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## **Republic of Malawi**

### **Implementation of the first cycle of the Rural Livelihoods Support Programme financed under the Flexible Lending Mechanism**

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For: **Information**

## **Note to Executive Board Directors**

This document is submitted for the information of the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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## Republic of Malawi

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

1. The purpose of this information note is to comply with paragraph 13 of the flexible lending mechanism (FLM) guidelines (EB 98/64/R.9/Rev.1), which stipulates that "...for each FLM loan and prior to the end of each cycle, IFAD Management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly."

## I. Introduction

2. The overall objective of the FLM is to introduce greater flexibility into the Fund's project design and implementation in order to: match project time frames with the pursuit of long-term development objectives when it is judged that a longer implementation period will be required to meet those objectives; maximize demand-driven beneficiary participation; and reinforce the development of grass-roots capacities. The specifics of an FLM loan include: (i) longer loan periods (10-12 years) to allow for the achievement of sustainable development objectives; (ii) a continuous and evolving design process through implementation of distinct cycles of three- to four-years; and (iii) clearly defined preconditions – or "triggers" – for proceeding to subsequent cycles.
3. This information note reports on the progress of the Rural Livelihoods Support Programme in achieving its first-cycle triggers. The note's contents are based on the findings of a joint mission fielded by IFAD, the United Nations Office for Project Services (UNOPS) and the Government of Malawi in May-June 2007.

## II. Background

4. The Executive Board approved financing for the Rural Livelihoods Support Programme on 12 September 2001 and the programme became effective on 30 August 2004. The total cost is estimated at US\$16.5 million. Sources of financing are IFAD (with a loan of about US\$14.8 million), the Government (contributing US\$1.2 million), and beneficiaries (US\$0.5 million). The Ministry of Local Government and Rural Development has overall responsibility for the programme; the programme facilitation unit supports the district assemblies in implementation activities; and UNOPS acts as the cooperating institution.
5. **Goal and objectives.** The goal of the programme is to reduce, sustainably, poverty of the target group of approximately 32,000 households through the promotion of on-farm, off-farm and wage-based incomes. Specific objectives include: (i) promoting sustainable agricultural production and simple but efficient natural resource management technologies for improved food security, nutrition and agriculture-based incomes for better living conditions; (ii) enhancing the development of skills for selected target groups (e.g. young people, women and other vulnerable groups) and making financial support available for both on- and off-farm investments so that these groups can use the acquired skills to improve their incomes; (iii) increasing employment through support for infrastructure development to provide income especially during off-season periods; and (iv) developing/improving individual and local community organizational capabilities to access relevant resources to improve their livelihoods. Subsidiary objectives are to ensure the means and opportunity for the Government to meet the conditions necessary to access funds for programme cycles II and III on the basis of

programme performance, Government commitment and demonstrated impact at the village level.

### III. Programme performance during cycle I

6. The programme has three components:
- **Component 1: Investment in human capital.** This supports capacity-building at the village level in order to empower vulnerable communities and households.
  - **Component 2: Village investments.** This supports target groups with the resources to invest in a series of activities that respond to their concerns and that use local opportunities identified through the village planning process. Two funds have been established: the Local Initiatives Fund (LIF) and the Village Investment Fund (VIF).
  - **Component 3: Programme management and coordination.** This includes: (i) establishment and operation of the programme facilitation unit (PFU); (ii) contracting services on behalf of beneficiaries; (iii) coordination of programme supervision; (iv) liaising with other donor-funded activities; and (v) arranging for the programme's reassessment.
7. The loan agreement sets out the following "triggers" that must be satisfied before the end of cycle I as a condition for the continuing of IFAD financing during cycle II:

<i>Milestone</i>	<i>Performance</i>
Programme operating principles and procedures under progressive implementation.	Satisfactory
Proven use of Local Initiatives Fund (LIF) and Village Investment Fund (VIF) in the district accounts and the District Development Fund (DDF) accounts in support of village-level activity agreements. Verification through annual audit of accounts.	Moderately satisfactory
Programme account, district accounts, and the programme-financed element of the DDF accounts receive (separate) unqualified audit reports.	Moderately satisfactory <sup>a</sup>
Demonstrated satisfaction among beneficiaries, including vulnerable groups, with access to and distribution of programme resources in relation to the needs of the different wealth categories identified in the initial, village-level situation analyses. Verification through activity completion reports, village review meetings and district review workshops.	Highly satisfactory
Adherence to/respect of contractual agreements on the part of service providers. Verification annually through: (i) inventory of activities financed and successfully implemented using the LIF and VIF; (ii) reports by the PFU's monitoring and reporting officer; and (iii) independent beneficiary impact assessments.	Satisfactory
The technical content and socio-economic characteristics of programme activities shall have been tailored to local circumstances, as described in the situation analyses. Verification through LIF/VIF inventories, independent beneficiary impact assessments and external social audits.	Satisfactory
Overall assessment	Satisfactory

<sup>a</sup> Subject to the refund of US\$24,990 owed to the special account, which has been agreed to by the Government.

8. Programme achievements from inception to March 2007 have been comprehensively documented and independently reviewed by the evaluation/design mission. The documentary resources and information/observations directly obtained by the evaluation/design mission create a picture of a successful rural development programme that is already delivering significant benefits to the target group in some of the poorest and most isolated parts of Malawi. Moreover, the achievements of the programme so far provide a sound platform from which to expand and intensify support for improved rural livelihoods during cycles II and III.

## A. Component 1: Investment in human capital

9. Component 1 includes three subcomponents: 1.1 community planning and implementation; 1.2 programme implementation support; and 1.3 participatory monitoring and evaluation (M&E). **Subcomponent 1.1** has involved the mobilization, sensitization and training of communities in the 144 programme villages through socio-economic profiling and participatory planning processes. These have resulted in the selection of priority investment projects for implementation under component 2, and in the provision of vocational training programmes and support for the launch of small-scale business ventures for selected individuals. There has been enthusiastic participation in the activities supported, which in most villages represent the first of this type. Key features have been: (i) the strong spirit of volunteerism exhibited by members of the various committees, who contribute their time and effort without reward; (ii) the highly participatory and democratic planning and decision-making processes; (iii) widespread understanding of programme objectives and procedures at all levels; (iv) effective targeting of poor and vulnerable households and design of activities that are appropriate for their resources and skills; (v) excellent gender balance in committees and beneficiary selection; and (vi) a high degree of beneficiary satisfaction with results so far.
10. The main problem area in subcomponent 1.1 is with the village development committee (VDC) revolving funds, which have provided loans to groups of 10-15 persons for establishing small-scale businesses. While the enterprises themselves are generally going well and generating good profit margins, loan repayments have fallen behind schedule, with about 50 per cent of the portfolio in arrears. The allocation of responsibility for revolving funds to the VDCs is seen as a shortcoming of programme design which needs to be rectified rapidly. It is therefore recommended that during cycle II, the groups involved in revolving fund activities be converted into savings and loan clubs and linked to savings and credit cooperatives (SACCOs) to be overseen and supported by the Malawi Union of Savings and Credit Cooperatives.
11. **Subcomponent 1.2**, programme implementation support, covers public-sector and NGO/private-sector support. Public-sector support (at the district level) has played a major role in programme implementation in conjunction with the NGO, Concern Universal. Eight line ministries and departments – relating to agriculture and livestock, public works, natural resources management, water, health, labour, community services and education – have been involved in the programme at the district assembly level. These have made valuable contributions despite severe funding constraints, although the value of their contribution has not been fully accounted for in the programme's financial statements. Field facilitation was undertaken initially by the PFU and district-level staff, and later outsourced to Concern Universal under two one-year contracts. The Concern Universal team has been responsible for the participatory planning, facilitation and training work undertaken under subcomponent 1.1. While the programme is generally satisfied with the services provided by the NGO, the programme considers that the costs would be reduced if the PFU took over the activities once the existing contract expires. This proposal has been approved by the Programme Steering Committee and is supported by the evaluation/design mission.
12. **Subcomponent 1.3** is being implemented through a series of workshops and meetings at various levels. Annual review workshops are held at the district, area and village levels to review programme implementation. Communities are expected to assess their own performance and the performance of the service providers and suggest ways of improving future outcomes. The situation analysis workshops conducted when new villages join the programme provide useful baseline information to inform the M&E process. Monitoring of village-level activities is the responsibility of the village-based project management committees, which are

expected to submit a simple report form each month. This is working moderately well but participation is far from complete.

13. Overall, programme performance under **component 1 is assessed as satisfactory to highly satisfactory (in parts)**. Recommendations have been made to remedy the two main problem areas including management of the revolving funds and the recruitment of service providers. Apart from this, no major changes are proposed as the programme moves into cycle II.

## **B. Component 2: Village investments**

14. To date, the programme has funded more than 400 microprojects ranging from small individually operated income-generating activities (both on- and off-farm), and larger public goods investments that benefit the whole community. Project selection is undertaken through the participatory planning process in component 1. Activities funded under component 2 fall into six categories regardless of whether funding comes from the LIF or the VIF (the two funds only differ in the size of the grants). The range of microprojects supported includes: (i) **agriculture and livestock development**, including small-scale goat units, dairy, poultry, pig-rearing, food security/crop improvement, seed multiplication, orchard establishment, bee-keeping and vegetable-growing; (ii) **natural resource management and environmental conservation**, including soil and water conservation projects on sloping land and community forestry; (iii) **community water development and management**, including construction of 54 community boreholes and small-scale irrigation; (iv) **primary health care and sanitation**, including establishment of five village pharmacies financed by drug revolving funds; latrine construction, and HIV/AIDS advocacy and awareness; (v) **off-farm income-generating activities**, including bakeries, small-scale trading, carpentry, tinsmithing, tailoring, shopkeeping and shoe-repairing; and (vi) **community infrastructure**, including construction or improvement of roads, bridges, culverts, fords, school blocks and maize mills. These are public goods investments implemented by VDCs (covering a group of villages) using locally engaged labour, often linked to vocational training under component 1.
15. Overall programme performance under **component 2 is assessed as satisfactory**. The range of investments is extensive, responsive to stakeholder needs, generally sensitive to the prevailing socio-economic and environmental constraints, and the skill levels of beneficiaries. A major expansion of LIF- and VIF-financed investments will take place during cycle II, and resources will continue to support the activities launched in cycle I. No major changes are proposed for component 2 but a number of refinements are recommended, in particular: (i) there is a need for follow-up/refresher training for many project groups; (ii) the number of beneficiaries per group should be increased from the present number of around 15 to as many as 30 in some cases; (iii) the funding ceilings for LIF and VIF grants should be raised in line with increased costs, and the increased number of beneficiaries per group; (iv) measures should be taken to ensure prompt release of funds by the districts, particularly for the food security projects where timeliness is critical to success; and (v) special support is needed for the drug revolving funds to ensure their sustainability.

## **C. Component 3: Programme management and coordination**

16. The programme is coordinated by the Ministry of Local Government and Rural Development through the PFU in Blantyre under the supervision of the National Steering Committee. The steering committee has been active in overseeing programme implementation and has responded to issues as they have arisen. This is a strength of the programme, which should be maintained during the next cycle. The programme coordinator/desk officer based at the headquarters of the Ministry of Local Government in Lilongwe acts as the liaison point between the PFU and the Government and performs the secretariat functions for the steering committee. At

the field-level, the programme is implemented by the district assemblies, which have provided strong support through the district executive committees and the eight line ministries and departments represented at the district level. Despite very limited resources in the districts, the assemblies have been effective institutional partners in programme implementation and have been able to improve their capacity to facilitate participatory rural development activities in collaboration with the area, village and project management committees.

17. Component 3 also includes provision for engagement in policy dialogue in relation to rural poverty issues. However, the programme has not so far been able to engage fully in the policy dialogue area since it has been focusing its efforts on programme facilitation at the district and village levels. Moreover, social and economic policy is mainly the responsibility of the Ministry of Economic Planning and Development, but the programme has no direct linkages with this ministry. The location of the PFU in Blantyre also isolates it from policy process as these are centred in Lilongwe. During cycle II, there will be a greater opportunity for the programme to engage in policy dialogue at the national level, and the programme has much to contribute on the basis of its substantial achievements and lessons learned during cycle I.
18. Overall programme performance under **component 3 is assessed as satisfactory** with the exception of **financial management, which is regarded as moderately satisfactory** and should be remedied quickly before commencement of cycle II.

#### **D. IFAD loan disbursements**

19. As at 31 March 2007, the programme had spent US\$4.087 million, which is 22 per cent short of the total budget allocation for the first cycle. However, committed expenditure in the remaining six months is expected to reach near full disbursement. Any unused funds will be carried forward into the second cycle. Actual expenditure by component and subcomponent show significant deviations from appraisal estimates. Spending for components 1 and 2 was below the appraisal estimate, whereas for component 3 spending was 48 per cent more than the estimate. Of the total expenditure, the IFAD loan has contributed US\$3.786 million (93 per cent) and the Government of Malawi, US\$0.300 million (7 per cent) in the form of taxes foregone and cash subventions. Reallocation of funding among components and expenditure categories was approved by the Government and the UNOPS and incorporated into the annual workplans and budgets.

## **IV. Recommendations for implementation of cycle II**

### **A. Lessons learned**

20. The review of the achievements and performance of the first cycle, summarized above, highlights lessons and recommendations to be incorporated into the second cycle of the programme under the FLM. Foremost among these is the relative ease with which very poor rural communities can be mobilized to participate in the development process, the willingness of these communities to undertake facilitated participatory problem analysis and problem-solving, and the strong spirit of volunteerism in the communities. The Rural Livelihoods Support Programme is an extremely popular and widely appreciated programme in the districts and is strongly supported by the district assemblies. However, a number of other lessons inform the proposed approach to the implementation of the second cycle:
  - **Implementation capability.** Implementation capability has come under pressure in terms of administrative, financial and technical functions as a result of programme expansion and district staff being called upon to support more and more donor-funded programmes. There is therefore a need for continued strong support in the provision of training, equipment and transport. The high proportion of expenditure on programme

management and coordination is partly a reflection of the need for this support, and partly attributable to the preparatory nature of cycle I activities. However, during cycle II, the programme needs to take steps to phase out the PFU and focus on strengthening the district administrations and the Ministry of Local Government so that the PFU functions can be absorbed by these institutions.

- **Outreach and targeting.** The economically active and motivated poor are the main practicable target group for a programme of this nature. However the inclusion of certain “safety net” activities has ensured that the poorest and most vulnerable are not bypassed completely.
- **Low disbursement of LIF/VIF funds.** This reflects the need for an extended period of social preparation and training of up to a year, before communities are ready to implement development projects. At the same time, some LIF/VIF projects have been underbudgeted due to the relative low expenditure ceilings. LIF/VIF disbursements are expected to pick up in cycle II, and the expenditure ceilings will be raised.
- **Management capacity of the village development committees.** While VDCs are effective village-level development institutions that play a crucial role in the programme, their limitations also need to be recognized, especially in relation to financial management and reporting. Few, if any, VDCs have the capacity to effectively manage revolving funds or business ventures.
- **Beneficiary training and sustainability.** All beneficiaries receive some form of training before implementing projects. However, this should not be seen as a one-off exercise. There is a clear need for follow-up and refresher training in most cases, a need that is recognized by the beneficiaries themselves, especially those running small-scale business enterprises. This training will be crucial in achieving sustainable outcomes.
- **The importance of partnerships.** The programme has been able to extend its reach and improve its effectiveness through cooperation with a number of other organizations, including: the World Food Programme (WFP) (food for work and school feeding); the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) (supply of improved seeds); World Vision (road construction); the Shire Highlands Milk Producers Association (milk marketing); the Bvumbwe Research Station (agricultural research); the Malawi Union of Savings and Credit Cooperatives (rural financial services); the German Agency for Technical Cooperation (GTZ) (fuel efficient stoves); and several training institutions (vocational training).
- **Need to improve coordination.** In its early stages, the programme was the only significant development programme in the three districts. However, as development programmes and projects have proliferated, there is an increasing need for a coordinated approach to avoid duplication and overlap. Expanding the network of partnerships will be an important initiative during cycle II.
- **Flow of funds.** There are a number of concerns about slow release of programme funds. The programme operates a system of imprest accounts that are replenished after the expenditure details relating to the previous advance have been submitted. Funding delays were due to late or incomplete submission of previous advances.



## B. Recommendations for cycle II

21. The **goal** of programme remains unchanged: sustainable poverty reduction among the target group of approximately 32,000 households through investments in human capital, community infrastructure and income-generating activities. The components also remain unchanged **but with** operational recommended adjustments as follows:

<i>Component/subcomponent</i>	<i>Recommended changes</i>
<i>Component 1: Investment in human capital</i>	
1.1 Community planning and implementation	<ul style="list-style-type: none"> <li>Introduce a system whereby communities graduate from the programme so that new ones can participate.</li> <li>Microfinance operations will be linked to district-level SACCOs rather than be operated by VDCs.</li> </ul>
1.2 Programme implementation support	<ul style="list-style-type: none"> <li>Service providers will be directly engaged by the PFU rather than outsourced to an NGO.</li> <li>Increased emphasis on follow-up and refresher training of the groups established under cycle I, among others.</li> </ul>
1.3 Participatory monitoring and evaluation	<ul style="list-style-type: none"> <li>Conduct a major impact assessment towards the end of cycle II.</li> </ul>
<i>Component 2: Village investment</i>	
2.1 Local Initiatives Fund	<ul style="list-style-type: none"> <li>Funding ceilings of individual projects raised (for LIF).</li> <li>Increase number of beneficiaries per group for selected projects.</li> </ul>
2.2 Village Investment Fund	<ul style="list-style-type: none"> <li>Watershed-based approach for soil and water conservation.</li> <li>Funding ceilings of individual project raised (for VIF).</li> <li>District assemblies to move towards full funding of major infrastructure maintenance during cycle III.</li> </ul>
<i>Component 3: Programme management and coordination</i>	
3.1 Programme facilitation unit	<ul style="list-style-type: none"> <li>Exit strategy to be prepared to phase-out the PFU and transfer its functions to the Ministry of Local Government, district assemblies and service providers.</li> <li>Strengthen accounting and financial control systems to improve reporting and flow of funds.</li> </ul>
3.2 Contribution to policy dialogue	<ul style="list-style-type: none"> <li>Beneficiary and Government contributions (cash and in-kind) should be estimated and reported in the programme accounts.</li> <li>Become more effectively engaged in national policy dialogue on rural poverty reduction and decentralized governance.</li> </ul>

22. **Total programme cost** for cycle II will remain at **US\$6.13 million** (Malawian kwacha 920 million) as indicated in the post-appraisal report. This will be financed by the release of cycle II funds from the IFAD loan, amounting to approximately US\$5.6 million (depending on the US\$/SDR exchange rate), with the remainder coming from the Government and beneficiaries.

## V. Conclusions

23. The Government is strongly committed to consolidating and expanding the programme's achievements within the context of the ongoing democratic decentralization process. The programme is considered a model project within the country and many of its innovative features are being replicated in other rural development programmes and projects.
24. Sustainability is the major concern at this stage, and creating the conditions for sustainability will be a major focus of cycle II activities. IFAD Management considers that there is a strong case for proceeding to the second cycle but recommends an early start to the process of phasing out the PFU and mainstreaming its functions within permanent institutions. The Government prefers a more measured approach in concert with gradual and systematic capacity-building of these institutions. However both parties agree that there should be a

study to prepare an exit strategy during the first six months of cycle II and the completion of this study and its approval by IFAD and the Government have been included in the cycle III milestones.

25. Cycle II activities have been re-costed and incorporated into a cycle II formulation report. Changes to the loan agreement have been drafted, including new milestones to trigger cycle III (see below). It is expected that there will be a smooth transition from cycle I to cycle II at the end of August 2007.

**Proposed triggers for proceeding from the second to the third cycle**

**Milestones to trigger cycle III**

1. Improved financial administration and control procedures recommended in cycle I have been fully operationalized at the district level and all the project accounts are receiving unqualified audit reports.
2. Preparation of a PFU exit strategy within the first six months of cycle II, acceptable to both IFAD and the Government.
3. At least 75 per cent of the expected number of villages (240) will be engaged in the programme by the third year of cycle II.
4. An impact assessment survey has been conducted by the middle of the third year of cycle II, providing sound evidence of sustainable improvements in incomes and quality of life of target beneficiaries compared with the baseline survey estimates.
5. The impact assessment survey should demonstrate that in at least 70 per cent of the villages involved in the programme for three years or more, the actions supported by the programme have made a difference to the performance indicators detailed in the cycle II logical framework. In particular:
  - Poverty and quality-of-life indicators, including the indicators of the Results and Impact Management System, show significant improvements compared with baseline measures.
  - A satisfactory level of participation of poor and vulnerable households in the formulation of village action plans and implementation of projects.
  - Functioning management committees overseeing construction and satisfactory maintenance of community infrastructure.
  - Establishment of sustainable and profitable income-generating activities for poor and vulnerable households.

