as external reviewers or as members of the PRC. External reviewers are not entitled to attend the IRC or PRC meetings. An exception of this is the PD, who shall serve as secretary to the PRC without voting rights.

106. As the final decision making authority for grants, the PRC may make the following decisions:

Approval:	In case the proposal would be deemed to be compliant with all terms and conditions by the PRC and exceeding the minimum selection threshold, the PRC would approve the proposal and instruct the PD accordingly. The PR may also introduce conditions and/or deadlines for disbursement of tranches.
Deferred Approval:	The PRC may decide that the proposal has merit, and would ordinarily be approved, but that they are seeking clarification to items immaterial to the implementation approach of the proposal. If the applicant is able to

provide clarification, then the PVC may approve the proposal at the next PRC meeting, or via email.

Rejection: The PRC may decide to reject a proposal on three grounds:

(i) The proposal is deemed to be non-compliant with the conditions as laid down in this manual;

(ii) The rating of the proposal along the specific selection criteria is lower than those of competitors, and the funds available under the window do not permit funding of this proposal; or

(iii) The rating of the proposal is below the minimum threshold defined for the specific window. In either of such cases, the PRC would decide to reject the proposal and instruct the PD to inform the applicant accordingly, by detailing exactly where the proposal would not be compliant or scoring below the requirements/standards set by competitors, and by inviting the applicant to modify the proposal accordingly and re-submit it.

107. **Notification.** All applicants are notified by the PD of the final outcome regarding their application. In the case of approval the PMU drafts an offer letter, and begins to draft the grant agreement. The notification informs the Applicant that they can commence appointing staff or start tender/procurement processes. In case of rejection by the PRC, the PD notifies the applicant of the decision and the reasons for rejection as stated by the PRC, and informs about the opportunity to re-submit the application, eventually after modification.

108. **Re-submission.** In case an application has been rejected on the grounds of receiving a lower score or non-compliance with terms and conditions, the applicant is permitted to re-submit it a second time after incorporating the appropriate modifications. The modifications should address the comments and suggestions made by the PRC. The PMU shall treat such applications as modified applications and commence the normal appraisal process.

109. **Grant Agreement.** The grant agreement is prepared by the PMU following the PRC approval, it may include the following information:

i) Expected contribution by each party
ii) Duration of the project
iii) Obligations of the parties, including an overview of the project implementation activities
iv) Reporting requirements
v) Disbursements
vi) Supervision of the project by FARMSE
vii) Non-compliance, conflict resolution and force majeure
viii) Termination conditions
ix) Confidentiality
x) Severability and renegotiation; and
xi) The governing law

110. The grant agreement can be authorised by the Chairperson of the PRC in order to improve the speed at which grants can be approved and funds disbursed.

Implementation of Activities

111. A detailed implementation plan is sent along with the grant agreement. The detailed implementation plan requires the grantee to revisit their implementation activities, Gantt chart and budget. The purpose is to receive a detailed monthly and quarterly plan for their activities, with which the PMU can track the project performance, at both a budget and output level.

112. **Pre-implementation Orientation.** Prior to the grantee beginning implementation, the PMU will provide a comprehensive orientation on programme goals, objectives and reporting for respective staff counterparts in the grantee organisation, including data generation and indicator tracking requirements, orientation on reporting formats and obligations, as well as potential consequences of non-compliance.

a) Funding Arrangements

i. Disbursements

113. **Disbursements.** All disbursements shall exclusively be made by way of bank transfer in the currency specified in the grant agreement (MWK or USD) into a specified account of the grant recipient. The respective account shall be specified in the grant agreement. No cash or in-kind releases are permitted. Requests for fund transfers shall be submitted by the CTS to the Financial Controller upon approval by the PD. Implementing Partners are requested to confirm receipt of funds transferred by email within one week after receipt.

114. **Disbursements in tranches.** Disbursements to Implementing Partners will be in tranches, as stated in the table below. Payment of grants shall be made within two weeks upon submission of an invoice compliant with the specific requirements.

Window 1: Disbursement Modalities and Conditions		
Modalities	**No. Of Tranches**	**Conditions for disbursement**
• Initial advance of 50% of provisional amount • Disbursement of second tranche when the partner reaches 70% of expenditure of the first tranche.	2	First tranche, detailed implementation plan, procurement plan, disbursement request form Second tranche, submission of invoice, and implementation and financial progress reports

115. As a summary, prior to disbursing FARMSE funding, Implementing Partners must provide detailed information about their planned activities, and they must specify which bank account they will receive funds into. The disbursement requirements are as follows:

- Monthly and quarterly implementation plans
- Procurement plan (see the Procurement Sub-Manual for more details)

ii. Financial Management

116. As mentioned previously, the PMU analysis information gathered during the post approval capacity survey process to assess the grantee's financial management capability. It is expected that larger Implementing Partners will use a formal financial management software, either proprietary or off-the-shelf. If the grantee does not use a formal financial management software, FARMSE provides them with a MS Excel based expenditure tracking and reporting tool.

117. **Record keeping requirements of expenses by Implementing Partners.** All Implementing Partners are requested to keep records as per the specific monitoring and reporting requirements of their project and as specified in the grant agreement. All grant agreements contain clear reporting requirements along specific indicators, and contain a clause pursuant to which the grant recipient commits to comply with the set reporting requirements.

b) Procurement

118. **Ownership of goods, data and information obtained.** All goods acquired by the Implementing Partner from the proceeds of the grant shall be used for the purposes of the project as submitted in the grant application and as approved in the grant approval letter. All goods remain the exclusive property of the grant recipient, i.e. a corporate body. As owner, the grant recipient is solely responsible for taking care of all property, providing for proper maintenance of goods and insuring property against common losses and risks. All data and information gathered during and after the completion of the project remain for the exclusive use of the grant recipient, with the provision that experiences and information gathered can also be used by the PMUfor reporting to the GOM and IFAD and for dissemination to the general public in generic form. In case of cancellation of a grant, goods remain the property of the grant recipient, irrespective of the right of the MOFEPD to request for reimbursement of the full grant or a portion thereof.

c) Knowledge Management

119. During the pre-implementation workshop the KM Specialist provides guidance to Implementing Partners on how to identify and record interesting human interest and other stories. The PMU and grantee must jointly approve any publications before publication. As each partnership and project is different, the KM Specialist works with the grantee to establish a tailored plan for publications, based on the KM Strategy.

Appendix 12: Compliance with IFAD policies

<table>
<tr><th>Policy</th><th>Alignment with IFAD Policy</th></tr>
<tr><td>IFAD Strategic Framework 2016-2025: « Enabling Inclusive and Sustainable Rural Transformation »</td><td>IFAD’s fifth Strategic Framework covers the period 2016-2025, serving as an overarching policy guideline to provide direction to IFAD’s work, and as a key instrument for consolidating IFAD’s development effectiveness. It responds to the new global environment and positions IFAD to play a crucial role within it – by enabling the transformation of rural areas in a manner that is both more inclusive and sustainable. The framework has three strategic objectives:
1. SO1: Increase poor rural people’s productive capacities – investing in rural people to enhance their access to and control over assets and resources. FARMSE’s objectives of increasing access to financial services, and increasing income and asset development, support this SO.
2. SO2: Increase poor rural people’s benefits from market participation – improving the engagement of poor rural people in markets for goods, services and wage labour. FARMSE will boost the rural investment environment, thereby increasing poor rural people’s linkages to the markets.
3. SO3: Strengthen the environmental sustainability and climate resilience of poor rural people’s economic activities. Environmental sustainability for FARMSE is further described in the SECAP Review Note.</td></tr>
<tr><td>Country level policy engagement</td><td>IFAD promotes policy engagement in projects in order to reach two main objectives: (i) help create an enabling environment for implementation and achieving the project's impact, and (ii) help create the conditions for a large number of rural population to out of poverty. It is a key element of the scaling up agenda. IFAD's role is not intended to advocate for specific policy outcomes; it is rather to assist governments to use the project experience in the design or reform of policies, and to facilitate dialogue among national stakeholders on key policy issues. FARMSE is in line with these objectives and principles, seeking to create and provide spaces for policy strengthening, formulation and implementation in a consultative way through the establishment of an Agricultural Finance Working Group.</td></tr>
<tr><td>Targeting policy</td><td>FARMSE is consistent with IFAD’s Targeting guidelines and has/will follow three steps to good targeting practice: i) gender-sensitive poverty and livelihoods analysis in design, at start-up and during implementation; ii) identification and implementation of a targeting strategy; and three monitoring and evaluation of targeting performance.</td></tr>
<tr><td>Gender equality and women’s empowerment policy</td><td>FARMSE is consistent with IFAD’s Gender and Women’s Empowerment Policy (2012) which has three strategic objectives: Strategic objective 1: Promote economic empowerment to enable rural women and men to have equal opportunity to participate in, and benefit from, profitable economic activities. • Strategic objective 2: Enable women and men to have equal voice and influence in rural institutions and organizations. • Strategic objective 3: Achieve a more equitable balance in workloads and in the sharing of economic and social benefits between women and men.</td></tr>
<tr><td>Rural finance policy</td><td>FARMSE is consistent with IFAD's Rural Finance Policy (2009) which has six guiding principles to be applied at the micro, meso and macro levels: (i) support access to a variety of financial services; (ii) promote a wide range of financial institutions, models and delivery channels; (iii) support demand driven and innovative approaches; (iv) encourage – in collaboration with private sector partners – market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD’s resources; (v) develop and support long-term strategies focusing on sustainability and poverty outreach; and (vi) participate in policy dialogues that promote an enabling environment for rural finance.</td></tr>
<tr><td>Knowledge management</td><td>The Knowledge Management strategy suggests that projects should have baseline studies and should have dedicated frameworks for knowledge management in order to "learn systematically and collectively from its own projects and programmes, and from the</td></tr>
</table>

Policy	Alignment with IFAD Policy
	experience of its partners, particularly poor rural people, in order to deliver high-quality services and to enable its partners to find innovative ways to overcome poverty, and to use the knowledge acquired to foster pro-poor policy reforms." FARMSE will have a dedicated M&E system and a strong M&E capacity at PMU level.
Scaling up	FARMSE is consistent with IFAD's vision of scaling up. The definition adopted by IFAD for scaling up is: "expanding, adapting and supporting successful policies, programmes and knowledge, so that they can leverage resources and partners to deliver larger results for a greater number of rural poor in a sustainable way". Scaling up results does not mean transforming small IFAD projects into larger projects. While FARMSE has a significant size on its own, the objective is to leverage greater impact through partnerships with other projects, piloting new approaches with implementing partners and replicating those that are successful, and fostering knowledge exchanges that will support a structural transformation of Malawi's rural finance sector.

Appendix 13: Contents of the Project Life File

Country strategy

- Republic of Malawi Country strategic opportunities programme

Mission documents

- Aide Memoire of Programme Concept design mission (February, 2016)
- FARMSE Programme Design Concept paper (March, 2016)
- Terms of Reference for first design mission (October, 2016)

Working papers (as prepared by the technical mission of October 2016)

- COSTAB file
- Economic and Financial Analysis Excel files

Environmental and social safeguards

- SECAP Review Note (Appendix 14 to programme design report)

Review documents

- OSC issues paper
- OSC minutes
- Minutes of CPMT review of draft concept note (XX 2016)

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Appendix 14: SECAP review note

I. Major landscape characteristics and Issues

A. Socio-cultural context

1. Malawi's population is 16.8 million people, out of which 85 per cent is rural. Two out of three people are under age 25. Population is predicted to further grow to 26 million by 2030. Poverty headcount stands at 50.7 per cent, with almost 30 per cent being severe poor. Poverty is most pronounced in rural areas of the north and south, while it decreased in urban areas. High rates of malnutrition paired with ca. 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. More details on the socio-cultural context can be found in Appendices I and II.

B. Natural resources and climate

2. The most important geomorphic feature of Malawi is the Great Rift Valley that extends from north to south and forms Lake Malawi. Malawi can be divided into four main agro-ecological zones: lowlands (<900 m, including the shores of Lake Malawi and the floodplains of the Shire River), highlands (900-1,400 m), mountains (1,400 – 2,500 m) and escarpment areas (steep slopes between highlands and lowlands).

3. Malawi has an extensive network of river systems, the major rivers being perennial. Per capita water resource availability is low at an estimated 937 m^3/year (2015) and rapidly declining due population growth[159]. While Malawi has a long dry season (May – October), only 4% of cultivated lands are irrigated often using inefficient irrigation techniques[160]. While agricultural commodities under irrigation contribute only 2-4% to Malawi's GDP, they make up the bulk of Malawi's exports and are of particular significance to food and nutrition security. The GoM is therefore actively seeking to increase land under irrigation, by investing in water storage and irrigation schemes such as the IFAD-financed PRIDE and the Shire Valley Irrigation Project.

4. Soils are generally moderately fertile, but fertility of smallholder-managed soils has been steadily reducing due to continuous maize production, low fertilizer use and discontinuation of fallow systems due to rising population pressure[161]. Soil organic matter contents are reportedly even falling to levels that limit responsiveness to fertilizer and do not support maize growth[162].

5. Soils are not the only natural resource suffering from poor management. The country is estimated to lose USD 190 million per year due to unsustainable fishing, deforestation and soil degradation[163]. Significant public financial resources are equally spent on halting and reversing degradation trends; yet the underlying economic drivers severely limit the effectiveness of these efforts.

6. Climate conditions in Malawi are influenced by both the Inter-Tropical Convergence Zone as well as the Indian Ocean system, creating high inter-annual variability. The sub-tropical climate is divided into three weather variations: warm-wet (November to April), cool-dry winter (May to August) and hot-dry season (September to October). Due to the country's position between climate systems,

[159] USAID (2015) Malawi Water and Sanitation Profile. Available online at http://www.vub.ac.be/klimostoolkit/sites/default/files/documents/malawi_water__sanitation_profile_usaid.pdf
[160] Ministry of Water Development and Irrigation (2015), Irrigation Master Plan and Investment Framework.
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climatic responses to El Niño and La Niña events vary and are difficult to predict. The 2016 El Niño event negatively affected nearly half of Malawi's population, pushing as many as 6 million people into emergency food assistance programs.

7. Climate change is observed in Malawi in terms of increasing mean annual temperatures (0.9°C between 1960 and 2006). A further increase of 1.1 – 3.0 °C is expected by the 2060s. There are no statistically significant historic trends in rainfall patterns, and different climate models show diverging results for future climates. It is however likely that the intensity of both wet and dry seasons will increase[164]. This in turn will have an effect on the availability of surface water resources during the dry season, increasing the need for water storage.

8. Smallholders identify flooding, late rains, short rains, dry spells, droughts and strong winds as the main climate related risks that they face. The main impacts of the climate risks noted by the farmers are crop damage by floods, crops drying before maturity during dry spells, reduced crop yield, reduction in land availability for farming due to siltation, loss of soil fertility and soil erosion. The most immediate reported outcome after a climate shock regardless of the type of shock is decline in crop yield, which threatens household food security. Increased food shortage, loss of assets and income are also reported.

C. Key Issues

9. Taking into account the rural finance thrust of the proposed project, key relevant issues are:

(a) **High natural resource dependency, high vulnerability.** The majority of Malawian smallholders are primary dependents of the availability and quality of natural resources, such as good soils for cultivation, grazing lands, firewood and water. Without any buffers or alternative income stream, smallholder farmers are highly vulnerable to climatic shocks such as floods and droughts.

(b) **Steadily degrading natural resource base.** At the same time, the availability and quality of natural resources is continuously declining, primarily due to poor management. This process is often self-reinforcing: low investments in soil fertility reduce maize yields, which push people to resort to charcoal making, which increases erosion, and so forth. Increasing investments in good agricultural practices and buffers for difficult periods can reverse this trend.

(c) **Increase in extreme events.** The increasing occurrence of intense rainfall events and droughts means an increasing number of shocks to smallholders, with increasing severity.

(d) **Complexity of translating financial inclusion into improved livelihood outcomes, especially for poorest households.** Given the above, and the multifaceted nature of inputs and circumstances producing sustainable livelihoods outcomes, the programme will need to leverage with interventions addressing upstream and downstream factors in rural value chains to ensure that programme investments translate into benefits for targeted households.

(e) **Integration of good environmental and social practices into the policies and procedures of financial institutions.** Financial institutions can play a major role in promoting and financing only good environmental and social practices, yet their in-house capacity to assess this is often limited.

[164] UNDP (2011). Malawi Climate Change Country Profile. Available online at http://www.geog.ox.ac.uk/research/climate/projects/undp-cp/UNDP_reports/Malawi/Malawi.lowres.report.pdf

II. Potential project's social, environmental, and climate change impacts and risks

A. Key potential impacts

10. The **expected positive impact** of FARMSE comprises:

(a) Improved food security

(b) Increased savings

(c) Accumulation of (productive) assets

(d) Income diversification

(e) Economic potential of household enhanced

(f) Improved income management

11. The combined effect of these benefits will be reduced poverty, improved livelihoods and enhanced resilience of rural households.

12. The **potential negative impact** can be assessed at two levels: those of activities directly financed by the project, and those resulting from the activities indirectly enabled by project interventions. In the former category, potential negative effects are restricted to mostly the limited environmental impact of small-scale infrastructure. The project may finance small-scale infrastructure such as small offices (branches), storage facilities, roads or market sheds. Negative effects could include clearance of vegetation, loss of habitat, noise of construction and improper waste management, but all at very limited scale.

13. In addition, the implementation of programme activities will increase exposure and vulnerability of programme beneficiaries and members of target communities to HIV, especially among girls, female youth and poor women. Specific measures should be considered in light of this in terms of HIV awareness-raising, education and prevention. A possible negative impact of interventions stimulating loan acquisition is generating situations of over-indebtedness among target households. Programme activities will include loan risk assessment for both formal and informal financial services supported.

14. Direct targeting of women can increase intra-household pressures and increase gender inequality for both men and women if not supported by an overarching approach aiming to achieve increased household wellbeing.

15. Indirect effects will derive from the increased economic activity caused by the project. The increased availability of funds may enable farmers to, amongst others, invest in irrigation (pumps, pipes), expand their agricultural lands, purchase and apply pesticides, or build small-scale infrastructure. The expected potential negative impact of each of these interventions is small, but cumulative environmental effects may arise from widespread adoption. These may include increased competition over freshwater resources, pollution of water resources by fuel spills or pesticide/fertilizer run-off and clearance of bush / forest land.

B. Climate change and adaptation

16. As mentioned, the direct effects of climate change include increasing temperatures and increasing frequency and intensity of extreme events. There is limited decisive information on the climate vulnerability of, or expected impact of these changes on, specific agricultural commodities or value chains. For example, studies modelling climate change impact on maize yields come to different conclusions, some projecting yield increases, others yield declines.

17. FARMSE will not finance planned climate change adaptation per se, but will be an important enabler of autonomous adaptation by farmers through the improved availability of financing. There are several ongoing projects that will complement FARMSE in this regard, most notably the improved availability of weather and climate information through WFP-assisted climate information centres[165],

[165] See http://documents.wfp.org/stellent/groups/public/documents/newsroom/wfp253152.pdf

improved year-round access to irrigation water such as through PRIDE, or the FAO and NEPAD initiatives on Climate Smart Agriculture which include applied research on drought-tolerant species and improved post-harvest facilities.

III. Environmental and social category

18. The potential negative social and environmental impact caused by the project, as identified in section II, is limited. The impact of directly-financed activities is limited to specific sites and can be mitigated using readily available measures. The cumulative impact of an increase in economic activities, indirectly caused by the project, may cover a wider geographical area and be less easily mitigated by the project, but will have limited impact severity. Overall, the Project has been assessed as environmental and social **Category B**.

IV. Climate risk category

19. The high vulnerability of the target beneficiaries to climate-related shocks, will pose a risk to the project achieving its objectives. Major events such as droughts or floods, such as those experienced in 2015 and 2016, may disturb the expected development trajectory of those farmers under the graduation model or negatively affect the ability of households to repay loans. The climate risk category is thus assessed as **Medium**.

V. Recommended features of project design and implementation

A. Mitigation measures

20. Mitigation measures for the potential negative impacts identified in Section II include:

(a) Develop an Environmental and Social Management Framework (ESMF) outlining standard operating procedures for the financing of small-scale infrastructure, as addendum to the Project Implementation Manual and aligned with the national guidelines on Environmental and Social Impact Assessment. The ESMF should also make explicit reference to the IFC Exclusion List[166] outlining investments not eligible for project support;

(b) Monitor implementation of ESMF as part of the overall M&E system with an aggregate indicator featuring in the project Logframe;

(c) Conduct due diligence on to-be-engaged Financial Service Providers (FSPs) in terms of environment, social and governance (ESG)[167] policies and procedures, and their capacity to implement those. If found inadequate, develop an operational plan to improve capacity;

(d) Specifically address intra-household dynamics, for instance by using the Gender Action Learning System (GALS) methodology;

(e) Set up a grievance redress mechanism at programme level.

B. Incentives for good practices

21. Apart from mitigating potential negative impact, the following measures could enhance positive impacts:

(a) For the graduation model activities under component 1: Combine asset transfer with appropriate training on environmental management, e.g. grazing and manure

[166] See http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/ifc+projects+database/projects/aips+added+value/ifc_project_exclusion_list

[167] ESG is the terminology increasingly used in impact investing and social enterprises. Several ESG toolkits for microfinance institutions have been developed, and IFAD is looking to mainstream these into its rural finance operations

management for livestock provision, water-efficient irrigation management for irrigation equipment provision.

(b) Implement a pro-active gender empowerment methodology such as the Gender Action Learning System (GALS) which not only addresses structural power imbalances affecting women, it also provides opportunities for men to use their potential. It also bolsters the economic potential of households and increases the chances of reaching and sustaining gains generated by the programme.

(c) For the CBMFIs under component 2.1: incentivize service providers to mainstream ESG issues in their approach; require proposals to explicitly state how these issues are addressed, and include ESG criteria as part of the proposal evaluation

(d) For the FSPs under component 2.2: incentivize the development of products that specifically address financial risks related to weather variability and extreme events;

VI. Monitoring and Evaluation

22. Guidance for monitoring and evaluation of the project's environmental and social performance should be detailed in the Environmental and Social Management Framework. The project M&E and KM officers should be trained on how to monitor environmental and social performance of service providers.