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Resilient nations.*

UNITED NATIONS DEVELOPMENT PROGRAMME  
Country: MALAWI

PROJECT SUPPORT DOCUMENT

Project Title:	PRIVATE SECTOR DEVELOPMENT PROJECT
UNDAF Outcome 1.2:	Theme 1: Sustainable and Equitable Economic Growth and Food Security Women, youth, people with disability and households benefit from decent employment, income generation and pro-poor private sector growth by 2016
UNDAF Output 1.2.2:	Business services including financial innovation, access to markets (both national and international), business to business linkages supporting small and medium sized enterprises including farmer organizations, established in strategic industries
Expected CPD Outputs:	Inclusive finance products expanded, new business-to-business opportunities for Malawi products
Expected Project Outputs:	<ol style="list-style-type: none"><li>1. The Industrial development policy and prioritized sectoral policies and strategies developed and implemented</li><li>2. The MICF is established and operational to increase inclusiveness and competitiveness of value chains in agriculture and manufacturing</li><li>3. Loan facility provided to smallholder farmers, low income women and youth</li></ol>
Implementing Partner:	Ministry of Finance
Responsible Parties:	UNDP, Ministry of Industry and Trade, Private Sector, Financial Service Provider

### Brief Description

With a GNI per capita of USD 280, Malawi remains one of the least developed countries in the world. The Country's inability to diversify the structure of its economy and its exports has compromised the opportunity to sustain high rates of economic growth and move towards becoming a middle income country. The slow rate of economic transformation impedes Malawi's potential of moving away from being a consumer and import-oriented country to a manufacturing and export-oriented country. To achieve the latter, Malawi requires concerted efforts to strengthen and increase the capacity and recognition of the private sector.

For now, Malawi lacks a private sector that can increase the low levels of investment and production and transform the economic structure of the country through the diversification of its economy and exports. The Private Sector Development Project (PSDP) is a private sector led and private sector driven project. It aims at incentivizing the private sector to deliver sustained, rapid and inclusive growth; ensuring that value chains with strong potential, identified by the National Export Strategy (NES), contribute to growth and poverty reduction and are inclusive of the poor; and better aligning business incentives with development objectives to promote innovations and inclusive business models to draw poor communities into markets more efficiently.

More specifically, the overall goal of the PSD project is to support productive partnerships within the private sector, particularly between lead firms and poor producers and entrepreneurs, especially smallholders. The project has the ambition of contributing to the transformation of the private sector into the engine of real growth and anchor for economic diversification, job creation and greater economic opportunity for the poor that Malawi requires.

The project will also ensure a more receptive policy and institutional environment for Agriculture and Manufacturing value chains and ensure the establishment of the value chains at policy level.

The PSDP operational approach is characterized by the use of two instruments: UNDP's Inclusive Markets Development (IMD) and the Challenge Fund. A Malawi Innovation Challenge Fund will be established and pioneered for the first time in Malawi under the PSDP. This will provide direct support to lead businesses with grant finance and technical assistance, with a view to supporting agriculture and manufacturing value chains to work better for the poor following the IMD approach.

Programme Period: 02 January 2013 – 31 December 2016

Key Result Area (Strategic Plan): Poverty Reduction

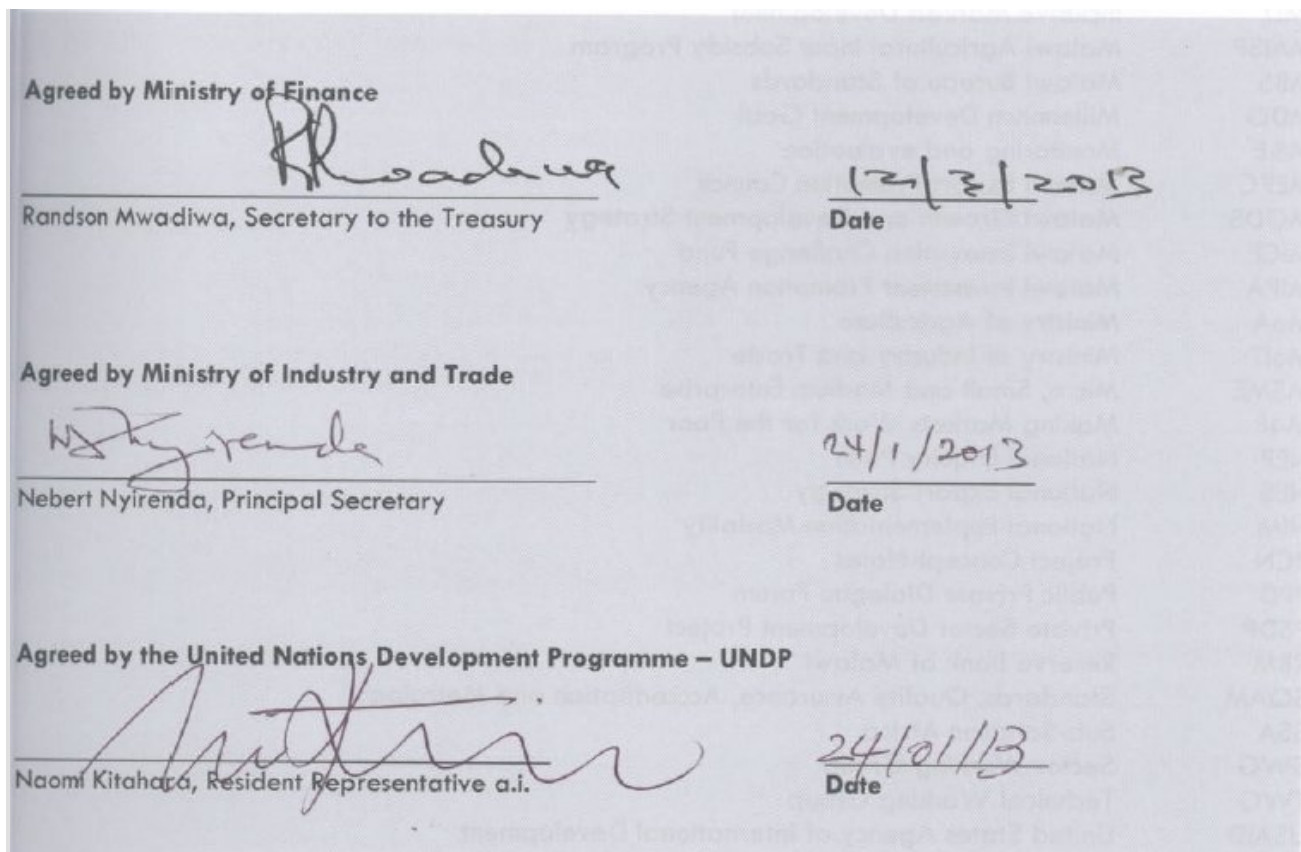
Atlas Award ID: \_\_\_\_\_

Start date: 02 January 2013  
End Date: 31 December 2016

LPAC Meeting Date: \_\_\_\_\_

Management Arrangements: NIM

Total resources required	11,995,649 USD
Total allocated resources:	11,515,649 USD
• Regular	3,515,649 USD
• Other:	
◦ DFID	8,000,000 USD
◦ Government	0
Unfunded budget:	480,000 USD
In-kind Contributions	0



## ABBREVIATIONS

AFIM	African Facility for Inclusive Markets
AISP	Agricultural Inputs Subsidy Program
AWP	Annual Work Plan
BESTAP	Business Environment Strengthening Technical Assistance
CD-PGA	Capacity Development for Pro-Poor Growth and Accountability
CDR	Combined Delivery Report
CEM	Country Economic Memorandum
DFID	Department for International Development
EDF	Export Development Fund
EIF	Enhanced Integrated Framework
EU	European Union
FIMA	Financial Inclusion in Malawi
FSP	Financial Service Provider
FSTAP	Financial Sector Technical Assistance Program
GDP	Gross Domestic Product
GNI	Gross National Income
GoM	Government of Malawi
GSB	Growing Sustainable Business
HACCP	Hazard Analysis Critical Control Point
IMD	Inclusive Markets Development
MAISP	Malawi Agricultural Input Subsidy Program
MBS	Malawi Bureau of Standards
MDG	Millennium Development Goal
M&E	Monitoring and evaluation
MEPC	Malawi Export Promotion Council
MGDS	Malawi Growth and Development Strategy
MICF	Malawi Innovation Challenge Fund
MIPA	Malawi Investment Promotion Agency
MoA	Ministry of Agriculture
MoIT	Ministry of Industry and Trade
MSME	Micro, Small and Medium Enterprise
M4P	Making Markets Work for the Poor
NEP	National Enquiry Point
NES	National Export Strategy
NIM	National Implementation Modality
PCN	Project Concept Notes
PPD	Public Private Dialogue Forum
PSDP	Private Sector Development Project
RBM	Reserve Bank of Malawi
SQAM	Standards, Quality Assurance, Accreditation and Metrology
SSA	Sub-Saharan Africa
SWG	Sector Working Group
TWG	Technical Working Group
USAID	United States Agency of International Development
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme

UNIDO  
WB

United Nations Industrial Development Organization  
World Bank

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## 1. SITUATION ANALYSIS

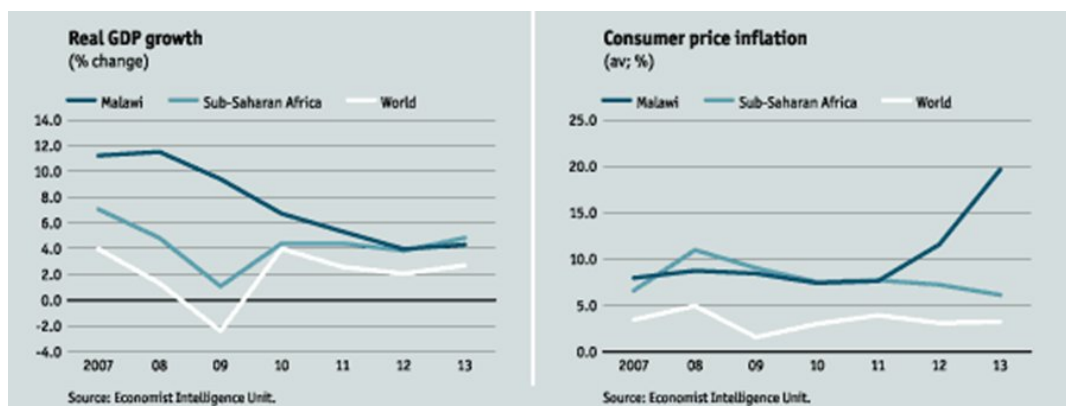
### 1.1. Background

Malawi is a landlocked country located at the southern end of Africa's Great Rift Valley. The country has a high population density (158 people/km<sup>2</sup>) with a total population in 2010 of 15.2 million and with a rapid population growth estimated at 2.8% per annum. While over 85% of the population still lives in rural areas, Malawi has one of the world's fastest growing urban populations, with a 5% yearly rate of urbanization<sup>1</sup>.

Malawi has achieved encouraging economic results over the last five year period despite challenging political and economic circumstances, that deteriorated particularly in 2010 and 2011. The country sustained real GDP growth rates of above 7% in 2009 and 2010 while economic growth in 2011 slowed to 5.8% from 6.7% in 2010 due to reduced donor inflows, shortages of foreign exchange and essential commodities such as fuel and inputs for manufacturing. The economy is projected to slow further. Real GDP growth is expected to be 1.4% in 2012 while recovery is forecasted in 2013-16 at between 4.8% and 5.2%<sup>2</sup>. (Figure 1: Annual Trend Charts 2007-2013).

Since 2004, macro-economic stability improved significantly and fiscal deficit was brought under control and expected to be at a modest 1.8% in 2010<sup>3</sup> which, combined with monetary restraint, should have enabled inflation to fall further. Between 2004 and 2008, faster economic growth led to a decrease in poverty rates from 52% to 40%. However, Malawi remains one of the least developed countries in the world with a GNI per capita of USD 280 per annum and it ranks 171 out of the 187 countries in the Human Development Index 2011.

Figure 1: Annual Trend Charts 2007-2013



Source: Malawi Country Report. EIU, 2012.

<sup>1</sup> World Bank World Development Indicators 2011.

<sup>2</sup> Malawi Country Report, EIU 2012.

<sup>3</sup> African Economic Outlook, Malawi 2010.

Despite efforts, progress on economic transformation has been slow and stagnant especially in recent years. Malawi has not diversified its economy and its exports. Without diversification, Malawi will not be able to achieve high rates of economic growth and become a middle income country<sup>4</sup>.

The economy remains highly dependent on agriculture which contributes around 34% of GDP, supports 85% of the population and produces over 80% of exports. Nearly all of this is attributed to smallholder agriculture (70% of the agricultural labor force) which is characterized by low inputs and productivity, dependence on rainfall and declining soil fertility. This situation is aggravated by weak links to markets and limited access to agricultural land, credit and business support services.

In 2011, the manufacturing sector accounted for only 8.2% of GDP<sup>5</sup>. The limited manufacturing that takes place relies on the processing of a limited number of agricultural commodities (tea, tobacco and sugar) and is inward-oriented as only 14% of manufacturing output is exported<sup>6</sup>. The industrial sector has been declining, with its contribution to GDP falling from 32% in 1992 to 20% in 2008<sup>7</sup>, though the trend may be reversed by the recent development of uranium and niobium mining. However, manufacturing is being held back by a lack of power, inadequate infrastructure and a continuing shortage of foreign exchange that restricts the import of raw materials and intermediates. It is forecasted that the sector will further decline by 2013 and will account for only 3.8% of GDP.

Despite a policy of liberalized trade since the mid-1980s, exports have stagnated around 20% of GDP and the trade deficit has worsened significantly in recent years. Although the country's exports have led growth<sup>8</sup>, Malawi is experiencing a boom in imports, the result of which is a high trade (-8.8%) and current account deficit (-8.1%). Malawi's trade deficit has risen from 7% of GDP in 2001 to 21% in 2010<sup>9</sup> (Figure 2: Imports and exports of goods relative to GDP, US\$ billion, current prices).

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<sup>4</sup> Economic and export diversification are associated with higher rates of per capita incomes. See Breaking in and Moving Up, UNIDO Industrial Development Report, 2010.

<sup>5</sup> Malawi Country Report, EIU 2012.

<sup>6</sup> Ministry of Development Planning and Cooperation Annual Economic Report (2010) and IMF (2009).

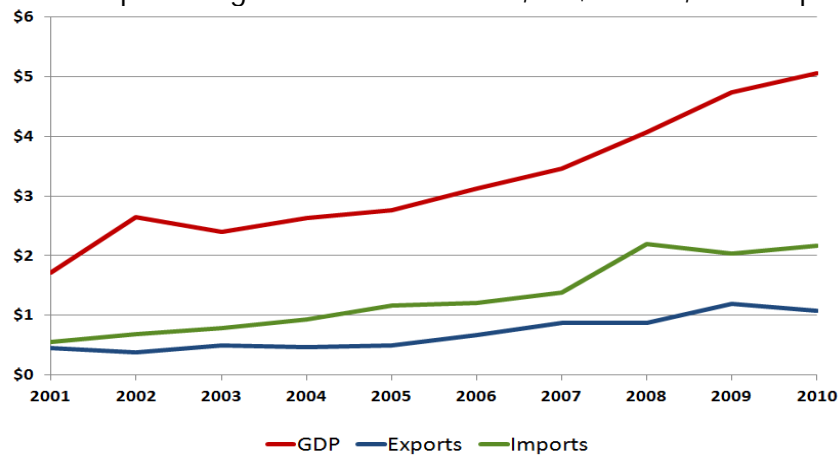
<sup>7</sup> Malawi Country Economic Memorandum. World Bank, 2010.

<sup>8</sup> Malawi Country Economic Strategy, 2009.

<sup>9</sup> Draft National Export Strategy (NES), MoIT July 2012.



Figure 2: Imports and exports of goods relative to GDP, US\$ billion, current prices



Source: IMF World Economic Outlook, Comtrade Trade Map

Falling reserves of foreign exchange became a major constraint on growth and investment particularly in 2011. The inability of the Reserve Bank of Malawi (RBM) to release sufficient amounts of foreign exchange to the auction had resulted in the emergence of a parallel exchange rate which was corrected in 2012 by a rigorous devaluation of the Malawi Kwacha of more than 40%. The country continues to rely on its traditional exports of agricultural commodities, though, of late, exports of manufactures to regional countries have grown. The projected increase in exports, including Uranium, will not be sufficient, in the near term, to counter the growth in imports, so the current account deficit will remain high and foreign exchange is likely to remain scarce. Only sizable inflows of donor aid prevent a balance of payments crisis. Moreover, with the current low prices in the tobacco market, Malawi is facing a dramatic decrease in export revenues leading to severe foreign exchange constraints, while leaving many tobacco farmers in need of alternative sources of cash income. There is thus an urgent need to support the country to diversify the tobacco-based production systems, and to encourage traditional smallholder farmers to engage in more market oriented agriculture through better market access and integration into agricultural value chains.

Export growth needs to accelerate and the export base needs to be diversified<sup>10</sup>. The Government of Malawi recognizes this and has committed itself to transforming the country into a “producing rather than consuming country, one which exports rather than imports”. This ambitious objective, if to be achieved, requires a dynamic and innovative private sector to develop new products and services on a competitive basis.

The private sector in Malawi presents a dualistic structure. On the one side, there are a few, large and often foreign owned companies engaged in the production of tea, the processing and marketing of tobacco, growing and exporting sugar and producing a limited range of fast moving consumer goods. These are the main contributors to economic growth. On the other, there are a large number of micro and small enterprises that mainly operate in the informal sector. Their economic contribution is limited by poor entrepreneurial practices, lack of access to affordable

<sup>10</sup> The development literature shows that export diversification is associated with higher levels of income. See Export Diversification and Economic Growth, H. Hesse, 2008.

credit and limited product differentiation which results in low value added and high levels of enterprise mortality.

A recent FinScope survey of micro, small and medium sized enterprises (MSMEs) in Malawi has confirmed the very large number of micro businesses. Almost 60% - 433,000 - are individual entrepreneurs with no employees. 41% of MSMEs have 1 or more employees of which only 17% have 5-20 employees (falling under the category of small enterprises), with just 2% having 21-100 employees (falling under the category of medium enterprises). There is a sharp tapering off after 20 employees that is indicative of the missing middle.

The causes of the missing middle are difficult to pin down. Historical factors such as a state-led development paradigm of the past, with the Forfeiture Act undermining property rights, no doubt contribute, as do political economy issues that result in the replacement of one set of politically favored private sector actors by another when there is a change in administration. Additionally, SMEs tend to suffer proportionately more than micro or larger firms from poor basic infrastructure and investment climate constraints, as set out in section 1.2 below.

In the absence of capable, competitive SMEs, large firms resort to vertically integrating support functions that would normally be provided outside the business through more specialist, and efficient sub-contractors.<sup>11</sup> The efficiency of value chains is further undermined by the absence of competent and capable SMEs acting as intermediaries between large businesses and very small suppliers. The absence of competent SMEs also reduces the pressure of competition that drives up efficiency throughout the economy and reduces the number of businesses capable of discovering new market opportunities to diversify the economy and exports.

The weakness of the private sector severely hampers the country's ability to achieve high and sustainable economic growth rates, as well as create formal jobs. Malawi has one of the lowest rates of total investment (24% of GDP in 2009<sup>12</sup>) in Sub-Saharan Africa (SSA). The rate of private investment, 15.7% of GDP in 2008, is well below the 20%-25% of GDP needed for sustained, rapid growth. Moreover, private gross fixed capital formation fell by -0.3% in 2009 and is only expected to recover modestly (0.5%-0.6% p.a.) in the near future. Foreign direct investment levels (\$140 million in 2010) are also low by SSA standards.

Malawi also has very low rates of formal job creation. As is the case in all countries that lack formal systems of social protection, open unemployment levels are low, but the economy is failing to create sufficient formal jobs. It is estimated that just 8% of the workforce is in salaried employment<sup>13</sup>. With its young population, Malawi will struggle to create productive employment opportunities for new entrants to the workforce forcing most to take up informal, self-employment to survive. This will deny the youth the pathway out of poverty that secure jobs provide.

The Government of Malawi (GoM) has become increasingly conscious of the key challenges and constraints to private sector development in the country. The need to support private sector led growth was reflected in the Malawi Growth and Development Strategy (MGDS) 2006-2011, and remains a main pillar of the successor MGDS II 2011-2016, the country's overarching medium term strategy designed to attain Malawi's long term aspirations of poverty reduction.

<sup>11</sup> This is known as lean manufacturing in industry or outsourcing for service functions.

<sup>12</sup> Figures quoted are from the World Bank, they differ slightly from the PSD Policy but lead to the same conclusion.

<sup>13</sup> African Economic Outlook Malawi, 2010.

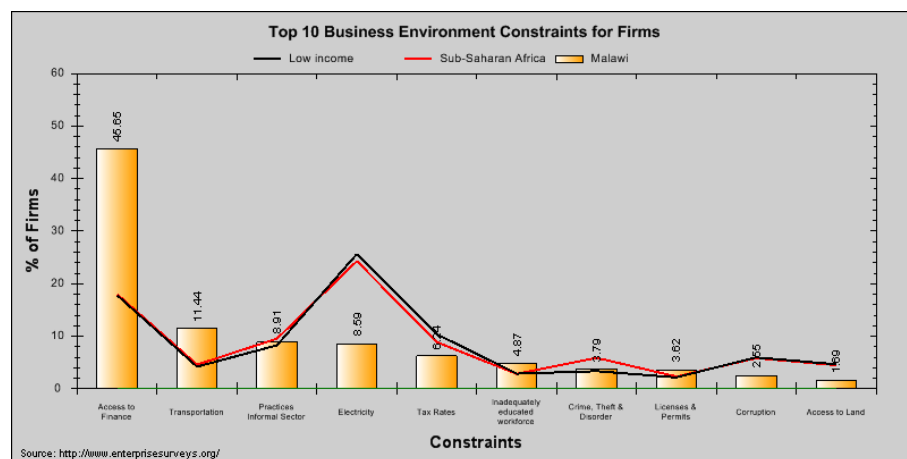
The private sector is highlighted in the MGDS document as the engine for economic growth and wealth creation (Theme 1: Sustainable Economic Growth and Sub-Themes 1: Agriculture and 4: Private Sector Development, Industry and Trade). The document emphasizes the importance of increased agricultural diversification and production of high value agricultural commodities for export, as well as increased industrial activities that are critical for generating employment opportunities, expanding the manufacturing base, enhancing value addition and diversification of exports.

## 1.2. Constraints to Private Sector development in Malawi

The private sector in Malawi faces several structural and systemic weaknesses resulting in low rates of MSME formation, low levels of investment and contribution to growth and job creation. The main constraints to development include, amongst others:

- Poor investment climate. Malawi ranked 133 out of 183 countries in the World Bank 2011 “Doing Business” indicators. The low ranking is an indicator of a poor business environment. The major constraints perceived by businesses are access to finance, transportation, informal practices and lack of power (Figure 3 below). The problem of access to finance is acute for MSMEs with over 92% reliant on internal capital and only 4.5 % of small, formal firms (up to 19 employees) and 18.4% of medium (20-99 employees) able to access bank finance<sup>14</sup>. . These investment climate constraints exacerbate the country’s lack of competitiveness caused by its inland location which makes for high transport costs for imports and exports. Investment tends to be concentrated in a few industries where returns are high because of comparative advantages (agricultural commodities, minerals) or non-traded goods and services with captive domestic demand (ICT, finance, wholesale and retail). This is a major factor in explaining the low levels of investment and the failure to transform the structure of the economy.

Figure 3: Business environment constraints in Malawi



Source: Malawi Enterprise Survey. World Bank, 2009

<sup>14</sup> Malawi Country Profile, Enterprise Surveys, World Bank/IFC 2009.

- Out-dated legal and regulatory framework. With the increased pace of globalisation, economies require laws and regulations that are compatible with global trends. Unless laws and regulations for the financial, labor and goods markets are revised and/or enforced, they will continue to pose a constraint to private sector development. BESTAP and its successor programme aim to address some of the constraints to doing business, for example by building the capacity of the Ministry of Industry and Trade in pushing through business friendly reforms, by building the capacity of the new PPP Commission, and supporting the newly established MITC provide a one-stop-shop service for businesses wishing to invest in Malawi.
- Unreliable and costly economic infrastructure services. Private sector growth in Malawi is constrained by inadequate infrastructure especially transportation, telecommunications, power and water supply. Road transport is the main mode of transport for imports and exports but the long journey involved leads to high costs that affect the competitiveness of Malawian products. The potential of rail and air transport is undermined by lack of capital investment. Whilst plans have been announced for making better use of the country's and neighbours river systems to transport goods to and from ports in Mozambique, progress in putting in place the appropriate investment and agreements appears slow. Access to telecommunications services, in terms of telephone and internet services, is limited with less than 3 per cent of the population covered. Domestic and industrial energy demands exceed current energy supply on account of economic growth and rapid population expansion, and this poses a serious constraint for the medium to long term. Lack of appropriate investment together with poor service standards need to be addressed in order to improve publicly funded power supply. More transparent public private partnership arrangements are needed to lay the foundations for increased private investment in infrastructure.
- Inconsistent policies for Industrialization, Diversification and Export Promotion. Lack of foreign exchange and access to raw materials has restricted Malawi's industrial output. Only in 2012, the Government of Malawi has started to put in place key strategies and mechanisms to address shortages of supply of foreign exchange and to improve the country's trade balance. Accordingly, the Reserve Bank of Malawi (RBM) and a number of private sector players, are finalizing the setting up of an Export Development Fund (EDF) to facilitate the growth and diversification of Malawi's export base by providing support through credit guarantees to participating banks and extending pre- or post-shipment financing to exporters primarily involved in agri-business. Moreover, a National Export Strategy started its development phase in 2011 and is expected to be launched in January 2013. The Strategy has been championed by the private sector, under the leadership of the MoIT and with support from UNDP, and is primarily aimed at building the productive base of the Country. Nonetheless, there are still critical policies, strategies and tools to be put in place. For example, there is a need to fully develop an Industrial policy<sup>15</sup> that is complementary to the National Export Strategy.

SADC is in the process of formulating an Industrial Development Policy Framework to guide industrial development within the region. In order to effectively and efficiently implement

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<sup>15</sup> As also stated in the State of the Nation Address made by HE Joyce Banda, May 2012.

the Strategies outlined in the policy framework, SADC resolved that member states should align their Industry Policies to the SADC Industry Policy Framework.

- Lack of integration in domestic, regional and global value chains. There is overall recognition that private sector investment in agricultural trade and agro-processing is hampered by the disconnect between small scale producers and larger agri-businesses. While small-scale farmers can supply primary and processed produce into local and global supply chains, ensuring that investment in the supply chain delivers both commercially viable products and value to the smallholder presents several structural challenges. Despite the challenges of linking the worlds of small scale producers and formal markets, such markets represent the ideal solution to address rural poverty and increase industrial output of companies. Along with the potential to benefit farmers through commercial relationships as suppliers in equitable trading models, engaging with formal markets also offers the long term potential for:
  - Preparing smallholders to engage with the growing domestic and regional formal markets;
  - Support business and farming professionalism;
  - Develop partnerships with the private sector to build systems;
  - Develop partnerships with the private sector to address policy issues that can bring more public investment and policy support for poorer producers.

The Government aims to generate agricultural growth and wealth creation through commercialization and promotion of regional and global markets, advancement in technology, crop diversification and engagement of entrepreneurial leaders dedicated to Malawi's agricultural improvement.

## 2. PROJECT STRATEGY AND RATIONALE

### 2.1 Project Framework

The PSDP aims to support the Government of Malawi to leverage the private sector as the engine for economic growth. It is closely aligned to the MGDS I and II which recognize the importance of sustained economic growth, led by the private sector, for reducing poverty. It is also fully consistent with the overall vision that Malawi should be transformed from a predominantly importing and consuming country to a predominantly manufacturing and exporting economy.

The PSDP is also fully aligned with UNDP's MDG Breakthrough Strategy. It aims to deepen UNDP's support for pro-poor, private sector led and inclusive market development in Africa as a means to contribute to poverty reduction through employment creation, income generation and overall economic development. It translates the UNDP Private Sector Strategy and the Regional Bureau for Africa's Capacity Development for Pro-Poor Growth and Accountability (CD-PGA) framework into a concrete set of support activities, recognizing the role of markets and the private sector as central to achieving poverty reduction and environmental sustainability, post-conflict recovery and gender equality. As such, and through its main focus on Millennium Development Goal (MDG) 1 (end Poverty and Hunger), the PSDP is also expected to have positive effects on several MDGs (in particular MGD 3 and 8).

The notion of inclusive markets emphasizes the need to take a broader and more integrated approach to how the private sector can best contribute to poverty reduction and sustainable development within a setting of well-regulated and transparent markets. Inclusive markets include the poor on the supply side as employees, producers and entrepreneurs at various points along value chains and, on the demand side, as clients and customers for affordable products and services. The approach of supporting the development of inclusive market systems that are accessible to the poor is becoming increasingly recognized as good practice among leading development thinkers (as Inclusive Markets Development or Making Markets Work for the Poor) .

The project intends to trigger momentous linkages between the poor, smallholder farmers, MSMEs, and lead companies in order to expand meaningful participation of the poor in strategic value chains, whilst maximizing industrial output of corporate players and service delivery of intermediate players.

The PSD Project will be based on a two-pronged strategy:

1. Ensuring that value chains with strong potential to contribute to growth and poverty reduction work better and are inclusive of the poor. Malawi's comparative advantage lies in agriculture and it is from agricultural markets that the vast majority of the work force, especially the poor, earns their livelihoods. However, agricultural markets in Malawi are characterized by market failures which prevent them from realizing their potential to contribute to growth and poverty reduction. If these failures can be addressed, then the country's agricultural potential could help to sustain growth and rapid poverty reduction building on the achievements of GoM's Agricultural Inputs Subsidy Programme (AISP). The critical market failures are of coordination: how to link the country's large number of very small farmers to markets for inputs and domestic and foreign produce markets efficiently. This requires

concerted effort by GoM to address government failures and investment by the private sector to innovate and deploy new business models.

2. Aligning business incentives better to development objectives to increase the incentive for businesses to innovate technology/services and business models that connect the poor to markets more efficiently in manufacturing, agriculture and other strategic industries. For the private sector to carry out the needed investment and innovation, its incentives must be more closely aligned to development objectives. It is all too easy for large businesses in Malawi to limit themselves to attractive portions of markets that do not present problems of risk and transaction costs. For growth to be more inclusive, such businesses will need to be incentivised to innovate new technologies/services and business models that can overcome market failures of information, coordination and thus help to increase the incomes of the poor and reach out to MSMEs.

## 2.2 Alignment to the National Export Strategy

Malawi's National Export Strategy (NES) focuses on building the productive base of the economy, to help Malawi move into export of higher value goods and services and reduce Malawi's reliance on the export of raw or semi-raw commodities, which has made the poor vulnerable to commodity price fluctuations. The development of the productive base is also fundamental for the economic empowerment of youths, women, smallholder farmers, job seekers and the poor.

The NES includes a focus on prioritized clusters, including:

- Oil Seed Products (groundnuts, sunflower, soya and cotton),
- Legume Products (pulses),
- Sugar Cane Products;
- and Manufactures (beverages, agro-processing, plastics, packaging, and assembly).

The PSDP will be used to support pro-poor investments in the prioritised clusters identified in the NES, and to support a more conducive policy environment to enable the prioritised clusters to flourish.

## 2.3 Donor Alignment

Trade, Industry and Private Sector Development has not been a high priority for donor support in Malawi, representing only 5.9 million USD or 0.74% of total Development Partner's assistance to Malawi in 2010<sup>16</sup>.

PSD initiatives supported by donors include:

1. Support to improving the policy and institutional environment - the Business Environment Strengthening Technical Assistance (BESTAP) programme, funded by the EU and the World Bank, for example, supported the drafting of new laws to improve the regulatory environment for business, improved access to commercial justice, and helped establish a

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<sup>16</sup> Private Sector Country Profile Report, AfDB June 2012.

PPP framework. A successor programme is being planned, to be managed by the World Bank and financed by DFID.

2. The EU is supporting the implementation of measures to build the trade capacity of the country trade and that have been identified under the Enhanced Integrated Framework (EIF). This covers both policy making capacity as well as investments needed to build trade support infrastructure.
3. UNDP has been promoting Inclusive Markets Development (IMD) through the Growing Sustainable Business (GSB) initiative; DFID has been supporting businesses adopt Inclusive Business models through its Business Innovation Facility (BIF)
4. UNCDF and UNDP have been implementing the Financial Inclusion in Malawi (FIMA) project which aims to increase access to financial services (loans, savings, payment services, money transfers, and/or insurance) for poor and vulnerable populations through improving the policy environment, investing in financial service providers and building capacity of financial sector institutions, particularly microfinance institutions.

Looking ahead, many donor related programmes will continue to work on the business environment and financial inclusion. The World Bank, in partnership with USAID and DFID, is currently preparing a Financial Sector Technical Assistance Programme (FSTAP) that will: i) strengthen the Reserve Bank of Malawi's (RBM) supervisory capacity; ii) build financial infrastructure; iii) support financial literacy; iv) develop a strategy to promote long term finance; and v) create a financial sector deepening trust targeting financial inclusion.

On the infrastructure side,, the EU, through a Contribution Agreement with UNDP, will intervene on the National Quality Infrastructure through the SQAM Project (Development of a robust Standardization, Quality Assurance, Accreditation and Metrology Infrastructure in Malawi) that will be implemented with Technical Backstopping from UNIDO.

However, few donor programmes are planning to work directly with businesses to help them take advantage of the improved business and trade environment. One of the exceptions is USAID's Feed the Future programme which has started to support businesses in key value chains of dairy, soya, and groundnuts, with a focus on building market infrastructure (storage facilities, warehousing etc) to enable value chains to function more efficiently. DFID will also support the oil seeds sector, working with a range of public and private sector stakeholders to facilitate systemic change in the market through a 'Making Markets Work for the Poor' programme (M4P), under the framework of the National Export Strategy.

The new PSDP will build on the UNDP's experience with GSB and DFID's experience with the pilot Business Innovation Facility. Through the PSDP, UNDP and DFID aim to incentivize businesses to scale up inclusive business models in the priority NES sectors of oil seeds, legumes, sugar, and manufacturing.



## 2.4 Operational Approach

The Inclusive Market Development approach<sup>17</sup> recognizes that a series of interventions are required across the market system in order to ensure sustained changes in behavior and to enable markets to function more effectively for the poor.<sup>18</sup> It recognizes that markets comprise complex 'business eco-systems' that may include many types of producers and enterprises, so there is a need to engage all relevant stakeholders in the specific sector or market, including small producers, SMEs, investors, larger lead firms, NGOs, and relevant government authorities..

### Box 1: GSB/IMD in Tanzania

UNDP supported an GSB/IMD intervention in Tanzania where the lead firm, Unilever, was engaged in a value chain project to support the production and processing of the Allanblackia nut as an input into Unilever products. Activities included the co-funding of market research and a feasibility study, partnership development and training. As a result \$4 million have been invested into the local value-chain, thousands of Allanblackia trees have been planted and the income of over 4.000 farmers in 48 villages has been increased.

The IMD is an evolution of UNDP's Growing Sustainable Business (GSB) initiative, which came into existence in 2003. The GSB signified a new and innovative approach to working with companies on their core business while promoting development objectives, and showed what can be achieved when the process of facilitation helps to bring about new business partnerships that benefit the poor. It was a supply driven, single-focus approach where demand from a lead company/investor was the key determinant of sector/market selection. However, the implementation of over 50 GSB projects worldwide (including Malawi) has generated several lessons learned, including the following:

- Interventions should follow a demand driven strategic approach whereby the opportunities for the poor should be the starting point.
- Interventions should focus in sectors with significant potential for pro-poor and development impact.
- Interventions should focus on addressing the specific causes of why markets are not working for the poor, including the policy sphere.
- Interventions should include financial incentives to ensure a more active engagement from the private sector.

The IMD is particularly relevant to value chain interventions to provide better market access for the poor, small producers and MSMEs. Typically, a number of issues have to be addressed in a concerted way, including trade barriers, capacity building and support services for small and marginalized producers (including women), improved access to finance and other inputs (e.g. fertilizers, technology, communication etc), facilitation of linkages between small and larger firms as well as between small producers (i.e. creation of clusters or cooperatives), establishment of a policy and institutional environment that establishes and maintains the 'rules' of the game in the value chain.

<sup>17</sup>Or, as it is known by a number of other donors such as DFID, Making Markets Work Better for the Poor (M4P).

<sup>18</sup> The IMD defines inclusive markets as "markets that result in expanded choice and opportunity for the poor and produce outcomes that benefit the poor." They include the poor on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points along value chains.

The experience of IMD and M4P programmes has highlighted that interventions need the right conditions to be in place if they are to succeed. These conditions, referred to as the 'Perfect Storm'<sup>19</sup>, include:

- The existence of strong triggers for change: Policy issues and processes, or market forces which represent powerful opportunities or threats, should be in place motivating stakeholders to respond to them.
- Have legitimate and credible stakeholders willing to take leadership: The programme of intervention should ideally be led by stakeholders from the public and private sectors who can influence others.
- The absence of powerful vested interest to block policy and institutional change: Policy or institutional change may give rise to losers as well as winners. If those who stand to lose are powerful enough, they will be able to block policy and institutional change. Understanding the political economy of change, the power wielded by vested interests and the issues that matter to them, is fundamental to success.
- Have capable private sector participants: It is essential that motivated stakeholders have the ability to convince a sufficient number of private actors, with the capability to innovate new technology or business models, to alter market outcomes.
- Ensure good facilitation: the role of external agents should be to facilitate the work of the stakeholders leading the programme rather than deliver change itself otherwise dependency is likely and the intervention unlikely to prove sustainable.
- Develop independent and respected sources of evidence and technical solutions: The evidence needed to raise awareness of issues and empower stakeholders to engage in policy processes, should come from respected sources who are not seen to be taking sides in contested debates.

In summary, the IMD/M4P approach overcomes the drawbacks of conventional instruments by focusing on systemic change. The Challenge Fund approach can be used in combination with the IMD/M4P approach to reduce some of the risk faced by businesses associated with innovating pro-poor and inclusive business models.

Challenge funds:

- Provide a mechanism to align development and business objectives, enabling innovative and inclusive business models to be tested by tipping investment decisions from 'no' to 'go', overcoming the purely commercial risk hurdle in return for potential development benefits.
- help to scale up the implementation of new inclusive business models and technologies which combine potential commercial viability with high social impacts, particularly where commercial returns are uncertain, and the investment is therefore high risk.
- harness the strengths of the private sector, ie. the ability to generate and test new ideas, abandon them if they do not work and scale up those that do.
- do not attempt to pick winners (as many matching grant schemes have done in the past) but instead, supports ideas generated by the private sector, through a transparent process of bidding rounds judged by an independent panel.
- Are not aimed at developing the capacity of project implementers, and can therefore be 'light touch'.

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<sup>19</sup> The term was coined by David Porteus to mean the right conditions

- require the grantees to contribute to the overall funding of the project as an indication of their commitment to the commercial viability of the project and to share the risk, thus avoiding moral hazard.
- invest in projects not businesses and promotes systemic change by disseminating successful innovations so that they can be replicated as Bharti Airtel is now doing with its ZAP alternative to M-PESA<sup>20</sup>. In this way, market distortions can be minimised.

The challenge fund instrument is ideally suited to catalysing the innovation of new business models. Reviews of DFID enterprise challenge funds, such as the Financial Deepening Challenge Fund, point to the very large impacts that successful projects have had such as the M-PESA system of using mobile phones for making payments that has now provided 26 million, mainly rural users with a low cost alternate to using expensive payment services provided by the commercial banks. The Africa Enterprise Challenge Fund catalysed Illovo to develop a new community owned business model for developing smallholder sugar cane farming in Malawi. The Food Retail Industries Challenge Fund has helped launch Mzuzu Coffee in the UK bringing together the UK supermarket Sainsbury's, Twin Trading and the Mzuzu Cooperative in Malawi. The profit motive ensures that, if successful, the new business model will be sustained and is likely to be replicated.

Challenge Funds work by backing innovative models that have proven social benefits but whose commercial benefits are unproven, as shown in figure 6.

Challenge funds can be used in conjunction with IMD programmes to improve the performance of the value chains of priority commodities and to incentivise large businesses to promote business to business linkages, enhance entrepreneurial skills and to challenge firms and NGOs to provide business support and mentoring services cost effectively. In particular, lead businesses have the potential to transfer skills and know-how to suppliers and smallholders in their supply chains through 'embedded services'.

The Challenge Fund approach ensures that the responsibility for project implementation rests with the 'Lead business', and not kept under the control of the Fund Manager, which exercises a light touch approach to project supervision. The risk this poses is mitigated by the fact that donor funds are only made available once the project has achieved agreed milestones.

## 2.5 Malawi Innovation Challenge Fund (MICF)

The PSD Project will establish the Malawi Innovation Challenge Fund, which will have three windows, two of which will provide matching grants to projects while the third will provide loans directly to the poor. The three windows, which are presented in detail in the next section, include the following:

- Agriculture Window
- Manufacturing Window
- Pro-Poor Loan Window

The windows of the Malawi Innovation Challenge Fund will be accessible for all non-state actors that fulfill the specific criteria for each window

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<sup>20</sup> [www.airtel.com](http://www.airtel.com)

However, all projects supported by the Malawi Innovation Challenge Fund must clearly demonstrate how they will address the key cross-cutting issues (gender, youth and environment) where relevant by responding to the following questions:

- How will the project actively promote gender equality?
- How will the project address the needs of the youth?
- What positive or negative impact is the project likely to have on the environment and what are the appropriate environmental management plans put in place if the impact is negative?

Responding to all three questions will be a requirement for each project proposal and the criteria for selection of proposals will reflect upon these priorities. Moreover, all project proposals will have to take these cross cutting issues into account in planning the project's objectives, activities and resource allocation as well as monitoring and evaluation efforts.

### 3. PROJECT OBJECTIVES, OUTCOMES AND OUTPUTS

#### 3.1 Alignment to the UNDAF and CPD

The relevance of the PSD project is enhanced by its alignment to the MGDS II, that gives priority to private sector and export led economic growth, and to its alignment to the United Nations Development Assistance Framework (UNDAF) 2012-2016. The goal of the MGDS II in the area of sustainable Inclusive economic growth is poverty reduction. The PSDP is intended to contribute to poverty reduction through the achievement of UNDAF Outcome 1.2 “Women, youth, people with disability and households benefit from decent employment, income generation and pro-poor private sector growth by 2016” under Theme 1 “Sustainable and equitable economic growth and food security”. More particularly it is aligned to UNDAF Output 1.2.2 that aims to contribute to improving access to markets, both international and regional; and business to business linkages supporting small and medium sized enterprises including farmer organizations, in strategic industries.

At the project level, among the relevant key outputs stipulated in the UNDAF, the PSDP intends to achieve increased net average income of the poor, micro, small enterprises and small growers and attain effective linkages between financing institutions and vulnerable groups.

#### 3.2 Main Project Objectives and Outputs

The overall goal of the PSD project is to accelerate economic diversification, innovation and increase the opportunities for the poor to benefit from economic growth through higher incomes and increased job creation.

The objective of the PSDP is to establish a more inclusive, innovative and competitive private sector.

The PSDP will aim to achieve its goal and objective through three outputs:

1. The Industrial development policy and prioritized sectoral policies and strategies developed and implemented
2. The MICF is established and operational to increase inclusiveness and competitiveness of value chains in agriculture and manufacturing
3. Loan facility provided to smallholder farmers, low income women and youth

The three project outputs are strongly interlinked and operate at macro, meso and micro levels with interventions designed at improving the enabling environment, at incentivizing behavioral changes among companies and at improving accessibility of the poor to finance. The framework,

within the interventions are designed, is the National Export Strategy, which in turn has been designed to support the delivery of MGDS II.

The target beneficiaries of the project are the poor, with particular emphasis on the youth and women.

## OUTPUT 1: THE INDUSTRIAL DEVELOPMENT POLICY AND PRIORITIZED SECTORAL POLICIES AND STRATEGIES DEVELOPED AND IMPLEMENTED

Rationale for the intervention:

Government policy towards industrial development over 1964 –1980 was, to a large extent, biased towards large-scale industries. Only in 2012 was a MSME policy strategy developed to boost the competitiveness and the integration of MSMEs into the industrial development agenda of Malawi.

Whilst some policy and legal frameworks have been reviewed to incorporate best practices, A priority for the country remains export growth and industrialization and the critical policy pertaining to Industrial Development is still not in place. The PSDP will support the development of an Industrial Policy, which complements the National Export Strategy that was developed in 2012 and the Integrated Trade and Industry Policy that was revised in 2011<sup>21</sup>.

The PSDP will identify which policies and legislation need changing under the framework of the NES. The PSDP will closely work with other Development Partners to ensure that, where needed, sectoral reforms are undertaken. For example, there are a wide range of trade policies (i.e. export certificates, paying for goods prior to import etc), and policies on the development and pricing of infrastructure, that have a strong impact on the growth and competitiveness of the private sector and will impact on the success of MICF interventions. The PSDP will seek to influence, through the relevant Ministry and Policy Making Body, policy change conducive to inclusive business. This will be assisted by a close working relationship between the coordination mechanisms of the prioritized sectors and the MICF Fund Manager, with businesses guided to the right sources of support to ensure consistency with broad sectoral strategies.

The Ministry of Industry and Trade (MoIT) is committed to leading the process of establishing a SWG on Trade, Industry and Private Sector Development. As per current design, the SWG will be operationalized via the transition of the existing National Export Strategy (NES) structures and consultative mechanisms, in particular the sub-committees that were established. The NES in turn, has built on the already existing fora through which the Ministry consults with relevant stakeholders on promoting trade, industry and private sector development, such as the private sector dialogue forum with the Malawi Confederation of Chambers of Commerce and Industry (MCCCI), the

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<sup>21</sup> This revised Integrated Trade and Industrial Policy was formulated to replace the previous Integrated Trade and Industrial Policy that was developed in 1997-1998 and formally adopted in 1999, as the key guiding instrument for facilitating international trade in goods and services and trade-related private sector development, and Malawi's better integration into the Multilateral Trading System. SADC is in the process of formulating an Industrial Development Policy Framework to guide industrial development within the region. In order to effectively and efficiently implement the Strategies outlined in the policy framework, SADC resolved that member states should align their Industry Policies to the SADC Industry Policy Framework.

National Working Group on Trade Policy (NWGTP), as well as the Malawi Trade Logistics Technical Working Group (MTLTWG).

Activities/interventions:

1. Support the development of the Industrial Policy to ensure the industrial development of Malawi's economy in support of private sector growth and competitiveness. The policy will be aligned to SADC's Industrialization framework;
2. Support to Sectoral Policies, under the framework of the NES and MICF, to ensure a more receptive policy and institutional environment for prioritised clusters in the NES, ie. oil seeds, legumes, sugar and manufacturing.
3. Facilitate the Implementation of the NES. The PSPD will provide support to the structures and coordination mechanisms already established under the NES (sub-committees) which will transition to the establishment of Technical Working Groups (TWGs) under the SWG on Trade, Industry and PSD. Moreover, the PSPD will support the agenda of the Manufacturing TWG through the placement of a Technical Assistant, specializing in Manufacturing, to be placed in the Ministry of Industry and Trade.

#### OUTPUT 2: THE MICF IS ESTABLISHED AND OPERATIONAL TO INCREASE INCLUSIVENESS AND COMPETITIVENESS OF VALUE CHAINS IN AGRICULTURE AND MANUFACTURING

Rationale for the intervention:

The Malawi Farm Input Subsidy Programme (FISP) has made a tremendous impact on the productivity of maize production and the availability of the country's main staple food.<sup>22</sup> However, recent evidence suggests that the result of higher maize production has been a decline in output prices alongside rises in fertilizer prices, severely depressing the returns to small farmers. The average Malawian farmer, with just 1-2 h.a. of land, cannot hope to escape poverty through growing maize alone. The FISP has therefore increased the coverage of subsidized inputs to legumes, supply of cotton seed and fertilizer for tea and coffee.

The GoM has begun to emphasize the importance of diversified agriculture, including through the development of the National Export Strategy. In various Agriculture value chains, the conditions for success are in place, with credible, capable players in the public and private sectors and sufficient numbers of established businesses willing to invest in inclusive business models and innovative technologies that benefit the poor. Systemic change in these value chains would ensure large sustainable impacts in terms of growth, economic transformation, exports (or import substitution), jobs and incomes of the poor, especially women and young people.

Over 80% of agricultural labour in Malawi is provided by women, therefore increasing the output of crops will help to increase demand for women's labour on farm. Female headed households make up around 30% of households. MICF projects will prioritise support to these households. The youth will also be targeted for support – they will benefit as farmers, from the greater demand

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<sup>22</sup> The Malawi Agricultural Input Subsidy Programme, 2005/06 to 2008/09. Andrew Dorward and Ephraim Chirwa.

for labour on farm, from the opportunities to trade in inputs and outputs and from formal job creation.

### The case for Legumes:

Pigeon peas have an assured export market and offer the potential for farmers to earn incomes several times greater than what they earn from maize (see Box 2). Increased cultivation of the crop would contribute to agricultural diversification, stimulate the growth of manufacturing, diversify exports, and help to increase the incomes of large numbers of farmers.

#### Box 2: The Potential of Pulses

With India no longer able to meet their needs, the major wholesalers supplying the UK diaspora have witnessed a surge in prices of dal. They have turned to Malawi for the supply of Toor dal and have been impressed by the quality. Malawi Toor Dal is now a sub brand.

For the 3,500 farmers of the Mzuzu cooperative, pigeon peas represent an attractive crop to inter-crop with their coffee, providing an income whilst their newly planted bushes mature and helping to improve soil fertility. Those who have grown pigeon peas using improved seeds report yields close to 2 t/h..a and prices of over MK 100/kg providing returns 2-3 times higher than maize. They are keen to grow more provided they have an assured market and can source certified seed on a timely basis.

Given that the demand from the Indian diaspora in Africa, Asia, Europe and the US extends beyond pigeon peas to all pulses (green and black gram, white and black chickpeas, etc.), there is a potential to substantially increase the export of all the pulses grown in Malawi.

Malawian processor/exporters estimate that increasing the value of exports of pulses to over \$ 100 million over a 5 year period would be achievable and are willing to invest in increasing the growth and efficiency of the value chain and make it more inclusive of small farmers. Micro and small businesses would benefit from greater opportunities provided by supplying inputs and trading pulses. Large sized businesses could increase employment through

increasing processing, packaging and export of these crops.

Eligible interventions under the MICF will therefore encompass all pulses grown in Malawi and overall all crops falling under the Legumes Product CLuster.

### The case for Oil Seeds

The Oil Seed Products cluster includes value addition products derived from oil seeds as well as raw and semi-raw commodities themselves. The four main oil seeds identified are sunflower, groundnuts, soya beans and cotton. Other oil seeds—such as sesame, palm, rubber, castor and jatropha—will also be supported and facilitated, but only where there is private sector interest and private investors are eager to lead. Examples of value addition products based on these oil seeds include cooking oil, meals, butters, milks, lubricants, varnishes, soaps, cosmetics and paints.

The rationale behind the selection of this cluster includes: Malawi's competitiveness in the sector, potential for value addition to account for roughly 20% of imports in the medium to long-term; the potential for economic spillovers through reducing the cost to businesses and private operators of investing in new, higher value products; and demand is strong and growing.



Furthermore, the oil seed products cluster is based on a number of oil seeds, all of which can be grown feasibly on smallholder plots of land, and crops within the cluster can serve as a complement for smallholders to tobacco as Malawi's main cash crop. The high potential for intercropping with maize and other food crops and the extent to which high yields are possible per hectare means that the cluster is viewed in the NES as the main complement to tobacco for smallholders.

### The case for Sugar

The Sugar Cane Products cluster includes white and brown sugars but also sugar cane products such as ethanol, rums, stouts, ales, high value sugar through branding and fair trade labelling, lactose, glucose, bagasse (brickets, fuel, electricity and building boards), vinasse/filtercake (fertilizer), sugar confectionary (syrups, sweets, caramel etc), cane juice, carbon dioxide and cosmetics. Some of these products have export potential while others, such as carbon dioxide and electricity, could supply the domestic market.

Through its strong linkage to the fuels sub-cluster (electricity and bio-fuel) and to the food processing and beverages sub-clusters, as well as through its link to the fertilizer and animal feed industries, sugar cane has high potential for value addition and for wealth creation, while also performing respectably in terms of economic linkages. The level of economic proximity with other products is not as high as in manufacturing, as can be expected, but when compared with other agricultural clusters, sugar cane performs among the better crops. Very few high value food products do not require sugar as a key input: it is an important input for value addition in dairy, juices, wheat and maize products, as well as being a key input to confectionary.

### The case for Manufactures

The manufactures cluster is composed of several sub-clusters, including Beverages, Agro-Processing (dairy, maize products, wheat products and others with private sector interest such as rice, cassava products etc), Plastics and Packaging.

Significantly, through all its sub-clusters, the manufactures cluster is integral to the development of the agriculture sector in Malawi. Agro-processing and beverages are dependent on agricultural inputs such as livestock, maize, wheat, sorghum and other grains, and therefore are key to securing value addition in the agricultural sector. They are central to the economic empowerment of rural farmers, women's groups and agricultural cooperatives. Similarly plastics and packaging are essential for processing and value addition of agriculture based products produced in Malawi. Agriculture and manufacturing are intricately intertwined and dependant on each other. This is key if Malawi is to move away from the export of raw or semi-raw commodities to the export of higher value, processed agricultural products.

### Activities/interventions:

The MIF will establish two windows, one in agriculture and one in manufacturing, to provide support to inclusive business projects in the prioritised clusters described above. Every project will

include a lead firm as they are crucial in linking the poor to larger national, regional and international markets<sup>23</sup>.

The Agriculture window will be open to all non-government stakeholders associated with agricultural value chains identified by the National Export Strategy (Legumes, Oil Seeds, Sugar) with potential for export promotion and import substitution.

The Manufacture window will be open to all non-government stakeholders associated with beverages, agro-processing (inc. dairy and maize, wheat, horticulture and pulse value addition), plastics and packaging, assembly.

It is anticipated that there will be six competitions over three years. Each window (Agriculture and Manufacturing) will open six times, specifically in July and in December of 2013, 2014, and 2015. Each window will have an allocation of \$3,738,318. Any uncommitted funds from one competition will be rolled into the next round.

It is important to note that the matching grants provided by the Challenge Fund will only back projects and not individual firms, institutions or organisations. So, they will be linked to progress on a specific project with tranche payments linked to the achievement of agreed milestones (performance based grants). Recipients will be required to co-fund projects at a minimum of 50 per cent. The combination of payment based on results and co-funding will thus help to avoid the moral hazard associated with financial assistance provided by third parties.

The Fund Manager will engage directly with bidders to support the preparations of quality applications using the application form and guidelines prepared. All due diligence, contracting, and supervision issues will be responsibility of the Fund Manager. Terms of Reference for the Fund Manager are appended in Annex F.

The MIF Fund Management Team will be expected to generate a relevant number of viable inclusive business projects that will be recommended to an Investment Panel for approval of matching grants. The Fund Manager will also motivate stakeholders to promote "crowding in"; monitor wider developments in the value chain; promote dialogue between the private and the public sector on policy and institutional reforms; and advocate for policy and institutional changes where these are identified as binding constraints to pro-poor development in the sectors being supported through the MIF. The Fund Manager will draw on the PSDP funds from output 1 to achieve these objectives. UNDP will further support the Fund Manager to help address the policy issues that have been identified either by influencing relevant Ministries and government agencies, fulfilling its role as promoter of the PSDP.

#### Activities/interventions:

1. Agriculture Window of the MIF: This is a window of the Malawi Innovation Challenge Fund that will catalyse innovative business models and technologies delivered by the private sector that engage and benefit the poor, on a replicable and sustainable basis. The proposed projects will

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<sup>23</sup> IMD Handbook. UNDP, 2010

need to be associated to agricultural value chains identified by the National Export Strategy (Legumes, Oil Seeds, Sugar) with potential for export promotion and import substitution.

2. Manufacturing Window of the MICF: This will be a window of the Malawi Innovation Challenge Fund that will catalyse innovative business models and technologies delivered by the private sector that engage and benefit the poor, on a replicable and sustainable basis. The proposed project will need to be associated to value chains identified by the National Export Strategy, more specifically under the Manufactures Product Cluster (beverages, agro-processing (inc. dairy and maize, wheat, horticulture and pulse value addition), plastics and packaging, assembly.

### OUTPUT 3: LOAN FACILITY PROVIDED TO SMALLHOLDER FARMERS, LOW INCOME WOMEN AND YOUTH

Rationale for the intervention:

More than 55% of Malawi's population is excluded from access to financial services<sup>24</sup>. The new financial charter defines the "excluded " as those receiving informal services, economically active farmers and/ or small enterprise (men/women/ youth) especially in rural areas who are denied access to financial services. This occurs for several reasons, which include but are not limited to poor infrastructure, lack of awareness, inappropriate products and low incomes.

Pro-Poor Business models championed by the lead companies through the Agriculture and Manufacturing Window of the MICF will inevitably require improved access to finance for smallholder farmers, low income women and youth, who will play an active role in projects supported under these windows. The aim of the proposed Loan Window is thus to provide micro-capital to the poor, which will in turn support the proposed supply chain development of the lead companies.

One of the major challenges micro-businesses in Malawi are confronted with is access to finance. This includes start-up capital, processing equipment, raw materials and other basics that are needed to build thriving businesses. These challenges are especially acute where the needs are for small loans and typically outside the purview of most major financial institutions and development finance organizations. The Loan Facility established under the PSDP serves the purpose of embedding in the MICF a sustainability mechanism for the bottom of the pyramid.

Activities/interventions:

Pro-Poor Loan Window: This intervention will entail the establishment of a Loan Window, managed by a professional financial service provider. The FSP will be selected on a competitive basis and will be contracted by UNDP (See figure 1 below). It is anticipated that Micro Finance Institutions will bid for the funds by submitting to UNDP the terms and conditions on which they would lend; their management fee; collateral requirements; willingness to share risk; average size of loans and the targets they expect to achieve in terms of rural outreach. The interest rates of the loan will not be determined by the PSDP but by the bidding process.

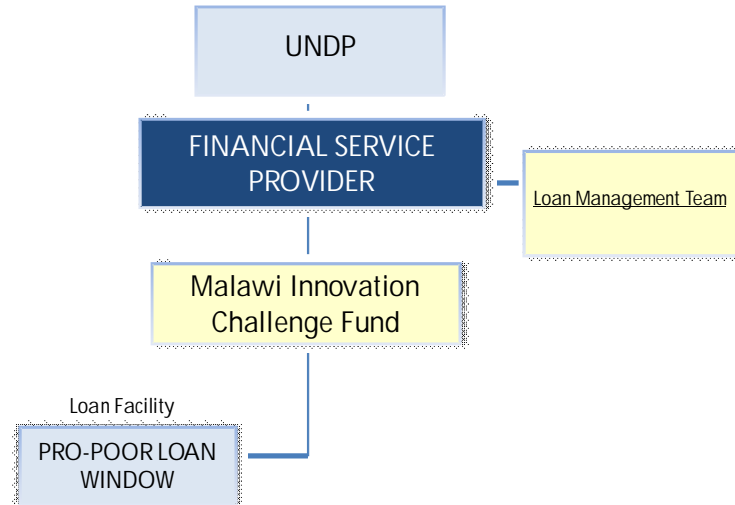
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<sup>24</sup> FinScope Malawi 2009

The FSP will be engaged through a Micro-Capital Grant Agreement for Credit Related Activities as stipulated by NIM implementation modality of UNDP. The FSP, will be directly accountable to UNDP in accordance with the terms of their agreement or contract with UNDP. The FSP will report to the Steering Committee of the PSDP.

The Window will be permanently open, starting from July 2013. This Loan Window will be revolving in nature and will ensure sustainability of the IMD interventions/projects after the exit of the MICF.

FSP – Figure 1



## 4. MANAGEMENT ARRANGEMENTS

### 4.1 General Principles

UNDP supported projects generally aim for a National Implementation Modality (NIM). Private Sector Development projects of this size and level of complexity demand strong private sector drive and technical capacity. The execution capacities of National Public Institutions do not comply with the private sector driven implementation requirements of the project. Hence, this project will be implemented under the NIM Modality but with strong leadership from the Private Sector and where UNDP rules and procedures apply.

The Ministry of Finance will be the Implementing Partner for this Project. The Ministry of Industry and Trade is the Responsible Party for Output 1, whilst UNDP is the Responsible Party for Outputs 2 and 3. Moreover, UNDP will be responsible for the Project coordination, planning, monitoring and evaluation. UNDP will also be accountable for the financial management of the project. All UNDP audit and financial rules and regulations apply. The financial reporting and control mechanisms used to monitor the project include, Combined Delivery Report (CDR), Project Budget Balance, Project Transactions detail report.

Responsible Parties, are selected to act on behalf of the implementing partner on the basis of a written agreement or contract to purchase goods or provide services using the project budget. All responsible parties are directly accountable to the implementing partner in accordance with the terms of their agreement or contract with the implementing partner. UNDP will use responsible parties in order to take advantage of their specialized skills, to mitigate risk and to relieve administrative burdens.

#### UNDP support services

One of the key Responsible Parties for this project is the MICF Fund Manager that will be selected on a competitive basis. Moreover, under Output 3, a FSP will be selected on a competitive basis and will be engaged through a Micro-Capital Grant Agreement for Credit Related Activities.

All Responsible Parties selected under this project will be directly accountable to UNDP in accordance with the terms of their agreement or contract with UNDP. Disbursement of funds to the successful MICF applicants under the two MICF windows will be based on progress reports of milestones reached.

Additionally, UNDP will also provide services in the following areas:

- Identification, recruitment of technical personnel in accordance with UNDP rules and regulations;
- Procurement of specific goods and services for the project;
- Identification and facilitation of training activities;
- Provision of relevant information and technical advice obtained through UN global information systems, UN Knowledge Networks, Regional Centres and other UNDP offices.

### Description of assurance mechanisms

UNDP will play an important role in ensuring that the required formulation and appraisal procedures are followed and that ATLAS project management is properly activated. Assurance mechanisms will be realised through the project board, which is a multi-sectoral committee comprised of stakeholders from various Government ministries, development partners, private sector, and Civil Society Organisations. UNDP will have a dedicated team for Project assurance, coordination and management. UNDP will also be supported by a PSD Advisor that will provide expert advice to support the implementation, coordination and management of a broader UNDP-supported Private Sector Development programme, which consists of three projects, Malawi Innovation Challenge Fund, SQAM and Inclusive Finance.

### Agreement on Intellectual Property Rights and Use of Logo on the Project's Deliverables

The logos on project deliverables should be that of UNDP. Where there are additional requirements for inclusion of logos from specific donors, this should be explicitly outlined in the donor agreement, and communicated to personnel overseeing the production of deliverables to ensure compliance.

## 4.2. Project Management

### Project Management Team

The Project will be managed by a UNDP Project Manager (a PSD Advisor), who is directly supported by a UNDP Programme Analyst and indirectly supported by UNDP Support Services (HR, Procurement, Finance).

Irrespective of whether a responsible party is selected, the UNDP Project Manager remains responsible for:

- Managing the overall project;
- Implementing activities by mobilizing goods and services;
- Checking on progress and watch for plan deviations;
- Monitoring progress and risks;
- Reporting on progress including measures to address challenges and opportunities;
- Ensuring that changes are controlled and problems addressed;

In the context of NIM, ATLAS provides the management information system to ensure accuracy and transparency of financial information. The country office will use ATLAS to keep track of the financial status of the project at all times, to control expenses, to handle outstanding commitments, to make payments and to monitor the performance of contractors. Atlas will be used for both financial management and substantive monitoring. This will enable the production of reports that are part of UNDP country office central oversight and monitoring while serving as the building blocks for periodic reviews and communications with stakeholders, such as Project Progress Report and Project Budget Balance.

### 4.3. Project Management Arrangements

#### UNDP Country Office

The UNDP Country Office is responsible for developing and managing the UNDP Country Programme to ensure that the programme outputs are delivered as planned, contributing to the achievement of programme outcomes as per UNDAF and CPD (as agreed with national counterparts). They are also responsible for ensuring that there is efficient and effective use of programme resources.

#### UNDP Project Manager

The UNDP Project Manager (PSD Advisor) is responsible for the successful project management and contribution to the achievement of project outcomes. TOR of the PSD Advisor is appended in Annex F. The Project Manager is also responsible for developing an evaluation plan and commissioning and using evaluations in accordance with the UNDP evaluation policy. Through management of the project, the Project Manager ensures that projects continue to contribute to project outcomes through delivery of planned outputs, via efficient and effective management of resources. Monitoring of interdependencies between projects and managing changes within and among projects will be a key focus area of this role.

#### Programme Assurance

Project Assurance is the responsibility of the each Project Board member and UNDP. The Project Assurance role supports respective Project Board members in carrying out project oversight and monitoring functions. This role ensures that appropriate project management milestones are managed and completed. Project Assurance should be independent of the Project Manager.

#### PSDP Steering Committee

Strategic leadership and governance oversight will be provided by the PSDP Steering Committee (PSDP SC). The PSDP SC will be composed of one representative of Reserve Bank of Malawi (RBM), one representative of the Ministry of Agriculture (MoA), one representative of the Ministry of Industry and Trade (MoIT), one representative of the Ministry of Finance, one representative of the Ministry of Economic Planning and Development, one donor representative (DFID), one UNDP representative, and maximum five individuals from the financial, private sector and civil society/farmer organization. The specific Members from the private sector, financial and civil society organizations will be determined at the launch of the project.

The PSDSP SC will be the governing body of the PSDP and will be chaired by the Ministry of Finance. The SC will have the delegated authority to make decisions that are in accord with the objectives, approach and scope of the project as set out in the Project Document. It will also provide policy guidance, ensure that resources are deployed to their most productive use and ensure that the project is coordinated with other government interventions.

The PSDP SC is expected to make key policy decisions, guide the Responsible Parties in the execution of the project, and ensure effective oversight through receiving regular reports and reviewing the results of project evaluations that will be taking place periodically. The project

financial oversight and quality assurance is done by the UNDP country office, which will ensure good governance and sound financial management. The PSDP SC will meet quarterly.

### Malawi Innovation Challenge Fund

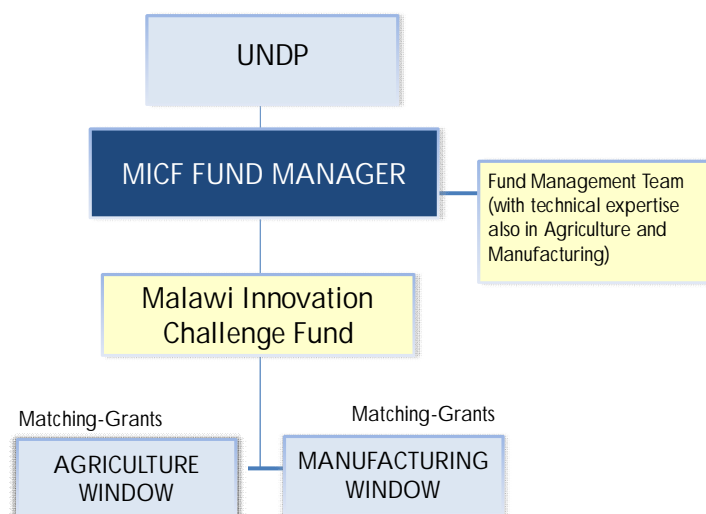
Ensuring good governance of a challenge fund requires the separation of the investment decision function from the fund management functions of mobilizing interest from potential applicants, carrying out due diligence on the applications received, contracting with successful applicants and monitoring the progress of their projects. If the two are not separated, there is a danger that the single body may become too close to particular projects and lose objectivity and so fail to maximize the potential returns to the funders' investment. Such separation is commonly practiced in for profit investment vehicles such as venture capital funds.

In the case of enterprise challenger funds, current best practice is for the funders to appoint an Independent Investment Panel of knowledgeable professionals that have the expertise to make investment decisions on their behalf and to appoint a firm of service providers to undertake the fund management functions.

### MICF Fund Manager

The core of the PSD project is concentrated within the MICF under output 2. Thus, all activities falling under Output 2 will be carried out by the Fund Manager that will be responsible for the day to day operation of the Malawi Innovation Challenge Fund. The management of the fund will be tendered to a private sector firm following a competitive process and that will act as Responsible Party under the PSDP. The MICF Fund Manager will be contracted by UNDP. See Figure 2 below.

MICF Fund Manager – Figure 2





The MICF Fund Manager will be responsible for managing two windows of the Malawi Innovation Challenge Fund (MICF): Agriculture Window, Manufacturing Window.

The MICF Fund Manager will be responsible, amongst others, for:

- Marketing the MICF and its various windows to potential clients ensuring that there is sufficient appetite amongst businesses with the ability to innovate and to deliver large public benefits;
- Developing clear eligibility criteria for the different windows (Agriculture and Manufacturing)
- Developing the application form and guidelines for the MICF;
- Subjecting applications to due diligence
- Facilitating and supporting the process of project preparation to ensure that projects maximize potential development impacts
- Providing all the necessary documentation and information, through the Investment Panel Secretariat, that the Investment Panel needs to select between the projects and;
- Negotiating grant agreements with successful applicants that link MICF payments to progress milestones
- Monitoring projects and, working with investees, evaluate the extent to which projects are delivering their intended outputs and, when sufficient time has elapsed, outcomes and impacts.

Terms of reference for the MICF Fund Manager are appended in Annex F.

### Investment Panel

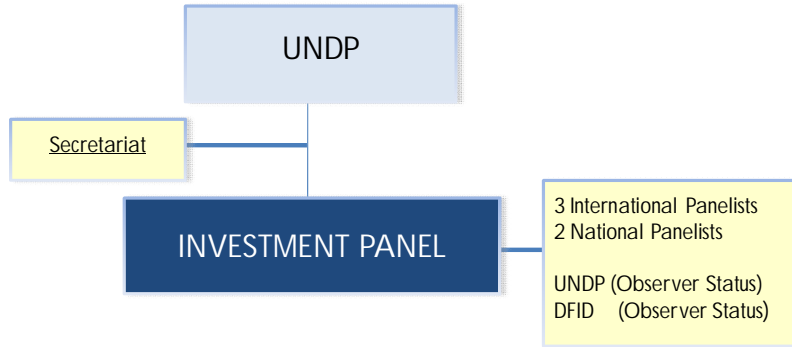
The Investment Panel is an independent body that will be responsible for reviewing and approving all investments made by the MICF. It will consist of five members of which three International and two National; UNDP and DFID will have Observer Status on the panel. The Panel will be appointed jointly by UNDP and DFID for their business acumen, expertise in the target sectors of the Challenge Fund (Agriculture and Manufacturing), financial appraisal and evaluation, social impact evaluation and the management of investments. The Investment Panel will be contracted by UNDP. UNDP and DFID may jointly decide to appoint additional members to the Investment Panel should the need arise.

The Investment Panel will use its judgment to select projects that are likely to offer the best prospects for delivering commercially sustainable returns, substantial development impact, and contribution to systemic change in the sectors in which they operate. The Investment Panel will also determine the course of action to take when projects fail to perform as expected. Having an independent panel make these crucial decisions on behalf of the PSDP donors, rather than the MICF Fund Manager, will ensure good governance and allow the MICF Manager to interact closely with applicants and investees without fear of loss of objectivity.

UNDP will act as Secretariat to the Investment Panel meeting, will ensure that the Panel members have all the information required, will minute the meeting and the rationale behind the decisions made and the decision taken. As well as approving projects as submitted, the Panel may approve projects subject to some minor clarifications and/or modifications, the execution of which they will

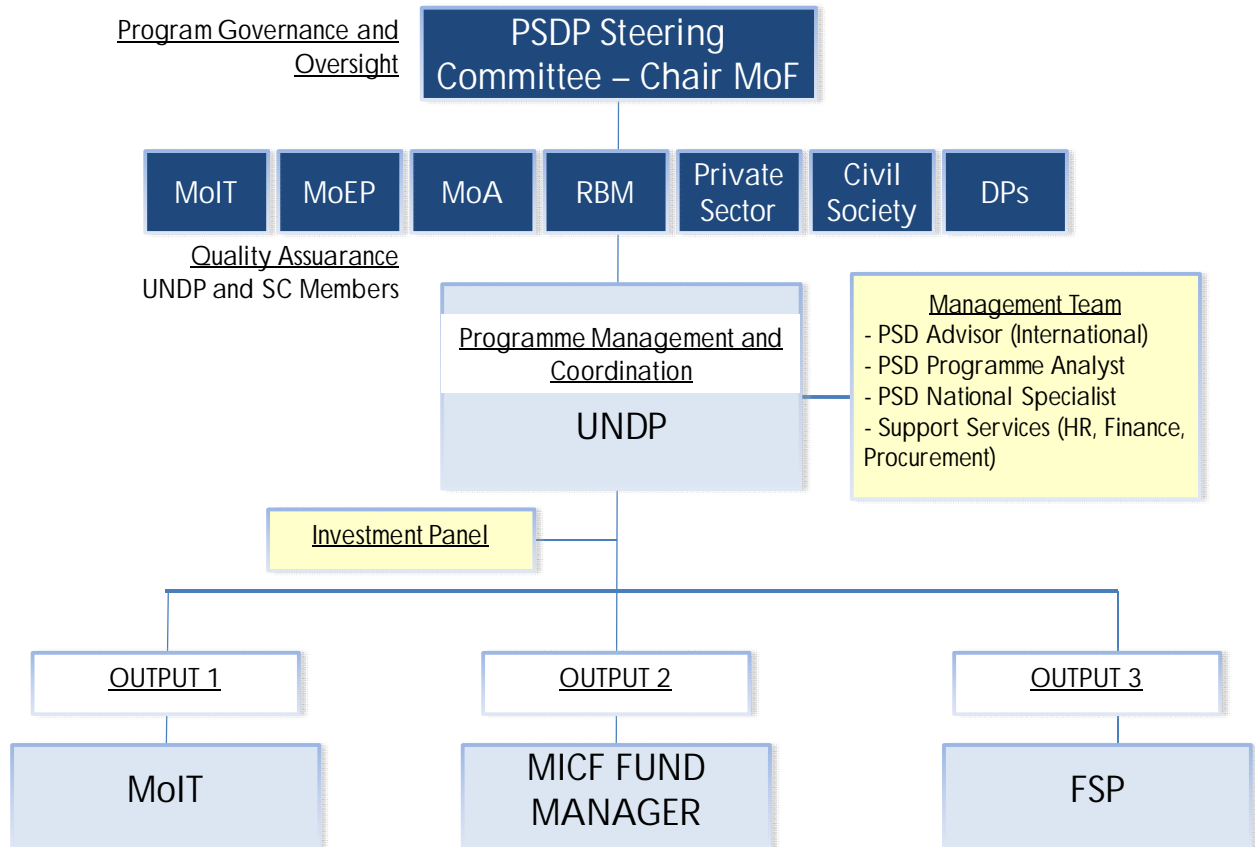
entrust to the MICF Fund Manager. A PSD Specialist (National) will be recruited by UNDP to function exclusively as Secretariat for the Investment Panel.

Investment Panel – Figure 3



Terms of reference for the PSD Specialist (National) are appended in Annex F.

Management arrangements – Figure 4



The Steering Committee is further elaborated in section 4.3 above.

## 5. PARTNERSHIP STRATEGY

The overall partnership strategy for this project is aimed at achieving broad-based support among all stakeholders on Private Sector development and in particular at attaining strong political commitment for sustained support to a conducive Policy environment for Private Sector Development. Building Partnerships and strategic alliances at corporate, development partner and government level and at domestic, regional and International level is at the core of the PSD Project.

On the one hand, strategic partnerships primarily with the private sector are critical for the incubation, development and implementation of Inclusive Business projects under the MICF.

On the other hand a strong partnership with Government is critical to address all strategic policy issues pertaining to export, industrialization, sectoral development of value chains prioritized within the PSD Project.

The PSD Project is almost fully resourced, it has a gap of only 480,000 USD. It should be noted that the project will be financed by DFID in the amount of 5,000,000 GBP (equivalent to 8,000,000 USD) and UNDP will allocate its own resources in the amount of 3,131,923 USD. However, developing strong partnerships with other Development Partners (including other donors and Private Foundations) will be explored for the mobilization of additional resources primarily for the growth in scope of the Malawi Innovation Challenge Fund in the medium term.

## 6. MONITORING AND EVALUATION

The relevance of the PSD Project is enhanced by its alignment to the MGDS II, that gives priority to private sector and export led economic growth, and to its alignment to the United Nations Development Assistance Framework (UNDAF) 2012-2016. The goal of the MGDS II in the area of sustainable Inclusive economic growth is poverty reduction. The PSDP is intended to contribute to poverty reduction through the achievement of UNDAF Outcome 1.2 “Women, youth, people with disability and households benefit from decent employment, income generation and pro-poor private sector growth by 2016” under Theme 1 “Sustainable and equitable economic growth and food security”. More particularly it ties into UNDAF Output 1.2.2 that aims at contributing to improving access to markets, both international and regional; business to business linkages supporting small and medium sized enterprises including farmer organizations, in strategic industries

Access to international and regional markets for example entails production of quality products, compliant with international standards, and that are able to compete on foreign markets. Ultimately, an increase in quality and competitiveness of Malawian products has a direct implication on improved incomes of producers and processors including smallholders, among which the youth and women, and SMEs. This represents an expanded business to business opportunity for Malawi products that the CPD also highlights.

### Monitoring at Project Level

Project specific indicators, connected to baselines and targets, will be monitored through a Monitoring and Evaluation framework, which will form an integral part of Annual Work Plans.

Moreover, in accordance with the programming policies and procedures outlined in the UNDP User Guide, the PSD project will be monitored through the following:

#### Within the annual cycle

- On a quarterly basis, a quality assessment will record progress towards the completion of key outputs, based on quality criteria and methods captured in the Quality Management table.
- An Issue Log will be activated in Atlas and updated by the Programme Manager to facilitate tracking and resolution of potential problems or requests for change.
- Based on the initial risk analysis submitted, a risk log will be activated in Atlas and regularly updated by reviewing the external environment that may affect the project implementation.
- Based on the above information recorded in Atlas, a Project Progress Reports (PPR) will be submitted by the Programme Manager to the Project Steering Committee through Project Assurance and uploaded in Atlas.

- A project Lesson-learned log will be activated and regularly updated to ensure on-going learning and adaptation within the organization, and to facilitate the preparation of the Lessons-learned Report at the end of the project.
- A Monitoring Schedule Plan will be activated in Atlas and updated to track key management actions/events.
- The Monitoring schedule will include joint field visits with the MIFC Fund Manager, UNDP, Mainstream Ministry and funding partners.

### Annually

- Annual Review Report. An Annual Review Report will be prepared by the Programme Manager and shared with the Project Steering Committee. As a minimum requirement, the Annual Review Report will consist of the Atlas standard format for the QPR covering the whole year with updated information for each above element of the QPR as well as a summary of results achieved against pre-defined annual targets at the output level.
- Annual Project Review. Based on the above report, an annual project review will be conducted during the fourth quarter of the year or soon after, to assess the performance of the project and appraise the Annual Work Plan (AWP) for the following year. In the last year, this review will be a final assessment. This review is driven by the Project Steering Committee and may involve other stakeholders as required. It shall focus on the extent to which progress is being made towards outputs, and that these remain aligned to appropriate outcomes.
- End of Project Evaluation: At the end of the project cycle and no later than December 2017, an end of project evaluation will be conducted by independent evaluators.

### Monitoring at the Policy and Institutional Levels

Each year, the Responsible Parties will be tasked to work with the relevant ministries' (e.g. MoIT, MoA) senior management to select and report on progress in influencing the PSD related policies that the Responsible Parties prioritize. These could be of two types:

- i. Policies being developed by other ministries that will have an important bearing on PSD and economic diversification. These policies include macro-economic management and financial sector policies that are likely to affect the supply and cost of credit to the private sector; exchange rate policies; investment in and pricing of infrastructure services; policies towards agriculture; investment in and governance over the development of technical, vocational education and training;
- ii. Policy changes that the Responsible Parties, through Mainstream Ministries (MoIT and MoA) bring about to increase investment in and competitiveness of Malawian industry and to increase trade. Such policies may include reducing barriers to Malawian exports through bilateral and multilateral negotiations, tariff realignment to remove anomalies in the way that imports of intermediate goods are treated, liberalising the up-front payment for imported raw materials and so on;

The Responsible Parties will be required to provide quarterly and annual reports outlining progress on influencing selecting policies and what he/she regards as the main constraints. This will

enable Mainstream Ministries, the PSD Steering Committee and development partners to use their influence in favour of reform.

### Monitoring at MICF Level

M&E at the MICF level will enable the PSDP SC to ensure that the interventions are achieving the results sought in terms of increasing growth, investment, competitiveness, jobs and access of the poor to markets. It will also ensure that relevant policy issues that are identified are discussed by the PSDP SC and are taken, through the conduit of the PSDP SC, to a higher level of decision making (e.g. Senior Economic Management Team).

M&E at this level will also ensure that successful projects that could be replicated are identified and communicated widely; and that, for public accountability purposes, the fund is an effective use of money. The Fund Manager will be required to send progress reports to the UNDP Programme Manager quarterly. M&E of projects will also provide a system to track progress, record lessons learned to improve strategies, project design and activities. Therefore, all projects that will receive funding from the MICF will be required to have a log frame, with progress indicators which use the SMART principle, i.e. Specific, Measurable, Attainable, Realistic and Time-bound. All projects will also carry out a baseline assessment. A logic model will be developed for each project tracing through the causality from inputs through to impact.

Project M&E Guidelines will be developed during the inception phase by the Fund Manager and included in the materials that will be shared with potential grantees. Grantees, using the guidance and templates developed, will be responsible for collecting baseline information and output/process indicators on a regular basis. Grant applications will describe the proposed formats, timelines and processes for providing this information. Arrangements for M&E will be finalized on a project by project basis during the contracting period once grants have been awarded.

The Fund Manager will visit each project at least twice per year to assess progress, assist projects with their reporting requirements as well as to ensure that the projects are on track.

## 7. EXIT STRATEGY

The PSD Project seeks to change the way the private sector does business and to better align business incentives to development objectives. If the PSDP succeeds in changing behavior, this change is likely to remain long after the end of the project – sustainability of the intervention would thus be achieved through the profit motive. As such, if businesses that have deployed innovative and inclusive business models find that they are profitable, they will continue to invest in the new models after the initial support provided by MICF. They should not need operational subsidies for the continuation of the inclusive business model.

Other businesses may also be encouraged by the success of MICF grantees to take up similar models. This demonstration effect, combined with complementary policy and institutional changes brought about by the project, has the potential to generate systemic change in the priority value chains.

The PSDP's exit strategy is therefore based on leaving behind: improvements in the policy environment affecting the performance of prioritised sectors; a set of inclusive and innovative business models that are profitable and so will continue to deliver faster, inclusive growth well beyond the end of MICF's involvement. The MICF aims to generate a change in the incentives of the private sector that works in agriculture and manufacturing to make value chains more inclusive. If the interventions that will be financed in the value chain are able to change the incentives of the private sector and generate the desired behavioral change, sustainability of the interventions is certain.

Behavioral changes will be underpinned by commercial viability. For example, all projects funded by the Agriculture and Manufacturing windows will aim for commercial viability. Whilst not all projects will succeed, those that do achieve commercial viability could be exited without endangering their sustainability. The performance grants given by the MICF are meant to pay for establishment costs and to prove the commercial viability. They will not provide operational subsidies for projects on an ongoing basis.

Moreover, successful projects will have a demonstration effect that, given complementary policy and institutional changes brought about by the project, can generate systemic change in the priority value chains, ensuring sustainability of the interventions through behavioral change.

The proportion of innovative and inclusive projects that will succeed will in part depend upon the quality of due diligence carried out by the Fund Manager and the judgment of the Investment Panel. The capacity of these two bodies will therefore be crucial to a successful exit strategy.



## 8. LEGAL CONTEXT

This project document is the instrument referred to in Article 1 of the Standard Basic Agreement between the Government of the Republic of Malawi (herein called the Government) and the United Nations Development programme (herein called UNDP) signed on 15<sup>th</sup> July 1977.

Consistent with Article III of the SBAA, the responsibility for the safety and security of the Implementing partner and its personnel and property, and of UNDP's property in the implementing partner's custody, rests with the implementing partner.

The implementing partner shall:

- a) Put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried out;
- b) Assume all risks and liabilities related to the implementing partners security, and the full implementation of the security plan

UNDP reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan where necessary. Failure to maintain and implement an appropriate security plan required hereunder shall be deemed a breach of this agreement.

The implementing partner agrees to undertake all reasonable efforts to ensure that none of the UNDP funds received pursuant to the Project Document are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNDP hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999).

Based on the agreement between the signatories, revisions may be made to the Project Document to cater for increases in costs due to inflation or as a result of the need for expenditure flexibility.

ANNEX A: RESULTS AND RESOURCES FRAMEWORK

UNDAF Priority 1:	Theme 1: Sustainable and Equitable Economic Growth and Food Security
UNDAF Outcome 1.2:	Women, youth, people with disability and households benefit from decent employment, income generation and pro-poor private sector growth by 2016;
UNDAF Output 1.2.2:	Business services including financial innovation, access to markets (both international and regional) and business to business linkages supporting small and medium sized enterprises including farmer organizations established in strategic industries;
Expected CPD Outputs:	Inclusive finance products expanded, new business-to-business opportunities for Malawi products.
Project Outcome indicators:	<p>Percentage of non-traditional exports (Baseline 2012 15.6%, Target: 32.1 % by 2016) (National Level)</p> <p>Number of poor people with increased income (Baseline 0, Target 90,000 by 2016) (Project Level)</p>

INTENDED OUTPUTS	OUTPUT INDICATORS (Baselines & Targets)	DETAILS OF PROPOSED ACTIVITIES	RESPONSIBLE PARTY	INPUTS (USD \$)
Output 1: The Industrial development policy and prioritized sectoral policies and strategies developed and implemented	<p>1.1 Number of Industrial Policies developed and approved by Cabinet <u>Baseline: 0 ; Target: 1</u></p> <p>1.2 Number of Sectoral Policies and strategies in oil seeds, legumes, sugar and manufacturing, aligned to the NES and MICF, fast-tracked and implemented <u>Baseline: tbd; Target: 5</u></p> <p>1.3 Number of SWGs operationalized through the conduit of the NES <u>Baseline: 0; Target: 1</u></p>	<p>1.1 Develop the Industrial Policy aligned to the SADC Industrialization framework</p> <p>1.2 Facilitate policy advocacy and policy changes for prioritized IMD sectors within the NES and the MICF (oil seeds, sugar, legumes, manufacturing)</p> <p>1.3 Operationalize a NES implementation mechanism and support services</p> <p>1.4 Facilitate the operationalization of TWGs under the under the Trade, Industry and PSD SWG and through the conduit of the NES</p> <p>1.5 Recruit a Manufacturing TA to be placed in MoIT to support the Manufacturing TWG</p>	<p><u>MoIT</u></p> <p><u>UNDP</u></p> <p><u>MoIT</u></p> <p><u>MoIT</u></p> <p><u>UNDP</u></p>	<p><u>Sub-total Output 1: USD 763,726</u></p> <p><u>Source of Funds: UNDP</u></p>
Output 2: The MICF is established and	<p>2.1 Number of new business models that increase average net incomes of the poor are developed in each</p>	<p>2.1 Engage a MICF Fund Manager</p> <p>2.2 Develop the MICF</p>	<p><u>UNDP</u></p> <p><u>MICF Fund Manager</u></p>	<p><u>Agriculture Window: \$3,738,318</u></p> <p><u>Manufacturing Window:</u></p>

operational to increase inclusiveness and competitiveness of value chains in agriculture and manufacturing	2.2	IMD intervention (Agriculture and Manufacturing) <u>Baseline:</u> 0; <u>Target:</u> 20 Additional investment leveraged from the Private Sector through the MICF <u>Baseline:</u> 0, <u>Target:</u> \$8,500,000	2.3	Toolkit Engage the Private Sector and deploy regular Sensitization Campaigns for the MICF	<u>MICF Fund Manager</u>	\$3,738,318
	2.3	Additional annual revenue received by companies successful in the MICF <u>Baseline:</u> n.a. <u>Target:</u> \$12,800,000	2.4	Facilitate the preparation of Project Concept Notes and facilitate preparation of Business Plans for MICF Windows		<u>MICF Fund Manager</u>
	2.4	Annual income for the poor <u>Baseline:</u> 0. <u>Target:</u> \$4,415,000	2.5	Broker Partnerships with potential partners for the development of proposals	<u>MICF Fund Manager</u>	<u>Source of Funds: DFID</u>
	2.5	Percentage increase in the incomes of existing 80,000 farmers (including at least 30% women farmers) <u>Baseline:</u> tbd at first round of competition. <u>Target:</u> 30%	2.6	Conduct Due Diligence of Projects and monitoring activities	<u>MICF Fund Manager</u>	
	2.6	Percentage increase in incomes of 10,000 new farmers (including at least 30% women farmers/youth) <u>Baseline:</u> tbd at first round of competition. <u>Target:</u> 100%	2.7	Disburse Grants to successful MICF applicants	<u>MICF Fund Manager</u>	
	2.7	Number of new jobs created (at least 30% for women and youth)	2.8	Monitor progress of projects approved by the Investment Panel	<u>MICF Fund Manager</u>	

	<u>Baseline: 0. Target: 5,000</u>			
Output 3: Loan facility provided to smallholder farmers, low income women and youth	3.1 Number of productive poor have access to Loans for IMD Interventions (at least 30% for women and youth) Baseline: 0. Target: 5,000	3.2 Engage and select a FSP that will manage the Pro-Poor Loan Window 3.3 Deploy a Sensitization Campaign for the Loan Window 3.4 Track all Lessons learnt to inform Malawi programming on Financial Innovation	<u>UNDP</u>  <u>FSP</u>  <u>UNDP</u>	<u>Pro-Poor Loan Window Fund: \$1,000,000</u>  <u>Sub-total Output 3: \$1,000,000</u>  <u>Source of Funds: UNDP</u> UNDP \$520,000 GAP \$480,000
Communication & M&E		- MICF Sensitization Campaign - MICF Toolkit (website, promotional materials) - Monitoring & Evaluation	<u>MICF Fund Manager</u>	<u>Sub-total: \$ 300,000</u> <u>Source of Funds: UNDP</u>
MICF Fund Manager		- Management Fee	<u>UNDP</u>	<u>Sub-total: \$ 1,120,000</u> <u>Source of Funds: UNDP</u>
MICF Investment Panel		- Professional Fee	<u>UNDP</u>	<u>Sub-total: \$ 81,000</u> <u>Source of Funds: UNDP</u>
Programme Assurance, Coordination and Management		- Programme Assurance, Coordination and Management	<u>UNDP</u>	<u>Sub-total USD 196,000</u> <u>Source of Funds: UNDP</u>

PSD Advisor (International)		- Private Sector Development Advisor	<u>UNDP</u>	<u>Sub-total</u> <u>USD 303,944</u>  <u>Source of Funds: UNDP</u>
PSD Specialist (National)		- Private Sector Development Specialist	<u>UNDP</u>	<u>Sub-total</u> <u>USD 230,979</u>  <u>Source of Funds: UNDP</u>
UNDP Administrative Cost (GMS 7%)				<u>Sub-total</u> <u>USD 523,364</u>  <u>Source of Funds: DFID</u>
			<u>TOTAL</u>	<u>USD 11,995,649</u>  <u>UNDP: USD 3,515,649</u> <u>DFID: USD 8,000,000</u>  <u>GAP: USD 480,000</u>

## ANNEX B: DETAILED ANNUAL BUDGET

Intended Outputs	Source of funding	Indicative budget (USD)				
		Year 1 (2013)	Year 2 (2014)	Year 3 (2015)	Year 4 (2016)	Total
Output 1: The Industrial development policy and prioritized sectoral policies and strategies developed and implemented	<u>UNDP</u>	\$369,363	\$274,363	\$60,000	\$60,000	\$763,726
Output 2: The MICF is established and operational to increase inclusiveness and competitiveness of value chains in agriculture and manufacturing	<u>DFID</u>	\$1,246,106 (Agriculture \$623,053 Manufacturing \$623,053)	\$2,492,212 (Agriculture \$1,246,106 Manufacturing \$1,246,106)	\$2,492,212 (Agriculture \$1,246,106 Manufacturing \$1,246,106)	\$1,246,106 (Agriculture \$623,053 Manufacturing \$623,053)	\$7,476,636
Output 3: Improved access to finance for low-income people, especially women and youth	<u>UNDP</u>	\$200,000	\$200,000	\$80,000	\$40,000	\$520,000
	<u>GAP</u>	\$0	\$0	\$240,000	\$240,000	\$480,000
Communication & M&E	<u>UNDP</u>	\$100,000	\$80,000	\$70,000	\$50,000	\$300,000
MICF Fund Manager	<u>UNDP</u>	\$280,000	\$280,000	\$280,000	\$280,000	\$1,120,000
MICF Investment Panel	<u>UNDP</u>	\$27,000	\$27,000	\$27,000	\$0	\$81,000
Programme Assurance, Coordination and Management	<u>UNDP</u>	\$49,000	\$49,000	\$49,000	\$49,000	\$196,000
PSD Advisor (International)	<u>UNDP</u>	\$75,986	\$75,986	\$75,986	\$75,986	\$303,944
PSD Specialist (National)	<u>UNDP</u>	\$57,615	\$57,701	\$57,788	\$57,875	\$230,979

UNDP Administrative Cost (GMS 7%)	<u>DFID</u>	\$130,841	\$130,841	\$130,841	\$130,841	\$523,364
TOTAL		\$2,346,548	\$3,472,740	\$3,562,827	\$2,229,808	\$11,995,649



## ANNEX C: MONITORING AND EVALUATION FRAMEWORK

INTENDED OUTPUTS	OUTPUT INDICATORS (Baselines & Targets)	Means of Verification	Collection Methods	Responsibility	Risks & Assumptions
Output 1: The Industrial development policy and prioritized sectoral policies and strategies developed and implemented	1.1 Number of Industrial Policies developed and approved by Cabinet  <u>Baseline: 0 ; Target: 1</u>	Parliamentary records	Annual review	MoIT	Political will to legislate
	1.2 Number of Sectoral Policies and strategies in oil seeds, legumes, sugar and manufacturing, aligned to the NES and MICF, fast-tracked and implemented  <u>Baseline: tbd; Target: 5</u>	Parliamentary records	Annual review	MoIT	Political will to legislate
	1.3 Number of SWGs operationalized through the conduit of the NES  <u>Baseline: 0; Target: 1</u>	Progress Reports	Quarterly and Annual Review	MoIT	Political will to enforce SWG
Output 2: The MICF is established and operational to increase inclusiveness and competitiveness of value chains in agriculture and manufacturing	2.1 Number of new business models that increase average net incomes of the poor are developed in each IMD intervention (Agriculture and Manufacturing)  <u>Baseline: 0; Target: 20</u>	Progress Reports	Quarterly and Annual Reviews	MICF Fund Manager	Private Sector appetite for Inclusive Business Models
	2.2 Additional investment leveraged from the Private	Progress Reports	Annual Reviews	MICF Fund Manager	Private Sector appetite for

	<p>Sector through the MICF  <u>Baseline:</u> n.a. <u>Target:</u>                  \$8,500,000</p>				Inclusive Business Models
2.3	<p>Additional annual revenue received by companies successful in the MICF  <u>Baseline:</u> n.a. <u>Target:</u>                  \$12,800,000</p>	Progress Reports	Annual Reviews	MICF Fund Manager	Private Sector appetite for Inclusive Business Models
2.4	<p>Annual income for the poor  <u>Baseline:</u> 0. <u>Target:</u>                  \$4,415,000</p>	Progress Reports	Annual Reviews	MICF Fund Manager	Private Sector appetite for Inclusive Business Models
2.5	<p>Percentage increase in the incomes of existing 80,000 farmers (including at least 40% women farmers)  <u>Baseline:</u> tbd at first round of competition. <u>Target:</u> 30%</p>	Progress Reports	Annual Reviews	MICF Fund Manager	Private Sector appetite for Inclusive Business Models
2.6	<p>Percentage increase in incomes of 10,000 new farmers (including at least 30% women farmers/youth)  <u>Baseline:</u> tbd at first round of competition. <u>Target:</u>100%</p>	Progress Reports	Annual Reviews	MICF Fund Manager	Private Sector appetite for Inclusive Business Models
2.7	<p>Number of new jobs created (at least 30% for women and youth)  <u>Baseline:</u> 0. <u>Target:</u> 5,000</p>	Progress Reports	Annual Review	MICF Fund Manager	Conducive environment for in country value addition

Output 3: Improved access to finance for low-income people, especially women and youth	3.1 Number of productive poor have access to Loans for IMD Interventions (at least 30% for women and youth) Baseline: 0. Target: 5,000	Progress Reports	Quarterly and Annual Reviews	FSP	Low income people appetite for Loan Facility
Communication & M&E	- Number of mid-term reviews/evaluations conducted Baseline: 0 Target: 1	Progress Reports and Evaluation Reports	Quarterly and Annual Reviews	UNDP	Implementing partner and responsible partners will deliver accurate information
MICF Fund Manager	- Number of quarterly, mid-year, annual reports produced	Technical and Financial Progress Reports	Quarterly and Annual Reviews	UNDP	Fund Manager will deliver accurate information
MICF Investment Panel	- Number of mid-year, annual reports produced	Project Assessment Reports	Bi-Annual and Annual Reviews	MICF Fund Manager	Investment Panel will deliver accurate information
Programme Assurance, Coordination and Management	- Number of quarterly, mid-year, annual reports & terminal reports produced Baseline: 0 Target: 24 (i.e. 16 quarterly reports, 4 mid-year reports, 4 Annual reports)  Baseline: 0 Target: 24 (i.e. 16 quarterly reports, 4 mid-year reports, 4 Annual reports)	Progress Reports	Quarterly and Annual Reviews	UNDP	Implementing Partner producing reports
		Reports	Final/Terminal Report	UNDP	Project will be implemented as

	<p><u>Baseline: 0. Target: 1</u></p> <ul style="list-style-type: none"> <li>- Number of best practices documented Baseline: 0. Target: 8</li> <li>- Number of spot checks conducted Baseline: 0. Target: 1</li> </ul>	<p>Best practices documents</p> <p>Reports</p>	<p>Annual</p> <p>Periodic</p>	<p>UNDP</p> <p>UNDP</p>	<p>planned</p> <p>Capacity to document best practices exists.</p> <p>Project will be implemented as planned</p>
PSD Advisor (international)	- Number of reports produced	Progress Reports	Quarterly and Annual Reviews	UNDP	Project will be implemented as planned
PSD Specialist (National)	- Number of reports produced for the Investment Panel	Reports	Periodic	UNDP	Project will be implemented as planned

## ANNEX D: QUALITY MANAGEMENT FOR ACTIVITY RESULTS

Private Sector Development Project. Goal: The overall goal of the PSD project is to accelerate economic diversification, innovation and increase the opportunities for poor to benefit from economic growth through higher incomes and better job creation.		
Activity Result 1 (Atlas Activity ID)	Short title to be used for Atlas Activity ID	Start Date: January 2013 End Date: December 2016
Purpose	What is the purpose of the activity? The purpose of the PSDP is to establish a more capable and competitive private sector.	
Description	Greater competitiveness and inclusiveness of value chains, anchored in the NES, increases economic and export diversification and benefits large numbers of poor, especially women and young people.	
Quality Criteria how/with what indicators the quality of the activity result will be measured?	Quality Method Means of verification. What method will be used to determine if quality criteria has been met?	Date of Assessment When will the assessment of quality be performed?
Increase in volume and value of Malawian non-traditional exports	Trade Statistics Database of NSO, Trade performance Reports of Ministry of Industry and Trade	January 2013 (baseline) January 2014 January 2016
% of national policy changes being enforced	Data collected among Ministries involved with policy making related to the PSDP	January 2013 (baseline) January 2014 January 2016
Number of inclusive business models supported under the MICF	MICF Reports	July 2013 (baseline) July 2014 July 2015 July 2016
OUTPUT 1: The Industrial development policy and prioritized sectoral policies and strategies developed and implemented		
Activity Result 1 (Atlas Activity ID)	Short title to be used for Atlas Activity ID	Start Date: January 2013 End Date: December 2016
Purpose	What is the purpose of the activity? To ensure appropriate policies and strategies are in place and that will impact the increased capacity of the Private Sector to operate and deliver on the objectives of economic diversification, innovation and integration of the poor in value chains	

Description	Policy development and review at Industrialization policy level and sectoral level under the framework of the NES and MICF.	
Quality Criteria how/with what indicators the quality of the activity result will be measured?	Quality Method Means of verification. What method will be used to determine if quality criteria has been met?	Date of Assessment When will the assessment of quality be performed?
# of National Industrial Policies developed and approved	National Gazette	January, 2014
# of Sectoral Policies and strategies in oil seeds, legumes, sugar and manufacturing, aligned to the NES and MICF, fast-tracked and implemented	National Gazette	January, 2014 January, 2015 January, 2016
# of SWG in Trade, Industry and PSD operationalized	Progress Reports	Annually
OUTPUT 2: The MICF is established and operational to increase inclusiveness and competitiveness of value chains in agriculture and manufacturing		
Activity Result 2 (Atlas Activity ID)	Short title to be used for Atlas Activity ID	Start Date: January 2013 End Date: December 2016
Purpose	What is the purpose of the activity? To ensure inclusive business models are embraced and deployed by the Private Sector	
Description	Advocacy on Inclusive Business Models and Inclusive Business projects implemented under the MICF	
Quality Criteria how/with what indicators the quality of the activity result will be measured?	Quality Method Means of verification. What method will be used to determine if quality criteria has been met?	Date of Assessment When will the assessment of quality be performed?
# of of new business models that increase average net incomes of the poor are developed in each IMD intervention (Agriculture- and Manufacturing)	Progress and Evaluation Reports	Annually
Additional investment leveraged from the Private Sector through the MICF	Progress Reports	Annually
Additional annual revenue received by firms % increase in the incomes of existing 80,000 farmers (including at least 30% women farmers)	Progress Reports	Annually
Annual Income for the poor	Progress Reports	Annually

% increase in incomes of 10,000 new farmers (including at least 30% women farmers/youth)	Progress Reports	Annually
# of new jobs created (at least 30% for women and youth)	Progress Reports	Annually
OUTPUT 3: Improved access to finance for low-income people, especially women and youth		
Activity Result 3 (Atlas Activity ID)	Short title to be used for Atlas Activity ID	Start Date: January 2013 End Date: December 2016
Purpose	What is the purpose of the activity? To ensure increased and enhanced access to finance to the poor under the MICF	
Description	Micro-Loan facility established under the MICF	
Quality Criteria how/with what indicators the quality of the activity result will be measured?	Quality Method Means of verification. What method will be used to determine if quality criteria has been met?	Date of Assessment When will the assessment of quality be performed?
# of productive poor have access to Loans for IMD Interventions (at least 30% for women and youth)	Reports	Quarterly/Annually

## ANNEX E: RISK LOG

Project Title: Private Sector Development Project									
#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Mngt response	Owner	Submitted, updated by	Last Update	Status
1	Political interference with Project delivery	2012	Political Strategic Operational	Civil unrest or political crisis in Malawi.  P = Low I = High	Active monitoring of the situation on the ground will be carried out by MBS. The Project Steering Committee will be immediately informed and consulted if an impact on output delivery is expected.	Project Manager			No change
				Loss of political will for private sector and export-led growth.  P = Low I = Medium	The MGDS I and the new MGDS II place great emphasis on private sector and export-led growth that is critical for the development of Malawi, therefore reducing the risk of a sudden shift in policies regarding the role of the private sector.	Project Manager			No Change
2	Decreased engagement of Project stakeholders and Steering Committee	2012	Organizational Strategic	Decreased interest and buy-in into the project.  P = Low	The Project SC will be kept regularly informed and encouraged to take ownership of activities. At least quarterly meetings will be organized to maintain or renew interest in the	Project Manager			No change



	members			I = Medium	project.				
3	The PSDP may not be able to mobilize new resources to increase the MICF portfolio over time.	2012	Financial Operational	Decreased interest and buy-in into the project by Development Partners.  P = Low I = Medium	Ensure proactive resource mobilization towards new and current development partners and private sector foundations.	Project Manager			No change
4	Reputational risk for the funders if the fund is perceived to support the wrong recipients.	2012	Operational	Grant allocation to wrong recipients  P = Medium I = Medium	Careful appointment of competent fund managers and investment panel, and clear and transparent decision making criteria.	Project Manager			No change
5	Limited demand for the MICF windows from the private sector.	2012	Operational	Low appetite for MICF  P = Low I = High	The consultations to prepare the PSDP suggest strong appetite from the private sector. The Fund Manager will mitigate this risk through effective marketing and communication of the fund and through repeated sensitization campaigns.	MICF Fund Manager			No change
6	Failure to deliver intended pro-poor benefits	2012	Operational	Risk of failure to deliver development outcomes  P = Medium I = High	The process of screening, evaluating and reaching investment decisions is set to determine and assure pro-poor benefits. Risk of failure to deliver development outcomes will be mitigated by use of high quality technical expertise in fund management and in the Investment Panel during decision	MICF Fund Manager			No change

					making on individual investments.				
7	MICF project failure	2012	Operational	Risk of failure of MICF projects  P = Low I = Medium	The Investment Panel will mitigate this risk through eligibility and evaluation criteria. The Fund Manager will ensure project applicants have the capacity to implement proposals; will track, report and manage the project risk of funded projects; and will use a portfolio approach.	MICF Fund Manager			No change
8	Successful MICF projects do not lead to systemic impact	2012	Operational	Risk of failure of delivering systemic impact  P = Medium I = Medium	Systemic impact happens through a) replication of successful business models or b) policy change. The profit motive ensures the former. The Fund Manager will work with decision-makers directly and with other initiatives that focus on policy development and institutional capacity to improve knowledge about of the private sector's role in delivering poverty objectives.	MICF Fund Manager			
9	Smallholder Opportunism jeopardizes MICF project implementation	2012	Operational	Risk of failure of MICF Project Implementation  P = Medium I = High	Strong Partnerships with Civil Society and other organizations is a critical factor to successfully intermediate transactions with smallholder farmers and mitigate the risk of contract breaching. The Fund Manager will play an important role in facilitating Partnerships whilst MICF Project Applicants must work on building partnerships before project application.	MICF Project Manager			No change

## ANNEX F: TERMS OF REFERENCE FOR PROJECT PERSONNEL

## 1. PSD ADVISOR (INTERNATIONAL)

I. Post Information	
Post Title: Private Sector Development Advisor Post Number: Post Category: Type of Contract: FTA International Duty Station: Malawi	Current Grade (if applicable): Proposed Grade: P- 4 Supervisor Grade: NOD
II. Organizational Context	
<p>Within the context of the Malawi Growth and Development Strategy (MGDS II), the United Nations' collective objective is to assist Malawi achieve the Millennium Development Declaration and the MDGs and contribute to equitable economic growth and poverty reduction.</p> <p>The private sector has been highlighted in the MGDS II document as the engine of economic growth and wealth creation. It is a sub-theme under the theme of 'Sustainable Economic Growth'. The MGDS II document stipulates that increased industrial activities are critical for generating employment opportunities, expanded manufacturing base, enhancing value addition and diversifying exports. In addition to enhancing foreign exchange, trade promotion is expected to assist industries benefit from economies of scale through expanded markets.</p> <p>The UNDP Country Office in Malawi has been expanding its work in Private Sector Development (PSD) and has formulated a new strategic programme for the next five years, in support of the MGDS which envisages private sector and export-led growth. The Programme comprises of two sub-projects. One project pertains to the development of the National Quality Infrastructure in Malawi whilst the other seeks to support innovative approaches to engage the private sector to improve opportunities for the poor to participate in markets as producers, employees, or consumers in strategic value chains and to engage financial service providers to improve financial access to the poor and marginalized including micro-entrepreneurs at the Bottom of the Pyramid.</p> <p>The Programme will establish a Malawi Innovation Challenge Fund. The Fund is aimed at catalyzing innovative pro-poor business models that engage and benefit the underprivileged and at encouraging financial innovations amongst financial service providers that support financial inclusion and propel SMEs growth and micro-entrepreneurship.</p> <p>Under the overall guidance of the Head of PADU (Policy Advisory and Development Unit) and in liaison with the Assistant Resident Representative responsible for Growth and MDG Achievement Cluster, the PSD Advisor will provide expert advice to support the implementation, coordination and management of the new PSD programme, which consists of three projects, ie MICF, SQAM and Inclusive Finance. At the same time, the Advisor will lead in retailing innovative ideas and financial innovations, conceptualizing and spinning-off other export/PSD-related and Inclusive Finance projects, will institutionalize and maintain donor intelligence, will build strategic partnerships and engage in resource mobilization; and will undertake advocacy, information, communication and knowledge management. The Advisor will also work alongside UNDP staff to provide technical advice and with Government staff to provide technical guidance and support capacity building in the areas of competence.</p>	

### III. Functions / Key Results Expected

#### Summary of Key Functions:

1. Provide specialist technical advice and expertise to UNDP and Government Implementing Agencies with regard to development of policy, methodologies, innovations, tools and working instruments in the fields of inclusive finance, private sector development, industrial development, trade and other related areas;
2. Ensure effective management of the PSD programme focusing on quality control of the full cycle of programming from formulation, monitoring, implementation, and reviews.
3. Facilitate and maintains strategic partnerships and resource mobilization;
4. Undertakes advocacy and information, communication and knowledge management.

1. Provide specialist technical advice to the PSDP Government Implementing Partners and UNDP with regard to the development of policy, methodologies, innovations, tools and working instruments in the fields of inclusive finance, private sector development, industrial development and trade:
  - Thorough analysis of the socio-economic situation of the country, esp. considering the current Government's new Presidential Initiatives among which the PI on Hunger and Poverty Reduction;
  - Contribute to the development of poverty-orientated policies, national strategies and operational tools in the fields of financial innovation, agricultural diversification, industrial development and export in support of the Government's vision and in partnership with strategic partners;
  - Advise on the elaboration of guidelines, methodologies, manuals and supporting documentation relevant to the Malawi Innovation Challenge Fund (MICF);
  - Provide technical backstopping on the development of methodologies and guidelines for the integration of cross-cutting issues in strategic operational plans and budgets;
  - Provide technical inputs to the development and implementation of a performance monitoring system for the MICF;
  - Technical support for the conceptualization and deployment of implementation platforms for the National Export Strategy and support the conceptualization of mechanisms for the deployment of a Trade, Industry and Private Sector Development Sector Working Group;
  - Providing specialist advice on a timely basis to UNDP and the UN System on significant policy measures being considered or implemented by the Government of Malawi in the fields of financial innovation, private sector development, industry and trade; and
  - Serve as UNDP focal point for PSD and represent UNDP in Sectoral and Technical Working Groups and UN Meetings.
2. Ensure effective management of the PSD programme focusing on quality control of the full cycle of programming from formulation, monitoring, implementation, and reviews:
  - Leadership and technical guidance in the implementation of the PSD programme including the three sub-set projects pertaining to MICF, SQAM Infrastructure and inclusive finance;
  - Technical support and application of effective application of corporate RBM tools, establishment of management targets and monitoring and achievement of results;
  - Provide technical advice to Government in assuming leadership and strategic oversight of the planning, budgeting, implementation and monitoring of the programme;
  - Provision of strategic advice in the formulation, implementation, and revision of the operational planning and budgeting system for the programme ensuring its alignment with existing Government planning and budgeting instruments;
  - Effective monitoring, measuring the impacts of the PSD programme on a regular basis. Constant monitoring and analysis of the programme environment, and guidance to Government in undertaking

timely adjustments for the programme;

- Develop and maintain harmonious relationships and team work with government colleagues, as well with colleagues in the country office and the UN system level;
- Skills transfer and capacity development in Government through on-the-job coaching, briefings and technical study sessions, etc.

### 3. Facilitate and maintains strategic partnerships and resource mobilization:

- Analysis of environmental scanning and donor intelligence in the areas of public sector development;
- Identification of strategic and innovative areas of collaboration with interested development partners in supporting financial innovations and inclusion, private sector development, industry and trade;
- Development of partnerships for achieving effective resource mobilization to achieve programme outcomes and fill in the resource gap for the PSD programme;
- Establishment and coordination of partnerships with UN agencies, bilateral and multilateral donors, government institutions, private sector, CSOs and other stakeholders;
- Preparation of technical briefings on possible areas of cooperation and identification of opportunities for cost-sharing agreements;
- Support in the preparation and finalization of cost-sharing agreements achieved in resource mobilization efforts, in line with UNDP's corporate cost-sharing policies and procedures;
- Liaise with the African Facility for Inclusive Markets (AFIM) in support for exchange of information and experience with other countries; and
- Technical support and expert advice in the implementation, monitoring, and reviews of the UNDAF and the UNDP country programme.

### 4. Undertakes advocacy and information, communication and knowledge management focusing on:

- Facilitating a process of creating and raising the level of awareness on issues emerging in the fields of financial innovation and inclusion, private sector development, industry and trade;
- Contribution to learning in the area of competence in government as well as in UNDP CO, and contribution to the knowledge management initiative of the PSD programme; Promote and advocate for an integrated vision of private sector development that includes all relevant national institutions and stakeholders and seek dialogue and consensus building between partners for an holistic programmatic approach;
- Conceptualize and support the launch of Private Sector Sensitization Campaigns on Malawi Innovation Challenge Fund (MICF);
- Successes and best practices generated and communicated, with the aim of informing the national-level policy and political dialogue in the fields of financial innovation, private sector development, industry and trade;
- Creating high-level advocacy on relevant development policies and programmes in relation to financial innovations, PSD and across the representatives of top echelon of the country's stakeholders;
- Determining appropriate media for reaching out to the public and design strategies for reaching target groups in consultation with the CO communications unit;
- Support the development guidelines and methodologies for the dissemination of information to the MICF and SQAM; and
- Develop a Knowledge Management products in public sector management, and contribute to the corporate KM platform.

## IV. Impact of Results

The key results have impacts on the overall success of the PSDP. In particular, the key results have impact on the definition, planning, budgeting and implementation of programming activities, programme monitoring and knowledge management and the creation of strategic partnerships with actual and potential programme partners.

In specific terms, it has impacts on the following results areas:

- Capacity development of government agencies involved in the implementation of the programme through the provision of specialist technical advice and expertise, training, and knowledge and information management.
- Management, coordination, implementation and monitoring of the PSDP
- The development and management of strategic partnership with key national and international stakeholders in the field of financial inclusion, private sector development, industry and trade.

V. Competencies

Corporate Competencies:

- Promotes the vision, mission and strategic goals of UNDP.
- Demonstrates integrity by modelling the UN's values and ethical standards.
- Displays cultural, gender, religion, race, nationality, and age sensitivity and adaptability.

Functional Competencies:

(1) Technical knowledge:

- Demonstrates a thorough understanding of the issues and challenges related to private sector development and trade.
- Exhibits a good knowledge of institutional development and capacity building issues.
- Displays process, transparency and accountability in the country.

(2) Development and Operational Effectiveness:

- Ability to lead and contribute to strategic planning, change processes, results-based management, work planning, and reporting.
- Ability to formulate and manage budgets, oversight of implementation, monitoring and evaluation of development projects.
- Ability to apply development theory to the specific country context to identify creative, practical approaches to overcome challenging situations.
- Ability to build and sustain effective partnerships with UN Agencies and main constituents, advocate effectively, communicate sensitively across different constituencies.
- Ability to mobilise resources and undertake cost-recovery.
- Ability to implement new systems and effect behavioural and attitudinal change.

(3) Knowledge and Information Management and Learning:

- Facilitates knowledge and information sharing and learning culture.
- Has good knowledge on UNDP programme and operational issues.
- Actively works towards continuing personal learning and development in one or more Practice Areas, acts on learning plan and applies newly acquired skills.
- Has knowledge of UNDP/UN policies and programme in decentralisation.

(4) Management and Leadership:

- Builds strong relationships with stakeholders and clients, focuses on impact and results for clients, and respond positively to feedback.
- Ability to establish effective working relations in a multicultural team environment.
- Excellent interpersonal skills.
- Consistently approaches work with energy and a positive, constructive attitude.
- Demonstrates strong oral and written communication skills.
- Demonstrates capacity to communicate effectively; resource management; capacity to plan and organize programmes effectively.
- Demonstrates resourcefulness, initiative and mature judgment.
- Demonstrates openness to change and ability to manage complexities.
- Patience to work under pressure and maintains positive outlook and humour.

VI. Recruitment Qualifications

Education:	At least a Master's degree in Development Studies, Economics, Business Administration, or a related field
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<p>Experience:</p>	<ul style="list-style-type: none"> <li>• At least 7 years practical experience in Private Sector Development and practical experience in economic development;</li> <li>• Experience in developing countries, preferably in the Africa region;</li> <li>• In-depth understanding of private sector’s role in growth and poverty reduction, financial sector innovations and development and regulatory policies;</li> <li>• Experience working in/with the UN System in developing countries is an added advantage;</li> <li>• Demonstrated resource mobilization skills through strategic partnership building with multiple donors and national stakeholders.</li> </ul>
<p>Language Requirements:</p>	<p>Excellent written and oral communication skills and fluency in English.</p>



## 2. PSD SPECIALIST(NATIONAL)

An Independent Investment Panel will be established under the MICF and will be responsible for reviewing and approving all investments. It will consist of five members of which three International and two National. UNDP and DFID will be part of the panel with an Observer status.

The Panel will be appointed jointly by UNDP and DFID for their business acumen, expertise in the target sectors of the Challenge Fund, financial appraisal and evaluation, social impact evaluation and the management of investments. The Investment Panel is contracted by UNDP. UNDP and DFIF may jointly decide to appoint additional members to the Investment Panel should the need arise. UNDP will engage all Members of the Investment Panel and will meet the costs related to flights and honorarium.

A National PSD Specialist will be recruited by UNDP and mandated to act as Secretariat for the Investment Panel. The Secretariat will be established exclusively to manage all activities falling under the responsibility of the MICF Investment Panel.

The main goal of the Secretariat is to facilitate the efficient and effective grant decision for the MICF windows. In carrying its assignments, the National PSD specialist will be expected to:

- Serve as the Secretariat to the Investment Panel helping it to receive all the appropriate information on project proposals under the MICF competitions.
- Provide services to support the efficient execution and coordination of the Investment Panel, particularly in the areas of administration and procurement.

### a) Scope of work

#### Overall administration

- Liaise with the MICF Fund Manager for compiling all relevant documentation for the Investment Panel Members. The MICF Fund Manager will be required to prepare a two-page summary and budget for each proposal.
- Share timely with all Members of the Investment Panel all Summary Project Proposals for review one week prior to the IP Meeting.
- Prepare the minutes and record decisions and actions arising from the meetings of the Investment Panel Meeting.
- Transmit to the MICF Fund Manager all reports required for efficient and effective implementation of the decisions with regards to each project.
- Maintain financial records of expenditure.

#### Procurement

- Coordinate and be the focal point for all logistical aspects pertaining to the meetings and procurement under the Investment Panel.
- Assume responsibility for travel itineraries and accommodation for the Members, per diem payments and honorarium.

## Communications

- Prepare regular communication material on the activities, achievements and lessons learned of the MICF projects that will feed into the overall communication strategy under the responsibility of the MICF Fund Manager.

## M&E

- Monitor and Evaluate performance of the Members of the Investment Panel.
- Develop a Questionnaire for each client being assisted by the MICF Fund Manager in order to receive feedback directly from each MICF Applicant on performance of the Fund Manager and level of satisfaction for the services received. Consolidate all questionnaires and share with the Members of the IP and the PSD Project Manager.

### b) Skills and experience required

The successful PSD National Specialist will indicate its ability to competently perform the functions as set out above. In addition, the following will be taken into account:

- Experience in working with the private sector in Malawi.
- Knowledge and experience of working with the IMD approach (or similar, such as M4P)
- Demonstrated ability to manage a grouping of senior professionals.

## 3. MICF FUND MANAGER

The PSDP intends to contract the services of a firm to provide fund management services for the MICF. These terms of reference (TOR) set out the tasks that a service provider will be expected to carry out to manage the two windows of the Malawi Innovation Challenge Fund (MICF).

### a) Scope of Work

The MICF manager will have general functions that apply to all windows and specific functions within every specific window.

The four general functions of the Fund Manager will be:

#### Management Systems and Process

- Establish and maintain a fund management office in Malawi, ensuring that all eligible entities are afforded fair opportunity to interact with the MICF.
- Ensure effective communication networks (phone, fax, email and website) to facilitate linkages between the Fund Manager's team and bidders, projects, UNDP, SC members and all other members of the fund management team.
- Under the guidance of UNDP, develop clear eligibility and selection criteria for the different windows and provide the necessary information that the Investment Panel needs to select between projects submitted by applicants.
- Organize, attend and act as secretary to meetings of the Investment and ensure that Panel members have all requisite information. The MICF Manager will minute the meetings, the rationale behind decisions made, and the decisions taken.

### Marketing and Communications

- Design and implement a communications strategy to raise awareness and place the MICF in the public domain. More specifically, to undertake a targeted marketing and communications strategy among potential applicants of the different windows and attract applications to the MICF from suitably qualified entities, in line with the MICF criteria and application procedures.
- Establish and maintain a MICF website that promotes and enhances the work of the MICF and provides important information on the MICF and its outcomes.
- Market the MICF and its various windows to potential clients ensuring that there is sufficient appetite amongst businesses with the ability to innovate and implement to deliver large public benefits,

### Streamlined Procedures and Effective Due Diligence

- To ensure that the MICF is business friendly, the Fund Manager will establish streamlined procedures that minimize the transaction cost for applicants. This should comprise a two stage process consisting of a short (1-2 page) Project Concept Note (PCN) followed by more detailed proposals. Only those whose PCN's have been considered to contain ideas that the Investment Panel considers worthy of further consideration will be asked to submit full proposals thereby limiting potential wasted effort on the part of applicants.
- At the PCN stage, the Fund Manager will be expected to undertake due diligence to establish the bona fides and capacity to implement of the applicant. The Fund Manager would need to screen PCNs against the objectives and eligibility criteria of each window; requesting additional information where necessary to assess whether eligibility criteria have been met, and reject (with written explanation) PCNs which fail to meet eligibility Criteria.
- Conduct and write-up technical reviews of eligible PCNs, assessing the extent to which they are technically feasible, innovative and their potential for pro-poor impact and submit them, together with the PCNs, to the Investment Panel for decision.
- The Fund Manager will support the Investment Panel in determining, on the strength of the PCN, which applicants should be invited to submit detailed project profiles. The Fund Manager will provide the results of the due diligence, technical review and any other information that the Investment Panel may request.
- Provide feedback on panel decisions to applicants bidders in writing, inviting those whose concepts have been approved to submit full Applications.
- The Fund Manager will be expected to guide applicants to prepare detailed project applications that contain all the information that the Investment Panel will need to determine whether the MICF will invest alongside them in the project. Factors such as the extent of financial leverage that each dollar of MICF funding will generate<sup>25</sup> and the expected public benefits, especially benefits to poor women and young people, will need to be clearly stated for consideration by the Investment Panel.
- The Fund Manager will ensure that, whilst giving advice and guidance that will help the applicants prepare proposals that meet the eligibility and selection criteria set by the Investment Panel, they avoid the potential moral hazard from imposing its ideas and solutions on applicants.
- The Fund Manager will be expected to carry out thorough due diligence on all detailed proposals submitted and to prepare an assessment of the benefits and costs they represent for consideration by the Investment Panel.

### Fiduciary management

The Fund Manager will manage grants on behalf of the MICF and will be accountable to UNDP for such actions. The services provided will include:

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<sup>25</sup> The MICF's minimum expected leverage will be for project sponsors to match its funding.

- As instructed by the Investment Panel, prepare, negotiate and finalize contracts with successful applicants. The Fund Manager will ensure that payments are linked to progress milestones, ensuring that the project is on course to deliver the returns to the MICF.
- The grant contract shall include a clause that states that a grant may be terminated as soon and whenever corrupt or similar malpractice is discovered, and whatever the circumstances.
- The Fund Manager will monitor the disbursement of funds to grantees and maintain detailed records of how moneys are utilized compared to the contracted purposes.
- The Fund Manager will prepare requests for disbursement to UNDP and will ensure adequate cash flow management for the grant-making activities of the Fund.

### Monitoring and Evaluation

- Establish and implement a Monitoring and Evaluation (M&E) system that measures the results and impacts of funded projects in each window, and work with Grantees and other relevant partners to ensure implementation of the M&E system.
- Define with each grantee the means by which the social returns on investment (the pro-poor impact) will be identified and measured, and ensure that these measurements are embed in the grantee's periodic reports to the Fund Manager.
- Monitor the progress of projects against the original application and the implementation agreement or any agreed revisions thereof, and in the event, that the project departs from the original plan or other difficulties arise, work with the Grantee to address and resolve the shortcomings, seeking the advice and guidance of the Investment Panel and UNDP as necessary;
- Take such action as is necessary, in accordance with the provisions of the contract, in the event that the integrity of the MICF or its funds are put at risk by any funded project.
- Prepare and submit work plans, budgets and reports on progress against agreed performance indicators for each window to UNDP as required.
- Ensure that the MICF operates transparently and according to schedule.
- Ensure that contracts with Grantees allow for adequate supervision and impact assessment, and that outcomes and impacts of the funded projects are measurable and measured.
- Alert UNDP at the earliest possible opportunity of any unsatisfactory Grantee performance.

The additional functions for the specific windows will be:

### Agriculture and Manufacturing Windows

- Assist the facilitator of the Agriculture and Manufacturing IMD interventions (to be determined) to set out the types of innovation that they believe would be most important for delivering systemic, pro-poor change in the markets in which they are engaged.
- Assist the Investment Panel to set the criteria for selecting PCNs and projects based on discussions with each facilitator.
- Work with the facilitator to identify potentially worthwhile applicants and to help them formulate and elaborate their project ideas and prepare PCNs and detailed project applications for submission to the MICF.
- Provide to the facilitator of each intervention details of the policy and institutional changes suggested by grantees that are needed to increase pro-poor impacts and bring about systemic change in the market for each intervention
- Assess the factors that contribute to successful innovation and help to disseminate, through the facilitator for each intervention, the lessons learnt from MICF supported projects.

b) Reporting , deliverables and timeframe

The MICF Manager will report to UNDP.

The MICF Manager will need to carefully monitor and assess impact of projects for the different windows against the objectives of each window, providing regular written feedback to UNDP as follows:

- An inception report, within three months from the start of the contract, detailing progress on applicant assessment criteria, sourcing of applicants to the fund, selection of Investment Panel members and a provisional date for the first meeting of the panel.
- Quarterly financial reports to UNDP detailing:
  - Projects in the pipeline and stage reached (e.g. number of expressions of interest, bids received, forecast)
  - Budget (actual and forecast)
  - Meeting of the Investment Panel and their schedule
  - Any management issues for UNDP consideration
- Annual reports of progress against the Program Logframe.
- An evaluation of the impact of projects funded by the MICF within one month of the completion of fund management.

The Malawi Innovation Challenge Fund and the Fund Manager will be subject to review after 12 months of operation and a mid-term review after 30 months.

The MICF Management is required for a minimum of 4 years.

#### c) Skills and experience required

The successful Fund Manager will indicate its ability to competently perform the functions as set out above. In addition, the following will be taken into account:

- Experience in working in Africa, including Malawi, with the private and public sectors.
- Sector expertise, in Agriculture and Manufacturing, including an up to date understanding of market access frontiers for the poor and how they may be shifted through commercial innovation
- Knowledge and experience of working with the IMD approach (or similar, such as M4P) to address market and Government failures.
- Demonstrated ability to influence and motivate a large number of businesses operating in Africa and seeking out the business networks that will be employed for so doing.
- Ability to field a team of dedicated full time staff and selected advisers able to demonstrate the needed expertise and skills set out above.
- Programme/project management experience and good communication skills.
- Specialist knowledge in the:
  - ✓ assessment of the commercial and technical viability of projects.
  - ✓ assessment of economic, social and environmental impacts.
  - ✓ use of grants to trigger innovation and grant management.
  - ✓ social or financial fund management, matching grant schemes, or venture capital/private equity vehicles. Previous experience of running challenge funds will be an asset but is not necessary.
  - ✓ management of a large portfolio of projects.

Various types of institutions, or consortia of institutions, could potentially fulfil the above functions and no type of institution will be excluded on an a priori basis. However, the processes and approach of the Fund

Manager need to be private sector-friendly. In particular, the decision-making cycles of the Fund need to be aligned with the decision-making timelines and reporting cycles of private sector firms.

#### 4. PSD STEERING COMMITTEE

The Steering Committee of the PSDP will be the governing body of the program and will provide strategic leadership and governance oversight. The Steering Committee will have the delegated authority of the donors to make decisions that are in accord with the objectives, approach and scope of the program as set out in the Program Document.

The PSDP Steering Committee is expected to make key policy decisions, guide the Implementing Partner and Responsible Parties in the execution of the program, and ensure effective oversight through receiving regular reports and reviewing the results of program evaluations that will take place periodically. It will be supported in ensuring good governance and fiduciary oversight by the UNDP country office, which will oversee the work of all Responsible Parties.

The Steering Committee will be supported in its role and functions by UNDP that will serve as the Secretariat of the Steering Committee, helping to convene its meetings, set its agenda, prepare briefing papers and progress reports and provide all the necessary information and evidence it needs to make informed decisions.

The Steering Committee will be independent of Government and/or private sector interests expected to answer only to the funders of the PSDP. As such, other than representatives of the funders and key ministries, its members will be chosen for their ability to provide strategic leadership, make informed policy choices to exercise effective governance over the PSDP. They will be expected to perform the same functions as the board of governors of a private company and will be fully empowered to do so.

##### d) Role and Function

The specific responsibilities of the Steering Group will be to:

- Oversee the MICF establishment of all interventions ensuring that suitable project implementers are in place and that project implementers are appropriately tasked and incentivised to deliver the results expected.
- Approve the annual work programme and budget prepared by UNDP ensuring that resources are deployed to their most productive use. If necessary, advise the donors of changes to allocations to individual interventions that would help to make the program more effective in delivering its intended outcome and impacts.
- Review and approve the recommendations for implementation of initiatives presented UNDP.
- Review periodic monitoring and evaluation reports and advise the UNDP accordingly.
- Monitor the implementation of PSDP ensuring that any strategic changes are undertaken in a timely manner so that the programme achieves its goals.
- Ensure that the co-financing agreement between the partners is adhered to.
- Provide policy guidance to UNDP.
- Take the lead to promote policy dialogue and advocacy on issues identified by the PSDP at Senior Economic Management Meetings level.
- Ensure that the PSDP is coordinated with other relevant GoM, donor and private sector interventions.

The Steering Committee will be chaired by a member of the private sector.

The procedures of the Steering Committee will be:

- The quorum for the Steering Committee will be 6 members.

- Members who are unable to attend in person may participate in meetings through video or telephone links.
- The Steering Committee will aim to achieve consensus on decisions made. In the event this proves impossible, decisions may be made by simple majority vote amongst participating members. In the event of a tie, the Chairperson will have an additional casting vote
- The Steering Committee is expected to meet biannually and members will need to devote some additional time reviewing programme documentation.
- UNDP will provide secretariat services to the Steering Committee. These will include;
  - Circulation of relevant material to members in good time for preparation for each meeting.
  - Drafting of agendas for agreement with the Chairperson.
  - Circulation of agenda.
  - Keeping of minutes and recording of decisions made.
  - Reporting on progress with all aspects of PSDP implementation.
- The authority of the PSDP Steering Committee will be final on all operational matters. Donors will have a right of veto only over proposed activities that fall outside of the scope of the PSDP as defined in the Project Document and changes in the allocation of resources.



## ANNEX G: TERMS OF REFERENCE FOR A TECHNICAL ASSISTANT FOR THE MANUFACTURES TECHNICAL WORKING GROUP

### BACKGROUND

This Manufactures cluster (or “the Cluster”) has been identified by the National Export Strategy (NES) as one of the top three clusters that can drive Malawi’s exports and thus its growth in the medium to long run. The NES has been developed under the leadership of the Ministry of Industry and Trade together with a wide range of local stakeholders via the Steering Committee that was established to oversee the NES’s development. The manufacturing cluster was identified for prioritisation through the NES’ Cluster Prioritization Method<sup>26</sup>, and its outcome endorsed by the NES Steering Committee. As a result, the NES includes a detailed strategy (“the Cluster Strategy”) to develop the Manufactures Cluster. The Cluster Strategy constitutes a key element of the NES<sup>27</sup>.

The Cluster is composed of four sub-clusters:

1. Beverages – beer, ales, juices and pulp, water
2. Agro-Processing – dairy, maize products, wheat products and others with private sector interest such as rice, horticulture, cassava products and toor dhal
3. Plastics and Packaging – all plastic and packaging products feasible in Malawi
4. Assembly – vehicle assembly, pre-fabrication and electrical assembly inc. wiring/cables

This Cluster is one of the top three priority clusters in the National Export Strategy because:

1. Malawi can be competitive in it;
2. It can allow for enough value addition for the cluster to account for roughly seventeen per cent of imports in the medium to long-term;
3. It allows for economic spillovers through reducing the cost to businesses and private operators of investing in new, higher value products; and
4. Demand is favourable and growing.

It outlines a clear strategy to develop this cluster, based on a holistic, concerted approach which requires:

- 1) Collaboration and dialogue among stakeholders who determine policies, human and financial resources; and
- 2) The establishment of an enabling environment conducive to the development of the cluster.
- 3) Leadership and Commitment from the Government and the Private Sector

The Cluster Strategy presents policy recommendations at different levels: trade, investment promotion, MSME, standards, land, agriculture and others. The Strategy’s success depends on the alignment of such

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<sup>26</sup> Refer to Annex 9 of the National Export Strategy for a description of the Cluster Prioritization Method.

<sup>27</sup> Refer to Annex 4 of the National Export Strategy for the full Manufactures Strategy and the rationale behind the prioritisation of this cluster.

policies and support toward the Cluster. The Ministry of Industry and Trade will soon develop Malawi's Industrial Policy (work due to commence after January 2013) based on the SADC Industrial Development Framework. It is envisioned that the Cluster Strategy and the Industrial Policy be fully synchronised with each other. It is necessary for both to support each other, and critically, to be effective tools to support the development of the cluster to meet its potential<sup>28</sup>.

It is essential for stakeholders not to view the manufacturing cluster as one small sector of the economy that only supports urban populations. The cluster accounted for 6.4 per cent of exports in 2010 but has the potential to account for 20.2 per cent by 2027, thus serving as a basis for job creation for Malawian youths, as well as the avenue for value addition and for increased and more stable rural smallholder incomes. The cluster includes agro-processing and beverages, which both have the potential to develop using Malawian agricultural produce as a major input. This requires narrowing the disconnect between farmers and processors, and this in turn requires changing perceptions in government about what the manufacturing cluster actually entails and its role in supporting agriculture and rural industrialisation.

The development of the manufacturing cluster, if genuinely prioritised, can also be a key vehicle for the growth of MSMEs through small scale manufacturing and also through the wide array of support services that the cluster needs to develop. Many of these support services will be provided by MSMEs.

#### Implementation Mechanism for the NES and its Manufactures Strategy

The implementation mechanism for the NES is centred around the ongoing existence and pro-activeness of the NES Steering Committee and its sub-committees. These will transition into the Trade, Industry and PSD Sector Working Group (SWG)<sup>29</sup> which includes representatives of the key stakeholder groups such as government, civil society, the private sector and development partners. The SWG will be supported by six Technical Working Groups (TWGs) which will report back to it. One of these is the Manufactures TWG. This TWG will be formed through the transition of the Manufactures Sub-Committee that ran during the development phase of the NES, into a TWG under the Trade, Industry and PSD SWG.

The Manufactures TWG will act as the stakeholder-wide representation body that will own and drive the development of the Manufactures cluster.

The SWG and its TWGs will support government in the development of a comprehensive, clearly prioritised Joint Sector Strategy (JSS) to build the productive base of the economy and to develop the three prioritised clusters identified in the NES. This will be developed in consultation with sector-relevant stakeholders, with a prioritised accountable, budgeted and monitorable sector Programme of Works (PoW) aligned to government priorities and systems, allowing harmonised support by donors. The JSS and PoW will allow the broad spectrum of factors on which development of the productive base depends to be taken into account and addressed in a prioritised, targeted and collaborative manner by public and private stakeholders.

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<sup>28</sup> The potential of the cluster is presented in Annex 4 of the National Export Strategy.

<sup>29</sup> This implementation mechanism is presented in Chapter 4 of the Main Document of the National Export Strategy and is presented in further detail in Annex 1 of the National Export Strategy.

## DESCRIPTION OF THE ASSIGNMENT

### 1.1. Objectives of the Technical Assistant

The overall objective of the Manufactures TWG Technical Assistant (or “the TA”) will be to ensure that the Manufactures TWG serves as an effective stakeholder implementation and representation driving body for the cluster and its development strategy by aiming to proactively drive the development, implementation and monitoring of the sections of the JSS and the PoW relating to the Cluster, based on the existing Cluster Strategy forming Annex 4 of the NES and the upcoming Industrial Policy. Where implementing agencies or another dialogue forum have the capacity to drive actions specified in the JSS and the PoW, the TA will support these bodies to undertake their activities. However, where this capacity is constrained, the TA will play a proactive role in working with the implementing bodies to ensure that progress is made on actions.

This will allow the Manufactures TWG to drive the market-led development of the manufactures cluster in order that it may attain its target as set out in National Export Strategy in the medium to long-term, whilst balancing this objective with the economic empowerment of youths, women, the poor, farmers and micro, small and medium enterprises.

The specific objectives of the TA, working as a member of the SWG Secretariat with specific focus to lead the secretariat support work for the Manufactures TWG, will aim to:

- a. Ensure that there is long-term, cluster-wide support for the Manufactures TWG from government, processors, smallholder farmers, civil society, MSMEs and development partners.
- b. Ensure synchronization and complementarity between the cluster strategy and the forthcoming Industrial Policy,
- c. Ensure the development of a supportive institutional framework for the Cluster where Manufactures and the four sub-clusters (beverages, agro-processing, plastics and packaging, and assembly) are explicitly set as a priority area for key government agencies, enabler sectors (such as energy, finance and transport), providers of skills and training, NGOs and Development Partners.
- d. Ensure the sustainable and affordable provision - by government or the enabling sectors (utilities, transport, etc) - of a suitable enabling environment for private operators in the cluster. In particular, access to the ten key enablers identified in the NES should be promoted and implemented in a sequenced manner. These ten enablers are set out in Annex 1 of this document.
- e. Support the Department of Industry to oversee the development and drive the implementation of the Industrial Policy that is about to be commissioned. Ensure that it builds on the NES Manufactures Strategy and ensure strong alignment.
- f. Be responsible for the successful implementation of the Enhanced Implementation Framework (EIF) Tier 2 on Agro-Processing and Value Addition, should this be successfully funded.
- g. Together with counterpart staff in the SWG Secretariat and the Department of Industry, serve as an effective secretary to the Manufactures TWG and liaise regularly with the other members of the SWG Secretariat to ensure the smooth functioning of the Manufactures TWG and the efficient flow of information within the SWG framework, and outside it when necessary.

- h. Ensure sustainability of the TA's role, by working on a day-to-day basis with counterpart staff in the SWG Secretariat and the Department of Industry within the Ministry of Industry and Trade ("the MoIT")<sup>30</sup>. The TA will support the capacity development of these individuals and transfer knowledge to them on cluster development techniques. They will be required to fully manage the Manufactures TWG at the end of the assignment period for this TA. Where the Department requires additional staff and permanent expertise, work with the Department to secure such permanent expertise, through the Government human resources process (training and recruitment).

In working towards objectives a. – g., it is important that the TA takes objective h. into consideration at all times. The need to transfer skills and knowledge on the management of the Manufactures TWG and implementation of the Cluster to the members of the MoIT should be a key focus of the TA.

In all cases, the TA should ensure an efficient division of labour by assessing where gaps exist in the capacity of the counterpart staff and key stakeholders - whether related to skills, knowledge or time - to conduct tasks, such as organizing meetings or conducting research, and should aim to fill those gaps. However, the TA should avoid carrying out tasks where there is sufficient capacity with the relevant stakeholder or the counterpart staff. The TA will be required to use their judgment as to where it would be advantageous to drive certain tasks and where the counterpart staff or other stakeholders should take the lead.

## 1.2 Specific Tasks of the Technical Assistant

The specific tasks to be carried out by the TA, at all times working alongside other members of the SWG Secretariat or members of the MoIT, will include (but not be limited to) those described below.

- A. Management and Coordination of the Manufactures TWG as an Effective Implementation and Representation Driving Body for the Cluster
1. Sensitise and inform Manufactures TWG members of the objectives and functional arrangements for the SWG as a whole and the Manufactures TWG in particular and consult with them on their role as members of the TWG, particularly during the transition phase from a National Export Strategy subcommittee to a TWG.
  2. Assist members of the Manufactures TWG to refine their membership, Terms of Reference and Code of Conduct during the transition phase from a National Export Strategy subcommittee to a TWG.
  3. Liaise with other technical groups or fora which are relevant to the development of the Cluster. In particular:
    - a. Attend and contribute to meetings of the other TWGs of the SWG, particularly those on cross-cutting issues, to ensure that those TWGs address the requirements of the Cluster as a priority (for example, liaise with the Oil Seed Products TWG on issues of agro-processing in which oil seeds are an input).

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<sup>30</sup> It may also be appropriate to work with members of MITC and SMEDI on aspects of the TA's role which are similar to the role which MITC and SMEDI should play in the development of the Cluster.

- b. Meet and communicate regularly with other relevant SWAPs and dialogue forums (including attending meetings of the Agriculture SWAp, Financial Sector Working Group, the Education SWAp, the Trade Logistics Working Group, the Malawi Confederation Of Chambers of Commerce and Industry Manufactures Group).
4. Minimise overlap and duplication between the Manufactures TWG and other fora by keeping up to date with the agendas of other fora and ensuring that, where issues of interest for the Manufactures TWG are already adequately addressed in another forum or SWAp (from the perspective of private operators), the Manufactures TWG is informed that this is the case, the agenda of the Manufactures TWG is amended accordingly to avoid duplication of effort, and the members are updated of progress from that forum on a regular basis. There will also be a need to ensure that there is adequate representation of other relevant SWAPs or fora in the Manufactures TWG and evaluate whether there is a need for ad hoc meetings with representatives of these SWAPs or fora.
5. Assess the functioning of the TWG on an ongoing basis and suggest amendments – for example to the structure or membership of the TWG - where those amendments would increase efficiency or efficacy.
6. Assess whether the membership of the Manufactures TWG is sufficiently well-placed to progress a particular action and if not, ensure that the relevant organisations (or other key SWGs/SWAPs) and representatives of sufficient seniority are adequately informed and involved in the work. This should be done by maintaining an up-to-date list of sector stakeholders and members of the Manufactures TWG, and the roles of individuals within those organisations, in order to ensure that the membership includes appropriate individuals and organisations.
7. Ensure meetings of the Manufactures TWG are well-structured, focused and appropriately attended by:
  - a. convening quarterly meetings of the Manufactures TWG and communicating the date to members at least 5 working days in advance;
  - b. setting the agendas of the Manufactures TWG meetings and informing members if they will be required to provide any specific information at a forthcoming meeting. Where issues pertinent to the development of the Cluster are not adequately addressed in other fora, ensure that these are addressed by the Manufactures TWG.
  - c. assessing which stakeholders' attendance will be crucial at a forthcoming meeting to ensure that the issues outlined in the proposed agenda can be addressed efficiently and ensure their participation in the meeting;
  - d. assess whether representation is required during a particular meeting from "Special Members"<sup>31</sup> or other bodies which are not usually represented on the Manufactures TWG, and ensure participation from that body;
  - e. assessing whether overall membership of the Manufactures TWG is appropriate (both in terms of institutions included and the standing of the representatives sent to the meeting)

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<sup>31</sup> Special Members are those bodies which are relevant to a number of subgroups and will therefore be called in for particular meetings as and when the need arises, rather than being required to attend every meeting.

for fruitful discussions to be held, and ensuring that the Manufactures TWG has strong champion members who can garner support from other stakeholders and assist in driving priority actions. Where this is not the case, the TA should deliberate with the relevant institutions and individuals to ensure that correct membership and championing is achieved;

- f. provide key information relating to the upcoming meeting's agenda to potential participants in advance.
  8. Ensure that comprehensive minutes of meetings of the Manufactures TWG are taken by the TA or another member of the SWG Secretariat.
  9. Prepare reports, based on meeting minutes, from the Manufactures TWG for review by the SWG. Present such reports to the SWG with the support of the Manufactures TWG co-chairs. The reports should contain proposals for the SWG's endorsement based on recommendations from the Manufactures TWG.
  10. Input information specific to the Cluster into quarterly reports and annual reports produced for the SWG.
  11. Establish a policy within the Cluster, with the support of Manufactures TWG members, that advocacy and lobbying within the Cluster will be carried out through the Manufactures TWG.
  12. Compile and maintain a register of members of the TWG, and explore how this can be used to assist members with access to finance, tax support and other support services.
  13. Ensure that a counterpart Ministry staff member is appropriately involved in all activities by actively involving them in meetings, report writing and other tasks. Provide on-the-job training to the counterpart, progressively transferring skills and responsibilities to them to enable successful continuation in the undertaking of activities undertaken by the TA. The TA should use judgement to assess where MoIT staff should drive an activity, with support where appropriate, and where MoIT staff should shadow the TA.
- B. Development, Resourcing and Implementation of Sections of the JSS and PoW Related to the Manufactures Cluster
1. Develop, with significant input from the TWG, the sections of the JSS and the PoW related to the Cluster and ensure that other sections of the JSS and PoW take into account the need to develop Manufactures as a priority. The Cluster Strategy described in the NES, which involves taking a phased approach to balance short-term exports with a medium to long-term strategy to allow value addition exports, should be validated by Manufactures TWG members and subsequently used as the base document to create the sections of the JSS and PoW relating to the Cluster. For each action included in the JSS and PoW, the TA should assist the Manufactures TWG to identify which stakeholder is best placed to deliver a particular action and to develop an indicative costing for the action.
  2. Initiate review of the sections of the JSS and the PoW relating to the Cluster by the Manufactures TWG. Where required, assist in updating and amending these sections as and when necessary, for example to take into account completion of certain activities and the development of follow-on activities, changes in circumstance/environment or receipt of new information.

3. Advocate for having the Cluster explicitly prioritised for facilitation by critical stakeholders (such as MITC, SMEDI and other government agencies, ministries involved in creating an enabling environment, enabler sectors (such as energy, finance and transport), providers of skills and training, NGOs, development partners, etc) in their strategic plans, budgets and work programmes. Hence ensure that sufficient management time and resources, including both financial and staff resources, are allocated to priority actions across all ministries, agencies or institutions involved in implementation. Where this is not the case, consider and adopt strategies to increase resources allocated. For example, where approved by the SWG, the TA should prepare programme and project proposals for funding of actions specified in the JSS and PoW relating to the Cluster, and emerging from TWG discussions.
  4. Ensure that there is appropriate and timely follow up on: i) prioritised actions identified from the Cluster Strategy for implementation during the development of the JSS and PoW; ii) actions emanating from the sections of the JSS and the PoW relating to the Cluster; and iii) other actions that emerge through meetings of the Manufactures TWG or the other groups within the SWG. In addition, the TA should assist the wider SWG Secretariat in monitoring and evaluating progress and completion of actions and targets under the Cluster-related sections of the JSS and the PoW.
  5. Explore and promote ways in which private sector investment can be mobilised for the development of the Cluster with the support of financial institutions.
  6. Where certain actions are not progressing sufficiently, investigate the true underlying causes of bottlenecks to implementation by scrutinising the situation thoroughly using economic, technical, and political judgement accordingly, and viewing the specific action within the context of the Cluster as a whole and the various factors and institutions which impact on that action. The TA should then examine and, wherever possible, implement remedies to these bottlenecks, including recommending to the SWG where the Action Task Force<sup>32</sup> of the SWG should be deployed, for example, to meet with/lobby key agencies.
- C. Provision of Technical Assistance on Deliverables from Sections of the JSS and PoW Related to the Manufactures Cluster
1. Coordinate analytical work or research done by members of the Manufactures TWG, and where a member does not have sufficient capacity to conduct this work alone, provide assistance wherever possible.
  2. Where it is necessary for a study, assessment or research exercise to be conducted on an issue raised during development/implementation of the Cluster which might normally be carried out by external Technical Assistance, assess whether the TA has the capability and resources to carry out that exercise and if so, conduct this work with the assistance of a MoIT counterpart.
  3. Once activities from the Cluster Strategy have been validated by the Manufactures TWG, the TA will be expected to conduct activities such as:

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<sup>32</sup> This will be a task force of the SWG which will be formed on an ad hoc basis, as and when the SWG agrees that immediate action is required on an issue to ensure progress on priority actions. For example, it might involve relevant individuals being deployed by the SWG to meet with senior officials or attend important conferences/fora where lobbying is required. The continued need for such the Action Task Force will be assessed after the first year of operations.

- A. Provide a supportive role to implementing institutions, where there exists an institution with clear responsibility for the task. This would include for example:
- a. Assisting Malawi Investment and Trade Centre to develop an Investor Facilitation Programme for the Cluster.
  - b. Assisting Malawi Bureau of Standards to develop a plan for meeting standards and accreditation in targeted markets in the Manufacturing Strategy, including sanitary and phytosanitary standards for agro-processing. This will include supporting the existing plans for infrastructure and human resource development.
  - c. Working with Office of the President and Cabinet to expedite the completion and implementation of the Mozambique Inter-Connector for Energy and the New Energy Policy.
  - d. Advocate with Office of the President and Cabinet and Ministry of Lands to allocate as much hectareage as is possible to anchor farm investors for beverages and agro-processing. The guiding target is 100,000 in by the end of 2014 and 1 million hectares by the end of 2027.
  - e. Advocate with the Ministry of Transport and Ministry of Foreign Affairs to implement the strategies' Transport Plan.
  - f. Encouraging the Export Development Fund to actively prioritise credit guarantees for manufactures cluster investors.
  - g. Working with the Malawi Industrial Research and Technical Development Centre to improve provision of industrial extension services and access to technology.
- B. Where there does not exist an institution with clear responsibility for a particular deliverable, the Manufactures TWG should carry out the activity. In this case, the TA will play a leading role in coordinating and managing the activity. For example, this may include (amongst others), assisting the Manufactures TWG to:
- a. Identify the optimal institutional framework for the Cluster and establish this institutional framework through the Industrial Policy, which should be based on the cluster strategy. In doing so, examine and, if appropriate, implement legal requirements to institutionalise the Manufactures TWG, for example, the TA may explore the possibility of registering the TWG as a trust at an appropriate time, to allow for cash generation.
  - b. Develop and implement a regulatory support framework for the Cluster if appropriate.
  - c. Engage with the energy sector and policy makers to ensure favoured access to energy by private operators within the Manufactures TWG.
  - d. Advocate with the Ministry of Finance to ensure that taxation of the cluster is efficient and predictable.
  - e. Work with smallholder farmers and agro-processors to permanently improve environment to allow linkages for local farm produce as an input into agro-processing.
  - f. Assist members of the TWG to develop a framework for the anchor farm model and secure 100,000 hectares of land in the first two years for commercial farming (linked to the agro-processing and beverages cluster). Ideal is to secure 1 million hectares over a fifteen year period, a phased approach starts with 100,000 hectares in the first two years.



- g. Engage with the financial sector to improve access to finance for micro, small and medium manufacturers and also for investors in anchor farms.
- h. Work with the Trade Logistics Sub-Committee under the Access to Markets TWG to improve non-tariff obstacles to trade, including export and import licensing, ease of crossing borders and transportation costs.
- i. Ensure that the PS and other management of the Ministry of Industry and Trade have access to the prioritised target market and products for the Cluster and a list of the critical imported inputs for target products in the Cluster in order to inform trade policy.
- j. Identify products in the Cluster that require standards for export to target markets and encourage Malawi Bureau Standards to prioritise development of standards (including sanitary and phytosanitary standards) for products in this list, relative to regional target market requirements.
- k. Develop a critical skills requirement list for the Cluster and a Manufactures Products Skills Development Plan, translating the skills requirement into the optimal supply-side response, and support the establishment of a Manufactures Account at TEVETA, which can be used to fund the Manufactures Skills Development Plan.
- l. Assist the Ministry to establish a Special Economic Zone for Beverages, Agro-Processing and Plastics and Packaging and one for Assembly.
- m. Encourage and support the conduct of a land study based on land suitability and socio-economic data in order to examine where anchor farms should be promoted and facilitated.
- n. Assist the Ministry of Agriculture and Food Security in implementing the Contract Farming Strategy.
- o. Evaluate the need for a detailed review into fair competition in the Cluster.

#### a) DELIVERABLES

The deliverables of the TA, against which the TA's performance will be measured, are:

1. Significant progress in the implementation of the Cluster Strategy, as assessed by the Manufactures TWG using the specific tasks in Section 2.0 of this ToR as a benchmark.
2. Quarterly Progress Reports to MoIT and an End of Year Progress Report.
3. Quarterly Manufactures TWG meetings successfully organised, and well attended with appropriate membership.
4. Agendas, presentations and minutes of the Manufactures TWG meetings prepared, completed and distributed to members in a timely manner.
5. Register of members of the Manufactures TWG maintained.
6. The Manufactures Cluster Strategy and the eventual Industrial Policy validated by Manufactures TWG members and sections of the JSS, PoW and Monitoring and Evaluation Framework relating to the Cluster developed and implementation successfully initiated.
7. Input from Manufactures TWG into quarterly and annual SWG reports provided.

8. Funding proposals produced for activities emanating from the JSS and PoW.
9. Training plan to build capacity of members of the SWG Secretariat and other members of the MoIT (or other relevant institutions) to a sufficient level to ensure successful continuation of activities after the end of the TA's contract developed and completed.
10. Monthly briefings provided on progress of work to the SWG during the assignment.

## EXPERIENCE AND QUALIFICATIONS

The TA may be an individual and should have the following skills, experience and qualifications:

1. Masters degree in economics, trade/industrial development, development studies, public administration, or other relevant/related fields.
2. The individual or the team leader shall have at least 8 years of professional experience at a practical and applied level in similar work or related fields, with a proven track record of success in related assignments, preferably relating to policy implementation, securing resources and driving programmes.
3. Thorough knowledge of policy/strategy issues relating to trade, private sector led growth and manufactures cluster development, and ability to undertake institutional and economic analysis (both quantitative and qualitative). This should include a sound understanding of the optimal roles of the public and private sectors (including the financial services) in cluster development and of achieving sustainability in the activities of key players in the cluster.
4. Solid experience in process facilitation, meeting facilitation and secretariat functions
5. Experience in capacity development and mentoring
6. Good team worker, able to build rapport with both technical staff and senior management, capable of working effectively in a challenging environment.
7. Sound judgment, flexibility, adaptability, and cultural sensitivity.
8. Working experience in the SADC and COMESA regions and Malawi is an advantage.
9. Drafting skills are important, as are a good working knowledge of the standard Microsoft Office suite of programmes. The TA should also be an excellent English communicator, writer and editor.

Where a firm or team of experts is contracted to provide the services set out in these Terms of Reference, the firm/team should undertake to maintain the same team leader throughout the period of the assignment to ensure continuity and maintenance of standards of service delivery. In this regard, CV's of all team members to be engaged on this assignment should be submitted together with the official offer.

## LOCATION AND DURATION

### 5.1 Starting period

The assignment should start by February 2013 at the latest.

#### 5.2 Foreseen duration

The duration of the assignment is for 1 year, renewable for a second year.

#### 6.3 Locations of assignment

The location of the assignment will be in the Ministry of Industry and Trade in Lilongwe, Malawi with travel as necessary, within the country.

### REPORTING & ADMINISTRATIVE INFORMATION

#### 6.1 Reporting & Management Arrangements

The TA will be expected to report directly to the Manufacturing TWG and to the Director of Industry. At the same time, the TA would be expected to carry out his/her technical assignments in close cooperation with the Department of Trade, Department of Private Sector Development and Department of Industry in the MoIT, as well as collaborating closely with all stakeholders in the Manufacturing TWG. The TA shall ensure that they are adequately supported and equipped for the purpose of carrying out the activities foreseen in these terms of reference. Office accommodation of a reasonable standard is to be provided by MoIT.

The working language for the assignment will be English. The expert(s) should be fluent both in spoken and written English.