**Annual Review - Summary Sheet**

This Summary Sheet captures the headlines on programme performance, agreed actions and learning over the course of the review period. It should be attached to all subsequent reviews to build a complete picture of actions and learning throughout the life of the programme.

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| **Title: Private Sector Development (PSD) Programme in Malawi** | | |
| **Programme Value: £17,392,254** | | **Review Date: December 2016** |
| **Programme Code:**  **203824** | **Start Date: 2013** | **End Date:** **31 December 2019** |

**Summary of Programme Performance**

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| Year | **2013/14** | **2014/15** | **2015/16** | **2016/17** |
| Programme Score | **A** | **A** | **A** | **A** |
| Risk Rating | **M** | **M** | **M** | **Moderate** |

**Summary of progress and lessons learnt since last review**

The Private Sector Development Programme has five components: the Business Enabling Environment Programme (BEEP), the Malawi Oilseeds Sector Transformation Programme (MOST), the Business Innovation Facility (BIF), and the Malawi Innovation Challenge Fund (MICF) and the Monitoring and Evaluation component. The first four programmes were hampered in some way by external factors during the year under review, including a near total rain failure during the 2015/2016 cultivation season, power shortages that resulted in daily blackouts lasting up to 16 hours. Though later amicably resolved, the Malawian government’s arbitrary application of import taxes on vital agricultural equipment caused unforeseen delays and additional costs for the programme. The MOST programme was poised to demonstrate significant impact in the year under review, but found it challenging to facilitate farmer level changes during a year in which agricultural production was at a steep shortfall from average. It focused instead on continuing to build its platform of partnerships with Malawian firms, and adding interventions in access to finance and sesame. MICF’s portfolio of grantees suffered from the same set of constraints, with all of them requiring performance period extensions to achieve their benchmarks. Despite being stymied by the hesitation of the Malawian government to institute reforms, BEEP made significant progress on delivery of the World Bank Malawi Country Economic Memorandum and the GIZ Malawi Extractives Industry Transparency Initiatives. The Control of Goods Act and the Investment and Export Promotion Act were also delivered to respective Government Ministries as planned. Meanwhile, the BIF programme, which had been previously delayed by internal factors, used the year to catch up to the other components in the portfolio, developing a strong partnerships with private sector actors in the pico solar power, pigeon pea and rice market systems and addressing all other recommendations in the previous review.

As a result, BIF, MICF and MOST are poised to demonstrate significant impact in the coming year, particularly at the end of the 2016/2017 cultivation season. DFID should be able to see demonstrable impact midway through calendar 2017. However, even with sufficient rains this year, the other constraints continue to threaten the success of the programmes in the portfolio. DFID and the component managers should closely monitor the impact of these factors on component performance and grant flexibility where needed to adapt to new circumstances.

As in the previous year, in order to evaluate progress towards fostering systemic change, the review focusses on identifying evidence of learning and adaptation. Each of the programme teams: the MOST programme, BIF and MICF, demonstrate significant meaningful engagement with their work, with the teams able to articulate what they have learned and how they have adapted their activities in response. In the previous year, the review team commented that BIF’s pace of partnership development and experimentation was stymied by internal factors – those issues have been thoroughly addressed. All three programmes now demonstrate strong contextual learning and learning.

Also in the year under review, BEEP supported three key initiatives as outlined above.

While some of the some constraints are major investment areas, eg power, we are, as part of the Country Economic Memorandum and wider economic development engagement in Malawi, aware and taking action (eg discussions with CDC and UK investors). For climate related constraints and outside our control, eg poor rains, DFID would need to put the emphasis back on climate–resilient investment decisions.

**Summary of recommendations for the next year**

In 2017, DFID should address the following issues to ensure the Programme meets its potential:

* **Malawi Innovation Challenge Fund**: the Fund will need to monitor closely the progress of its existing portfolio of grantees until the end of its extended period of performance in mid-2017 to ensure that they meet their milestones and are in the position to receive their full commitment of funds. It will need to draw lessons from the first round into the new window to ensure that successes are replicated.
* **Malawi Oilseed Sector Transformation Programme**: MOST should give more consideration to the possible need to drop non-performing initiatives (potentially its sunflower work), focusing its remaining resources instead on those interventions which show more promise in its final two years.
* **Business Innovation Facility:** BIF ceases its work under DFID Malawi funding during 2017, so this review’s recommendations are made with that limit in mind. Principally, the review team feels that a review of the potential for real growth in the rice market system is still warranted, given Malawi’s productivity challenges and the low likelihood of irrigation adoption.
* **Business Enabling Environment Programme:** Malawi’s business environment remains a key bottleneck to agricultural investment and growth and some measured level of involvement in this area is critical. DFID Malawi should consider investing the BEEP resources in new activities where there is a wider base of multi stakeholder involvement and therefore a high likelihood of making traction. Supporting the on-going effort to improve accountability and transparency in the maize market through IFPRI is highly recommended. The remaining funds should be channelled to the upcoming irrigation window under the Malawi Innovation Challenge Fund component, as the current allocation to this final round is deemed insufficient to guarantee meaningful impact.The two activities should be approved by the Head of Office by March 2017.

**A. Introduction and Context** (1 page)

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| DevTracker Link to Business Case: | <https://devtracker.dfid.gov.uk/projects/GB-1-203824/documents>. |
| DevTracker Link to Log frame: | [httpsHYPERLINK "https://devtracker.dfid.gov.uk/projects/GB-1-203824/documents"://devtracker.dfid.gov.uk/projects/GB-1-203824/documents](https://devtracker.dfid.gov.uk/projects/GB-1-203824/documents). |

**Outline of the programme**

DFID Malawi is providing £17.39m from 2013 through 2019 to support private sector development in Malawi. The programme has the following four components:

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| --- | --- | --- | --- |
| **Component** | **Total funding from 2013-2018** | **Original Implementing Arrangements approved at business case** | **Current Implementing Arrangements** |
| **Malawi Innovation Challenge Fund -** Support to the Malawi Innovation Challenge Fund | £ 5 million | UNDP as the implementing agency through an Administrative Arrangement, with UNDP contracting an independent Challenge Fund manager. | UNDP is the main implementing partner, who subsequently contracted the consultancy companies Nathan and Imani associates (as Challenge Fund managers). |
| **Business Innovation Facility 2** Support to businesses and other stakeholders in selected markets | £ 1 million (+ £5m up to 2019 provided by DFID HQ through the Private Sector Department) | DFID Malawi provides it contribution to the Private Sector Department at HQ, which administers all BIF 2 funds. At the time that the business case was approved there was a plan to extend PWC/Imani’s contract following the pilot stage of the project. | The consultancy company PwC is the main implementing partner under a contract managed by DFID HQ (with the consultancy company Imani Consulting as the downstream partner in Malawi). Funds are administered centrally. |
| **Business Enabling Environment Programme -** Support to initiatives to improve the Business Enabling Environment, including capacity building | £3.574 million | DFID Malawi was to originally provide £3.574 million to the World Bank through a Single Donor Trust Fund. | DFID directly manages the BEEP programme, having made the decision not to work with the World Bank, including the procurement of consultants to undertake specific pieces of work. |
| **Malawi Oilseeds Sector Transformation Programme -** Support to the development of Malawi’s Oil Seeds Sector | £7.39million | DFID Malawi to contract a Technical Service Provider through a competitive process to oversee the implementation of a Market Development Programme, as well as to provide technical assistance to drive a Technical Working Group (TWG) to deliver the Government’s Oil Seeds Sector strategy. | Competitive process led to the contracting of Adam Smith International (ASI), partnered with Kadale Consultants and the African Institute for Corporate Citizenship. ASI has also contracted the Technical Assistant for the Technical Working Group on Oil Seeds. The extended contract (£1.39 additional money) is awaiting final ministerial approval. |
| **Monitoring and Evaluation programme-**  Support to external review of the whole PSD programme | £425,025 | Each of the four programs had its own monitoring and evaluation plan, mainly depending on implementing partners monitoring and evaluation frameworks. | An ex-post evaluation plus three external reviews will be undertaken by independent consultants to learn lessons and determine the actual impact of the programme. Landell Mills was hired as a consultant through General Evaluation Framework (GEFA). |

The overarching aim of the programme is to improve the livelihoods of poor people. The approach remains three-pronged: (i) working with Government to improve the environment in which businesses invest; (ii) working with a range of stakeholders to help specific sectors to reach their full potential; and (iii) providing financial and technical support to businesses adopting pro-poor business models. An ambition across all components is to support systemic change at scale, contributing to inclusive economic growth.

The context for the intervention remains as it was at the business case, in terms of GDP per capita, poor human development indicators, and continued dependence on rain fed agriculture for food security and livelihoods. The programme was designed to align closely with the Government of Malawi’s National Export Strategy. Although there has been a change in Government since the programme was designed, the National Export Strategy remains a valid policy document and the new Government has signalled ongoing commitment to supporting the private sector. However, there has been insufficient progress in improving the business enabling environment, with Government continuing to undermine incentives for businesses to invest through its intervention in markets. For this reason, the decision was taken in 2015 to pause BEEP and to refocus it on to economic governance work. A small number of one-off pieces of policy support were carried out during 2016. This process is ongoing, and is discussed under the relevant output performance.

**B: PERFORMANCE AND CONCLUSIONS** (1-2 pages)

**Annual outcome assessment**

The programme’s intended outcome is “increased capacity of the private sector to invest and provide improved products and services to poor people.” There are two outcome indicators:

* Outcome Indicator 1: Direct private sector investment leveraged as a result of programme interventions
* Outcome Indicator 2: Number of poor people benefiting from inclusive business models through utilisation of improved products and services

**Outcome Indicator 1 –** MICF is the sole contributor to this indicator as both the MOST and BIF programmes expressed concerns about committing to a target to leverage investments, given that this is not necessarily a focus of a market systems programme. The target for 2016 was USD 3,000,000 in direct private sector investment leveraged as a result of programme interventions by December 2016.The total achieved was USD 3,353,290 million (112%),meaning that grantees invested USD 3,353,290 million of their own money in activities supported by the Fund. This figure is against USD 2,289,252 provided to the 10 grantees by MICF.

**Outcome Indicator 2 –** The target for 2016 was 35,658. Poor people benefit from inclusive business models through utilisation of new products and services. This figure equals MICF’s cumulative target for December 2016 (in line with its reporting period), BIF’s cumulative target for achievement by October 31 (2016 in line with its reporting period), and the MOST’s previous target plus the April – October portion of MOST’s target for 2016/2017 (the whole target which the programme will report against after March 2017). The three programmes achieved a total of 75,757 (212%), with BIF (7,708 beneficiaries against a projected 1,080) and MOST (56,624 beneficiaries against a target of 14,578) significantly exceeding their targets, and MICF (11,425 beneficiaries against a target of 20,000) falling short.

**Overall output score and description**

A – performance met expectations.

**Key lessons**

The private sector development programme includes a set of four components that were conceived separately though with a common theme of fostering sustainable increases in income through increased economic activity. Aside from that, their principal commonality is geographic. As was determined in the 2015 Annual Review, this makes it very difficult to pull them all together under one common log frame, as has been done. In this light, DFID has worked to achieve some measure of complementarity between the activities of BIF, MICF and MOST, as well as DFID-funded AgDevCO Equity and Loans Facility.

Generally, BIF, MICF and MOST were severely hampered in the year under review by adverse weather and macroeconomic conditions that made it difficult for partner firms to invest in component-supported innovations. Both of these circumstances lie outside of the components’ realm of influence. However, it is worthy of note that rainfed agriculture in a largely subsistence economy is always extremely risky (for the farmer and the program supporting her). Even the best facilitative team will struggle in the absence of favourable weather. At the same time, to the External Review team’s knowledge, there is no agricultural economy on record that has developed significantly in the absence of irrigation, for precisely this reason. It may not be possible at this stage to include a robust focus on irrigation in the design of any of the components, but it is worth DFID’s consideration that future programmes necessarily include a plausible effort to facilitate a broad adoption of irrigation into any agricultural market development activity.

As the challenging political economy environment made it hard to gain traction in strengthening public sector institutions and supporting improvements in the policy environment, DFID has been forced to rethink its strategy of supporting the Malawian government to achieve feasible enabling environment reform. Prior to the start of a new programme, DFID would benefit from a thorough review of how BEEP reached a state of inertia (from inception to implementation), and how a similar result may be avoided in the future.

Lastly, in the previous review exercise, DFID, the component programmes, and the review team discussed the possibility of analysing “portfolio-level systemic change” that may result from the complementarity or synergy of more than one component’s efforts. That is to say, in some way, two of the components would have influenced an outcome that would be altogether different in kind (not just in size) to their individual efforts. Five potential systemic changes were identified. In a review of that same question at the close of the fieldwork in November 2016, it was determined that there would not likely be any such portfolio-level change. Rather, a far more likely impact would be that two or more components would contribute to a larger impact than what each achieved alone, but that those impacts were not different in kind. A good example would be helping private seed suppliers shift their competitive focus away from serving the Malawian government’s input subsidy programme and invest in distribution systems that allow for cash sales directly to farmers, or the greater adoption of pest and disease controlling inputs by smallholder farmers.

**Key actions**

All key actions are covered in the Summary Sheet’s recommendations for the year.

**Has the logframe been updated since the last review?**

The External Review team, in collaboration with DFID Malawi and component staff, updated the log frame in 2015/16. However, DFID Malawi subsequently extended MOST’s period of performance (with a budget increase) for an additional year, allowing that component the opportunity to revise its logframe. In addition, DFID Malawi’s support for BIF’s work in Malawi closes (by design) in March 2017 – although the component would continue in Malawi with central funding from DFID. Thirdly, DFID Malawi extended MICF’s period of performance (with no budget increase) through to 2019, affording that component an opportunity to complete its work despite energy and macroeconomic setbacks. As such, the portfolio-level logframe was revised again with updated targets for BIF, MOST, and MICF.

**C: DETAILED OUTPUT SCORING**

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| **Output Title** | Output 1: Business Enabling Environment supported through an improved policy environment and more effective public sector institutions | | | |
| Output number per LF | | 1 | **Output Score** | ***A*** |
| Risk: | | *Major* | Impact weighting (%): | 25 |
| Risk revised since last AR? | | *Y* | Impact weighting % revised since last AR? | *Y* |

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| --- | --- | --- |
| **Indicator(s)** | **Milestones** | **Progress** |
| Policy and institutional reform processes advanced | 5 | 5 |
| Percentage of policy and institutional reform processes completed | 2 | 2 |

**Key Points**

Due to the slow pace of change among BEEP’s government counterparts, in 2015 DFID undertook a review of the drivers of political economy in Malawi, with the support of the review team. The review resulted in a decision to cease providing technical support to build ministry capacity, focusing instead on specific initiatives, most of which are of relevance to the other components in the portfolio. In the year under review, these included:

* Amendments to the Investment and Export Promotion Act – the revised Act has already been submitted to the Ministry of Justice for vetting. It is however being recalled to incorporate some relevant provisions from the Land Act passed in July 2016, specifically on the role of the Malawi Investment and Trade Centre in the ownership of land for investments. DFID supported three stakeholder consultations for this purpose inviting participants from the private sector, other government ministries and nongovernmental organisations in the northern, southern, and central regions. DFID will continue to use it’s unique policy influencing position to ensure that the revised Act is presented to Parliament in 2017.
* Review of the Control of Goods Act – The review was undertaken for the Ministry of Industry and Trade with DFID support. It put forward a number of recommendations based on an assessment of the key issues with the Act. The Ministry then accepted these results and committed to utilising the findings. Finalisation of the Act is still underway; it is currently awaiting clearance by the Ministry of Justice and, a presentation before the Parliament is expected in June 2017. DFID will continue to work with other development partners to monitor and influence the pace of this process.
* Support to the Malawi Extractive Industries Transparency Initiative (MWEITI), through a co-financing arrangement with German Development Agency GIZ – the progress made by the initiative during the reporting period was limited by the delays in concluding the Financial Agreement with the MWEITI Secretariat at the Ministry of Finance, Economic Planning and Development as well as in hiring secretariat staff. Achievements following these preliminary works include the establishment of the Extractive Industries Transparency Initiative (EITI) Secretariat, procurement of office equipment for new Secretariat staff, completion and endorsement of the Annual Activity report for MWEITI 2015/2016, utilisation of regular multi-stakeholder group meetings involving the government, private sector, and civil society in steering the EITI agenda, and the development of the Terms of Reference for the Independent Administrator.
* Support to the World Bank Country Economic Memorandum (CEM) - making a contribution to the research underpinning the forthcoming CEM, as an input into discussions on Malawi’s future economic development. The World Bank has thus far produced eight technical studies that were envisaged to inform the content of the CEM. The studies cover areas such as agriculture, growth diagnostics, private sector and competitiveness, institutional reform, interest rates, job creation, trade, production, and structural transformation. It is expected that the findings from these individual studies will feed into a consolidated final report that will put forward actionable policy recommendations. The report will undergo a rigorous peer review process before being disseminated to various stakeholders in Malawi. The CEM will also inform DFID Malawi’s future work on economic development.

**Summary of responses to issues raised in previous annual reviews (where relevant)**

* Finalise a logframe – the new logframe for BEEP was finalised in 2016, with the support of the review team.
* In the previous year, DFID had been discussing to incorporate BEEP related activities into a broader programme on governance but this is no longer possible. A recommendation on how to move with the programme is provided below.

**Recommendations**

* Given the scaling back of the BEEP interventions and only working on those issues where there seems to be commitment or buy-in, DFID Malawi should continue to work with development partners to influence areas where there is already some momentum (e.g. the Control of Goods Act). Other areas with potential transformational impact and a critical mass of support by other stakeholders (e.g. maize market reforms) should be explored. The balance on the budget could be transferred to a programme component with potential to deliver additional results.

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| **Output Title** | Output 2: Businesses supported through the Malawi Oilseed Sector Transformation Programme innovate in a way that benefits the poor | | | |
| Output number per LF | | 2 | **Output Score** | ***A+*** |
| Risk: | | *Moderate* | Impact weighting (%): | 37.5% |
| Risk revised since last AR? | | *N* | Impact weighting % revised since last AR? | *N* |

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| **Indicator(s)** | **Milestones** | **Progress** |
| Number of market system actors that invest in pro-poor innovations that the programme helps to pilot. (Malawi Oilseed Sector Transformation Programme sub log frame Output Indicator 1.1) | 14 | 16 |
| Number of regulatory changes, policy reforms or Government practice changes to better support pro-poor growth ( Malawi Oilseed Sector Transformation Programme sub log frame Output Indicator 1.2) | 5 | 5 |

**Key Points**

The programme continues to work closely with a large number of private sector partners across its focal market systems. As of October 30, 2016, Malawi Oilseed Sector Transformation Programme (MOST) had exceeded its milestone for number of actors investing in pro-poor innovations supported by the programme, reporting a total of 16 actors, against a target of 14 (or 114 percent of the target). Moreover, progress for the year continued despite the year’s significant climactic and business environment challenges – including a steep rain deficit and daily national power outages. On top of new adopters, with MOST’s costed extension to March 2018 and the addition of access to finance and sesame activities, the programme was able to scale new activities up quickly by capitalising on existing relationships, most notably with Peacock Seeds and Afrisian. In addition, MOST continued to support pro-poor growth through regulatory reforms and policy advocacy by helping scuttle both an export ban and a drive to mandate a single export channel. Both of those initiatives were seen by the majority of actors in the oilseed industry as harming opportunities for growth.

However, the previous Annual Review warned that “although [MOST] has many operational partnerships, none have yet shown very significant uptake. Indeed, the programme’s work is only now starting to move beyond pilots.” Unfortunately, the 2015/2016 agricultural season’s near-complete rain failure challenged the component to expand its depth and thereby demonstrate strong gains in farmer incomes. In some cases, such as that of cotton, basic uptake predictions were frustrated as farmers chose not to purchase seed in light of the failed rains. So, while the previous Annual Review argued that “in the coming year DFID should expect to see significant uptake of products and services supported by the programme,” this was not the case for the period under review. Instead, building on its large number of partnerships and tailored interventions, including the incentive-based contracting model MOST hopes will better align incentives between seed sellers, farmers and commodity buyers, the component estimates a huge increase in beneficiary adoption and impact following the 2016/2017 growing season. The data for this increase in outcomes and impacts will be available as of the completion of MOST’s third operational year, in March 2017.

**Summary of responses to issues raised in previous annual reviews**

Progress has been made in addressing issues identified in the previous annual review.

Whilst MOST’s new expatriate Monitoring and Results Measurement (MRM) Advisor had yet to arrive in-country as of the previous review, he spent most of the year under review in attendance and providing strong monitoring and evaluation support to the programme. Twinned with Malawian Monitoring and Results Measurement officers, and benefiting from the support of Kadale Consultants, MOST is satisfactorily staffed with the relevant results expertise.

Another issue raised in the previous annual review concerned a perceived need to increase MOST’s future targets, considering previous over-achievements. Programme targets were revised twice: in June 2016 when output and outcome targets were adjusted upwards and later in August following the need for a cost extension currently awaiting sign off.

**Recommendations**

All things considered, the component is progressing well and should hit a major proving point following the upcoming agricultural season. However, it does have a handful of weak interventions, most notably its work in the sunflower market system where it has achieved “great outreach but a very low income change,” in the words of MOST team members. At this stage, the programme should consider eliminating further support to its poorer performing activities, allowing it to focus on its (still considerably large) range of more successful interventions.

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| **Output Title** | Output 3: Businesses supported through The Business Innovation Facility innovate in a way that benefits the poor | | | |
| Output number per LF | | 3 | **Output Score** | ***A+*** |
| Risk: | | *Moderate* | Impact weighting (%): | 6.25% |
| Risk revised since last AR? | | *N* | Impact weighting % revised since last AR? | *Y* |

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| **Indicator(s)** | **Milestones** | **Progress** |
| Number of first mover market players adopting innovations who have received direct support from The Business Innovation Facility (Business Innovation Facility sub log frame Output Indicator 2.1) | 10 | 11 |
| Number of first mover market players continuing independent activity around innovations; investing further in the innovation, tailoring and/or embedding the innovation in operational norms ((Business Innovation Facility sub log frame Output Indicator 3.1) | 1 | 2 |

**Key Points**

The Business Innovation Facility (BIF) performed very well in the year under review, marking a sharp change from the previous year. Previously, staff turnover, structural understaffing, and other issues had contributed to a slow pace of work and a disappointing output performance. This year the component surpassed both its portfolio-level output indicators, demonstrating a significant increase in the pace of work as shown principally by the number of market players adopting innovations. Whilst BIF must still work to catch up after its initial delay (it has yet to demonstrate an income increase among beneficiaries), at the least it has addressed the shortfalls identified previously and is now positioned to move forward quickly. In other words, this year the programme built the platform for interventions – partnerships with private sector actors in Malawi – as well as the staff complement that was missing previously.

The programme’s 11 cases of partners adopting innovations are spread across its three intervention areas – pigeon pea, rice and pico-solar products. BIF reports a total of 22 partnerships ongoing, with some showing progress while others are stymied for a variety of reasons. But this is the normal state of affairs with a market systems programme and should be expected for BIF as well. Not all partnerships prove fruitful, and BIF is demonstrating strong, contextually rich learning from its struggling partnerships as demonstrated by one staff member’s assertion that “the mainstream players we wanted to start with aren’t the ones we ended up working with.”

Meanwhile, some of its more successful partnerships are moving forward quickly. For example, Peacock seeds (which receives support from BIF to sell pigeon pea and rice seed, as well as support from MOST to sell groundnut and sesame seed) managed to increase its commercial sales to farmers to almost 50 percent of its total sales in the previous season, up from only 20 percent in the season before then. This is a significant achievement and speaks to the sustainability of the innovation (direct cash sales). Prior to support from BIF (and MOST), almost all Peacock Seed sales were directly to the Malawian government’s Farm Input Subsidy Program, which created sustainability and market distortion issues.

Digging into BIF’s second output indicator – partners adapting innovations – the component also exceeded its target by registering two cases of adaptation. In one of these cases, diversified rice miller Fadamz used its own resources to recruit a South African rice operations manager to help it scale up rice milling after BIF “opened our eyes” to the possibility of expanding their domestic purchase and milling operation. In the other case, Farmers Organization Ltd., the maker of the Nyonga pack, reduced its pack size for treating pigeon peas to make it more affordable and relevant for farmers with extremely small land sizes upon BIF’s recommendation. It later did the same for pack sizes with other crops, which it sees as an entry point for getting small-scale farmers “to see the value of the pack.” And, generally, Farmers Organization Ltd. expressed strong satisfaction with BIF’s support, saying that BIF was “prepared to engage with the private sector” in a productive manner.

**Summary of responses to issues raised in previous annual reviews**

The previous Annual Review identified several reasons for BIF’s underperformance at that time, a few which required the programme’s attention in the current year under review. These included a broad under-investment in full-time staff and an overly lengthy approval process for activities that required sign-off by PricewaterHouseCoopers staff who were not involved with the programme. The External Review team is satisfied that the programme has addressed the concerns. The current team is sufficient in number and dedicated level of effort to manage BIF’s multiple partnerships. Meanwhile, the approval process for activities appears to have been streamlined. More generally, the component demonstrates a level of activity and experimentation which was not evident previously.

On a related note, a new Team Leader brings a fresh energy and market systems acumen to the programme, as does more direct engagement by Imani leadership. Meanwhile, Kadale Consultants continues to provide high-quality support to the programme as well as offering opportunities for BIF to complement the work MOST is doing, as it occupies a key strategic role on that programme as well. The success of partnerships with Farmers Organization Ltd. and Peacock speak to BIF’s ability to work in a complementary fashion with MOST.

**Recommendations**

Principally, BIF has used the year under review to build its partnership platform and now faces the challenge of showing that the platform can produce results. This is quite similar to the challenge facing MOST. It will be incumbent on BIF to show that it can use the 2016/2017 cultivation season to demonstrate broad uptake of its innovations by small-scale farmers and pico-solar products consumers.

Two technical points:

* If progress in growing the pico-solar products market is largely to do with the appeal of “grey market” products, as the BIF team asserted during its meeting with the External Review team, the programme should seek to support actors in this market given that this where the expansion is. This should however be with a view to gradually improve grey market products.
* While Fadamz’s investment and other progress in the rice market are promising, the overall challenge of making Malawian rice competitive is nonetheless quite strong. This seems principally to be a productivity issue, owing largely to the fact that the vast majority of Malawian rice is produced without irrigation. Lacking attention to irrigation, the review team recommends that BIF continuously re-evaluate its support to Malawi’s rice market system to assess whether it can actually be made regionally competitive.

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| **Output Title** | Output 4: Businesses supported through the Malawi Innovation Challenge Fund innovate in a way that benefits the poor | | | |
| Output number per LF | | 4 | **Output Score** | ***B*** |
| Risk: | | *Moderate* | Impact weighting (%): | 31.25% |
| Risk revised since last AR? | | *N* | Impact weighting % revised since last AR? | *Y* |

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| --- | --- | --- |
| **Indicator(s)** | **Milestones** | **Progress** |
| Demonstration Effect: Degree to which innovation is visible (High, Medium, Low categorisation) | 30% high, 40% medium  30% low | 30% medium, 70% low |
| Commercial Viability Index: % of projects classified as progressing toward reaching viability | 30% | 30% |

**Key Points**

2016 was a challenging year for Malawi Innovation Challenge Fund’s (MICF)’s 10 grantees as an array of constraints slowed progress toward the achievement of benchmarks. The principle constraint MICF grantees faced was the nation’s power supply issue – with blackouts the majority of each day, agro processors faced steeply increased fuel costs (for running generators) as well as opportunity costs due to unexpected downtime. Another significant constraint, as with the other components, was the rain failure of the 2015/2016 agricultural season – this limited vital input supply. A third constraint that slowed progress for some grantees related to the Malawian government’s arbitrary import duty charges on agricultural machinery, applied by the Government of Malawi in response to its income deficit. Were it not for DFID’s provision of a no-cost extension from the end of 2016 through mid-2017, it is likely that these factors would have caused all (or almost all) of MICF’s grantees to miss around half of their performance benchmarks. The no-cost extension and the associated revisions in the logframe are, in this sense, a saving grace. Should all go according to plan, MICF realistically expects to see its grantees achieving all benchmarks in the time remaining. However, at least two of the grantees were put on a closely monitored management plan by MICF, owing to the degree to which they were behind schedule.

The output indicators captured here relate to the visibility of innovations supported by the Fund, as well as early indications that innovations will be commercially viable. The programme met expectations for the commercial viability indicator, with 3 of the 10 grantees (working in sunflower oil, information technology, and plastics) demonstrating that their model for providing the funded product or service was moving in the direction of being commercially viable. This was the same score as the previous year.

For demonstration effect, according to its three-tier scale (High, Medium and Low visibility), the programme fell short of its target. Only 3 of the 10 grantees (working in information technology, beef, and tea) were reported as Medium visibility, with broader evidence of the investment through a network of partner firms or in the market. This was the same score as the previous year. The Fund had projected that 30 percent of its grantees would achieve high visibility in the year under review, with another 40 percent achieving medium visibility and 30 percent being low visibility. These outputs should and will be independently verified during the 2018 review.

**Summary of responses to issues raised in previous annual reviews**

The previous review recommended that MICF be vigilant of grantee progress toward milestone completion in the coming year, considering that all grantees are expected to complete all milestones by the end of 2016. With the extension of the performance period of the current portfolio of grantees through through December 2019, that recommendation remains relevant for the reasons stated above. In addition, the MICF team has added two members to support the rigorous process of milestone verification. The review team is confident that MICF is supervising grantee progress sufficiently.

**Recommendations**

MICF should not just closely stay abreast of the progress of each grantee as it moves into its final phase but should continue its extremely high pace of activity and ensure grantees meet agreed performamnce benchmarks within the remaining programme period.

**D: VALUE FOR MONEY (VFM) & FINANCIAL PERFORMANCE** (1 page)

**Key cost drivers and performance**

Consistent with the previous review, the key cost drivers for the portfolio continue to be fee rates for consultants and contractors alongside the number of input days that are required to undertake complex private sector development programmes such as this. MOST and BIF are both contractual arrangements, where contractees manage further contracts. BEEP is managed in-house and there was not much activity to scrutinise during the year under review. MICF grants to recipient businesses are the primary cost-driver of the programme. These funds deliver value for money (VFM) by leveraging private capital as receipient businesses must at least match the investment by MICF. While this is positive transactional VFM, the ultimate VFM is determined by measures of increased business sustainability to be measured at the project end. MICF is arranged by a Memorandum of Understanding with UNDP, which has contracted the consultancy companies Nathan/Imani to be the Independent Fund Manager. UNDP overhead costs are set at 7%, and UNDP is covering all other administrative costs for the Fund.

**VfM performance summary across PSD programmes**

The business case stated that value for money will be measured on an on-going basis, drawing on the log-frames for each of the programmes. The following three measures were to be monitored:

* Unit costs, particularly of consultancy and management charges
* Volume of investments leveraged by commercial investors
* Monitoring of net present values, internal rates of return (IRRs), value added and benefit to cost ratios (BCRs).

The overall benchmark of VfM was the level to which the outcome level indicators were going to be met. If indicators fell below 30% at mid-term, this was going to be judged as poor value for money. During the 2015/6 Annual Review, a set of value for money indicator questions (based on 4Es) were added. Partners were encouraged to drive VFM through these questions, priortising effectiveness indicators, which were expected to progress as implementation moved into the third year. The following section reviews VfM in light of these questions, unit costs and volume of investments leveraged (MICF). Net present values, IRRs, value added and BCRs are not reviewed as they are a subject of the end-line review and evaluation.

**BEEP**

Total spending is considerably under budget, reflecting limited engagement and results in 2013/14, particularly. Spending from 2013-March 2016 totals £1,647,923; £2,373,702 remains unexpended for 2016-17. Expenditures below budget reflect the slowdown in BEEP activity resulting from the need to re-think BEEP’s approaches, from prior understaffing of BIF, and to some degree by slower entry into new markets by MOST. Lower expenditure reflects programme challenges, not economy or efficiency.

BEEP has been refined in 2016 resulting in new partnerships, legislative initiatives, and tangible results accruing to programme efforts. Concrete and positive outputs have been noted in 2016. While the programme does not currently appear to be an effective approach to deliver sustainable business enabling environment reforms as it still does not reflect a clear reform strategy that encompasses business, donors, and government, activities undertaken in 2016 have delivered overall VFM. Further adjustments to the programme (as recommended in section C) are however needed to sustain this improvement.

**MOST**

Based on MOST’s expenditures that include projections through March 2017, the main cost driver of MOST is expenditure on technical assistance, amounting to 66% of total expenditure or a total of £640,815 for year 3 (over 80% of which are fees). The core and flexible facility expenditures combined is a total of £998,404 and around 70% of which are fees while the rest is expenses. This is reasonable given the staff-heavy nature of MOST and other market-systems programmes which, by design, require considerable staff interaction and TA with market actors. Project staff are well-qualified and the mix of international and national staff is deemed to deliver strong economy and efficiency. Expenditures for staff are well aligned to market change needs and activities and are applied with programming agility to take advantage or to minimise risk caused by exogenous factors.

MOST Expenditure for Year 3 is currently slightly below projections, however with net attributable income change (NAIC) results ahead of targets, MOST represents an effective suite of interventions. Despite the overall growth of MOST initiatives, the programme continues to lag behind NAIC impact targets in several markets and has not been able to scale up in newer markets. The lags in performance and new market scale-up can be largely attributed to the effects of poor rainfall in last year’s cultivation season - several activities were curtailed due to poor rainfall and production.

MOST is equitably delivered. Over 40% of beneficiaries are female and there is broad geographic spread, with MOST reaching the poorest regions and those affected by flood and drought.

Overall, MOST shows average VFM, with potential for beneficiary growth and increased VFM. DFID Malawi has agreed with MOST to include the programme’s performance on VFM in quarterly reports and will closely monitor these.

**BIF**

Staff costs for the core country team account for 66% of total expenditures. BIF staff are key to programme performance; reflecting the personnel-intensive nature of market systems change programming. The rest of the budget was expended on technical assistance and the programme management team.

At present, the use of funds by BIF has been inefficient due to slow progress in BIF’s first two years, and the effectiveness of the programme will be assessed as impact indicator data are captured in 2017. It is reasonable to expect strong performance in the coming year.

There is reason to be cautiously optimistic that the combination of strong project management, a focus on results, and the progress in 2016 provide a foundation for progress in 2017, notably evident in positive NAIC growth, new market strategies, and evidence of adoption and adaptation. Year 4 will be key to determine the effectiveness of BIF, and the programme’s VFM.

Equity measures show wide participation of women in project initiatives; though the true measure of equity will be how women’s income gains are reported and who in the household controls spending. Technical assistance to understand the extent of income gains by women, and household could be useful to the sector’s understanding of women in private sector development.

**MICF**

The VFM review in November 2015 highlighted MICF’s strong economy measures in rolling out Window One of the Challenge Fund with very skilled, quite limited staffing. The reviewers noted the high-quality work conducted by the limited staff. This year, staffing has been increased; the need for close project and grantee management along with opening another window fully justify this staff expansion.

DFID leverage is 159% with MICF investment of USD 2,289,252 generating business investment of 3,353,291 for a total business investment of USD 5,642,543.

MICF remains economic and efficient.

Ultimately, MICF’s effectiveness will be more fully understood in 2017 when there are latter stage data on beneficiary NAIC, business innovation, and market changes and adaptation. Current assessments show early indications of positive results. At present, MICF delivers positive VFM based on its efficient operations approaches, the TA provided to grant recipients, and the potential to power greater private-sector engagement through its challenge fund leverage of DFID funding.

Equity approaches and measures are rather minimal in MICF, though the introduction of a gender assessment tool in the next competition promised to be a lever for greater involvement of women in the private sector, currently only 25% of beneficiaries are women.

**Assessment of whether the programme continues to represent value for money**

The overall benchmark of VFM (defined by the level to which the outcome level indicators have been met) was exceeded, indicating that the programme continues to represent VFM. Specifically, MICF and MOST demonstrated efficient use of funds and results that showed effective beneficiary impact or leverage of beneficiary funds for co-investment. BIF has been transformed during 2016 and the positive changes set establish the foundation for substantial progress in 2017. It is increasingly efficient, but beneficiary impact results in 2017 are likely to be telling. Concrete and positive outputs have been noted in 2016 under the BEEP.

**Quality of financial management**

Have narrative and financial reporting requirements been adhered to?

The three implementing partners: Malawi Oilseed Sector Transformation, the Business Innovation Facility and the Malawi Innovation Challenge Fund provided quarterly narrative and financial reports. All the reports met DFID’s requirements. The finances for BEEP were partly managed in-house, directly by DFID programme staff. Specifically, GIZ also submitted narrative and financial semi-annual reports for the Malawi Extractive Industry Transparency Initiative, which met the requirements. The annual report for the World Bank Malawi Country Economic Memorandum was not yet due for uploading on the World Bank portal at the time that this annual review was being written. However, the World Bank shared all the eleven background papers on the bank's portal in January 2017. These products met the requirements and DFID will now ensure that the annual report is submitted.

Have auditing requirements been met? Include details of last report.

All implementing partners met auditing requirements. Both the Malawi Oil Seed Transformation and the Business Innovation Facility Programmes submitted Adams Smith International and PwC audited statements for 2015 in May 2016. Both reports were unqualified and did not require any follow up.

DFID staff directly delivers the Business Enabling Environment. Receipt of audited statements was therefore not applicable. However, in light of DFID co-funding for Malawi Extractive Industries Transparency Initiative, GIZ will share its audited statements before the end of 2017.

The UNDP commissioned an independent audit for the Malawi Innovation Challenge Fund in the first half of 2016. The report was unqualified.

Is the project on-track against financial forecasts?

The table below sets out 2016 programme forecast versus expenditure to date for each of the five outputs. Overall, the programme has registered an under spend of 12%, reflecting that it is slightly off track against financial forecasts. The biggest underspend, 17%, is on the Malawi Oil Seed Transformation, for the same reasons as the previous year’s. The primary challenge was the effect of poor rainfall during planting in the last growing season. A number of activities including contract farming agreements with downstream partners were cancelled because of the poor rainfall. The cotton sector was the most affected because the key downstream partner slowed down on contract farming due to poor loan recovery performamnce resulting from rainfall failure.

There was no spending on Malawi Innovation Challenge Fund because the UNDP was mopping up resources disbursed in the previous year. A few companies experienced delays in delivery of milestones due to a challenging macro-economic environment and this affected further disbursements. A number of companies are now on course to delivering the required milestones by mid-2017.

PSD programme spend as at Dec 2016 in £

|  |  |  |  |
| --- | --- | --- | --- |
| PSD Component | Total forecast Feb 2016- January 2017 | Spend Feb 2016- January 2017 | Variance % |
| Business Enabling Environment Programme | 644,257 | 623,447 | 3 |
| Malawi Innovation Challenge Fund | 0 | 0 | 0 |
| Malawi Oil Seeds Transformation Programme | 2,236,417 | 1,886,338 | 17 |
| Business Innovation Facility | 300,000 | 300,000 | 0 |
| Monitoring and Evaluation | 84,000 | 84,000 | 0 |
| Total | 2,964,674 | 2,593,785 | 12 |

|  |  |
| --- | --- |
| Date of last narrative financial report | Malawi Oilseed Sector Transformation programme: October 2016.  Malawi Innovation Challenge Fund: September 2016;  Business Innovation Facility: September 2016. (Finances centrally managed)..  Business Enabling Environment Program:  GIZ Malawi Extractives Industry Transparency Initiatives: August 2016 |
| Date of last audited annual statement | Business Innovation Facility: January 2016  Malawi Oilseed Sector Transformation programme: July 2016  Malawi Innovation Challenge Fund: April 2016  Business Enabling Environment Program- GIZ Malawi Extractives Industry Transparency Initiatives: expected mid 2017 |

**E: RISK** (½ page)

**Overall risk rating: Moderate**

**Overview of programme risk**

The overall risk for the portfolio is judged at moderate. Weather forecasts for the upcoming agricultural season seem positive, and the three operational components are well-positioned to move forward quickly in the coming year. However, Malawi’s challenging environment for private sector development notably worsened in the year under review.

Persistent and updated risks to performance are as follows:

* Factors affecting the broader economy will continue to impact on the effectiveness of the portfolio’s support to specific businesses/sectors. The overall macro economy worsened further in the year under review. The Kwacha depreciated further, interest rates stayed punitively high, the Malawian government grew stricter on taxation of imports in an effort to fill its budget deficit, and the rain failure and low water level of Lake Malawi contributed to daily electricity blackouts. If this situation persists, it is feasible that the portfolio will significantly underperform. DFID, alongside implementing partners, will continue to closely monitor the broader environment in which businesses operate, and ensure that logframes are adjusted. *Risk rating: Likelihood: Possible; Impact: Moderate*
* A key risk is natural disasters – the rain failure in the 2015/2016 growing season, followed in some places by brief floods, led to extremely low yields, which retarded progress for the entire portfolio. The rains for the 2016/2017 season are expected to be normal. However, DFID and implementing partners should remain aware of the environment’s influence on the portfolio’s success, and be prepared to shift strategies and expectations if another adverse season occurs. *Risk rating:* *Likelihood: Possible; Impact: Major*
* Reputational (the programmes are perceived to support the wrong recipients) – Identified as an operational risk in the Business Case, the programme components continue to face this risk. Each of these components undertook significant analysis to inform specific interventions and to ensure the right recipients receive support. MICF invited applications through a transparent competitive process, with applications selected by an Independent Investment Panel and thorough due diligence undertaken on each finalist prior to signing a grant agreement. The BIF and MOST programmes started with detailed analysis of markets within which they are operating, consulting stakeholders widely in the markets to identify inclusive business opportunities. Both the BIF and MOST programmes have the flexibility to respond to emerging opportunities with new businesses, and can exit from interventions which are not delivering. This flexibility has been and should continue to be maintained. *Risk rating: Likelihood: Possible; Impact: Moderate*
* Failure to deliver intended pro-poor benefits or to achieve transformative change – criteria for selecting interventions/projects to support should (and do) include transformative change, informed in MOST and BIF by detailed market analysis to understand constraints in the market. Strong monitoring and evaluation approaches need to be in place for all projects (by and large, though with some deficiencies – detailed below), and should be used to inform future programming. Systemic change is included at outcome level for each of the logframes, and therefore will be monitored/tracked as part of the monitoring and evaluation approach being taken forward. Finally, for MICF, impact milestones need to be reached before the final tranche of funds is disbursed. *Risk rating: Likelihood: Unlikely; Impact: Minor*
* Lack of additionality in DFID’s support to businesses – access to finance and business development services is low in Malawi. However, some businesses do have more access than others; for example, well connected established businesses are more likely to access loans from financial institutions. DFID should continue to ensure that businesses receiving support cannot access that support from elsewhere on reasonable terms. Furthermore, with a limited number of private sector players in Malawi, some businesses may receive support from different components within the DFID programme, as well as from other donor programmes. DFID should ensure regular communication between technical service providers within the private sector development programme, as well as between donors, to avoid duplication and maximise complementarities in support of businesses. *Risk Rating: Likelihood: Possible; Impact: Moderate*
* Fraud conducted by Service Providers or by beneficiaries – DFID Malawi closely engages with the Technical Service Provider for MOST to ensure appropriate contracting of downstream providers, with attention given to VFM and avoidance of conflict of interest (including through gift and conflict of interest registers). For MICF, due diligence assessments are available for UNDP, and for Nathan Associates (contracted by UNDP to act as Independent Fund Managers). Grantees have all had due diligence assessments (which include confirmation of adequate fraud and corruption controls) undertaken. For BIF, DFID uses the due diligence assessment prepared by DFID HQ for its top ten suppliers, which includes PwC – the lead contractor. *Risk rating: Likelihood: Unlikely; Impact: Moderate*

**Outstanding actions from risk assessment**

The DFID team should continue to discuss risks and mitigating actions with partners at quarterly meetings to ensure that risk management remains an in-built part of the programmes. Also DFID should internally continue reviewing risk and mitigation options on a monthly basis.

**F: COMMERCIAL CONSIDERATIONS** (½ page)

The programme remains broadly on track. There are some risks, including the Business Innovation Facility’s slow pace of progress and the possibility that the Malawi Innovation Challenge Fund’s grantees are not able to achieve their milestones according to the schedules agreed. The Business Enabling Environment Programme has a significant balance of funding unspent. This review recommends that unspent funds be re-allocated to the Malawi Innovation Challenge Fund as well as to the on-going work on maize reforms.

The overall program is on track with two programme extensions granted to MICF and MOST. The BEEP still has more than 50% of its budget unspent for reasons discussed above.

**Performance of partnership(s)**

The programme involves partnership with a broad range of different organisations.

For the Malawi Oilseed Sector Transformation programme the lead contractor is Adam Smith International. The partnership is going well, with excellent technical reporting and programme management, with regular communications between DFID and the Adam Smith International team, raising political economy issues in a timely manner, enabling DFID to take up influencing opportunities where appropriate. The Adam Smith International team has shown some reluctance to be fully transparent with the review team on financial data with the result that DFID has supplied financial data directly. DFID needs to encourage Adam Smith International to engage more positively with the review team.

For the Business Enabling Environment Programme, DFID has worked with the GIZ and the World Bank on the Malawi Extractive Industry and Transparency Initiative and the Malawi Country Economic Memorandum respectively. All parties enjoyed good partnerships. There were regular communication and semi annual meetings with GIZ. All parties interacted well during the private sector donor dialogue meetings.

For the Malawi Innovation Challenge Fund, DFID has a very good working relationship with its primary partner, UNDP, as well as with the independent fund managers (a Nathan/Imani Consortium) contracted by UNDP on day-to-day management of the Fund. Reporting and communication is strong.

DFID engages regularly with the Imani/PWC team who are the service providers for the Business Innovation Facility, as well as with the Private Sector Department in Whitehall (the primary source of funding for this programme). DFID maintains good working relations with both partners, (with formal Advisory Group meetings occurring every six months), and appreciates the responsiveness of the Business Innovation Facility team to support DFID on work related to the Energy Compact, reflecting the high profile given by previous Ministers to the uptake of solar home systems across Africa.

**Asset monitoring and control**

The level of confidence in the management of programme assets in the Malawi Oilseed Sector Transformation programme is high, with asset registers being updated and sent to DFID twice a year. A physical inspection of assets against the register was carried out by DFID staff in June 2016 and there were no issues. There are no assets for the Business Innovation Facility or the Malawi Innovation Challenge Fund.

**G: CONDITIONALITY** (½ page)

**Update on partnership principles (if relevant) .**

Partnership Principles do not play a role in the management and monitoring of the programme, which works outside of government systems.

**H: MONITORING & EVALUATION** (½ page)

**Evidence and evaluation**

All indications regarding the Business Innovation Facility, Malawi Oil Seed Transformation and Malawi Innovation Challenge Fund programmes are that they are relevant and well-focused. BEEP’s two activities were one-off efforts with no monitoring plan attached to the support. These were part of DFID’s process of adapting its approach, based on a more realistic assessment of traction likely to be gained, with a shift to supporting other parts of Government.

**Monitoring progress throughout the review period**

As stated previously, this Annual Review marks the third deliverable of the external review team. The team conducted fieldwork in November 2016, meeting with each component implementing partners, and DFID staff, plus interviews with down stream partners. The list of partners interviewed is further below. The team met with a far larger number of private sector partners for the 2016 review, as compared to the previous year, in the effort to verify progress and challenges mentioned by the implementing partners.

To create a manageable sample for the data verification process, the review team selected specific interventions from the MOST programme (3), BIF (1), and MICF (3), then examined all monitoring and evaluation events for each intervention, evaluating data collection methodologies, data treatment, and conclusions drawn from data analysis. In addition to the quality review of documents provided by the three implementing partners, the review team also queried the data reported by the same into the portfolio-level logframe.

*List of down stream partners visited during the AR process, in addition to implementing partners:*

* Agriculture Input Supplies Limited (AISL)
* Peacock Seeds
* Multi Seeds Company Ltd (Museco)
* Agricultural Commodity Exchange for Africa (ACE)
* Farmers Organizations Ltd (FOL)
* Fadamz Rice Milling
* Energy Unlimited
* Mulanje Electricity Generating Association (MEGA)
* Sukambizi Association Trust
* Satemwa Tea Estate
* Afrisian Ltd
* Exagris Africa Ltd
* Malawi Investment and Trade Center

Considering that all three implementing partners plan to report substantial beneficiary impact in future annual reports, ensuing reviews should focus data quality assessments on that data.