Annual Review - Summary Sheet

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

Title: **Private Sector Development Programme in Malawi**		
Programme Value: £16,000,000		**Review Date: January 2015**
Programme Code: 203824	**Start Date: 2013**	**End Date:13/10/2017**

Summary of Programme Performance

Year	2013/14	2014/15						
Programme Score	**A**	**A**						
Risk Rating	**M**	**M**						

Summary of progress and lessons learnt since last review

Progress

The PSD Programme is now well into implementation. The programme is undertaking interventions to support systemic change in the sunflower, soya, groundnut, cotton, pigeon peas, rice and pico-solar sectors, with a view to creating enhanced livelihood opportunities and diversifying the economy away from dependence on maize for food, and tobacco as a cash crop. Interventions include efforts to boost smallholder yields through better access to seed and other inputs, and efforts to link smallholders to more lucrative markets, including through promoting processing/value added in country.

The PSD programme has also provided support to the Government of Malawi to improve the business enabling environment. This has involved supporting key institutions develop and implement workplans following the completion of the Functional and Strategic Review of the Small and Medium Enterprise Development Institute (SMEDI), the Ministry of Industry and Trade (MoIT) and the Malawi Investment and Trade Centre (MITC) late in 2013. This has included support to the Department of Registrars to make it easier to register businesses, support to Small and Medium Enterprises (SMEs) through an update to the SME Bill and SME Policy, and support to the development of a Strategic Plan for SMEDI. The groundwork has been laid for a number of potentially high impact projects – including one to reform Malawi's overall Tax Policy and Administration (aiming to balance revenue raising requirements with an approach that incentivises private sector investment), one to operationalise the One Stop Shop Centre at MITC, and one to support the restructuring of MoIT to focus on its core mandate - to develop relevant policies to promote the long term sustainable economic growth of Malawi.

Finally, the PSD Programme has also seen the successful launch of the Malawi Innovation Challenge Fund, which provides matched grants to inclusive business projects – with at least 10 innovative projects being taken forward with DFID funds.

Lessons and Recommendations

The last year has seen the updating of individual component logframes for BIF, MICF, and MOST, with monitoring and evaluation approaches being put in place for these three components. It is important that the last component logframe (for BEEP) is updated early in 2015, and that an Aggregate Logframe is put in place that reflects all developments at component level, reflecting a refined theory of change. This will be done with the support of an External Reviewer, due to be mobilised in March 2015. It will be important to not over-specify outputs in the logframe, recognising the adaptive nature of the programme. It will need o provide clarity on objectives whilst maintaining flexibility on the activities.

For the Business Enabling Environment Programme, there have been some delays in establishing a fully staffed BEEP Secretariat, with the result that a lot of DFID staff time has been focused on procurement activities. It is recommended that DFID Malawi finalises arrangements for and ensures the smooth running of the BEEP Secretariat, including through the appointment of a Project Director, with the aim of transferring procurement and financial management to the BEEP Secretariat. This should maximise time available for strategic discussions and technical inputs across the PSD programme. It will also important to ensure any lessons from this process are learnt and shared across the DFID Malawi team.

For the Malawi Innovation Challenge Fund, the Business Innovation Facility and the Malawi Oilseeds Sector Transformation Programme, DFID should continue to monitor interventions to ensure that support to businesses is genuinely additional and does not undermine competition. The key aim of DFID's support to the private sector is to achieve tangible improvements to the lives of poor people, as producers, entrepreneurs, employees and consumers, and to promote systemic change in sectors that have potential to accelerate economic growth, reducing dependence of Malawi on donor finance in the future.

A. Introduction and Context (1 page)

DevTracker Link to Business Case:	
DevTracker Link to Log frame:	

DFID Malawi is providing £16m from 2013 to 2017 to support Private Sector Development in Malawi. The programme has the following four components:

Component	Total funding from 2013-2017	Original Implementing Arrangements approved at business case	Current Implementing Arrangements
Malawi Innovation Challenge Fund (MICF) - Support to the Malawi Innovation Challenge Fund	£ 5 million	UNDP as the implementing agency through an Administrative Arrangement, with UNDP contracting an independent Challenge Fund manager	As planned - UNDP is the main implementing partner, who subsequently contracted Nathan and Imani associates (as Challenge Fund managers)
Business Innovation Facility 2 (BIF2) – Support to businesses and other stakeholders in selected markets to d	£ 1 million (+ £5m up to 2019 through DFID's Private Sector Department)	DFID Private Sector Department to administer DFID Malawi's contribution, with a plan to extend PWC/Imani's contract following the BIF Pilot.	As planned - PwC contract was extended, managed by DFID HQ (with Imani Consulting as the downstream partner). Funds are administered centrally.
Business Enabling Environment Programme (BEEP) - Support to initiatives to improve the Business Enabling Environment, including capacity building and	£ 4 million	DFID Malawi was to originally provide £4m to the World Bank through a Single Donor Trust Fund.	DFID made a decision to provide support on the BEE agenda independently of the World Bank. This involves direct contracting Technical Assistance (TA) for discrete projects. A DFID funded BEEP Secretariat in MoIT will take increasing responsibility for managing the day to day activities of the BEEP programme.
Malawi Oilseeds Sector Transformation Programme (MOST) - Support	£ 6 million	DFID Malawi to contract a Technical Service Provider through a competitive process to oversee the implementation of a Market Development Programme, as well as to provide TA to drive a Technical	Competitive process led to the contracting of Adam Smith International (ASI), partnered with Kadale Associates and the African

to the development of Malawi's Oil Seeds Sector		Working Group (TwG) to deliver the Government's Oil Seeds Sector strategy	Institute for Corporate Citizenship. ASI has also contracted the TA for the TWG on Oil Seeds.

The overarching aim of the programme is to: provide capacity building support to key public sector institutions that shape the regulatory environment for business; help the oil seeds sector reach its full potential through the establishment of sustainable market structures supported by government; and provide financial and technical support to businesses adopting pro-poor business models.

The context for the intervention remains as it was at the business case, in terms of GDP per capita, poor human development indicators, and continued dependence on rainfed agriculture for food security and livelihoods. The PSD programme has been designed to align closely with the National Export Strategy. In June 2014, following May elections, a new Government was formed under the new President, Peter Mutharaki. The NES remains a valid policy document and the new Government has signalled ongoing commitment to supporting the private sector – for example, establishing a Committee for Doing Business under the Office of the President, and issuing a Directive to launch a physical One Stop Shop for Investors at MITC. In this context, the DFID PSD programme's objective remains appropriate, attempting to support the government and private sector to develop for the benefit of the country as a whole, and in particular to achieve long term poverty reduction.

B: PERFORMANCE AND CONCLUSIONS (1-2 pages)

Annual outcome assessment

The intended outcome for this programme is 'Increased capacity of the private sector to invest, innovate and compete, particularly in NES priority clusters'. The indicator currently being used to reflect this outcome in the Aggregate Logframe is 'Total private sector investment mobilised by PSD outputs'. However, this measure is no longer included in the logframes that were revised over the course of 2014 (for MICF, MOST and BIF). For BEEP, the theory of change needs to be refined and reflected in a revised logframe early in 2015. In the absence of an up to date Aggregate Logframe, we provide an indication of progress towards outcome using indicators agreed at component level, as set out below.

MOST

The MOST outcome is measured by 'sustained improved market system performance' as measured by the 4 indicators set out in the table below. The target for 2014-15 is set at zero. MOST has, however, reported some tangible results at outcome level within the first year of implementation, to be verified at the end of the reporting year. In particular, MOST interventions have increased access to quality seed for farmers growing soya, sunflower, and cotton and supported farmers to use spraying services (for cotton) and inoculant (for soybean). These initiatives should boost yields and production in the oilseed sector. MOST has also been active in its engagement with buyers of oilseed products, including traders and processors of products, either for sale in domestic markets or for export. These interventions should contribute to supporting diversification of Malawi's economy, with greater value added in-country.

Outcome	Indicator	2014-15 Target	2014-15 Indicative (to be verified)
	Outcome Indicator 1		
Sustainably improved market system performance	Cumulative number of poor people in targeted sectors with improved performance	0	**Cotton** – 14,000 seed growers with higher income **Cotton** – 30 spray service providers from January 2015 serving up to 30 smallholders each (900) **Soybean** – up to 20,000 smallholders able to access inoculant to improve productivity **Soybean** – additional 1,500 smallholders able to access improved seed through stocking initiative **Sunflower** - 56mT improved seed available serving up to 56,000 smallholders
	Outcome Indicator 2		
	Cumulative number of poor people in targeted sectors showing significant changes in their business practices	0	**Cotton** – Up to 900 smallholders able to use of spraying services (previously did not spray or had to hire sprayer) **Soybean** – Up to 20,000 smallholders able to use inoculant (some new, some previously unable to access in recent years) **Sunflower** - up to 56,000 smallholders able to buy improved seed and grow higher performing hybrid (previously recycling traditional seed)

Outcome	Indicator	2014-15 Target	2014-15 Indicative (to be verified)
	Outcome Indictor 3		
	Number of targeted sectors where sustainable improvements to market system performance have been achieved	0	**2014-15: 3** **Cotton** – access to spraying **Soybean** – access to inoculant **Sunflower** – hybrid seed **2015-16 (early):** **Groundnut** - through shelling initiatives
	Outcome Indicator 4		
	% of interventions leading to sustainable change in market system performance	0	3/21 interventions = 14% 3 of the interventions are 'foundation activities' on co-ordination 2 on hold due to budget/feasibility (seed rights) 3/16 (21-3-2=16) = 19%

BIF

There are no outcome level results targets set for 2014. BIF has spent much of 2014 undertaking detailed market analysis in order to select focus markets (these are pigeon peas, rice and pico-solar products) and design appropriate interventions, which are now getting underway. BIF2's logframe outcome is defined as 'indirect market uptake of innovations that will increase both the extent to which and the manner in which poor producers, consumers, and employees participate in the market system, and therefore increase their income and welfare'. This demonstrates the aim of BIF to benefit not just selected firms with technical assistance, but to encourage broader uptake of innovations in the sector, partly through demonstration, and to influence the overall functioning of markets for rice, pigeon peas and pico-solar products.

MICF

No targets were set at outcome level for MICF for 2014, given the early stage of the programme, with the primary focus on identifying projects to support.

The revised logframe for MICF has the following outcome indicators:

- Number of households recording or on-track to achieving additional income as a result of MICF Projects
- % of companies that are able to leverage new external finance for their inclusive business project after receiving an MICF grant
- Number of MICF projects that are 'on track' towards achieving scale and / or replication

BEEP

The original BEEP component logframe has outcome indicators focused on improvements in relative rankings of Malawi in the WB Doing Business Indicators (DBI) and in Global Competitiveness Report (GCR). For the WB DBI, the target for Malawi was to improve from 142 to 138 between 2013 and 2014. For the GCR, the target was to improve from 4.15 to 4.2. However, Malawi's rankings for WB DB and GCR deteriorated to 164 and 3.2 respectively in 2014-2015. There are many factors explaining the deterioration (including a change in the methodology for measuring performance of countries in the WB DBI, and the faster pace of reform in other countries). Since the logframe was prepared (as part of the Business Case design), BEEP has shifted its focus away from quick wins closely tied to improving Malawi's position in international rankings, towards longer term capacity building efforts of key public sector institutions, with the aim of achieving sustainable change. It is recommended that more appropriate outcome indicators are identified when designing the new BEEP logframe in 2015 to reflect this.

Overall assessment of progress at outcome level

For 3 of 4 components (MOST, BIF and MICF), the PSD programme has set zero targets at outcome level for 2014 as, at design stage, it was considered that results would generally only start to be delivered from 2015. Nevertheless, MOST has reported indicatively positive results, to be verified at the end of the reporting year, as set out above. MICF has identified at least 10 innovative projects to support with projections for significant income gains for households associated with the projects. DFID's overall assessment is that the PSD programme is on track to achieve outcomes as set out in revised logframes by the end of the programme. For the BEEP, outcome level indicators will reflect a shift in the programme towards longer term capacity building efforts – projects supported to date and those in the pipeline for 2015 suggest good progress is being made.

Overall output score and description

A

Key lessons

- There are challenges and opportunities in having 4 separately managed components to the PSD programme. For example, BIF and MOST are both active in supporting farmers access affordable and high quality inputs such as seeds, inoculant, fertiliser and advice. They should exploit opportunities jointly where appropriate. BEEP has the potential to support objectives in MOST and BIF, with improvements in the regulatory environment playing an important role in enabling sector growth – for example, adherence to SADC/COMESA rules on seed release processes has the potential to allow improved access to high quality seed for Malawian farmers.

- BEEP has placed substantial demands on DFID's procurement processes, that have proven to be insufficiently agile to cope with managing successive discrete projects. Fully staffing and capacitating the BEEP Secretariat to take over the procurement and financial administration functions is a priority for 2015.

- Given cashgate, the uncertainty around elections in May 2014, and the time taken for the new Government to confirm its priorities in the Doing Business agenda, the 'absorption' capacity of the Government to take on significant projects under the BEEP programme is not high. In light of this, the establishment of a Steering Committee, the preparation of 2 year workplans for MITC, SMEDI and MITC, the completion of a number of DFID funded projects focused on supporting MSMEs, and groundwork laid for significant projects for MoIT and the Ministry to get underway early in 2015, constitutes good progress.

- Access to finance and infrastructural constraints (for example in energy, transport, construction, and irrigation) remain a significant constraint for the private sector – whether for smallholders, larger producers, or established companies (input suppliers, processors or manufacturers). This is likely to affect results for our PSD programmes, as well as limit overall progress in reducing Malawi's reliance on rain-fed agriculture, a key aim of the Government, as articulated in the National Export Strategy.

Key actions
- Continue to identify proactively opportunities for synergies to be achieved across the different components of the programme
- Ensure the operational procedures and reporting (technical and financial) for the BEEP Secretariat are robust following the appointment of the new Project Director
- Ensure continued high level engagement with senior Government officials in order to gain/maintain momentum in implementing reforms to improve the business enabling environment
- Draw on emerging findings from the PSD programme to inform the next phase of PSD support, including through the Operational Planning Process and Inclusive Growth Diagnostics in 2015
- For access to finance and infrastructure constraints, DFID needs to review whether it could do more within existing programmes, and/or needs to step up its efforts through participating in broader initiatives at national level and outside of the current PSD programme

Has the logframe been updated since the last review?

3 of the 4 Component logframes have been updated since the last Review. The BEEP logframe will be updated early in 2015. An External Reviewer, to be contracted by March 2015, will support DFID Malawi refine the PSD programme's overall Theory of Change following developments at component level, with a view to updating the Aggregate Logframe indicators and targets.

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	*Improved Business Enabling Environment*		
Output number per LF	1	**Output Score**	***B***
Risk:	*Medium*	Impact weighting (%):	30%
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*N*

It should be noted that this output is from the original Aggregate Logframe but relates most directly to the Business Enabling Environment Programme (BEEP).

Indicator(s)	Milestones	Progress
1.1 Global Competitiveness Report Score for Institutions	4.2	Score recorded as 3.2 in Global Competitiveness report 2014-15[1].

Key Points

An improvement in the Global Competitiveness Report score for Malawi is not directly deliverable through the PSD Programme, and therefore not an appropriate output level indicator. More appropriate outputs are likely, for example, to relate to the revision of policies, building the capacity of the Ministry to develop appropriate policy and legislation in the future and the operationalization of the One Stop Shop at MITC in order to make it easier for investors to acquire land, obtain permits and navigate the tax system. These will be reflected in the new BEEP Logframe and in the Aggregate Logframe.

Summary of progress on outputs

Following the completion of the Functional and Strategic Review of MoIT, MITC and SMEDI in late 2013, BEEP has worked with the GoM to agree MoIT, MITC and SMEDI Work Plans, based on the recommendations of the Review, to improve their capacity to deliver services and a regulatory environment conducive for private sector investment and job creation.

A Steering Committee was formed, chaired by the Principal Secretary at MoIT, with high level representatives of each of the 3 organisations, and supported by a Task Force. The DFID funded BEEP Secretariat provides administrative support to the Steering Committee and Task Force. The Steering Committee has met 4 times, and is now overseeing the implementation of Work Plans. DFID selected some aspects of the Work Plans to support, in particular:

- Support to the Ministry to focus more on developing appropriate policies to enable the private sector to thrive, through restructuring, re-allocating staff across different Departments, building the capacity of staff, and putting in place performance management systems
- Support to the update of selected policies/legislation identified as high priority in the Trade and Industry Sector Wide Approach – these include Tax Policy and legislation, MSME Policy and Bill, Investment and Promotion Act, and the Control of Goods Act
- Support to the creation of an effective, efficicient and competitive “One-Door” One Stop Shop Centre for investment and trade promotion and facilitation
- Support to the Small and Medium Enterprise Development Institute develop its Strategic Plan, to provide its top management with a clear decision making framework over the next 3 to 5 years
- Support to the Department of Registrars to make it easier for businesses to register, through establishing business registration on-line and a customer care centre

All of the above aim to improve the environment in which businesses operate, with considerable attention towards supporting smaller businesses, most of whom operate informally and lack access to much needed services and finance. Progress has been reasonable in 2014, particularly given the elections and the settling in of a new Government. The Strategic Plan for SMEDI, Business Registration On-line and the MSME Policy have been completed. DFID supported MITC with some critical infrastructure to take forward the One-Stop-Shop model. A short scoping mission was undertaken by HMRC in preparation for a Comprehensive Tax Policy Review. DFID has also almost completed the procurement work for 2 key projects – business process re-engineering the One Stop Shop at MITC, and support to the restructuring of MoIT. These projects are expected to get underway in February/March. Finally, DFID has maintained regular contact with the Principal Secretary of the Ministry of Industry and Trade over the course of 2014, supporting the PS to identify and follow through on priority actions, including the release of sunflower seed varieties in time for the 2014 planting season, in line with the Government’s (and MOST’s) ambitions for the Oil Seeds Sector as set out in the National Export

[1] http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=MWI

Strategy. DFID should take some credit for supporting the Ministry of Industry and Trade and the Ministry of Agriculture join forces in areas of common interest.

2015 will also see two other significant pieces of work going forward – provision of information on and to MSMEs, and a Comprehensive Tax Policy Review (based on a terms of reference informed by the HMRC scoping mission).

The following feedback was solicited from MoIT, MITC and SMEDI

- The CEOs and Directors at SMEDI and MITC are very positive about DFID support and recognise the importance that the Strategic and Functional Review played in setting out the future direction of their respective organisations
- Directors at MoIT welcomed DFID's focus on long term capacity development and urged DFID as well as other donors to go beyond supporting policy development with a greater focus on implementation (DFID's plans are consistent with this)
- Not all MoIT Directors are fully aware of the content of the agreed Work Plans or feel consulted on the Terms of Reference for specific projects – they have not engaged fully in Task Force or Steering Committee meetings, with Task Force meetings attended by more junior officers. An agreement has now been reached for all Directors to be members of the Steering Committee to improve engagement and commitment to implementation of the Work Plans.
- The BEEP should coordinate more closely with the Trade and Industry Sector Wide Approach – taking forward TIP SWAP priorities, fully engaging in the TIP SWAP technical working groups, and ensuring that the TIP SWAP Secretariat has up to date information on progress to date and plans going forward.
- The performance of DFID funded TA in the Ministry was hard to assess in the absence of progress reporting against agreed work plans shared with MoIT Directors

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

- Strengthening the operations and financial administration of the BEEP Secretariat – A Financial Administrator has been contracted, and contracting is close to being finalised for a Project Director. With DFID's support, the new Project Director will need to act quickly to ensure the Secretariat has the necessary capacity to fulfil its functions, given that the two existing TA's contracts are due to expire in May.

- Finalising the M&E Framework – this has not been achieved for reasons set out above. Our priority is to put in place a robust M&E approach and a revised logframe early in 2015.

- Linking BEEP activities to a broader agenda for economic development - DFID's efforts to fund activities as part of a broader Government strategy continue, both through the BEEP Governance structure and through close engagement with the Trade and Industry Sector Wide Approach.

- Support to public-private dialogue to boost private sectors advocacy for change - Formal dialogues resumed in January 2015 (with no formal quarterly dialogues taking place for the whole of 2014), and private sector participation in the TIP SWAP has been patchy. DFID should consider again specific proposals for supporting public private dialogue through the BEEP Steering Committee process.

- Collaboration with the World Bank/IFC and other donors - DFID funded TAs in the Ministry are directly engaged in and facilitating support being provided by the World Bank, and there may be opportunities to co-fund World Bank/IFC research, which could feed into future BEEP programming.

- An additional (boost) in programme management support to facilitate procurements and manage a growing portfolio of BEEP funded projects - Additional programme management support has not been available, which has reduced time available for more strategic engagement, within BEEP and across the PSD programme. It is hoped that a fully staffed BEEP Secretariat will help to address this.

- A submission should be drafted for the Secretary of State highlighting key changes since the original business case design which will affect/warrant changes to impact and outcome statements in the logframe – a submission has been delayed until we have finalised all individual logframes. A proposed update of the Aggregate Logframe will need to accompany a submission (if this is considered necessary) to the SoS.

Recommendations

Based on discussions and feedback, we make the following recommendations:

- Ensure a logframe is agreed with appropriate indicators and realistic targets, and to use that to guide any additional activities to be supported in the future
- Ensure strong programme management of the BEEP programme given the many different elements of the strategy – this will include ensuring:
    - An effective handover process when the Project Director is appointed
    - The Project Director has regular and direct engagement with all Directors and Principal Secretaries in the Ministry at a strategic level (not just on specific DFID funded projects) as well as stakeholders outside the Ministry, including through the TIP SWAP
    - The BEEP Secretariat prepares work plans and budgets, follows agreed operations procedures, and provides robust reporting to all stakeholders
    - The timely recruitment/contracting of staff to the BEEP Secretariat
- Encouragement of more active engagement of all MoIT Directors in the BEEP Steering Committee and the Task Force

Output Title	Oilseed products sector grows in a way that benefits the poor		
Output number per LF	2	**Output Score**	*A+*
Risk:	*Medium*	Impact weighting (%):	40%
Risk revised since last AR?	*Y/N*	Impact weighting % revised since last AR?	*N*

Indicator(s)	Milestones	Progress
Number of poor people with 30% increased average annual income in the oil seed products cluster	10,000 by 2014	Recorded at the impact level on the MOST logframe, 14,000 smallholders received a higher income in 2014 from selling cotton seed, with a premium of 20% over the non-seed price. It is not possible to measure for '30% increased average annual income'
Oil seed products exports as a contribution to the import bill, %	3.5% by 2014	This indicator has been removed from the revised component logframe, recognising the difficulties in measurement and attribution, and the dependence of the indicator on factors such as broader progress in the economy, including the overall trade environment.

The MOST programme aims to support the Government of Malawi's National Export Strategy (NES) in transforming the oilseed sector to achieve its long term potential, enhancing livelihood opportunities for the poor, as well as contributing to a diversified productive base of the economy. MOST takes a 'market development' approach, working with state and non-state actors to unblock critical constraints in market functioning.

Indications are that MOST has made a strong start to the full implementation stage of the programme, with progress exceeding expectations at output, outcome, and even impact level, hence this output has scored A+. The output indicators above (from the original Aggregate Logframe) need to be revised to reflect changes to the MOST logframe.

Progress also reflects high quality market analyses undertaken during inception and careful design of a realistic yet ambitious opening portfolio of interventions (these are set out in market systems analyses for each of the oil seeds and in the Year 1 Business Plan). This judgement is also supported by positive feedback from key stakeholders, including through interviews with Pannar, Sunseed Oil, Afrinut, AISL, and Farmers' Organisation. Feedback suggests that MOST has established itself as a credible facilitator of change in market systems, both with businesses and broader stakeholders, including government and other donors.

At output level:

- Output 1.1 – MOST reports that 5 market system actors are investing in pro-poor innovations with MOST's support, against a target of 2 for 2014-15 of 2.
- Output 1.2 – MOST reports 2 to 3 regulatory changes/policy reforms/better government practices have been delivered against a target of 0 for 2014-15.
- Output 2.1 – MOST reports 4 key stakeholders demonstrating 'partial progress' in increased awareness and understanding of market systems approach, against a target of 5 for 2014-15 (nb. however, these are all private companies, rather than government agencies and donors)

- Output 2.2 – MOST reports 1 article in ASI's 'The Guardian' as a contribution to greater understanding at the international level, against a target of 1.

At outcome level:

- Outcome 1 – MOST reports impressive numbers for people in targeted sectors with improved performance – 14,000 cotton seed growers with higher income, 900 cotton producing smallholders receiving spray services from 30 providers (from January 2015), up to 20,000 soyabean growing smallholders able to access inoculant, 1,500 smallholders able to access improved soyabean, and up to 56,000 smallholders able to access sunflower seed. Whilst these numbers need to be verified at the end of the Project year, it is clear that MOST is highly likely to be exceeding the 'zero' expected for 2014-15.

- Outcome 2 – Similarly, in terms of cumulative number of poor people in targeted sectors showing significant changes in their business practices, MOST is set to substantially exceed the zero expectation for 2014-15 – with up to 900 smallholders able to use cotton spraying services, 20,000 smallholders able to use inoculant, and up to 56,000 able to buy improved seed and grow higher performing hybrid seed.

At impact level, MOST provides the following indicative results:

- Impact indicator 1/2/3 – 14,000 smallholders receiving a higher income in 2014 from selling cotton seed, with a premium of 20% over the non-seed price – against a target of 0.

Since these results were presented to DFID at the end of December, Southern Malawi has been affected by severe flooding. MOST's assessment is that the floods will have limited negative impact on its results. Nevertheless, the team is being pro-active in using MOST funds, in close consultation with DFID, to distribute 11,500 kg of sunflower seed for free through NGOs in certain districts. This has the double advantage of helping farmers to recover their livelihoods (sunflower has the benefit of not needing fertiliser and can still be planted in February without compromising yields) and is an opportunity to support the uptake of sunflower as a crop to support diversification of Malawi's economy.

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

There has been mixed progress on the recommendations from the January 2014 Annual Review:

- There has been some progress on Value for Money and agreeing the right combination of performance-based and input-based payment to ensure MOST is appropriately incentivised. Recognising the challenges of putting in place genuine 'payment by results' in early stages of a Market Development Programme, DFID agreed to put just 5% of fees at risk based on mutually agreed milestones set on a quarterly basis. Over time, DFID will aim to base payments on results (rather than activities) as the programme matures and a clear results-chain is discernible.

- Ensuring independent verification of results/approach plus robustness of the Results Monitoring System (RMS) – MOST developed a Results Monitoring System based on a logframe that was agreed in March 2014. However, DFID was not satisfied with MOST's proposals for independent verification. DFID has since developed ToRs for an External Reviewer for the whole PSD programme. The ER will be expected to scrutinise MOST's M&E systems, ensuring that their design and implementation meets good practice, as well as validated reported results.

- Maximising complementarity of MOST with the work of the DFID-funded Technical Assistant to the Government's Technical Working Group on Oil seeds, which forms part of the Government's Sector Wide Approach on Trade and Industry - There is strong complementarity in practice in the work of the TA and the MOST Programme. Whilst the two are independent of each other (though both contracted by ASI), the TA has been able to draw on the resources of MOST to advance the Government's agenda on oil seeds, where this is consistent with MOST's strategic direction. For example, MOST has funded studies initiated under the umbrella of the TWG – including on broadening the services of Agricultural Research and Extension Trust beyond tobacco into oil seeds, and in funding the development of a road map for Seed System Improvement.

- Expanded membership of the Strategic Review Panel – DFID's agriculture economist has attended important meetings, joined technical discussions and supported MOST objectives through engagement with the Ministry of Agriculture.

- A clear and comprehensive communication Strategy – Following discussions between DFID, MOST and ASI, the team agreed to focus initially on raising awareness on specific issues for relevant stakeholders. At DFID's request, MOST subsequently held crop specific workshops in the early stages of implementation to sensitise stakeholders to the range of interventions planned by MOST in each of sunflower, soya, groundnut and cotton. The year has since seen campaigns being launched for particular issues, eg 'Eat More Soya', 'Grow with Sunflower', as well as good dissemination of results from commissioned studies (for example, workshops being held for Regional Oil Cake Demand and the Nuts in Shell Study).

Recommendations

- MOST should contract in international M&E and gender/social inclusion expertise in a timely and appropriate manner – this would save staff time, helping MOST draw on best practice from other market development programmes

- MOST should also continue to build local capacity for M&E, including recruitment of additional M&E officers/numerators to support monitoring in the field

- MOST should continue to invest in building the capacity of the local team encouraging their engagement with businesses and other stakeholders

- MOST should place increasing emphasis as the programme matures on communicating the market systems approach in-country, including through presentations at various public fora, making available accessible material on MOST's analyses and activities, and through the establishment of a Website - this should include summary analyses of Oil Seeds markets and MOST's interventions, as has been prepared for BIF markets

- MOST planned outputs for 2014 have been achieved at less cost than was originally envisaged. This is good news. MOST should adjust its forecasting going forwards to reflect this. Furthermore, MOST should consider whether to be more ambitious in the number of interventions to take forward within the Oilseeds sector. Where 'absorption' capacity does not permit this, MOST could consider exploring new sectors in consultation with DFID.

Output Title	*Businesses supported to innovate in a way that benefits the poor*		
Output number per LF	3	**Output Score**	***A***
Risk:	*Medium*	Impact weighting (%):	30%
Risk revised since last AR?	*Y/N*	Impact weighting % revised since last AR?	*Y/N*

Indicator(s)	**Milestones**	**Progress**
Direct private sector investment leveraged £m (through MICF and BIF)	£1.25m by 2014	0 (see below more details)
No of poor people benefiting from IB models through increased annual income (of at least 25%)	10,000 by 2014	0 (see below more details)
Increased business revenue for	£1m by 2014	0

the poor £m (MICF, BIF)		

Key Points

Individual MICF and BIF 2 logframes have been revised in 2014 and good progress has been achieved by both programmes, which have emerged from inception phases and are now well into implementation.

MICF

The Malawi Innovation Challenge Fund is a competitive mechanism to allocate financial support to innovative projects to improve market outcomes with social returns. The aim of the Malawi Innovation Challenge Fund is to support innovative business ideas that will either develop new or enhance existing export markets or that can be a substitute for imported products in the Malawian market. Innovation is defined in its broadest sense – it can be a new approach, idea, product or service not yet tested in Malawi or globally.

As can be seen from the output table below, there has been good progress in the launch of the Fund, which followed careful sensitisation of potential applicants, with the aim to 'cast the net wide' to attract indigenous entrepreneurs, entrepreneurs with long term commitments to Malawi, as well as entrepreneurs from outside Malawi wishing to introduce innovations in Malawi. The Independent Investment Panel comprised highly experienced professionals who were able to combine insider knowledge of the Malawian market with objective analysis of proposals (DFID observed 2 of the Panel meetings). 10 projects have been contracted out of a total of 202 Concept Notes submitted, and two more are likely to be contracted in January. Projects are now underway, with thorough due diligence undertaken. Targets for outputs, outcomes and impacts for each individual project have been set, and payments to companies agreed on a milestone basis. The process followed to get to this point has been robust, including ensuring strong oversight and consideration of risk and value for money. The Independent Fund Manager has produced a detailed Annual Report for 2014 setting out activities over 2014, agreed process going forward, as well as providing details of individual projects selected. Progress in 2014 suggests that MICF is on track to achieve outcome targets set for 2015 onwards.

Output 1

MICF has appropriate mechanisms in place to identify, select and support inclusive projects to ensure they achieve sustainable results that benefit the poor

Output indicator	Milestone Dec 2014		Remarks
	Planned	Achieved	
1.1 Number of concept notes received	50	202	During the launch of the MICF an intense marketing campaign was conducted to inform the Private Sector about the Challenge Fund resulting in a very high number of Project Concept Notes received for Round 1.
1.2 Number of proposals received by MICF team and put forward to Investment Panel for approval; cumulative across all MICF rounds and windows	21	21	A total of 21 proposals were put forward to the Investment Panel for their review after Round 1.
1.3 Number of companies contracted	12	10 - 12	A total of 10 companies have been contacted by end of December 2014. The 11th is reviewing its partnership arrangements whilst the 12th is updating its project plans following recommendations from the Independent Investment Panel. It is hoped that both will sign contracts by mid February.
1.5 Additional investment directly	$100,000	Not yet	This information will be collected from

leveraged from the Private Sector through MICF		known	the companies during the baseline survey which is currently under progress and will be reported by end of February 2015.

Output 2

Selected and funded MICF projects are innovative and demonstrate that new business models can have positive development impacts.

Output indicator	Milestone Dec 2014		Remarks
	Planned	Achieved	
2.1 Strength of Innovation: % of MICF Projects classifying as having a 'high', 'medium' or 'low' level of innovation	40% high, 40% medium, 20% low	50% high,30% medium,20% low	The 10 projects that have been contracted have been graded based on their level of innovation. 50% of the projects are high in their level of innovation with 30% medium and 20% low. [Nb. measured through MICF's own assessments, and needs to be independently verified]

BIF 2

The Business Innovation Facility Pilot (2011 – 2013) provided technical assistance, mostly on a matched grant basis, to selected businesses wishing to adopt inclusive business ideas. No limitations were provided on which sectors to operate in. It was essentially a demand-driven Facility, with businesses approaching the BIF country team for technical support. The BIF team would then submit proposals to an independent investment panel, who in turn approved projects to support based on the criteria of commercial sustainability, social impact and additionality. The intention of the Facility was to encourage a 'demonstration' effect, disseminating information through a website (the BIF Practitioner Hub) and through workshops. A Strategic Review was undertaken which led to recommendations for a change in approach. Whilst still focusing on provision of technical assistance to businesses, BIF 2 now aims to select specific sectors to operate in, based on a deep understanding of the challenges and opportunities in those sectors, with the more explicit aim of encouraging systemic change in those sectors to contribute to broader economic growth.

The Business Innovation Facility (BIF 2) is predominantly funded by DFID's Private Sector Department, through a contract with PWC. PWC has sub-contracted to Imani for management of BIF 2 on a day to day basis in Malawi. Good progress has been made in Malawi on BIF 2, with detailed analysis leading to an opening portfolio of interventions in three markets - Pigeon Peas, Pico Solar and Rice.

BIF 2 is now moving forward with interventions as set out in the market strategies for pigeon peas, rice, and pico-solar products These include:

- Pigeon peas - Facilitating the increased availability and take up (by smallholder farmers) of certified seed and pest disease management inputs
- Rice – Stimulating the development of the domestic retail market for milled rice, the regional export market for Malawi rice, and improving smallholder access to, and quality of, rural milling operations as well as increasing the uptake of certified seed
- Pico-solar products – Providing market intelligence to market actors, piloting innovative marketing and distribution strategies among PSP importers, and improving access to credit and/or savings mechanisms for PSP consumers

Intervention management plans (IMP) for pigeon peas, pico solar and rice markets have been developed. Data collection for a pigeon pea market baseline has been completed and analysis is in process. Technical Assistance for improved marketing and distribution of Pico Solar Products (PSP) is complete, and documentation for technical assistance for PSP consumer finance is in the pipeline.

The Malawi specific logframe has been updated and projections refined. Progress against output logframe indicators is set out below:

Indicators	Milestones	Progress
1.1 Market strategies developed and approved by DFID	*"3 – 4 market strategies agreed"*	MAS agreed for Pico Solar Products, Pigeon Peas, and Rice. A Dairy MAS was also developed but it was agreed with DFID in December 2013 not to pursue this market.
1.2 Interventions developed including: partnerships with market actors with the potential to address root causes of market underperformance; logical results chain showing how BIF2 expects to improve market system and benefit the poor; indicators showing how intervention will be assessed	*"Results chains and monitoring plans for early interventions"*	IMPs agreed for all three interventions in Pigeon Pea market IMPs drafted for the three interventions in Pico Solar Power market
1.3 % of market strategies and interventions revised, at a minimum on an annual basis, informed by BIF2 ongoing learning in focus markets	n/a – first year	n/a – first year
1.4 Number of BIF2 service recipients.	Not specified	2 service recipients in Pigeon Pea market. 1 service recipient in Pico Solar Power market
1.5. % of intervention plans with objectives and plans for wider systemic change beyond the direct beneficiaries of BIF2 support	*"Results chains and monitoring plans for early interventions"*	IMPs agreed for all three interventions in Pigeon Pea market IMPs drafted for the three interventions in Pico Solar Power market
2.1 Number of first mover market players adopting innovations who have received direct support from BIF2	n/a – no milestones set yet	n/a – BIF2 will start to measure the adoption, adaption etc. of its supported innovations from Year 2 – 3 onwards (as activities with service recipients have only recently started).
3.1 Number of first mover market players continuing independent activity around innovations		n/a – BIF2 will start to measure the adoption, adaption etc. of its supported innovations from Year 2 – 3 onwards (as activities with service recipients have only recently started).
4.1 Number of other market players adopting or adapting an innovation who have received direct support from BIF2		n/a – BIF2 will start to measure the adoption, adaption etc. of its supported innovations from Year 2 – 3 onwards (as activities with service recipients have only recently started).
5.1. Number of changes in the existence, practices, or regulations of non-commercial market players supported by BIF2		n/a – BIF2 will start to measure the adoption, adaption etc. of its supported innovations and changes in the market from Year 2 – 3 onwards (as activities with service recipients have only

		recently started).

Summary of responses to issues raised in previous annual reviews

The previous review recommended greater clarity on roles and responsibilities between PWC, Imani and DFID at post and in-country, as well as ensuring that the different layers of the structure add value. The DFID Malawi team continue to engage with PSD, and the Imani team report that they have regular meetings with PWC in London, with the London based teams providing coordination and lesson learning across the three countries involved in BIF 2 (the other two are Nigeria and Burma). A new BIF 2 contract has been signed between DFID and PwC, with DFID Private Sector Department allocating up to £5m to BIF2 up to 2019.

Recommendations

- It is recommended that the BIF 2 team explore and exploit linkages wherever possible with other relevant programmes, including MOST and MICF
- BIF 2 should also be encouraged to put in place strategies for dealing wth cross-cutting issues, for example in relation to access to finance, aggregation and storage, and business development services – recruitment of staff able to respond to cross-cutting constraints in the agricultural sector and to make the most of synergies across different value chains is welcomed
- DFID should encourage the BIF 2 Team Leader for Pico Solar to link up with DFID's Enhancing Community Resilience Programme to ensure complementarity in approach – BIF and its beneficiaries referred to a possibility of Solar Aid's domination in the market (compounded possibility by ECRP support) as potentially holding back local distributors of pico-solar products to the detriment of the market as a whole
- There has been some staff turnover in the BIF 2 team. A new country manager has been recruited and started work in December 2014. DFID Malawi should maintain good contact with the implementing partners on the ground to ensure there is sufficient capacity and skills to take forward the portfolio of interventions planned. DFID Malawi should also continue to encourage Imani to recruit and build the capacity of local staff to deliver BIF 2 plans.
- DFID's Private Sector Department has conducted an Annual Review for BIF 2 as a whole – scoring it an A overall. BIF 2 Malawi's played a significant contribution to the overall score, having been the first off the blocks thanks to the prior approval of DFID Malawi's contribution late in 2012. It is recommended that in future, DFID Malawi draws heavily on Private Sector Department's Annual Review Process to avoid duplication (as does DFID Nigeria and Burma).
- DFID Malawi's overall contribution to BIF 2 is £1m out of the total £6m. The best value DFID Malawi can add is to ensure that BIF 2 market strategies complements the work of others on the ground. DFID Malawi should regularly meet the BIF 2 Team Leader and other team members as appropriate to receive and provide feedback on monthly reports, and to chair bi-annual Advisory Groups.
- DFID Malawi should also continue to engage with DFID Private Sector Department on lesson learning for the future strategic direction of BIF overall, particularly given its unique combination of providing inclusive business support founded upon detailed analysis of markets.

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

Key cost drivers and performance

The key cost drivers for this programme continue to be fee rates for consultants and contractors, alongside the number of input days, that are required to undertake complex private sector development programmes such as this. MOST and BIF are both contractual arrangements, whereby contractees then manage further contracts. BEEP is currently managed in-house, and DFID continues to scrutinise and challenge consultant costs (and verify the quality of delivery) under that programme to drive good value for money. MICF is arranged by an MoU with UNDP, who have contracted Nathan/Imani to be the Independent Fund Manager. UNDP overhead costs are set at 7%, and UNDP are covering all other administrative costs for MICF. The other cost driver is the amount of funding awarded to MICF recipients.

VfM performance compared to the original VfM proposition in the business case

The business case stated that 'Value for money will be measured on an on-going basis, drawing on the log-frames for each of the programmes. Value for money measures will be further revised and developed at the intervention level during the procurement process and at the programme level, in collaboration with the teams appointed to undertake impact evaluation.'

For BIF 2 and MOST, value for money is a factor that is being considered at the intervention level through the Implementation Management Plans, a draft of which has now been completed, or is in the process of completion, for each intended intervention. For MICF, each successful fund recipient has set out value for money intentions and means of measurement, to ensure it is an embedded element of their project. On BEEP, the costs for which are almost entirely consultants managed directly by DFID, the DFID team has continued to negotiate to ensure good VFM for consultancy and management charges. This aligns with the commitment in the business case to assess unit costs for consultancy and management charge proposals. The team should continue to follow this approach.

The two other indicators set at the business case stage for value for money were volume of investments leveraged by commercial investors for every £1 of funding by DFID, and progress against outcome purpose level indicators at the mid term stage, with anything falling short of targets by more than 30% considered poor value for money. It is too early to report on these indicators, but the team should revisit these indicators with partners as part of the inception phase for the External Reviewer (expected to be contracted before the end of March), and determine whether they remain appropriate.

Assessment of whether the programme continues to represent value for money

The business case underlined that 'If the Government does not drive a concerted effort to become an export and producing nation away from an import and consuming nation, Malawi's economy will not be able to support its fast growing population and poverty will intensify. By increasing its support to private sector development in Malawi, DFID will help fill a substantial gap in donor support in Malawi, particularly by adopting an approach that aims to achieve systemic change in markets and that directly increases income earning opportunities for poor people. Efforts to improve the business enabling environment, to target and prioritise promising sectors, and to help businesses adopt inclusive business models, will make a valuable contribution to accelerating inclusive economic growth in Malawi, and should encourage others to follow suit'.

This rationale for the PSD programme remains highly relevant and significant progress has been made, with all components now fully into implementation. If the individual components deliver the outcomes as intended in revised logframes, then it is expected that the programme will represent value for money. It should be noted that the impact of market and capacity development programmes takes time to build. These programmes value for money can only be truly assessed much later in the programme cycle when implementers exit from interventions, ideally leaving behind sustainable change that does not depend on continued donor funding. In conclusion, progress to date suggests there are strong prospects for achieving value in the longer term. Furthermore, costs incurred in carrying out planned activities have not exceeded agreed budgets for 2014. In fact, MOST has delivered outputs for less cost than anticipated, which suggests the possibility of achieving more value for money than previously anticipated.

Quality of financial management

Have narrative and financial reporting requirements been adhered to?

DFID has received regular narrative and financial reporting for all 4 components of the PSD programme.

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

Audits are not yet due for MICF and BIF. An audit from UNDP for MICF is expected on 30th June 2015. For BIF, a copy of annual audit for PWC is expected January 2016. For MOST, DFID has received ASI HQ audited statements for December 2013 and VFM audit report. These presented a broader picture of ASI financial performance. According to the report, there were no matters to report except those required as per company Act 2006. An update is expected early in 2015. Finally, a BEEP Audit report will be due in February 2016 once the Financial Administrator is mobilised.

Is the project on-track against financial forecasts?

Below sets out Actual Spend as at end January compared to budgets agreed in June 2014. Actual expenditure to date for 2014-15 is £1.49m. Estimated expenditure for 2014-2015 is expected to be £2.72m, below the £2.90m budgeted. This discrepancy is due to the underspend in BEEP.

PSD Programme	Total Approved Budget	Total spend 2013/14	Budget 2014/15	Total Spend Mar 2014 - Jan 2015	Estimated Spend 01-03 - 2015	Expected Spend 2014/2015	Budget 2015/16	Budget 2016/17	Budget 2017/18
Business Enabling Environment	£4,000,000.00	£360,380	£599,343	£261,360	£156,200	£417,560	£1,500,000	£1,500,000	£222,000
Malawi Innovation Challenge Fund	£5,000,000.00	0	£1,100,000	£400,000	£700,000	£1,100,000	£2,000,000	£1,900,000	
Malawi Oil Seed Transformation Programme	£6,000,000.00	£568,036	£1,138,259	£765,876	£371,984	£1,137,860	£2,088,000	£1,570,000	£500,000
Business Innovation Facility 2	£1,000,000.00	£322,879	£61,393	£61,393	£0	£61,393	£307,864	£307,864	
TOTAL	***£16,000,000.00***	***£1,251,295***	***£2,898,995***	***£1,488,629***	***£1,228,184***	***£2,716,813***	***£5,895,864***	***£5,277,864***	***£722,000***

BEEP's underspend can largely be attributed to challenges with competitive tendering. An invitation to tender through a UK Government Framework Agreement did not solicit any bids for 3 significant projects – this led to a second direct limited tender process which is only now being finalised. There was also a slowdown around the time of elections and the need to gauge the new Government's level of commitment in taking forward priorities of the previous Government.

For MOST, spending is on track despite being able to undertake its facilitative role without incurring all the anticipated costs. Recent expenditures on sunflower seed as part of the flood response means that budget forecasts will be met.

BIF has spent according to its agreed budget. MICF has also disbursed according to schedule. A second disbursement for MICF of £700,000 is expected by the end of March, subject to UNDP submitting a satisfactory Financial Utilisation report.

Finally, actual spend has often diverged against monthly forecasts over the last year for BIF, MOST and BEEP. This is partly due to reasons set out above. For MOST, expenses and fees have regularly come under forecast. For components involving contracts (BIF and MOST) where there are significant variations in the level of expenses, and where the timing of the work undertaken depends on a number of external factors, it is recommended that DFID Malawi is conservative in its forecasting moving forwards. Finally, disbursements for MICF will depend to a large extent on progress made by project partners who are being paid in arrears against agreed milestones. It is possible that the disbursement schedule will need to be adjusted to reflect progress, which will depend on commitments of the businesses themselves, and external factors facing these businesses (for example, the state of the macroeconomy etc).

Budget profile for 2015-16 Onwards

The table set out above sets out a profile of expected spend for 2015-16 onwards. It is important to note that BEEP's spending will need to significantly increase over 2015 – 2017 in order to ensure full disbursement of DFID funds by 2017. The BEEP has a full pipeline of potential projects. The appointment of a Project Director is critical in ensuring that appropriate projects/activities are taken forward, that contribute to outcomes/impacts as set out in a revised logframe in 2015. Below are financial reports details for the MOST programme

Date of last narrative financial report	01 October, 2014
Date of last audited annual statement	31 December 2013

E: RISK (½ page)

Overall risk rating: Medium

Overview of programme risk

In DFID Malawi, the PSD programme risk register is assessed and updated on a monthly basis by the programme managers and lead advisor/ SRO. This process has only been formalised toward the end of 2014 but should provide stronger oversight of risks, and also support risk discussions with partners.

Key risks are set out below:

BEEP

- A key risk is the the lack of political will or capacity on the part of the GoM to take forward critical reforms required to support private sector investment. The new Government has articulated its intentions to step up efforts to support reforms, including through the establishment of a Doing Business Steering Committee under the Office of the President. The new Government also issued a Directive for the establishment of a physical One Stop Shop for Investors, a good sign of efforts to achieve tangible results on the ground. Furthermore, discussions with senior officials at the Ministry of Industry and Trade suggests a desire to improve the capacity of the Ministry according to the recommendations set out in the Strategic and Functional Review (funded by DFID). Meanwhile, Government parastatals SMEDI and MITC have progressed with some key recommendations from the earlier Review, for example, SMEDI has relocated its HQ to Lilongwe and has structured itself to deliver on its clarified mandate, and has engaged closely with DFID consultants to develop a Strategic Plan. Nevertheless, the risk remains significant that DFID support will not lead to sustainable improvements to the business enabling environment. This risk is being mitigated by:
    - support to enhanced consultation, coordination and ownership of the reform agenda through the BEEP Steering Committee, chaired by the PS at MoIT
    - ensuring BEEP plans are properly reflected and updated in Trade and Industry Sector Wide Approach, and continue to respond to priorities set out in the SWAP
    - recruitment of a Project Director alongside the existing DFID funded Technical Assistants, to provide high level guidance to senior officials and ministers on the Business Enabling Environment agenda
    - Putting in place an M&E framework to measure the impact of DFID funded activities, and to inform its future approach
    - Maintaining a tight focus rather than spreading too thinly – with the aim of achieving tangible results in a few key areas, building the case for broader business enabling environment reform
    - Focusing on long term capacity building efforts to achieve sustainable improvements in the Government's capacity to create a good enabling environment

- A second key risk is that DFID's direct engagement in procurement compromises the pace of programme delivery. This risk has been realised to some extent over the last year, with DFID procuremement processes not sufficiently agile to mobilise technical assistance in a timely fashion. This has also had the impact of taking up a lot of DFID Malawi staff time, leaving less time for engagement at a technical level across the PSD programme. This risk is being mitigated by the appointment of a Project Director, with responsibility for procurement to some extent being transferred to the BEEP Secretariat.

- A third key risk is the possibility of fraud and corruption around procurement/ inappropriate use of DFID funds. Funds used to work with Government to improve the business enabling environment are all in the form of technical assistance. No funding goes through Government systems. Nevertheless, DFID Malawi will need to ensure adequate financial and technical reporting of the BEEP Secretariat, and to ensure operational procedures are up to date on the appropriate use of DFID funds. DFID's appointment of a Financial Administrator will also help to ensure this risk is minimised.

For our business facing programmes (BIF, MICF and MOST), key risks are:

- Reputational (the programmes are perceived to support the wrong recipients) – Each of these programmes has undertaken significant analysis to inform specific interventions and to ensure the right recipients receive support. The MICF invited applications through a transparent competitive process, with applications selected by an Independent Investment Panel. BIF and MOST started with detailed analysis of markets within which they are operating, consulting stakeholders widely in the markets to identify inclusive business opportunities. Both BIF and MOST have the flexibility to respond to emerging opportunities with new businesses, and can exit from interventions which are not delivering. This flexibility needs to be maintained. DFID Malawi should also ensure that each of the programmes has a good communications strategy, including through use of websites, and through participation in various fora.

- Failure to deliver intended pro-poor benefits or to achieve transformative change – criteria for selecting interventions/projects to support should (and do) include transformative change, informed in MOST and BIF by detailed market analysis to understand constraints in the market. Strong M&E approaches need to be in place for all projects, and should be used to inform future programming. Systemic change is included at outcome level for each of the logframes, and therefore will be monitored/tracked as part of the M&E approach being taken forward. Finally, for MICF, impact milestones need to be reached before the final tranche of funds is disbursed.

- Lack of additionality in our support to Businesses – access to finance and business development services is low in Malawi. However, some businesses do have more access than others, for example, well connected established businesses are more likely to access loans from financial institutions. DFID should continue to ensure that businesses receiving support cannot access that support from elsewhere on reasonable terms. Furthermore, with a limited number of private sector players in Malawi, some businesses may receive support from different components within the DFID programme. DFID should ensure that technical service providers are in regular communication to avoid duplication and maximise complementarities in support of businesses.

- Fraud conducted by Service Providers or by beneficiaries – DFID Malawi closely engages with the Technical Service Provider for MOST to ensure appropriate contracting of downstream TA providers, with attention given to V4M and avoidance of conflict of interest (including through gift and conflict of interest registers). For MICF, Due Diligence Assessments are available for UNDP, and for Nathan Associates (contracted by UNDP to act as Independent Fund Managers). MICF Grantees have all had Due Diligence Assessments (which include confirmation of adequate fraud and corruption controls) undertaken by the IFM. For BIF, DFID uses the DDA prepared by DFID HQ for its top ten suppliers, which includes PWC – the lead contractor for BIF.

- Factors affecting the broader economy will continue to impact on the effectiveness of our support to specific businesses/sectors – DFID, alongside implementing partners, will continue to closely monitor the broader environment in which businesses operate, and ensure that logframes are adjusted to reflect this.

- A key risk is natural disasters – Southern Malawi has recently experienced serious flooding. Whilst it is too early to make a full assessment, it appears that this has not had a significant impact on the PSD programme as interventions are only just getting underway for BIF, MOST and MICF. Nevertheless, future 'shocks' such as these are likely to have more impact as the programme matures – DFID should work with implementing partners to factor in more systematically these type of risks.

Outstanding actions from risk assessment

The DFID team should continue to discuss risks and mitigating actions with partners at quarterly meetings to ensure that risk management remains an in-built part of the programmes.

F: COMMERCIAL CONSIDERATIONS (½ page)

Delivery against planned timeframe

The programme remains on track to close in 2017. Updated logframes for 3 or the 4 components, agreed in 2014, suggest that delivery is on track, despite some delays in contracting.

BEEP - DFID Malawi will need to step up its programming in order to ensure programme outputs are delivered by 2017, based on a logframe to be revised in early 2015.

MIFC - UNDP took longer than expected to contract the Independent Fund Managers leading to a delay in the launch of MICF. However, the independent Fund Managers (Nathan/Imani) have since consistently adhered to timelines set out in their inception report. A decision to allocate most of DFID funding to the first round of competition means that the results are expected within the timeframe originally envisaged.

BIF – DFID PSD undertook a Strategic Review of BIF in 2013 which led to a significant re-design before BIF 2 could get underway, which was not anticipated in DFID Malawi's business case. DFID's PSD got its business case approved for BIF 2 late in 2014, with a provisional allocation of £5m to Malawi. The contract between DFID PSD and PWC extends the project to 2019. However, DFID Malawi intends for its contribution to be fully disbursed by 2017.

MOST – despite some delay with contracting a Technical Service Provider, it is expected that the Oil Seed Sector Programme will deliver within the original timeframe.

Performance of partnership (s)

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

For MOST, the lead contractor is Adam Smith International. DFID Malawi faced some difficulties in moving from inception to implementation around March 2014. This was largely to do with the need to adhere to deliverables as agreed in ASI's technical bid, with a difference of interpretation on whether they had been met. Furthermore, DFID Malawi faced challenges in agreeing a performance based approach to payment. These difficulties are now largely resolved, with ASI agreeing to complete certain activities early on in implementation at their own expense, and with the agreement for 5% of fees to be dependent on delivery of specific milestones.

For BEEP, our partnership is largely with Government, and in particular with the Ministry of Industry and Trade, Malawi Investment and Trade Centre and the Small and Medium Enterprise Development Institute. Strong partnerships with these institutions have been established, through regular meetings and through the formal process of the Steering Committee, chaired by the PS. However, not all Directors at the Ministry are fully engaged with the BEEP. Efforts are being made to ensure that all

Directors can engage with the programme, including through Steering Committee meetings. The new Project Director for BEEP will have an important role in building strong relations with the many actors involved in that programme.

For MICF, DFID’s primary partner is UNDP, who in turn has contracted Nathan/Imani as independent fund managers. DFID is satisfied with its partnership with UNDP (despite some challenges agreeing the logframe) and has regular contact both with UNDP and Nathan/Imani. The regular reporting on progress and involvement of DFID in key meetings, including observing the Independent Investment Panel, has been much appreciated.

For BIF, DFID is also working in partnership with DFID Private Sector Department and has regular contact with both PWC and Imani. The partnership with DFID PSD has been tense at times, with the challenge of DFID Malawi having ‘signed up’ to a scale up of the BIF 1 pilot with the expectation that BIF 2 would remain similar in design. DFID Malawi had some reservations on the re-design of BIF 2 in the direction of a market development programme which were not addressed fully by PSD. Nevertheless, DFID Malawi maintains good working relations with PSD, as well as with PWC/Imani and is keen to support BIF 2’s effectiveness, ensuring synergies between it and other components of the PSD programme.

Asset monitoring and control

There are no assets for BIF and MICF. Level of confidence in the management of programme assets in both BEEP and MOST is high. Asset registers for both MOST and BEEP are updated on quarterly basis and sent to us. The BEEP TA monitors the assets, some of which are with the BEEP secretariat while some are with Malawi Investment Trade Centre. During a spot check it was noted that internal controls are being followed in asset management e.g vehicle management - an insurance claim was made in connection to car repairs due to an accident.

G: CONDITIONALITY (½ page)

Update on partnership principles (if relevant)

Although this programme includes technical assistance to parts of Government who can play a role in improving the business enabling environment, no UK funding uses Government of Malawi systems, and so the partnership principles have limited relevance. The DFID programme team will continue to monitor any relevance of any changes to adherence to the partnership principles in Malawi.

H: MONITORING & EVALUATION (½ page)

Changes in evidence and implications for the programme

A change since the Business Case was written is that the anticipated development of another DFID-funded complementary intervention on financial inclusion is no longer planned. Feedback from beneficiaries, including entrepreneurs, SMEs, and actors such as SMEDI during this Annual Review highlighted that lack of finance is a key barrier to private sector expansion. In light of this, it is recommended that DFID explores further with Government and other donors what plans there are to adequately address this constraint, with a view to informing future DFID support. There may also be activities within the components of the existing programme that could be undertaken to support increased financial inclusion. For example, land titling and improved personal identification could enable farmers to access loans from financial institutions. These areas could be addressed through our Business Enabling Environment Programme or through BIF and MOST, who could trial new approaches in the specific sectors in which they operate. Furthermore, DFID could support increased focus by the Government on financial inclusion through fora such as the New Alliance for Food Security and Nutrition, which has already identified finance and land as two critical areas needing reform.

Plans for Evaluation

The following plans are in place for each of the individual components:

- BEEP – M&E arrangements still need to be put in place, with reporting limited to quarterly reports of activities of the two DFID funded TAs through PEAKS. The BEEP logframe remains in its original form, despite significant changes to the nature of the support and how it is delivered. However, DFID Malawi is now contracting a Project Director for the BEEP Secretariat with responsibilities for M&E. The first task of the Project Director will be to ensure the logframe is updated and M&E arrangements are agreed and implemented.

- MOST has developed an internal results management system for monitoring progress and results as documented in the MOST Monitoring and Results Measurement (MRM) manual. This employs the Donor Committee on Enterprise Development (DCED) Standard for Results Measurement. Independent DCED system audits will be used to ensure that the standard is being applied on MOST.

- MICF has developed a robust M&E approach. All projects receiving funding are required to have a logframe with SMART progress indicators linked to a baseline assessment. The Fund Manager will visit each project twice per year to assess progress and assist projects with their reporting requirements as well as to ensure that projects are on track. UNDP also plan a mid-term and end of term independent evaluation.

- BIF has developed a detailed M&E Approach that combines impact assessments of the projects and partnerships and company self-reporting (companies who receive technical assistance from the BIF will be required to provide the Facility with regular update reports on implementation). Intervention Monitoring Plans are being developed, with results chains for the different markets in which it operates (currently pico-solar products and pigeon peas) based on the DCED standard, to judge whether systemic impacts in markets are being achieved. DFID's Private Sector Department also plans to appoint an independent evaluator for BIF2.

BIF, MOST and MICF logframes disaggregate by gender, with aims to support economic empowerment of women wherever possible. DFID Malawi will endeavour to ensure the M&E approach for BEEP supports an enabling environment for both male and female entrepreneurs and employees.

DFID plans to contract an External Reviewer early in 2015 (bidders will be evaluated by mid February), with a contract end date of August 2021, to review the whole PSD programme. The External Reviewer will be expected to review theories of change and the assumptions used in programme design. The External Reviewer is expected to assess progress made against project outputs and how this is contributing to overall programme outcome and impact. The ER will draw on the existing data and evidence from the M&E systems of the implementing service providers, supplementing/complementing this with data and evidence from non-programme resources as required. The aim will be objectively and independently validate, triangulate and provide assurances on results reported by the different implementing agencies for their respective components. The ER will prepare an inception report by mid 2015, and will contribute to ARs in 2016 and 2017, undertake a Project Completion Report in 2018, and a Post Completion Review Report in 2020. DFID should ensure that the inception report includes recommendations for an Aggregate Logframe, drawing from updated logframes for each of the components, and the next AR effectively constitutes a Mid Term Review.

Monitoring progress throughout the review period

DFID has received regular progress reports, updates and presentations from implementing partners throughout 2014. Over the year, DFID has agreed to refined formats for BEEP and MOST, and all progress reports are now providing up to date information on risks/assumptions as well as risk mitigation efforts. DFID has also strived to meet beneficiaries of DFID's PSD programme, including through this Annual Review. Interviews held will the following organisations include:

- Ministry of Industry and Trade
- Small and Medium Enterprise Development Institute (HQ and Blantyre office)
- Malawi Investment and Trade Centre

- Department of Registrar General
- Everbeam (Pico-Solar)
- Recapo (Pico-Solar)
- AfriOils (Groundnut and sunflower processor)
- Charles Stewart (Poultry)
- Farmers Organisation (Agriculture Inputs)
- Sunseed Oil (Oil processor)
- Pannar (Agricultural inputs)
- Imani Consulting
- PWC
- Adam Smith International
- UNDP
- Nathan Associates
- Malawi Chambers of Commerce

Feedback was generally positive. For a number of the interventions it is early days, but expectations are high in the private sector that DFID programming can provide the right kind of technical and financial assistance to achieve inclusive business outcomes. Government institutions continue to refer to the DFID funded Strategic and Functional Review as their point of reference for taking forward their mandates, have made tangible efforts to implement recommendations, and are anxiously awaiting the next phase of DFID's support. For example, SMEDI described how DFID's support has enabled SMEDI to now have 'strategic direction', with the functional review being an 'eye-opener'. MITC were very appreciative for the one stop shop launch, describing it as a 'timely launchpad' for their business enabling work.

The Annual Review was led by the DFID Malawi senior programme manager and private sector development adviser, with inputs from the programme managers and agricultural economist. The Review was undertaken in December 2014 and January 2015 .