



**Republic of Malawi**

**United Nations Development Programme**

**United Nations Capital Development Fund**



# **Building an Inclusive Financial Sector in Malawi (FIMA)**

**2007 – 2011**

**Project Document Final Version May 2007**

## MALAWI MAP



## **Government of Malawi**

### **United Nations Development Programme United Nations Capital Development Fund**

#### **Building an Inclusive Financial Sector in Malawi (FIMA) Executive Summary**

Malawi is a landlocked country with a population of 12.6 million inhabitants in 2004.

Developing Inclusive Financial Sectors in Malawi aims to contribute to poverty reduction by increasing access to financial services (loans, savings, payment services, money transfers, and/or insurance) for poor and vulnerable populations, with priority given to increasing access to rural areas where demand for services is greatest.

The project takes a sectoral approach, situating the development of microfinance in the overall financial sector including banking and capital markets.

The project strategy will support three key components:

- Nurturing a Policy Dialogue among stakeholders to support the development of an inclusive financial sector
- Supporting Innovations in Financial Markets that deepen and broaden access to services focusing on agricultural finance and mainly to women, savings services, and electronic banking applications
- Building the Capacity of key institutions supporting micro, rural and agricultural finance including Reserve Bank of Malawi, the Malawi Microfinance Network, the Government, and Micro and other financial institutions, particularly in the areas of financial transparency, outreach and sustainability.

The project key results to be achieved include:

- Appropriate mechanism (s) established to promote an effective policy dialogue for the development of an inclusive financial sector;
- Innovations in financial markets that extend financial services (savings, loans, payment services, money transfers, or insurance) to low-income groups, primarily in rural markets mainly women;
- Capacity of institutions operating in financial sector strengthened to increase outreach and sustainability of the sector
  - Financial institutions
  - Microfinance network
  - Reserve Bank of Malawi
  - Local Service Provider

It is expected that the number of household savers will increase by 50% by the end of the Project with a baseline (June 2006) of 283,000 thus 141 500 additional new household savers (764 100 people)<sup>1</sup>; the number of household borrowers by 50% with a baseline (June 2006) of 183,000 thus 91 500 new household borrowers (494 100 people) and the number of households rural clients by 40% with an estimated number of 100,000 (2006). Women should represent 50% of the total clients. The maximum number of new households having access to financial services, whether savings or credit, is 141,000. This number is inclusive of the other targets. The total budget of 6, 233,827 USD is co – financed by UNCDF (2,000,000 USD) and UNDP (2,000,000 USD). The Project should mobilize the balance (2,233,827 USD) from other sources.

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<sup>1</sup> A household comprises 5.4 people on average in Malawi

**PROJECT TITLE and ID Award: Financial Inclusion in Malawi (FIMA) (2007 – 2011)**

**UNDAF Outcome:** 5: Good governance, gender equality, and rights based approach to development enhanced by 2011

**Country Programme Outcome 5.3:** Gender Equality and women's empowerment enhanced

**Country Programme Output 5.3.4.:** Strengthened Women's Access to financial services and markets to promote women's engagement in economic life

**UNDAF Outcome 1: Sustainable economic growth and the achievement of national food security**

**Country Programme Outcome 1.2:** Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.

**CP Output/Indicator 1.2.5:** Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011

**Project Key Results:**

- Appropriate mechanism (s) established to promote an effective policy dialogue for the development of an inclusive financial sector;
- Innovations in financial markets that extend financial services (savings, loans, payment services, money transfers, or insurance) to low-income groups, primarily in rural markets mainly women;
- Capacity of institutions operating in financial sector strengthened to increase outreach and sustainability of the sector

**Source of Fund (SOF):** TRAC, Government and others

**Management Arrangement:**

- **UNDP Resources: NEX**
- **UNCDF Resources: Direct Execution**

**Government Counterpart:** Ministry of Finance

*Programme Financing*

UNCDF: US\$ 2 000 000

UNDP: US\$ 2 000 000

(Including AOS)

To be mobilized: \$ 2 233 825

Government in –kind contribution

**Approved on behalf of:**

**Government:** \_\_\_\_\_

Goodall Gondwe, Minister of Finance

\_\_\_\_\_  
Date

**UNDP:** \_\_\_\_\_

Michael Keating, Resident Representative

\_\_\_\_\_  
Date

**UNCDF:** \_\_\_\_\_

Richard Weingarten, Executive Secretary

\_\_\_\_\_  
Date

## LIST OF ACCRONYMS

AfDB	African Development Bank
AP	Action Plan
APIP	Agricultural Productivity and Input Programme
CAMEL	Capital adequacy, Asset quality, Management, Earnings and Liquidity
CDR	Combined Delivery Report
CGAP	Consultative Group to Assist the Poor
CUMO Concern	Universal Microfinance Organization
DFI	Development Finance Institution
DfID	Department for International Development
DMS	Deepening Microfinance Sector
EU	European Union
FSDG	Financial Sector Deepening Group
GIRAFE	Governance and decision making processes, Information and management tools, Risks analysis and control, Activities and loan portfolio, Funding: equity and liabilities, Efficiency and liability
HIVOS	Humanistisch Instituut voor Ontwikkelingssamenwerking
IC	Investment Committee
IFC	International Finance Corporation
IMF	International Monetary Fund
IT	Information Technology
MALSWITCH	Malawi Switch Center
MAMN	Malawi Microfinance Network
MARDEF	Malawi Rural Development Fund
MASAF	Malawi Social Action Fund
MDG	Millennium Development Goal
MFI	Microfinance Institution
MIS	Management Information System
MNP	Microfinance National Policy
MOU	Memorandum of Understanding
MPRS	Malawi Poverty Reduction Strategy
MRFC	Malawi Rural Finance Corporation
MSB	Malawi Savings Bank
MUSCCO	Malawi Union of Savings and Credit Cooperatives
NAG	National Action Group
NBFI	Non Banking Financial Institution
NSFI	National Strategy for Financial Inclusion
NORAD	Norwegian Agency for Development Cooperation
OIBM	Opportunity International Bank of Malawi
PBA	Performance Based Agreement
PEARLS	Protection, Effective Financial Structure, Asset Quality, Liquidity and Signs of Growth
PM	Pride Malawi
PO	Programme Officer
RA	Resident Advisor
RBM	Reserve Bank of Malawi
SAMCAF	Southern African Microfinance Network
SEDOM	Small Enterprise Development Organization of Malawi
TA	Technical Assistance
TAS	Technical Advisory Service
TOR	Terms of Reference

UNDP	United Nations Development Programme
UNCDF	United Nations Capital Development Fund
USAID	United States Agency for International Development

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## **Part 1:        Situational Analysis**

### **A.        Country Context and Financial Services and MDGs<sup>2</sup>**

1. Malawi is a landlocked country located at the southern end of Africa's Great Rift Valley. It is surrounded by Zambia in the North West, Mozambique in South East and Tanzania in the North East. The total surface area consists of 118,500 sq. km out of which one fifth is occupied by the Lake of Malawi (the world ninth largest lake). The country is foremost rural with agricultural land representing 43.5% of land area. The population is dominantly Bantu and accounted for 12.6 million in 2004 (11.5 million in 2000 and 12.3 million in 2003).
2. Since its election in 2004, the new government has put poverty reduction and economic growth at the heart of its programme and action plan. In its 2005 Annual Progress report, the Joint Staff Advisory Note from the World Bank and IMF commended "the authorities' strategy to reduce poverty by further consolidating macroeconomic stability and promoting sustainable growth". As a matter of fact, the GDP grew up both in 2003 and 2004 (respectively 6.1% and 6.7%, versus 1.6% in 2000). The inflation rate decreased from 30.5% in 2000 to 9.2% in 2003<sup>3</sup>, and it was upheld in June 2006 at 15.3%<sup>4</sup>
3. The good performance of Malawi economy stemmed mainly from cumulated and persistent efforts from the government to reduce government expenditure and deficit. With the recent economic recovery, the Government managed during the period to trim down the domestic debt and domestic interest bill. However, the economic performance of Malawi is still fragile due to high dependency on limited set of export crops (tobacco, tea and sugar) and strong dependency on foreign aids inflow.
4. According to the World Bank, "the overall development assistance to Malawi totals about \$400 million per year"<sup>5</sup>. Many donors are actively supporting the government Poverty Reduction Strategy (PRSP). The Key multilateral donors include the European Union, the United Nations, and the World Bank. The Government has in addition extensive bilateral cooperation with Britain, Canada, Germany, Japan, the Netherlands, and the United States. The main areas of international aids are education (UK and the Netherlands), health (Norway and Sweden, Canada and Japan), water development (Canada and Japan), and energy (Germany and the Netherlands)
5. The financial sector is narrowed and unfortunately not enough supportive to the development of a dynamic private sector. According to the Economist Intelligence Unit, "Malawi's financial services, although developing, are basic and unsophisticated". The market is dominated by the National Bank of Malawi (NBM) and Stanbic Bank Malawi. Other key players include Indebank, National Mercantile Credit and Fincom Most of these banks make their money through their investment in Treasury Bill instead of lending out to the productive sector.
6. Though Malawi macroeconomic indicators keep improving, the country still ranks beyond the 20 Least Developed Countries, mainly because of the ineffectiveness of the private sector and the banking sector. The rapid growth of the population (2.6% in 2000, 2.2% in 2003 and 2.2% in 2004, the high prevalence of HIV/AIDS (14.2% of the population in 2003), the high mortality rate

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<sup>2</sup> For a detailed analysis of the sector, see Expanding Access to Financial Services in Malawi, UNCDF, USAID, UNDP, Kiendel Burritt, 2006

<sup>3</sup> Malawi Data Profile, World Bank

<sup>4</sup> Reserve Bank of Malawi

<sup>5</sup> World Bank Country Brief

(117.0 per 1,000 live births in 2000 and 109.8 in 2004), the high malnutrition prevalence (25.4% of children in 2000)<sup>6</sup> and the overall degradation of the environment, are several fronts of challenges for the Government which committed itself to Poverty Reduction and Sustainable Growth

7. Poor and vulnerable people use financial services to smooth cash flows during difficult times, for example, to maintain food consumption, buy medical supplies or pay school fees (savings, loans, money transfers), to grow incomes (savings and loans for productive investment), to protect against vulnerability (insurance and savings), to meet payment obligations (payments for money owed) and receive timely payments or cash transfers due (e.g., for sale of tobacco on the auction floor, or to receive grants as part of social safety net programmes). A significant number of reliable impact studies have been conducted on microfinance clients around the world. They have shown that access to finance can contribute to achieving MDGs by lowering poor households' vulnerability to shocks, and improving clients' income, assets, health, education, and housing.<sup>7</sup>
8. 52.4% of the population is poor including 22.3% of ultra poor.<sup>8</sup> The poverty rate has not changed between 1998 and 2005; and 85% of Malawians live in rural areas, with a high – level of poverty. For the most part, poor households and individuals in Malawi do not have access to sustainable financial services; the percentage of poor families without access to financial services in rural areas is even greater. Those groups with the least access to finance include smallholder farmers whose production of maize and tobacco make up of the bulk of the country's supply of staple foods and contribute to the majority of the country's export earnings.
9. Only 3% of the population has access to savings services.<sup>9</sup> Only 1% has access to credit, and a dramatically lower number have access to sustainable finance<sup>10</sup>. Lack of *sustainable* access is important because it is continual access to services, not one-time injections of capital that enable clients to gain the MDG - related benefits that access to finance enables. Insurance services (health, life, crop, etc.) for this segment of the market are virtually absent. Lack of access to reasonably priced and timely money transfers means that already tight margins of crop growers (many if not most of whom live below the poverty line) are further squeezed.
10. As per the Malawi Microfinance Network, the microfinance sector accounts as of June 2006 for 182,099 loans outstanding and 282,930 depositors. The major financial services providers were MRFC, MSB and OIBM. The demand to be satisfied is however estimated at 747,000 micro and small enterprises while the client drop out rate is estimated at more than 50% in many financial institutions. The Non Banking Financial Institutions consist of ten local insurance companies out of which one is foreigner owned and one is a reinsurance company

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<sup>6</sup> Malawi Data Profile, World Bank

<sup>7</sup> Littlefield, Morduch, and Hashemi, "Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?" (CGAP Focus Note #24, January 2003, [http://www.cgap.org/docs/FocusNote\\_24.html](http://www.cgap.org/docs/FocusNote_24.html)).

<sup>8</sup> Integrated Household Survey (IHS2) conducted between March 2004 and March 2005; the poverty line considered is 16,165 MK per person per year and the poverty line for the ultra poor is 10,029 per person and per year; see Household Socio – Economic Characteristics, National Statistics Office, October 2005, [www.nso.malawi.net](http://www.nso.malawi.net); 1USD=121.93 MK (30/08/2006)

<sup>9</sup> MFIs that offer both loans and voluntary savings deposits generally have five customers for every loan customer. The belief that poor people don't seek savings accounts because they are too poor to save money turns out to be untrue. Rosenberg, Review of UNDP Microfinance Portfolio, 2004.

<sup>10</sup> Sustainable delivery of services is limited by the ability of institutions in the sector to offer services on a continual basis due to cash flow limitations as well as the existence of programmes that have neither the capacity nor the objective to recover loans and sustain operations.

## **B. Constraints to Financial Services Access in Malawi**

### **B.1. Summary**

11. Lack of access to finance for poor, rural, and smallholder farming households is attributable to a variety of factors: an unstable and weak macroeconomic environment, policy interactions among sectors that undermine, not mutually support the development of inclusive financial sectors, an inefficient banking sector, high transactions costs in rural areas, limited lending technologies of banking and microfinance institutions, weak risk management mechanisms in the financial sector that make lending to farming populations difficult, weak capacity of institutions serving microfinance markets resulting in limited outreach and capacity for mobilizing savings, information systems that are inadequate for sound management and interfacing with national electronic switching networks, and lack of MFI and financial institutions' access to finance (savings, commercial bank loans, equity capital) to fund growing portfolios.<sup>11</sup>

### **B.2. Policy Issues**

12. Access to financial services is particularly limited by fiscal policy that results in high levels of government borrowing crowding out private sector borrowing, in high real rates of interest, and massive investment in T-Bills. High rates of return create few incentives for the development of client responsive and demand driven products. Policy interactions undermine, not support the development of an inclusive financial system (see above repetition). For example, agricultural policies geared to meet food security objectives may result in disincentives for the development of market-based rural finance systems. Social welfare programmes transfer income to the poor through credit programmes without attention to recipients' ability to repay. Government as a direct operator, like the Malawi Rural Development Fund (MARDEF) initiative, in the financial sector, can also distort the market when driven by a political agenda and not following best practices. Such interventions can spoil the credit culture when borrowers are not enforced to pay back their loans.
13. A new platform called the Microfinance Forum was set up in July 2006 to enable effective communication across sectors and among stakeholders to discuss issues of financial sector development, the role of micro, rural and agricultural finance in the financial sector development, and broad policy interactions. The Forum can contribute to the financial sector deepening. The Forum will support the designing of the legal and regulatory framework and the information sharing to increase synergy between the financial inclusion programmes.
14. The Microfinance National Policy is currently under revision with the participation of the stakeholders and the support mainly from DMS, UNCDF and UNDP. The revised version, once approved, will be an important input to the National Strategy designing process.

### **B.3. Limited Products and Services**

15. While major capacity building initiatives in the sector are focused on building capacity in basic operations, no initiatives have a strong focus on pushing the finance frontier to extend the range of services offered. Absent innovation, even relatively strong institutions that have benefited from capacity building initiatives will remain extremely limited in the range of services offered and the markets reached. Some institutions will continue to struggle with sustainability goals given their narrow product base and subsequent high levels of client drop out. Furthermore, incentives to innovate are weakened by the fact that market innovations are easily replicable by competitors once successfully developed. With competitors free-riding on research and

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<sup>11</sup> For a full discussion of lack of access to barriers, consult Burritt, Developing an Inclusive Financial System in Malawi and Chemonics Consortium, Microfinance Sector in Malawi.

development costs, potential innovators may be reluctant to invest initial costs and efforts particularly when the chance of failure is high.

### ***B.3.a. Agricultural and Rural Finance***

16. Limited service offering in rural areas relate to a range of factors including 1) limited understanding of market needs, 2) high transaction costs for both clients and financial institutions, 3) financial services technology and instruments that do not adequately manage risk, and 4) weak and or inefficient linkages between players in the agricultural value chain that increase the overall costs of production decreasing margins and potential borrowers' ability to repay loans.
17. Access to a wide range of financial services is particularly limited for smallholder farming households, making up the majority of the population. There are three million smallholder farmers in Malawi. Credit is available to a limited subset of this population (about 150,000 families) for in-kind loans for fertilizer and other farm inputs. For the most part banks limit their lending to smallholder farmers. The reasons are obvious. Agricultural lending for commodities is risky business. Changes in prices in global markets for inputs and outputs make it difficult for producers, buyers, and exporters to be sure that they have adequate margins to cover costs and make a profit. Commodity crops particularly in non-irrigated areas are subject to vagaries in regional weather patterns that result in drought or other calamities that limit borrowers' ability to repay.
18. There are currently no or few products in Malawi for managing the risk associated with agricultural production and price fluctuations. MRFC with a mandate to serve this sector is the largest provider. While repayment rates are stated to be high, provisions for loan losses remain high. A number of banks have experimented with small amounts of capital for smallholder lending but have been reluctant to increase capital allocated despite the positive performance of loans in special programmes. Most banks mention that they have been "burned" before and are reluctant to get into agricultural lending on a wider scale. A new initiative supported by the World Bank on Weather Base Index Insurance is however being set up with view to contribute to reduce rural finance adverse lending.

### ***B.3.b. Savings Services***

19. Global experience suggests that demand for savings services is even greater than demand for loan services by poor, low-income and vulnerable populations. Given uncertainties in the market, farmers associations often encourage members to fund working capital needs from savings not credit.
20. Microfinance institutions and banks that source funds from commercial banking sectors complain that rates of interest on commercial borrowing is too high in Malawi for them to make adequate margins on services. They seek other stable source of finance to fund growth in loan portfolios.
21. Demand for savings services and savings as a source of loanable and investable capital is largely unmet in Malawi. Recognizing the need for basic savings services, the World Bank through MASAF III is supporting the development of local savings clubs and associations. Their aim is to eventually link clubs with MFIs or banks that can provide a safe place for their savings, support intermediation in the economy, and eventually provide access to services that cannot be feasibly offered by local savings and credit clubs. However, the primary bottleneck is the existence of institutions in rural areas that can provide those services to clubs. MASAF is partnering with Malawi Savings Bank to meet that need, but MSB itself is struggling with the development of products and services that make sense within the context of this initiative. Apart from MSB, there are no other institutions that are licensed to or promote microsavings products in rural areas.

### ***B.3.c. High Transactions Costs***

22. The transaction costs of delivering financial services in rural areas can be prohibitively high for both clients and institutions. Access to money is also limited by security concerns (banks may be reluctant to keep large amounts of cash on hand); MFI credit officers may be reluctant or prohibited to handle cash (requiring long travel by clients to MFIs' banks to get and repay loans). Limited cash handling capacities of financial institutions limit the availability of cash (for loans or savings) at local bank branches. Agricultural producers are charged high banking fees to access cash due to them for the sales of tobacco on the auction floor, and usually have to travel long distances to pick up bills of sale and access cash.
23. With no reliable identity system in Malawi, clients can assume multiple identities taking out multiple loans from the same or different institutions, and can hide bad credit histories. Lack of information increases the credit risk of banks or MFIs, creating disincentives for lending or an expensive process for gathering information about clients credit worthiness, costs of which must be passed on to both good and bad clients. Electronic banking cards offer solutions to identity fraud to lower prices for both clients and institutions. The government has been advised since 1999/2000 to spearhead the creation of a credit reference bureau for the whole financial sector. But key bottlenecks including the issue of ID card and Land Registration made it difficult for the government to move ahead. Meanwhile, the information disclosure on black listing persists to be assessed by the practitioners and the stakeholders as an urgent and critical matter that needs immediate attention.
24. Malawi has a state of the art electronic switching network. Malswitch hosts the Reserve Bank of Malawi's clearing and settlement functions. Malswitch network's functionality is immense, but to date applications offered and used on a large scale are limited. Limited use of Malswitch functionality is due to real and perceived costs of services relative to benefits, limited understanding and marketing of products, and limited knowledge on the part of institutions about how Malswitch works and how its applications can contribute to cost reduction, network extension, and information management.
25. Electronic banking applications enabled by Malswitch are also partially limited by the weak "back-end" computer systems on MFI and Bank premises. Taking advantage of Malswitch functionality requires robust MFI information systems that enable MFIs access to accurate and timely information on their operations, as well as the capacity of managers and credit officers to use information systems.

## **B.4. Capacity Building of Key Institutions in Microfinance**

### ***B.4.a. Malawi Microfinance Network***

26. The Malawi Microfinance Network was established to promote capacity building among microfinance service suppliers, knowledge and information sharing, and provide a platform for practitioners to take collective action to influence their operating environment. While network members meet regularly, the network has inadequate technical, human and financial resources to turn its Business plan into concrete actions. Practitioners in Malawi remain fragmented and lack the capacity to bring influence to bear on policy makers and donors with a single, strong voice. With support from DMS project, the Malawi Microfinance Network is planning to conduct by end of August 2006 a Strategic Planning Workshop to shape its next Business Plan as of 2007 – 2012. The strategic planning session will provide the members of the Malawi Microfinance network with the opportunity to review the network strategic orientation and action plan for the years to come.



#### ***B.4.b. Reserve Bank of Malawi***

27. Following the Microfinance National Policy and Action Plan, the Reserve Bank of Malawi has set up a microfinance section under the Division of Non Banking Financial Institutions to adequately handle the supervision and regulation of the microfinance sector in Malawi. Though the Reserve Bank of Malawi has put a lot of cumulated efforts to build internal capability to appropriately regulate and supervise the microfinance sector in Malawi, the general sense of the management is that the Reserve Bank of Malawi will require more staffing and capacity building as it needs more expertise and resources to carry out its mission. The section currently consists of two professional staff out of which one is about to complete his post graduation in microfinance. With support from the African Development Bank, a consultant was recently recruited to assist in the reviewing of the legal and regulatory framework. A meeting of the Task Force on reviewing the legal and regulatory framework was held recently to identify key constraints and opportunities. Another meeting is scheduled in October 2006 to review the draft document to be provided by the consultant.

#### ***B.4.c. Institutional Capacity Building***

28. A number of capacity building initiatives supported broad capacity building of microfinance institutions over the last years. The World Bank supported the restructuring and technical assistance for the largest providers, MSB and MRFC. Donors contributed to provide significant capacity building support over the years to FINCA, Pride Malawi, CUMO, OIBM and others. But a large number of those projects are almost phasing out or already phased out. As of now, the USAID project on Deepening Microfinance Sector (DMS) is the only project to be broadly active and supportive to the overall needs of the sector and individual microfinance institutions. Since its establishment in 2004, the DMS project has supported the review of the national policy and action plan, the strengthening of Pride Malawi, FINCA, OIBM and MAMN. The DMS project is scheduled to run until September 2007 with possibility of two year - extension. Despite DMS increased support, a large number of needs are unmet to enable the sector to grow up. The main gaps are related to innovation as outlined in B.3 and capital to on - lend. Additional gaps also exist in the area of supporting institutions to develop accurate and reliable performance and management information. Limitations stem from weak management information systems, and knowledge about internationally recognized standards and formats for reporting. MIS weakness limits ability of institutions to tap on commercial sources of capital to fund portfolios, and take advantage of electronic banking applications that may help institutions reach operational goals. Weak or inaccurate information will make it difficult for MFI supervision under appropriate legal and regulatory frameworks.
29. Institutions in the sector are struggling with developing effective company structures. Companies Ltd. By Guarantee seek transformation to shareholding companies. The two largest players in the sector (MFRC and MSB) are in the process of restructuring to fully or partially privatize. Small programmes, particularly those that do not have dedicated financial service operations, may have difficulties reaching economies of scale and may seek to consolidate their operations with other providers. Companies seek additional information to identify the right organizational and ownership structure to reach goals of deep and significant outreach. The Commercial Banking sector is virtually absent from microfinance markets, though some interest exists in understanding how their significant operating capacity can be leveraged to support microfinance markets.

### **C. Framework for Action**

30. While many constraints and barriers have been identified, it is possible to overcome them. In fact, donors, DFIs, and government have set in motion the wheels to address key barriers, but much work remains to be done and gaps need to be filled in order for the various initiatives to have significant collective impact.

31. The new government administration has demonstrated at least in its initial months to improve fiscal policy. It is expected that fiscal policy can have an impact over time on interest rates, improvements in private sector lending rates, and encouraging competition, resulting in better products. Better fiscal performance is also likely to increase the involvement of key development financiers, investors and donors in the financial sector.
32. To its credit, the Government approved a Microfinance Policy and Action Plan in 2000, and gave access to finance for smallholder farmers a strategic position in the MPRS. The National Policy is under revision with the involvement of the stakeholders and the Ministry of Industry, Trade and Private Sector as the custodian of the NP. In addition a Microfinance Forum was set up in July 2006 to implement the recommendations of the National Conference on microfinance and be a think tank and an exchange platform for the industry. A Task Force including the main stakeholders and chaired by the Reserve Bank has the responsibilities to review the regulatory and supervisory framework for microfinance.
33. USAID, UNDP and UNCDF together, and DfID have or are contributing significant funds to building demonstration models of sustainable finance through capacity building and financing of leading institutions (OIBM, Pride Malawi, and FINCA). The World Bank is assisting with the process of operational and financial restructuring of the biggest players in the sector, MSB and MRFC, in preparation for their privatization. Through MASAF, World Bank is contributing to the development of community based savings and lending groups that will eventually need to link with formal financial institutions in rural areas to contribute to goals of financial sector deepening. AfDB is providing financing to MFIs with capital constraints and is supporting the Reserve Bank of Malawi to review the legal and regulatory framework for microfinance. USAID has recently launched its Deepening Microfinance Sector initiative geared to supporting the policy framework (with other donors), capacity building of microfinance institutions, and linking institutions with commercial sources of finance. HIVOS and UNDP contributed to the establishment of the Malawi Microfinance Network.
34. MFIs themselves have made significant operational improvements in the areas of portfolio quality and operational self-sufficiency, though significant challenges remain. Key measures have been taken to reshape as well the Malawi Microfinance Network (MAMN) to enhance transparency and promote growth.
35. On the less positive side, the Treasury has announced the launching of a 5 Billion Kwacha Rural Development Fund. While increasing access to finance in rural areas is critical, the operating principles of the Fund could do as much to damage the financial landscape in Malawi as enhance it. The EU has financed the Agricultural Inputs Programme (APIP) providing agricultural inputs to grain producers. While it may have achieved food security objectives, it achieved weak results regarding financial system development. Limited sustainable finance has been promoted and the programme itself has weakened incentives for the development of market-based solutions for rural finance. EU appears to be moving away from its involvement in rural finance for now.
36. While positive steps and significant investments have been made, actors seeking to support financial sector and economic development within the stakeholder community have fragmented objectives and vision.

#### **D. Opportunities for UNDP and UNCDF and Programme Justification**

37. World leaders have pledged to achieve the Millennium Development Goals (MDGs), including the overarching goal of cutting poverty by half by 2015. Access to financial services is considered

as one of the key bottlenecks for the development of Malawi, mainly for the poor and low – income population in rural areas.

38. As stated in the UN Blue Book “Building Inclusive Financial Sectors for Development”, “access to well – functioning financial system can economically and socially empower individuals, in particular, poor people, allowing them to better integrate into the economy of their countries, actively contribute to their development and protect themselves against economic shocks. Creation and expansion of financial services targeted to poor and low – income populations can play a vital role in enhancing financial access”<sup>12</sup>. This issue of access is particularly important for women in rural areas.
39. We define microfinance as financial services aimed at the lower segments of the markets supplied by a broad – range of financial service providers (NGOs, commercial banks, state – owned and postal banks, non – bank financial institutions (finance, money transfer and insurance companies..), credit unions, credit and savings cooperatives. The services provided comprise credit, savings, remittances, money transfer, insurance.
40. An inclusive financial sector is defined as a financial sector that offers a range of financial services to the entire active population of a country as described above. An inclusive financial sector is characterized by (i) competition among financial services providers, (ii) a diverse range of financial service providers, (iii) sustainability with respect to the permanence of access to financial services, (iv) a legal and regulatory environment that is build to ensure the integrity of the financial sector and access to financial services.
41. The National Conference has clearly recommended seeking UNCDF and UNDP technical support to facilitate the designing of a National Strategy for Financial Inclusion. In addition, the National Conference has identified key areas of concern: national policy, legal and regulatory framework, rural and agricultural finance, new markets in Malawi Financial Sector. The Project aims at providing selected support to the given areas as listed below.<sup>13</sup>
42. UNCDF and UNDP have supported the sector mainly through the establishment of PRIDE Malawi and the dissemination of best practices particularly during the International Year of Microcredit. A National Conference has been organized with the stakeholders. It has yield to major recommendations including the revision of the NP, the designing of a microfinance legal and regulatory framework and the designing and implementation of a National Strategy to build an inclusive financial sector in Malawi.
43. Areas where current activity is inadequate present opportunities for UNDP and UNCDF, particularly if they work closely with key donors and the relevant governmental bodies involved in complementary and joint initiatives. With five years of experience supporting microfinance in Malawi, and with its key investment in PRIDE Malawi, UNDP and UNCDF are well positioned in terms of credibility, knowledge and track record.
44. Therefore, this programme is linked to the current UNDAF (2008 – 2011) which is at its final stage of designing. The programme fits in the MGDS priority: Sustainable development and food security and in the UNDAF priority outcome 1. It states that” By 2011 government policies and local and national institutions effectively support equitable economic growth and the achievement of food and nutrition security. Specifically, this programme will contribute to the country

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<sup>12</sup> Building Inclusive Financial Sectors for Development, UN New York, 2006, p. 4.

<sup>13</sup> Brief Report on the International Year of Micro – Credit Conference presented to the Minister of Trade and Private Sector Development Hon. Dr. Martin Kansichi on 13<sup>th</sup> February 2006 in Lilongwe.



programme outcome 3: “Strengthened private sector contribution to sustainable economic growth and empowerment” and to the Country programme output iii “Increased access to financial services and markets”. This will be finalized in the CPAP.

45. Relationship building among key donors over the past year augurs well for close collaboration into the future. Collaboration has been formalized to some extent through the establishment of the Microfinance Forum including attendees in government and the other stakeholders. In 2005, UNDP, UNCDF and USAID jointly published a document developed by UNCDF and UNDP drawing largely on USAID and UNCDF research that outlines key constraints, opportunities and recommendations for building the sector. The document is used to build awareness among key stakeholders about issues relevant to micro, rural and agricultural finance. Additionally, UNDP along with USAID, DfID, and key government ministries organized a 2-day Microfinance Workshop in June 2005 that included a series of working groups leading up to the workshop. The WG were responsible for identifying key challenges and formulating recommendations for presentation at the workshop. A Microfinance Forum was subsequently set up in July 2006 in line with the recommendations of the National Conference to serve as a platform within which key stakeholders can regularly discuss key policy issues contributing to an enabling environment and better coordination among their initiatives to reach the joint objective of building an inclusive financial sector. The Malawi Microfinance Network currently hosts the Secretariat of the Forum.
46. Based on discussions with key players and assessments carried out over the past year, and initiatives unfolding on the ground, the areas where UNDP and UNCDF can add value to the sector include the following and will be elaborated in Part II, Strategy.

#### **D.1. Policy Dialogue**

47. Developing a partnership with key stakeholders (donors, government, and practitioners) to move forward the Microfinance Forum with view to facilitate a dialogue across sectors and Ministries to ensure that policies complement not undermine each other to achieve the goal of financial sector development.

#### **D.2. Innovation: Agricultural Finance, Savings Services, Electronic Banking Applications**

48. Innovation results when providers overcome constraints to create new products and services that provide value for clients and profit making opportunities for institutions. A number of players in Malawi are attempting to innovate in financial services delivery or have ideas to overcome limitations to create innovative services but require additional support or resources to pilot products or offer promising products on a wider scale.

#### **D.3. Capacity Building and Expansion**

49. The Project will address targeted capacity building needs of Reserve Bank of Malawi, the Malawi Microfinance Network, and institutions providing microfinance services in Malawi. A key intervention will be collaboration with the Malawi Microfinance Network, USAID Deepening Microfinance Sector Project, and Reserve Bank of Malawi to develop key indicators for monitoring the performance of microfinance institutions and microfinance lines of business, promoting the use of robust management information systems to generate accurate information and improve financial transparency required to source additional loanable capital and for effective monitoring and supervision.

50. The Project will support the expansion mainly in rural areas to reach out poor rural women in particularly. Grants will be provided on a cost – sharing basis as well loans if the private sector cannot provide them or guarantee schemes in order to strengthen the relationships between the MFIs and the banking system.
51. By addressing the shortage in the provision of sustainable and cost-effective financial services to the low segment of the population, the Project contributes to open up and enhance opportunities to existing or upcoming economic or development initiatives by UNDP and/or UNDCF. The project focuses indeed on building a robust microfinance sector that is run professionally and is consistently responsive to the needs of the low segment of the population, including the poor, the low income population and the small and micro entrepreneurs. By contributing to foster innovations to reach out rural poor, the project will support Financial Service Providers willing to expand activities in areas where UNCDF local development activities require sustainable and cost-effective financial services to step up local investment and support small business development. The Project also intends to support to the diversification and adaptation of existing financial services and products by the Financial Service Providers to meet the demand of the low segment of the population. Attention could be paid to the financing of productive sectors such as small agro-processing, handicrafts, etc.

## **Part 2: Project Strategy**

### **A. Guiding Principles for Strategy Development**

52. The UNDP and UNDCF strategy for supporting inclusive financial sectors will be based on the following principles:
  - Partnership with relevant players, depending on their areas of competency and ongoing initiatives, for each area targeted for support;
  - Agreement to work with partners according to a shared vision on financial sector development;
  - Demand-driven support to meet the needs of institutions and partners;
  - Contribution from the supported partners;
  - Potential for sustainability on the part of partners;
  - Accountability for performance starting with a competitive bidding process to receive programme support, the development of performance-based agreements with partners, good reporting systems and the release of funds based on results achieved;
  - Strengthening local capacity and applying the subsidiary principle to have a long-term impact;
  - Support for financial sector development driven by the private-sector initiatives;
  - Focus on impact and synergy with other relevant projects within UNDP CO, mainly GSB, Trade, Local development;
  - Taking into account the gender and HIV issues;
  - Partnership with other relevant donors and initiatives, mainly USAID and the DMS, World Bank, DfID, AfDB and EU.

### **B. Overall Objective, Targets and Stakeholders**

53. The overarching goal of the FIMA is to contribute to the achievement of the Millennium Development Goals (MDGs), mainly the goal number 1 of halving poverty in Malawi by 2015 and to the goals of the Malawi Growth Development Strategy (MDGS), by increasing sustainable access to financial services to the poor and low – income people.

54. FIMA will support the designing and implementation of a national strategy for financial inclusion by using the sector development approach. This home – grown, nationally owned and participatory process will involve all the stakeholders, mainly the government, through the relevant ministries, including the ministries of finance, economic planning and industry, trade and private sector; the Parliament; the Reserve Bank; the Financial Service Providers and their networks (banks, MFIs, including NGOs, Credit Unions, Insurance companies, money transfer companies...); the donors; the local technical service providers...The National Strategy, once approved by the stakeholders and endorsed by the Government, will be the general framework for the financial inclusion activities.
55. While supporting the National Strategy, the project will also invest in the sector to strengthen the FSPs capability to reach out and increase their sustainability in order to increase their sustainable supply to financial services. The result will be to have a more inclusive financial sector in Malawi.
56. The key vehicle to support the sector will be the setting of a competitive fund to technically and financially strengthen the FSPs' capacity: the FIMA – Fund. The Fund is opened to all the donors and investors. The Fund will use the following financial instruments: grants, loans and guarantee schemes. An independent Investment Committee will decide on the proposals submitted by the FSPs. A performance – based agreement will be signed between the IC and the supported institutions. The tranches of funds will be released based on the assessment of the achievement results. The Fund with its dynamism, its professional management and its openness, will be a strong instrument for resource mobilization in order to attract other sources of funds, either through basket funding or parallel funding.
57. The main stakeholders of the Project are:
- the Government: mainly the Ministry of Finance, the Ministry of Industry, Trade and Private Sector, the Ministry of Agriculture;
  - the Reserve Bank of Malawi;
  - the donors and investors, mainly the ones currently active in the sector, USAID through DMS Project, DfID through its support to CUMO, AfDB supporting the Reserve Bank for the legal and regulatory framework;
  - the Financial Service Providers and their Networks;
  - the local technical service providers.
58. As shown by the details of the component, the Project will benefit to the Microfinance Forum, the Ministries involved in the sector, the Reserve Bank, the MAMN, the FSPs and the Local Technical Service Providers.
59. The final clients of the FIMA are the poor and low – income populations in Malawi who will have better access to financial services, including women in rural areas.
60. The project will have the following components:
- Policy;
  - Innovation;
  - Capacity Building and Expansion.
61. The implementation includes the development of strong partnership with donors and investors based on comparative advantages and synergy, mainly with USAID and DMS, AfDB, EU, Italian Cooperation, the World Bank and DfID.

62. In addition, with the Growing Sustainable Business (GSB), Trade and Local Development Projects, in particular, the FIMA will define the best way to synergize based on the specificities of each project and their complementary. All the projects aim at strengthening local capacity, business development, and service delivery in order to contribute to a sustainable economic development at local and national levels.

### **C. Component 1: Policy**

63. Given fragmented activities and vision among stakeholders for financial sector development in Malawi, the Policy component aims to enhance dialogue among stakeholders to support the creation of a shared vision among stakeholders on the development of the financial sector, including microfinance, rural and agricultural finance. Development of a common vision will consider all policies and initiatives that impact the development of the financial sector, for example, fiscal policy, agriculture and rural development policy, private sector development, financial sector reforms, the microfinance national policy, social welfare policy, etc.
64. In addition to creating a shared vision as a basis for action, this discussion will enable key stakeholders, investors and donors to target areas of activity that respond to key constraints and opportunities according to their own competencies, ongoing initiatives, and potential for partnership.
65. This component will lead to the designing and implementation of a national strategy for financial inclusion, as it has been clearly stated as a recommendation of the National Conference.
66. The intended output (1.1.) is “appropriate mechanism(s) established to promote an effective policy dialog for the development of an inclusive financial sector”
67. Activities: to achieve that objective, the Project will act through the combination of the following activities:
- Consolidating the Microfinance Forum through the establishment and deployment of the Financial Sector Deepening Group;
  - Promoting and enforcing the revised Microfinance National Policy and Action Plan ;
  - Fostering coordination among financial sector reforms;
  - Strengthening the Malawi Microfinance Network (MAMN) (See Strategy, Component 3, Capacity Building)
  - Disseminating best practices and capacity building.

#### **C.1. Consolidating the Microfinance Forum through the establishment and deployment of the Financial Sector Deepening Group within the Forum**

68. In establishing the Financial Sector Deepening Group within the Microfinance Forum , the following principles will be applied:
- The Working Group has the objective of developing the financial sector, not just microfinance in isolation, meaning that this body should deal with the various segments of the financial sector,
  - The Working Group will be entrusted the required authority and capacity to serve as a credible body within the Microfinance Forum.
  - It will have the capability to consider and deal with cross-sectoral issues that impact financial sector development.

69. Understanding that microfinance fits into overall financial sector development and economic growth strategies, the Financial Sector Deepening Group will consider the importance of the overall economic policy: Malawi Development Growth Strategy, the number of policies or measures that have a direct or indirect impact on the financial sectors implemented by different ministries (Treasury, Agriculture, Trade and Private Sector, etc.) and institutions (Reserve Bank of Malawi, Sheriff, Registration Body, etc.), the development of the various segments of the financial sector and their interlinkages (insurance, capital markets, etc.).
70. The FSDG will comprise representatives of various bodies represented in the Microfinance Forum and involved in the development of the financial sector (the Government, Treasury, Trade and Private Sector, Agriculture and Economic Development); The Reserve Bank of Malawi; Financial Service Providers; the donors; MAMN; the Bankers' Association; the Chamber of Commerce, etc.)
71. The FSDG will serve as a Technical Working Group under the microfinance Forum on specific issues. The different institutions participating will have a high level designated representative. The recommendations of the FSDG will be forwarded to the Microfinance Forum for endorsement and follow up with the government for final decisions on issues which require political sign off. The project will facilitate the initial meetings of the Forum in collaboration with DMS project as well as the specific studies to be carried out on the sector. Studies could comprise the review of transaction costs, training needs assessment, linking MFIs with commercial Banks, etc.

## **C.2. Promote and enforce the revised Microfinance National Policy and Action Plan**

72. The Project will help disseminate the revised Microfinance National Policy (MNP) and Action Plan (AP) to create more broad-based awareness of its key objectives and measures. The review of the MNP and AP is required by the new context (see above) notably:
  - Broadened view of what microfinance is, namely an integral part of the financial sector and present across sectors, e.g., rural and urban, agricultural, manufacturing, etc.;
  - The privatization process, namely the eventual privatization of MSB and MRFC, and its impact on the sector;
  - The ongoing involvement of the Reserve Bank of Malawi (RBM) on reviewing and potentially revising the legal and regulatory framework and maybe designing a new law for the microfinance sector;;
  - The emergence of new initiatives that could be potentially unsustainable if not well – managed;
  - The entrance of new actors in the sector;
  - The renewed emphasis on rural finance and the plan to develop a rural finance strategy,
  - New initiatives to support microfinance.
73. The revised National Microfinance Policy and Action Plan should be a framework for action accepted by key stakeholders. All stakeholders including government should comply with the accepted framework. The Microfinance Forum should be entrusted to ensure general compliance with this framework and monitor progress towards achieving activities and objectives. The Microfinance Forum will discuss the evolution of the implementation of the MNP and AP and propose any required adjustments.
74. The Project will contribute to strengthening the ongoing dialog on issues affecting financial sector development carried out through many bodies, not just exclusively through the Financial Sector Development Working Group, but also the Stakeholders Forum, the MAMN, the National

Action Group, the specific committees of the Chamber of Commerce and the Bankers' Association.

### **C.3. Dissemination of Best practices and Capacity Building**

75. A national dialog can most fruitfully take place if key stakeholders have a comprehensive understanding of issues influencing development of the sector. The National Conference and its preparatory process have contributed to fostering understanding among policy – decision makers and other key stakeholders. The Project will partner with the USAID Deepening Microfinance Sector (DMS) Project and the MAMN to disseminate information on best practices through its activities. In addition, the Project will support the participation of stakeholders in the UNCDF distance – learning courses and the UNCDF / CGAP sponsored microfinance best practice courses (now under CGAP).

### **D. Component 2: Innovation and expansion, with Focus on Reaching Out Rural Poor, Including Women: Investing in the Financial Service Providers (FSPs)**

76. Given the absence of support for innovation in financial markets that can positively impact poor and vulnerable populations, the project will support innovation where demand for services appears strong, potential strong partnerships exist, either nationally, regionally, and internationally, and where national policies and priorities appear to provide a supportive environment. The four areas of focus will be innovation in financial services for

- Agricultural markets, focusing on cash crops
- Savings services in rural, urban and peri – urban markets
- Electronic banking applications
- Lending methodologies that increase empowerment and financial access to rural poor women

63. The intended output (1.2) is “Innovations in financial markets that extend financial services (savings, loans, payment services, money transfers, or insurance) to low – income groups, primarily in rural areas are implemented. The activities linked to the output are listed for each area of support.

#### **D.1. Agricultural Finance**

77. Financial services to agricultural markets are limited to in-kind input loans. Producers seek credit for working capital, equipment or machinery for processing; some growers seek term finance. Demand for credit outstrips current supply. Access to safe savings services is limited to only one institution that allows at-will withdrawal. Farmers require banking services to receive payments from buyers that contract their production services or sell their crops at auction. Banks and farmers require insurance products and other financial instruments that allow them to hedge their price, yield and credit risk.
78. To address limitations in the supply of services to agricultural markets, this initiative will support innovations in agricultural finance. The project will limit its focus to innovation serving households producing cash crops (rather than staples) because interest on the part of potential partners (Farmers Associations, apex organizations, Chamber of Commerce, etc.) in developing instruments for this market is greater. Additionally, the policy environment is not conducive for experimentation with credit for maize at this time.
79. Potential partners include insurance companies interested in piloting innovative insurance products that provide cover for price, production, and or credit risks associated with agricultural production. Discussions revealed that experts in this area are actively evaluating the potential for weather-based index insurance for Malawi. World Bank is piloting a project on that issue.



Potential partners also include companies in capital markets interested in developing derivative products like futures. Our discussions indicated that a feasibility study is in development for a commodities exchange for Malawi that would operate nationally and potentially regionally serving all players in the agricultural value chain including smallholder farmers and their associations. Potential partners include retail banks and microfinance institutions that want to increase lending to agricultural markets given the availability of insurance and other financial instruments that allow either themselves or potential clients to manage elements of heightened risk in agricultural markets.

## **D.2. Savings Services**

80. Demand for savings services and savings as a source of loanable and investable capital is largely unmet in Malawi. An initiative that focuses on *market innovations that increase the supply of savings services* fills another gap in Malawi's financial landscape. The supply of savings services however must be accompanied by adequate capacity of suppliers to manage savings products, profitably (and therefore sustainability) and prudently. Many microfinance institutions are clamoring to mobilize savings with limited understanding of the institutional requirements for doing so, or are already mobilizing and intermediating savings (without licenses). The project will work with institutions in the sector to provide information about institutional and evolving regulatory requirements for developing savings capacity.
81. The Project will partner directly with those institutions that are licensed to develop savings products or have a reasonable expectation to be licensed in the near future to carry out market research, pilot products, and potentially roll out products on a wide scale. Any institution that is selected to work with the Savings Initiative must have access to complementary technical and financial resources that will enable them to develop the "supply-side" systems required to handle the development of new savings products.
82. This component will draw liberally from lessons learned in the MicroSave Africa experience, a joint UNDP, World Bank, DfID initiative in Africa. The MicroSave initiative trains local service providers (and employees of institutions) to use MicroSave tools that provide technical support for market research, product development, costing and pricing, and product marketing. Trained and certified local service providers will be the primary technical partners of institutions participating in this component of the project.

## **D.3. Information Technology and Electronic Banking Applications**

83. The transaction costs of delivering financial services in rural areas can be prohibitively high for both clients and institutions. With no reliable identity system in Malawi, clients can assume multiple identities taking out multiple loans. Lack of information increases the credit risk of banks or MFIs, creating disincentives for lending or an expensive process for gathering information about clients' credit worthiness.
84. Malawi has a state of the art electronic switching network. Limited use of Malswitch functionality is due to real and perceived costs of services relative to benefits, limited understanding and marketing of products, and limited knowledge on the part of institutions about how Malswitch works and how its applications can contribute to cost reduction, network extension, and information management. Electronic banking applications enabled by Malswitch are also partially limited by the weak "back-end" computer systems on MFI and Bank premises
85. The IT component of the Innovation component will focus on 1) providing information and training about developing information systems appropriate for microfinance. Training will be

geared towards financial institutions (Banks, MFIs, etc) as well as potential suppliers of IT solutions. The IT component will also provide 2) funding to institutions to pilot innovative electronic banking applications that serve underserved markets, with greater priority given to solutions that extend services to rural areas.

86. Institutions that are eligible for this funding must implement and use strong back end systems that allow them to take full advantage of pilots and better ensure their success. Support provided in the capacity building component will include technical assistance to address weaknesses in MIS and for improving MIS systems. Potential partners do not have to be traditional banking institutions. They can be any company that extends demanded financial services to populations with value adding elements (for example companies in the agricultural value chain that initiate solutions that cut down on payment services or money transfers to clients).
87. The IT and electronic banking component will complement efforts to strengthen capacity in transparency and reporting outlined in Component 3. Robust information systems that generate timely and accurate information will be prerequisites for financial reporting that complies with international standards also promoted in Component 3.

#### **D.4. Increase Financial Access to Rural Poor Women**

88. When many rural poor lack of substantial access to financial services, poor women are usually affected at the first place because of weak economic and social background. In many cases, they cannot even think about accessing financial services where the possibilities exist. While supporting innovative methodologies to expand financial services to the rural areas, the project will assist microfinance institutions willing to explore and implement innovative methodologies that provide an increasing access to financial services to rural poor women. Some methods combine access to financial services in combination with education to allow their full participation to the financial sector. Credit with Education is supported by Freedom From Hunger in some African countries. Such innovations should help rural poor women to progressively graduate to the financial sector with view to become active economic Agent.

#### **D.5. The Financial Inclusion in Malawi (FIMA) Fund**

89. For all elements of the innovation and expansion component the Project will set up a Fund (the Financial Inclusion in Malawi Fund: FIMA – Fund) making investments in financial services providers to support their initiatives to innovate, expand and improve their sustainability. The Fund will not compete with the local financial market but rather will contribute to its strengthening through the improvement of the FSPs creditworthiness. The fund will be accessible on a competitive basis and will use alone or combined the following financial instruments: loans, grants and guarantee mechanisms. An Investment Committee described in the management arrangements will decide on the proposals.
90. All financial institution applying for an innovation grant must include a strong technical partner with a track record that can support their efforts in their grant application. The results of funded Innovation initiatives must be shared widely across the sector so that a range of players can benefit from lessons learned and to facilitate the adoption of new technologies by a range of players. Where grants are made available to support Innovation initiatives, partners will be required to cost share. Market research will be required to clarify market demand and opportunities prior to launching any pilots.
91. The project will provide innovative and competitive Financial Service Providers with Loan Funds to help them strengthen their financial basis and performance to be able to access to commercial



loans. Interest rate will be applied on a commercial basis to avoid a distortion of the market while allowing the Financial Service Providers to serve specific niches or markets on a cost effective basis that will allow them to immediately expand activities and outreach. For the matured Financial Service Providers, requiring more capital, a guarantee fund will be granted to help them leverage more resource from the commercial banks and/or private investors.

## **E. Component 3: Capacity Building**

92. The intended output of this component is “Capacity of institutions operating in the financial sector strengthened to increase outreach and sustainability of the sector”.
93. The Project will support the following institutions: (i) the Reserve Bank of Malawi (ii) the Financial service providers; (iii) the MAMN; and (iv) the local service providers. The activities to be carried out are listed under each type of support. This support will be done through specific agreements with each actor involved.
94. The support will be carried out through a competitive Fund (FIMA – Fund) with the required financial instruments (grants, loans and guarantee mechanisms). The Fund will also support the innovations activities.

### **E.1. Reserve Bank of Malawi (RBM)**

95. The RBM is reviewing and potentially revising the legal and regulatory framework to promote and/or regulate microfinance.
96. The Project will work in collaboration with AfDB and USAID DMS project to strengthen the internal capacity of the RBM to meet this challenge through:
  - Technical support and knowledge sharing including exposures to other experiences in the region or elsewhere,
  - The dissemination of best practices on regulations;
  - Information on the microfinance sector and best practice reporting requirements, and
  - Management Information System of the Microfinance Sector.
97. Given changes in the financial sector, RBM capacity to establish an appropriate framework for microfinance may be strengthened by supporting a broader exercise within RBM to look at the overall needs of the banking and financial sector in Malawi including (i) the legal and regulatory framework for different segments of the sector (banking act, insurance, microfinance, capital market, etc.), (ii) better understanding of the different sectors and measures to promote them, (iii) best practices on monitoring the results of various subsectors, (iv) promoting financial transparency, (v) counseling the government on cross – cutting issues, (vi) carrying out specific research, and (vi) being the secretariat of the FSDG. In partnership with FIRST, the project may tailor a capacity building program based on a MOU between the RBM and UNDP and a business development plan.

### **E.2. Financial Service Providers**

#### **E.2.a. Financial Transparency and Management Information Systems**

98. Whatever solution is adopted by RBM regarding the legal and regulatory framework for microfinance (direct supervision by RBM or delegated body) will require that the Microfinance

Institutions provide timely and accurate performance reporting. Additionally, financial transparency should improve MFIs' access to commercial funding to grow loan portfolios.

99. In partnership with the USAID DMS, the project will provide support to improve the Management Information System (MIS) of the FSPs and the RBM to capture microfinance data. The following measures will be taken:

- Improve the MIS of the FSPs,
- Capacity building (training on the standards of reporting and indicators, elaboration of financial statements) of the MFIs, audit firms responsible for auditing microfinance lines of business, or other technical service providers involved in supporting the industry, by carrying out specific sessions (drawing on regional training programmes including CGAP courses, and other seminars and workshops);
- Developing a resource center within the MAMN for information sharing.

#### **E.2.b. Transformations, Mergers, and Acquisitions**

100. The financial sector has two processes on its agenda which will impact its development: (i) the transformation of companies' ownership structures and (ii) privatization of state-owned entities. Both processes support the general move towards increased commercialization in the financial sector.

101. The Malawi Rural Finance Company and the Malawi Savings Bank, the two biggest players in the microfinance sector, will be privatized with the support of a strategic partner.

102. FINCA Malawi and PRIDE Malawi are Companies limited by guarantee with unclear ownership structures. They currently do not have the appropriate corporate structure to be licensed or capacity to mobilize savings required to serve client needs and grow portfolios. They are currently facing a lack of capital to sustain their portfolio growth. Both are preparing to transform their ownership and shareholding structures to better suit the needs of the market. Stakeholders, including transforming companies, their "owners", and more traditional players in the financial sector have limited information about how they may be involved in supporting this process, and what benefits could accrue to various parties. In some cases, Banks may wish to become partial owners. Pride Malawi has officially requested UNDP/UNCDF support through the Ministry of Industry, Trade and Private Sector in relation to its planned transformation. Small programmes with limited prospects for sustainability may also choose to merge with other programmes or institutions.

103. The Project will support the movement towards commercialization, including support for transformation of Companies Ltd. By Guarantee, potential company/programme mergers, and identifying opportunities for MFIs to leverage Commercial Bank capital and licenses in partnership with interested institutions by providing technical assistance through high-level expertise.

104. This Technical Assistance will carry out due diligence of the MFIs, host discussions with stakeholders on the different scenario for the transformation process, support the search for potential investors, explore the possibilities of synergies between the dual processes of transformation and privatization, and provide appropriate legal and other technical support required for the establishment of new companies.

#### **E.3. Institutional Strengthening of the Malawi Microfinance Network (MAMN)**

105. The Project will provide support to the MAMN based on its Business Plan. The project will support MAMN's mission to "be an effective and efficient advocate and platform of Microfinance Institutions in Malawi, fostering the adoption of Microfinance Institutions best practices and increased access to financial services on a sustainable basis"<sup>14</sup>.

106. The support will comprise:

- Assisting in the establishment of a strong secretariat by cost-sharing the costs of an Executive Secretary, operating expenses, and IT (equipment and software),
- Disseminating of the Code of Conduct,
- Establishing a Knowledge and Resources Center that will contribute to the training of members, the dissemination of best practices, the exchange of information in the sector and outside Malawi, and linkages with other sources (financial and technical resources),
- Designing and implementing a website,
- Evaluating mechanisms that provide credit bureau functions (potential partnership with Malswitch),
- Supporting networking, partnerships and linkages (exchanges of experiences, innovations, technologies among Government, the Reserve Bank, the commercial banking sector, donors, microfinance programs and initiatives, and participation in regional association (Southern Africa Microfinance Networks (SAMCAF)...),
- Strengthening the capacity of members, and supporting their participation in trainings that can be shared with other members;
- Developing an internal capacity of training by supporting the training of trainers among the MAMN members.

107. The MAMN will implement its capacity building programs to improve the Human Resources of its members in partnership with the Project and the USAID DMS project. Those activities include training sessions on the key issues facing the sector (Business planning, indicators, reporting and MIS, Sustainability and Innovations (see other project components)).

108. The Resource Center and the training sessions conducted under the MAMN responsibilities will increase the Network's income, increasing its sustainability progressively. The Resource Center will develop relationships with the University and Local Technical Service Providers, including audit firms, management consultants, business development experts, etc.

109. The institutional strengthening of MAMN will result in positive impacts on policy through strong lobbying capacity and MAMN participation in policy dialogue, strengthening the credibility of the sector within the financial system and "its legitimacy as the voice and representative of the microfinance industry in Malawi"<sup>15</sup>. This will contribute to the MFIs' outreach and sustainability.

#### **E.4. Strengthening Local Technical Service Providers**

110. The sector requires long-term support for capacity building and technical assistance that can only be provided on a large scale by local, cost-effective technical service providers including audit firms, management consultants, IT suppliers, etc. The Project will support the strengthening of the suppliers of local technical service providers by:

- Identifying local technical service providers that can partner with the Project on focused initiatives through a Request for Interest and a selective process,

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<sup>14</sup> MAMN Mission Statement.

<sup>15</sup> MAMN Business Plan, December, 2001, 13.

- Cost – sharing local service provider participation in trainings (locally or internationally) to provide incentives for their involvement in new markets,
- Carrying out specific training sessions for local providers, including the use of tools for rating and assessing MFIs (CAMEL, PEARLS, GIRAFE...) and supporting providers' certification to provide trainings on behalf of regional technical support projects, for example MicroSave,
- Pairing international and local expertise.

### **E.5. Pride Malawi**

111. UNCDF and UNDP have provided Pride Malawi with a lot of supports over the last years. In recent months, Pride Malawi requested additional support from UNCDF/UNDP through the Ministry of Industry, Trade and Private Sector to facilitate its transformation and commercialization. The support will consist of a preliminary institutional assessment to be carried out by external evaluators. The results of the evaluation will subsequently inform UNCDF/UNDP support to Pride Malawi as the transformation and commercialization of Pride Malawi can only be considered when its financial situation and overall performance are improved.

## **Part 3: Management Arrangements**

### **A. General Framework**

112. The programme will be nationally executed with the Ministry of Finance as the Executing Agency in order to ensure Government (the Ministry of Finance) takes the overall responsibility for developing an inclusive financial sector in Malawi. The Ministry of Finance will establish a Microfinance Desk in its Directorate of Economic Services where UNDP and UNCDF would assist the Ministry to place/locate a Programme Management Unit (PMU) consisting among others, of the Resident Advisor, the National Expert, and the two other support staff that the project plans to hire. The PMU would at the same time constitute UNDP/UNCDF technical support to the Ministry, as part of a strategy to institutionalize the microfinance programme in Government. The PMU would be an implementing arm of the Ministry of Finance accountable for the use of resources provided by UNDP/UNCDF. If need be, we could quickly undertake a harmonized cash transfer to implementing agencies (HACT) exercise. Other national partners will be Malawi Microfinance Network, the Ministry of Industry, Trade and Private Sector Development and the Reserve Bank of Malawi...

113. Such an arrangement will enhance Government ownership of the programme and will highlight the Ministry of finance important role in building an inclusive financial sector in Malawi. With the Paris declaration, the Government of Malawi has recently been very particular about its role in relation to that of donors in the design/execution and implementation of development programmes. POs have raised a similar issue with UNCDF at the POs workshop this year. We therefore need to give due attention to this issue that Government views as very important.

### **B. Annual Meetings (AM)**

114. The Programme will hold an annual meeting with the Microfinance Forum involving the two following committees (Steering Committee and Investment) to review the progress of the

Programme, have information exchange and discuss the required measures to synergize with other initiatives and improve the implementation.

### **C. Steering Committee (SC)**

115. A Steering Committee co – chaired by UNDP and the Ministry of Finance and comprising of representatives from the Ministry of Industry, Trade and Private Sector, the Ministry of Agriculture, the Ministry of Economic Planning, MAMN, the Reserve Bank of Malawi, UNCDF, USAID, the Bankers’ Association, the Chamber of Commerce, will provide overall guidance and oversight of the project, mainly on the policy issues. The Programme Management Unit will act as the secretariat of the SC.

### **D. Investment Committee (IC)**

116. An Investment Committee will be established to decide on the proposals submitted to the FIMA – Fund. The Fund will encourage the participation of other donors or investors involved in supporting the sector. Each donor or investor investing at least 1 million USD in the sector will have voting rights. The RA and DMS Director will act alternatively as the secretariat of the IC, by carrying required due diligence, analyzing the proposals and presenting them before the IC. Upon approval, the RA will draft the performance – based agreements that will be signed with the supported institutions. The Investment Committee members will be primarily comprised of other investors in the Sector who have knowledge about and potentially investments in organizations in the sector. This should enable the Fund to make informed decisions about the highest potential investment opportunities. It will also allow investors/donors to coordinate their support to potential partners and streamline reporting requirements. The Investment Committee will also be a forum for donors and investors to get to know each other’s programmes and operating principles better. The Investment Committee will be responsible for

- Vetting applications under the Fund
- Monitoring performance against performance based contracts.

117. The IC will have a simple but clear Manual of procedures including the selection criteria, the decision making process, the contracting, monitoring and reporting mechanism. The major criteria will include:

- Vision and leadership;
- Good trends towards operational and financial sustainability;
- Loan portfolio quality;
- Clientele – focused and willingness to reach out, including in rural areas;
- Weaknesses identified and willingness to fix them in order to improve the performances.

118. The PMU (see E) will propose to the IC and the SC modalities to set up a Trust Fund in order to institutionalize the Fund. The process and the legal options to be validated will comply with the legal and regulatory framework of Malawi. It will also take into account the procedures of UNDP, UNCDF and of any other donor or investor contributing to the Fund.

## **E. Programme Management Unit (PMU)**

119. The Ministry of Finance will be the Executing Agency. UNCDF and the Ministry of Finance will jointly implement the programme. The PMU will provide all the relevant technical support to the Ministry and will daily execute the decisions taken by the relevant bodies of the Project, mainly the Steering Committee and the Investment Committee. The Ministry of Finance through the Director of the Economic Services will provide overall guidance to the PMU. The PMU, will comprise of a Resident Advisor (RA) (see attached TORs; to be replaced after two years by a national expert playing the same role), national staff (a national technical adviser, an administrative and finance officer and a clerk – driver). The technical team under the leadership of the RA will provide direct technical assistance on some project components, implement the decisions taken by the IC through contracting via bidding processes, liaises with UNDP and UNCDF on project issues, and interacts regularly with other financial sector deepening initiatives in the country, particularly those of USAID and World Bank. The RA must have a strong track record in the microfinance industry with established competencies in the main project areas. The recruitment process will be carried out by UNCDF in collaboration with UNDP and the Ministry of Finance. The recruitment of the RA will be performed on the principle of subsidiarity. At the first place, the RA will be recruited locally. If the applications do not match the profile, the post will then be advertised at international level. If it is an international position, the recruited RA will have the task to train the national officer to whom he or she will handover the tasks. A second national officer will then be recruited. UNCDF will sign a contract with the RA. Under the supervision of UNCDF Regional Technical Manager for Southern and Eastern Africa based in Johannesburg and in close collaboration with the Director of the Economic Services of the Ministry and UNDP Deputy Resident Representative (Programmes), the RA will be responsible for:

- Working with key partners to identify a mechanism for discussions on policy issues;
- Liaising with RBM, Microfinance Network, DMS to establish activities and provide technical support for activities under the Financial Transparency initiative
- Developing a partnership agreement with RBM for capacity building
- Technical support for building capacity of the Malawi Microfinance Network and liaising with Regional and Global microfinance networks
- Brokering potential relationships between technical partners and Partner Financial Institutions for the Innovation and Capacity Building Fund
- Elaborating the annual workplan and budget
- Convening an Investment Committee among stakeholders for vetting applications under the Innovation and Capacity Fund
- Developing active partnerships with other initiatives and seeking cofinancing where possible
- Developing and implementing a strong strategy for resource mobilization
- Monitoring progress on components that involve MOUs and performance based agreements with project partners.
- Ensuring dissemination of project results and learning to key stakeholders

A more detailed TOR for the RA is included in Annex 1.

## **F. Programme Officer**

120. The UNCDF Programme Officer, as the microfinance focal person for UNDP and UNCDF and under the supervision of UNDP Team Leader for the practice area, will work closely with the RA to ensure that the project is implemented according to the commitments of the partners and the services are delivered subsequently. He will work together with the Regional team to support the RA in the areas of project administration and technical support.



## **G. Financial Institutions**

121. Financial institutions will be the primary programme partners, participating in the FIMA - Fund and taking advantage of other capacity building efforts of the programme. Partner institutions may include Microfinance Institutions, Commercial Banks, Insurance Companies, NBFIs, Credit Unions, etc. In some cases, institutions may be non-traditional players in the sector, for example retailers or other players in the agricultural value chain.
122. To receive support under the FIMA - Fund, financial institutions will forward applications to the Fund, receive approval from a multi-stakeholder investment committee and implement initiatives according to their approved proposals.
123. Institutions participating in the Fund must have *high-level champions* within their organizations that will ensure visibility and committed resources for the project. Each participating financial institution must have the support of a *strong technical partner* that can provide technical support in developing and supporting the innovation. Participating institutions will cost-share initiatives with the Fund and will be responsible for sharing lessons learned with the RA so that results can be widely disseminated.

## **H. Technical Partners for Financial Institutions**

124. Technical Partners working with institutions participating in the Fund can include local or international firms with an internationally recognized track record in the area of innovation and capacity building that they are supporting (Technical partners may include organizations like MicroSave-Africa, global insurance companies, IFC, First Financial innovations Project, etc.). Any international technical partners are responsible for working with local firms that can support their efforts so that learning by local firms and international technical partners can be maximized. The Technical partners also include academia that will contribute to developing curricula to build the HRs capacity and to design new products. The Project will therefore link the academia, mainly the Bunder College of University of Malawi, the Malawi Polytechnics and the Chancellor College with regional initiatives with recognized expertise such as MicroSave and School of Applied Microfinance, the Center of Microfinance in South Africa...

## **I. Local Service Providers and firms**

125. Local firms will participate in as many elements of the project as possible to ensure that learning is captured locally. MFIs and other financial institutions supported by the project will be Malawian firms. Local firms and service providers will partner with international technical partners on capacity building efforts. It is expected that the kinds of local firms that will participate will include audit firms, IT suppliers, management consultants, skills development firms (accounting, MIS, internal training, etc.)

## **J. UNDP**

126. The UNDP CO is co – financing the Project with 2 million USD. UNDP will have a programme officer backstopping the programme (see E). UNDP will co – chair the SC and is a member of the IC.

## **K. UNCDF**

127. UNCDF will co – finance the project with 2 million USD. UNCDF through its regional team in Johannesburg will provide technical backstopping to monitor the progress of the Project in collaboration with UNDP. To best provide this function, there will be triangulated communication between the PMU and Ministry of Finance implementing the project, UNDP and UNCDF. UNCDF will provide at least two in-country missions annually and will be available via email and telephone communication on a regular basis. Specific responsibilities include:

- Hiring the RA and the technical team
- Establishing Terms of Reference for the Competitive Fund
- Working with UNDP to convene an Investment Committee for awards under the Fund
- Negotiating with USAID DMS on joint project activities including potentially sharing office space, potentially establishing a joint capacity building fund, etc.
- Liaising with other donors to support the policy dialogue efforts
- Regular technical reviews of the project to chart performance against objectives
- Managing a performance based agreement with the RA, and monitoring RA performance against objectives
- Troubleshooting any problems so that mid-course project corrections can be made
- Providing regional and international networking services to link the Project with technical and financial resources for example contacts with Central Banks participating in UNCDF or UNDP projects, technical partners like the IFC, etc.

## **L. Other Donor Initiatives**

128. The project will maximize to the extent possible is partnerships with other donor and deepening financial sector initiatives. Key donors and initiative identified so far in the project development process include:

1. USAID Deepening Microfinance Sector Project
2. DfID support for policy dialogue and direct support for OIBM and CUMO
3. World Bank Privatization Project and future interventions in the sector
4. World Bank MASAF
5. AfDB Microfinance Project (including partnership with RBM)
6. IMF Country Project
7. NORAD Agricultural Sector Support (relationship with NASFAM and MUSSCO)
8. Ministry of Finance (Rural Development Fund)
9. Ministry of Trade and Private Sector Development (Policy and Action Plan)
10. HIVOS (Malawi Microfinance Network)

129. UNCDF and USAID have initiated discussions to see if its projects can share space and provide joint support on specific initiatives. They have accepted the principle to share the same IC and synergize on the proposal to be funded. A number of key donors in the sector will be invited to participate on an Investment Committee to vet applications under the Innovation and Capacity Building Fund. Resources from this Fund may be combined with USAID Capital Development Fund (CDF) for certain activities.

## **M. Resource Mobilization**

130. Given the budget and the current and planned partnership, UNDP and UNCDF joining their efforts and in partnership with the other stakeholders including donors, investors and the Government will put a clear emphasis on the resource mobilization. The strategy will be based on the Programme objectives, the designing of the NSFI and mainly the IC and the FIMA Fund. The IC seeks the participation of other donors and investors and will be a good vehicle to channel



resources to the sector. In addition, the development of innovative products and the capacity building activities will contribute to strengthen the FSPs as good deals for investors and donors. Cordaid has shown its interest to contribute to the Programme with 1 million USD.

131. The Government, through the Ministry of Finance will provide office space and bear the costs of Director's time to contribute to the management of the Project. This constitutes an in-kind contribution to the Project. In addition, the FSPs seeking support from the FIMA – Fund will contribute to the costs of their proposal, either in-kind or in cash. It is the same thing for the other stakeholders benefiting from the Capacity building grants.

## **Part 4: Opportunities and Risks**

### **A. Opportunities**

132. The new administration has made some progress towards the macroeconomic reforms that will be prerequisites for financial sector development in Malawi.
133. By supporting the development of financial services for poor and vulnerable populations including smallholder farmers, with priority support through the innovation initiative being extension of services to rural areas, the project can respond to those segments of the population most bypassed by the financial sector. This focus also corresponds to stakeholders' agenda to meet poverty reduction goals with greater focus on rural populations and the agricultural sector (MPRS, Malawi Development Growth Strategy, Chamber of Commerce, etc.).
134. The capacity building initiatives to support financial transparency and the development of effective IT solutions links to and corresponds well with the RBM exercise to review the regulatory framework for MFIs. The generation of accurate management information and professional financial statements will be key to the success of any initiative designed to improve monitoring of microfinance (RBM and AfDB) and linking microfinance institutions to commercial sources of capital (USAID DMS).
135. Capacity building efforts that support the general drive towards commercialization of MFIs and financial sector institutions comply with the spirit of the Government of Malawi's privatization initiatives, particularly those in the financial sector.
136. Support for the policy dialogue follows the setting of the National Microfinance Forum and will be a key step in designing a National Strategy for Financial Inclusion. It can benefit from the learning drawn from recent efforts to establish effective fora for dialogue (NAG, Stakeholders Forum, etc.).

### **B. Risks and Ways to Mitigate Them**

137. The primary risk is that the Malawi Rural Development Fund management gets overwhelmed by political pressure while it is working out to make the Fund competitive and sustainable. Changes in the current management could lead to unsound practices spoiling the financial markets, making microfinance and rural finance development difficult.
138. The Project may not be able to mobilize all the required resources to cover the total budget. In that case, the possibility of the FIMA Fund to fund the Financial Services Providers will be reduced. This will impact the objectives to be achieved mainly the overall number of new households having access to financial services. It is expected that the number will drop to 75,000 new households in the worse case of not mobilizing the additional 2 million USD.

139. Government may not stay on track with planned macroeconomic reforms that create a stronger enabling environment for financial sector development and the implementation of other policies upon which financial sector is linked, including agricultural reforms and economic development policies.
140. There may ultimately be limited demand from financial institutions to pilot innovations.
141. Donors operating modalities may differ so great that practical collaboration may be difficult.
142. By designing and approving the National Strategy for Financial Inclusion (NFSI) and getting endorsed by the Government, the stakeholders will contribute to sharing a clear vision based on the best practices in inclusive finance. The National Strategy which includes a clear delineation of the roles and responsibilities of the various actors and a clear action plan will then drive the process of building an inclusive financial sector.
143. The Fund and its professional Investment Committee will be a good opportunity for all the donors and investors to synergize and develop their partnership. This will be strengthened by the NFSI upon its approval. The IC and the FIMA Fund will be good vehicles to mobilize the resources to support the sector. In addition the RA and his team will have the task to mobilize additional resources.
144. The capacity building development of the various stakeholders including government officials will help them use the best practices in carrying out their operations.
145. The Government will certainly stick to its policy reforms given the results achieved so far.

## **Part 5. Monitoring and Evaluation**

146. The monitoring system comprises of the Steering Committee, the Investment Committee, UNDP and UNCDF regional team. In addition, the monitoring and evaluation mechanisms will ensure the participation of the stakeholders.
147. The RA hired to implement the project will ensure that that all baseline information is collected and quarterly reports are filed and made public during Investment Committee meetings, so that MFI and Project reporting will be transparent and accessible to all programme stakeholders. A set of minimum performance indicators will be developed based on the participating MFIs' Proposals to the Fund and captured in a performance – based contract between UNDP and the MFI. Failure to meet the performance indicators will result in suspension or curtailment of funding.
148. Financial Service Providers (FSPs) and business service providers receiving assistance under the FIMA - Fund will submit quarterly progress reports to the Secretariat of the Investment Committee on performance against standard indicators and targets as set in the Grant Agreements as adopted by the Investment Committee<sup>16</sup>. In addition, FSPs will post their data on a

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<sup>16</sup> The Performance Monitoring Tool software introduced to FSPs in Nepal in January 2006 will form the basis for the standard reporting requirements and format to be adopted by the Investment Committee, as it includes the standard financial ratios and gender-disaggregated data recommended by CGAP.

UNCDF/UNDP dashboard on the MIX Market<sup>17</sup> facilitating international exposure, and FSPs will consent to the MIX Market forwarding their data to the Micro Banking Bulletin (MBB) for global and regional benchmarking. The data collected will serve to input as well the UNCDF Data Project. The IC Secretariat will compile the reports received into a consolidated semi-annual report for the Investment Committee and the Programme Steering Committee. This report will include information on: 1) Investments made; 2) Results achieved by FSPs based on standard performance and financial indicators; 3) Constraints and opportunities for further developing the sector; 4) Policy changes needed to remove the constraints or seize opportunities. Reports will be posted on UNCDF Microfinance Unit's website with links to other programme partners upon request.

149. A schedule of reporting requirement by the RA is provided below. Targets will be captured in the contract between the RA and UNDP and UNCDF for implementing the Project. The reports are according to minimum international standards of best practice. All reports are to be distributed to UNCDF and UNDP.

<b>Title of Report</b>	<b>Due Date</b>	<b>Responsible Party</b>
Inception Report	Beginning of year 1	RA
Work Plan	At the beginning of project and annually	RA
Annual Progress Report	Annually	RA
Key Performance Indicators	Quarterly	RA and Project Partners
Financial Statements: Balance Sheets, Income Statements	Annual statements. (according to the calendar year)	FSPs
Completion Report	End of Year 5	RA

150. UNCDF will undertake annual technical reviews to assess the performance of the project, the effectiveness of the TA arrangements, and progress towards outputs and objectives. The mid-term technical review will make recommendations for changes as needed. A final evaluation will be carried out during the last year of the project investigating further the above-mentioned areas and focusing on lessons learned

151. The programme is subject to an independent mid-term and final evaluation, managed by the UNCDF Evaluation Unit. The evaluation is in compliance with the UNCDF mandatory evaluation requirements in the UNDP Evaluation Policy<sup>18</sup>, to which UNCDF is party. Funding for the evaluation is included in the programme's budget. The evaluation will assess its overall performance, the outputs and outcomes produced against its initial targets, the impact it has brought or would likely to bring about with a focus on the progress toward sustainability of the FSPs, its relevance to the national context, and management efficiency. The evaluation will be forward looking offering lessons learned and recommendations to improve programme performance or national policy. The results of these country level evaluations feed into strategic, thematic and outcome evaluations carried out by UNCDF.

152. Success in carrying out development evaluation requires partnerships in evaluation with national and international actors. In the context of wider efforts to improve the efficiency and added value of the UN's development operations, opportunities for collaboration on evaluations

<sup>17</sup> <http://www.themix.org/en/index.html>. UNCDF will establish a UNCDF/UNDP dash-board under the MIX market to facilitate the entry of new and less experienced FSPs to the MIX.

<sup>18</sup> See: <http://www.undp.org/evaluation-policy.pdf>

with UNDP and other development partners are now actively sought. Opportunities will be sought for collaboration with programme partners in conducting the evaluations.

## **Part 6. Legal**

153. This project shall be the instrument referred to as such in Article I of the Standard Basic Agreement between the Government of Malawi and the United Nations Development Programme (UNDP), signed by the parties on X. The Government implementing agency shall for the purposes of this Standard Basic Agreement, refer to the Government Cooperating Agency described in the Agreement.
154. As in all agreements between the Government of Malawi and UNDP, the project document referred to in the Standard Basic Agreement shall be the main instrument governing the conduct and performance of the contractors and agents.
155. The following type of revisions may be made to this project document with the signature of the UNDP Resident Representative only, provided he or she is assured that the other parties involved in the project have no objection to the proposed changes:
156. Revisions in, or addition of, any of the annexes of the project document;
157. Revisions which do not involve significant changes in the immediate objectives, outputs or activities of the project, but are caused by the rearrangement of inputs already agreed to or by cost increases due to inflation;
158. Mandatory annual revisions which rephase the delivery of agreed project inputs, or reflected increased expert or other costs due to inflation, or take into account agency expenditure flexibility; and
159. Semi-final and final budget revisions based on Combined Delivery Reports (CDRs) signed by the project manager

## Section II PROJECT RESULTS AND RESOURCES FRAMEWORK

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.
<b>Project title and ID (ATLAS Award ID):</b>

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
<b>Intended Outputs</b>	<b>Output Targets for (years)</b>	<b>Indicative Activities</b>	<b>Responsible parties</b>	<b>Inputs</b>

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
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<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
1.1 Appropriate Technical Working Group established to promote an effective policy dialogue for the development of an inclusive financial sector.	1.1.1. Financial Sector Deepening Group established within the Microfinance Forum Baseline: no clear mechanisms Year 1: Technical Working Group in place and operational Year 1: Survey carried out Year1: Approval of the draft NSFI and donor round table Year 2 and sq.: Implementation and Monitoring of the Action Plan	1. 1.1.1. Convene a meeting with the members of the Microfinance Forum to form the Technical Working Group on Deepening Financial Sector.	UNDP and UNCDF with USAID and, MAMN,	Technical Support
1.2 Innovations in financial markets and investments in Financial Service Providers promoted to expand sustainable access to	1.2.1. Partnerships established with three institutions to develop financial market innovations.	1.2.1.1. Establish a Competitive Fund to support financial market innovations and expansion (FIMA –	RA	Fund RA contract

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
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<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
financial services (savings, loans, payment services, money transfers, or insurance) to low-income groups, primarily women in rural markets.	Baseline: 0 Year 1: Two partnerships Year 2: Three partnerships Year 3: Three partnerships  1.2 2. The number of savers in low-income groups is expanded, including 50% of women.  Baseline: 283 000 savers (inclusive of the other number: Borrowers and rural borrowers) Year 1: Increase by 10% (total) Year 2: Increase by 20% Year 3: Increase by 40% Year 4: Increase by 50% Year 5: Increase by 50% The maximum number of active clients	Fund) including an Investment Committee comprised of key investors in the sector.  1.2.2.1 The RA provides information and training on savings mobilization and management to financial institutions in partnership with DMS.  1.2.2.2 The Project facilitates the training of 3 professional entities to support MicroSave training and toolkits to enhance new product development, particularly relating to savings services.	RA          RA Certified MicroSave trainers Local Service Providers	RA Contract: Local and international travel and communication  Subcontracts/Trainers: Cost Share LSP training Exposure visits for institutions



<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
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<b>Project title and ID (ATLAS Award ID):</b>				
	will be 141 000 in Year 5  1.2.3 Demand-driven financial services available to agricultural markets increase. (Savings loans, transfers, etc.) Baseline: 100,000 Year 1: 10% increase (total) Year 2: 20% increase (total) Year 3: 30% increase (total) Year 4: 40% increase (total) Year 4: 40%  1.2.4 The number of transactions switched through Malswitch linked to	1.2.3.1. Identify potential partners to participate in innovation and capacity building initiatives.  1.2.3.2 Project partners (financial institutions) carry out market research, identify technical partners, and develop innovation initiatives.	Funded Financial institutions  RA Financial institutions (or other appropriate partners)	RA: Exposure visits for potential partners:  Fund (cost shares market research and costs of innovation pilot): Travel and Monitoring: Information Dissemination:  RA

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
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<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
1.3. Capacity of institutions operating in financial sector strengthened to increase outreach and sustainability of the sector. <ul style="list-style-type: none"> <li>Financial institution</li> <li>Microfinance network</li> <li>RBM</li> <li>Local Service Provider</li> </ul>	low-income clients increased Baseline: Unknown Year 3: to be determined			I.C. Capacity Building FIMA Fund
	1.3.1 The number of local service providers supporting microfinance markets increase. Baseline: 3 actually identified Year 1: 3 professional (total) Year 2: 4 professionals (total) Year 3: 6 professionals (total)			Capacity Building FIMA Fund  Subcontract Capacity Building
		1.3.1.1. Identify local service providers interested in the development of the sector and with the adequate potential; 1.3.1.2. Sign with them a MOU of their involvement in the sector and the cost sharing mechanisms	RA MFIs Local service providers	

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
	1.3.2. Secretariat, Resource Center, website established and financial transparency trainings (MIS, etc.) carried out. Year 1: Secretariat Year 2: Financial Transparency training carried out Year 3: Resource Center and website functioning Year 4: Credit Reference Bureau	1.3.2.1. Discuss with MAMN their Business Plan and their training programme and needs and sign a performance – based agreement  1.3.2.2. Provide the right technical assistance (project, local service providers and international expertise) and financial means 1.3.3.2. Support training of trainers members of MAMN	MAMN RBM RA	Travel for exposure visit Subcontract
	1.3.3. Management capacity of MFIs strengthened. Year 1: Network members with RBM participation agree on reporting requirements and standards	1.3.4.1. Identify the key specific needs of a participant MFI, design and carry out tailored training programme	RA Identified partners Local I.T. service providers	RA Contract Subcontract

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
	Year 2: 2 Trainings and customized technical support provided by network and Project. Year 3: Members of Microfinance Network reporting according to internationally recognized standards  1.3.5. RBM capacity strengthened to effectively play its relevant role in financial sector development. Baseline: Year 1: Collaboration with RBM and other partners on evaluation of legal and regulatory framework including knowledge transfer and exposure visits. Year 2: Key indicators for	1.3.5.1. Discuss with RBM their needs and sign a MOU on the best way to support RBM:  . Provide technical support to the legal and regulatory side (international expertise, discussions and feed – back...) . Exchange information and organize	RA RBM	RA Contract

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
	microfinance lines of business reporting agreed with practitioners.  1.3.6. Technical Support provided to MFIs sector wide and IT suppliers on effective Management Information Systems to support financial transparency and innovation. Year 1: Assessment of MIS needs of MFI sector.	exposure visits to other Central Banks with a relevant experience in designing and implementing a conducive legal and regulatory framework  1.3.5.2. Provide technical assistance (RA, local service providers, international expertise) through training sessions  1.3.6.1. Provide technical assistance through international expertise and local service providers to: . assess the IT needs . improve the MIS of the participant MFIs	RA	RA contract  RA contract, TAS, contract

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
	Year 2: Training conducted through the Network, and technical support for self assessment of IT systems. Year 3: 5 key players have adequate MIS systems to support internationally recognized standards and electronic banking applications developed in the project. Year 4: 7 players have adequate MIS systems to support internationally recognized standards and electronic banking applications developed in the project. Year 5: 7 (total) have adequate MIS systems to support internationally recognized standards and electronic banking applications developed in the project.	. support the right IT of the Financial Intermediaries to sustain electronic banking		

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
1.4. The Project is well monitored and its results are evaluated through an outcome evaluation	1.4.1. A RA is hired and the project implementation arrangements implemented  Year 1: a PBA, WP approved implementation of the W.P.  1.4.2. An accurate and timely reporting system in place: year 1:  1.4.3. Appropriate backstop system in place:  1.4.4. Annual audit	1.4.1.1. Hire a RA 1.4.1.2. Conclude the required arrangements for implementation  1.4.2.1. Set – up an adequate reporting system (annual Workplan, quarterly report, annual report)  1.4.3.1. Provide technical support off – site and on –site (2 missions per year)	UNDP, UNCDF RA, UNCDF, UNDP, Government  RA	



<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				
	1.4.5. Outcome evaluation  year 3: 1 Evaluation	1.4.4.1.Carry out annual audit  1.4.5.1. Carry out a final outcome evaluation	UNCDF, UNDP, RA UNCDF, UNDP, RA	

<b>Intended Outcome as stated in the Country Programme Results and Resource Framework: UNADF Outcome 5.3: Gender Equality and Women's Empowerment Enhanced and Outcome 1.2</b> Nutrient friendly agricultural productivity increased especially at household level, and oriented towards commercialization by 2011.				
<b>Output as stated in the Country Programme Results and Resources Framework, including baseline and targets (see below for the targets):</b> <b>5.31 Strengthened women's access to financial services and markets to promote women's engagement in economic life by 2011 and 1.2.5</b> Linkage and access to markets and financial institutions for agro-sector increased by 33% by 2011				
<b>Applicable MYFF Service Line: 1.3.1 Local poverty initiatives, including microfinance</b>				
<b>Partnership Strategy:</b> Project will complement USAID, DfID, World Bank initiatives. The project will be cost shared between UNDP and UNCDF. In-kind technical support will be provided by USAID, DfID, and FINCA International. Financial innovation component will involve partnerships with local financial institutions and technical partners. The FIMA – Fund will involve partnership from other donors and investors.				
<b>Project title and ID (ATLAS Award ID):</b>				

### Section III. Workplan 2007 and Budget

#### WORKPLAN - 2007

INTENDED OUTPUTS <sup>19</sup> & MONITORING <sup>20</sup>	KEY ACTIVITIES	TIMEFRAME				RESPONSIBLE PARTNER	PLANNED BUDGET		
		Q1	Q2	Q3	Q4		Sources of funds	Budget description	Amount in USD
1.1 Appropriate Technical Working Group established to promote an effective policy dialogue for the development of an inclusive financial sector.	1. 1.1.1. Convene a meeting with the members of the Microfinance Forum to form the Technical Working Group on Deepening Financial Sector and provide Technical support		X			Key Stakeholders Task force	PNUD	Support to the microfinance forum	10,000
1.2 Innovations in financial markets that extend financial services (savings, loans, payment services, money transfers, or insurance) to low-income groups, primarily in rural markets.	1.2.1.1. Establish a Competitive Fund to support financial market innovations and expansion, including an Investment Committee comprised of key investors in the sector.				X	UNDP, UNCDF, RA		FIMA	1 006 019
								Other Innovations Support	45 000
1.3. Capacity of institutions operating in financial sector strengthened to increase outreach and sustainability of the sector. • Financial institution	1.3.1.1. Identify local service providers interested in the development of the sector and with the adequate potential;			X	X	UNDP, UNCDF, and RA		Support to various institutions	475 000

<sup>19</sup> Lister les resultats attendus du Projet. Inclure les indicateurs concernés

<sup>20</sup> Lister les activités de suivi telles que les visites de terrain, Missions techniques, Evaluations, Rapport Annuel de Projet

INTENDED OUTPUTS <sup>19</sup> & MONITORING <sup>20</sup>	KEY ACTIVITIES	TIMEFRAME				RESPONSIBLE PARTNER	PLANNED BUDGET		
		Q1	Q2	Q3	Q4		Sources of funds	Budget description	Amount in USD
<ul style="list-style-type: none"> <li>• Microfinance network</li> <li>• RBM</li> <li>• Local Service Provider</li> </ul>	1.3.1.2. Sign with them a MOU of their involvement in the sector and the cost sharing mechanisms			X	X	UNDP, UNCDF. and RA			
	1.3.2.1. Discuss with MAMN their Business Plan and their training programme and needs and sign a performance – based agreement			X	X	RA., UNDP			
	1.3.3.1. Provide technical assistance (RA, local service providers, international expertise) through training sessions				X	RA			
	1.3.3.2. Identify the key specific needs of a participant MFI, design and carry out tailored training programme				X	RA			
	1.3.4.1. Discuss with RBM their needs and sign a MOU on the best way to support RBM:				X	RA, UNDP			

INTENDED OUTPUTS <sup>19</sup> & MONITORING <sup>20</sup>	KEY ACTIVITIES	TIMEFRAME				RESPONSIBLE PARTNER	PLANNED BUDGET		
		Q1	Q2	Q3	Q4		Sources of funds	Budget description	Amount in USD
1.4. The Project is well monitored and its results are evaluated through an outcome evaluation	1.4.1.1. Hire a RA and the national staff				X	UNCDF UNDP		Management Unit Costs	222 700
	1.4.1.2 Set – up the office							Survey Costs	200,000
	1.4.1.3 Carry out the sector survey							UNCDF Backstopping	17 820
	1.4.1.4 UNCDF Backstopping								

**BUDGET – Total**

	TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
<b>MACRO - Policy Dialogue</b>						
Support to the Microfinance National Forum	30,000	10,000	5,000	5,000	5,000	5,000
<b>Reserve Bank of Malawi</b>						
Exposure visits Reserve Bank of Malawi (cost - sharing)	30,000	10,000	10,000	5,000	5,000	0
Training RBM	60,000	30,000	15,000	15,000	0	0
Technical Support to Reserve Bank	35,000	0	20000	15000	0	0
<b>Reserve Bank of Malawi</b>	<b>125,000</b>	<b>40,000</b>	<b>45,000</b>	<b>35,000</b>	<b>5,000</b>	<b>-</b>
<b>Sub total Experts</b>	<b>120,287</b>	<b>41,000</b>	<b>41,820</b>	<b>12,242</b>	<b>12,487</b>	<b>12,737</b>
<i>Subtotal Policy and Advocacy/Macro level</i>	<i>275,287</i>	<i>91,000</i>	<i>91,820</i>	<i>52,242</i>	<i>22,487</i>	<i>17,737</i>
<b>MESO - Industry Capacity Building</b>						
Cost - sharing Workshop with MAMN	30,000	10,000	5,000	5,000	5,000	5,000
IT Training	40,000	10,000	10,000	10,000	10,000	-
IT Technical Support	100,000	40,000	20,000	20,000	20,000	-
<b>Sub Total other support to the industry</b>	<b>170,000</b>	<b>60,000</b>	<b>35,000</b>	<b>35,000</b>	<b>35,000</b>	<b>5,000</b>
<b>Innovations</b>						
Results Sharing Workshops	50,000	10,000	10,000	10,000	10,000	10,000
Publications	25,000	5,000	5,000	5,000	5,000	5,000
Market Research	60,000	30,000	-	-	30,000	-
Innovation Fund (see FIMA - Fund)						
<b>Subtotal Innovations</b>	<b>135,000</b>	<b>45,000</b>	<b>15,000</b>	<b>15,000</b>	<b>45,000</b>	<b>15,000</b>

<b>Transformation</b>						
Sensitization Banks (visits)	35,000	20,000	15,000	-	-	-
Consulting Expertise	100,000	25,000	25,000	25,000	25,000	-
Due Diligence	60,000	20,000	20,000	20,000	-	-
<b>Subtotal Transformation</b>	<b>195,000</b>	<b>65,000</b>	<b>60,000</b>	<b>45,000</b>	<b>25,000</b>	<b>-</b>
<b>MAMN</b>						
Contribution to the MAMN Secretariat Salaries	75,000	25,000	20,000	15,000	10,000	5,000
Cost - share with MAMN training and regional meeting participation costs	19,000	5,000	5,000	3,000	3,000	3,000
Training of Trainers MAMN	200,000	40,000	40,000	40,000	40,000	40,000
Cost - share operating costs with MAMN	40,000	15,000	10,000	5,000	5,000	5,000
MAMN Website designing and maintenance	18,000	10,000	2,000	2,000	2,000	2,000
MAMN Resource Centre	30,000	10,000	5,000	5,000	5,000	5,000
Technical Expertise Credit Reference Bureau	20,000	20,000	-	-	-	-
Equipment and Maintenance Credit Reference Bureau	55,000	-	40,000	5,000	5,000	5,000
<b>Subtotal MAMN</b>	<b>457,000</b>	<b>125,000</b>	<b>122,000</b>	<b>75,000</b>	<b>70,000</b>	<b>65,000</b>
<b>Training Local Service Providers</b>	<b>55,000</b>	<b>15,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>
<b>Sub Total Experts</b>	<b>120,287</b>	<b>41,000</b>	<b>41,820</b>	<b>12,242</b>	<b>12,487</b>	<b>12,737</b>
<b><i>Sub Total Capacity Building and Support to the Industry/Meso Level</i></b>	<b><i>1,132,287</i></b>	<b><i>351,000</i></b>	<b><i>283,820</i></b>	<b><i>192,242</i></b>	<b><i>197,487</i></b>	<b><i>107,737</i></b>



<b>MICRO - Pride Malawi</b>						
Infrastructure Upgrade	50,000	50,000	-	-	-	-
Capacity Building Support	75,000	75,000	-	-	-	-
<b>Subtotal Pride Malawi</b>	<b>125,000</b>	<b>125,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Contribution to FIMA - Fund Loans	1,140,066	139,245	642,996	357,825	-	-
Contribution to FIMA - Fund Grants	2,121,111	551,207	835,617	351,175	383,112	-
<b>Subtotal FIMA - Fund</b>	<b>3,261,177</b>	<b>690,452</b>	<b>1,478,613</b>	<b>709,000</b>	<b>383,112</b>	<b>-</b>
<b>Sub total Experts</b>	<b>240,573</b>	<b>82,000</b>	<b>83,640</b>	<b>24,485</b>	<b>24,974</b>	<b>25,474</b>
<b>Sub Total Retail Capacity / Micro Level</b>	<b>3,626,750</b>	<b>897,452</b>	<b>1,562,253</b>	<b>733,485</b>	<b>408,086</b>	<b>25,474</b>
<b>OTHER</b>						
<b>Subtotal Management Unit</b>	<b>297,347</b>	<b>84,300</b>	<b>49,706</b>	<b>50,508</b>	<b>61,326</b>	<b>51,507</b>
Training Government	90,000	-	30,000	30,000	30,000	-
Training UNDP	15,000	-	10,000	5,000	-	-
Monitoring and Evaluation						
UNCDF Backstopping Travel	37,685	6,820	7,161	7,519	7,895	8,290
UNCDF Backstopping Expert Cost recovery	56,518	11,000	11,550	12,128	12,734	9,107
Sector survey	200,000	200,000	-	-	-	-
Evaluation mission	125,000	-		45,000	-	80,000
<b>Sub - Total M&amp;E</b>	<b>419,203</b>	<b>217,820</b>	<b>18,711</b>	<b>64,647</b>	<b>20,629</b>	<b>97,396</b>
<b>Sub - total Other Activities</b>	<b>821,550</b>	<b>302,120</b>	<b>108,417</b>	<b>150,155</b>	<b>111,955</b>	<b>148,903</b>

GRAND TOTAL						
Total (macro, meso, micro)	5,855,874	1,641,572	2,046,310	1,128,124	740,016	299,851
<i>Contingencies</i>	282,713	98,975	79,760	49,561	41,789	12,629
<i>Support costs</i>	95,238	43,166	40,877	4,998	2,273	3,924
<b>Total</b>	<b>6,233,825</b>	<b>1,783,712</b>	<b>2,166,946</b>	<b>1,182,684</b>	<b>784,079</b>	<b>316,404</b>

## BUDGET - UNCDF

UNCDF				TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
Budget Description	Budget Account	Fund	Donor						
Travel	71600	G1310	1853	30,000	10,000	10,000	5,000	5,000	
Travel	71600	G1310	1853	60,000	30,000	15,000	15,000		
Contractual Service-Companies	72100	G1310	1853	35,000		20,000	15,000		0
				<b>125,000</b>	<b>40,000</b>	<b>45,000</b>	<b>35,000</b>	<b>5,000</b>	<b>-</b>
Staff costs	71400	G1310	1853	31,224	6,000	6,120	6,242	6,367	6,495
ALD staff costs	71100	G1310	1853	70,700	35,000	35,700			
				<b>101,924</b>	<b>41,000</b>	<b>41,820</b>	<b>6,242</b>	<b>6,367</b>	<b>6,495</b>
<b>Sub-total</b>				<b>226,924</b>	<b>81,000</b>	<b>86,820</b>	<b>41,242</b>	<b>11,367</b>	<b>6,495</b>
Micro-capital Grants	72605	G1310	1853	15,000	5,000	2,500	2,500	2,500	2,500
Contractual Service Companies	72100	G1310	1853	10,000	10,000				
Equipment	72200	G1310	1853	27,500		20,000	2,500	2,500	2,500
Contractual Service Companies	71200	G1310	1853	37,500	12,500	10,000	7,500	5,000	2,500
Travel	71600	G1310	1853	19,000	5,000	5,000	3,000	3,000	3,000
Micro-capital Grants	72605	G1310	1853	18,000	10,000	2,000	2,000	2,000	2,000
				<b>127,000</b>	<b>42,500</b>	<b>39,500</b>	<b>17,500</b>	<b>15,000</b>	<b>12,500</b>
Staff costs	71400	G1310	1853	31,224	6,000	6,120	6,242	6,367	6,495
ALD staff costs	71100	G1310		70,700	35,000	35,700	-	-	-
				<b>101,924</b>	<b>41,000</b>	<b>41,820</b>	<b>6,242</b>	<b>6,367</b>	<b>6,495</b>
<b>Sub-total</b>				<b>228,924</b>	<b>83,500</b>	<b>81,320</b>	<b>23,742</b>	<b>21,367</b>	<b>18,995</b>

Micro-capital Credit	72610	G1310	1853	422,170	139,245	282,925			
Micro-capital Other	72615	G1310	1853	567,895	285,070	282,825			
				<b>990,065</b>	<b>424,315</b>	<b>565,750</b>	-	-	-
Grants	72610	G1310	1853	50,000	50,000				
Contractual Service Companies	72100	G1310	1853	75,000	75,000				
				<b>125,000</b>	<b>125,000</b>	-	-	-	-
				62,448	12,000	12,240	12,485	12,734	12,989
				141,400	70,000	71,400	-	-	-
				<b>203,848</b>	<b>82,000</b>	<b>83,640</b>	<b>12,485</b>	<b>12,734</b>	<b>12,989</b>
<b>Sub-total</b>				<b>1,318,913</b>	<b>631,315</b>	<b>649,390</b>	<b>12,485</b>	<b>12,734</b>	<b>12,989</b>
Contractual Service Companies	72100	G1310	1853	67,500	67,500				
Contractual Service Companies	72100	G1310	1853	62,500			22,500		40,000
				<b>130,000</b>	<b>67,500</b>	-	<b>22,500</b>	-	<b>40,000</b>
<b>GRANT TOTAL</b>				<b>1,904,762</b>	<b>863,315</b>	<b>817,530</b>	<b>99,970</b>	<b>45,469</b>	<b>78,478</b>
<b>Support Cost (5%)</b>				<b>95,238</b>	<b>43,166</b>	<b>40,877</b>	<b>4,998</b>	<b>2,273</b>	<b>3,924</b>
<b>GRAND TOTAL (w/ Support)</b>				<b>2,000,000</b>	<b>906,481</b>	<b>858,407</b>	<b>104,968</b>	<b>47,742</b>	<b>82,402</b>

# BUDGET – UNDP

UNDP			TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
Budget Account	Fund	Donor						
			30,000	10,000	5,000	5,000	5,000	5,000
			30,000	10,000	5,000	5,000	5,000	5,000
			18,362			6,000	6,120	6,242
<b>Sub-total</b>			<b>48,362</b>	<b>10,000</b>	<b>5,000</b>	<b>11,000</b>	<b>11,120</b>	<b>11,242</b>
74500			50,000	10,000	10,000	10,000	10,000	10,000
74500			25,000	5,000	5,000	5,000	5,000	5,000
72100			60,000	30,000			30,000	
72615								
			<b>135,000</b>	<b>45,000</b>	<b>15,000</b>	<b>15,000</b>	<b>45,000</b>	<b>15,000</b>
71600			30,000	10,000	5,000	5,000	5,000	5,000
72100			40,000	10,000	10,000	10,000	10,000	
72100			50,000	20,000	10,000	10,000	10,000	
			<b>120,000</b>	<b>40,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>5,000</b>
72100			37,500	12,500	10,000	7,500	5,000	2,500
71600			-					
71600			100,000	20,000	20,000	20,000	20,000	20,000
73400			40,000	15,000	10,000	5,000	5,000	5,000
72100			-					

72100			15,000	5,000	2,500	2,500	2,500	2,500
72100			10,000	10,000				
72200			27,500		20,000	2,500	2,500	2,500
			<b>230,000</b>	<b>62,500</b>	<b>62,500</b>	<b>37,500</b>	<b>35,000</b>	<b>32,500</b>
71600			35,000	20,000	15,000			
72100			100,000	25,000	25,000	25,000	25,000	
72100			60,000	20,000	20,000	20,000		
			<b>195,000</b>	<b>65,000</b>	<b>60,000</b>	<b>45,000</b>	<b>25,000</b>	<b>-</b>
			<b>55,000</b>	<b>15,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>
			<b>18,362</b>			<b>6,000</b>	<b>6,120</b>	<b>6,242</b>
<b>Sub-total</b>			<b>753,362</b>	<b>227,500</b>	<b>172,500</b>	<b>138,500</b>	<b>146,120</b>	<b>68,742</b>
72610			-					
72615			470,000	266,137	203,863			
			<b>470,000</b>	<b>266,137</b>	<b>203,863</b>	<b>-</b>	<b>-</b>	<b>-</b>
			<b>36,725</b>	<b>-</b>	<b>-</b>	<b>12,000</b>	<b>12,240</b>	<b>12,485</b>
<b>Sub-total</b>			<b>506,725</b>	<b>266,137</b>	<b>203,863</b>	<b>12,000</b>	<b>12,240</b>	<b>12,485</b>
			<b>90,000</b>		<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	
			<b>15,000</b>		<b>10,000</b>	<b>5,000</b>		
71400			68,693	13,200	13,464	13,733	14,008	14,288
71400			48,000	9,600	9,600	9,600	9,600	9,600
			50,000	40,000			10,000	
			130,654	21,500	26,642	27,175	27,718	27,619
			<b>297,347</b>	<b>84,300</b>	<b>49,706</b>	<b>50,508</b>	<b>61,326</b>	<b>51,507</b>

			37,685	6,820	7,161	7,519	7,895	8,290
			56,518	11,000	11,550	12,128	12,734	9,107
72100			132,500	132,500				
72100			62,500			22,500		40,000
			289,203	150,320	18,711	42,147	20,629	57,396
<b>Sub-total</b>			691,550	234,620	108,417	127,655	111,955	108,903
<b>Grand Total</b>			2,000,000	738,257	489,780	289,155	281,435	201,373
			-	-	-	-	-	-
			-	-	-	-	-	-
<b>Grand Total</b>			2,000,000	738,257	489,780	289,155	281,435	201,373



## BUDGET – Other Sources

<b>OTHER</b>	<b>TOTAL</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>MESO - Industry Capacity Building and Expansion</b>						
Cost - sharing Workshop with MAMN	-	-	-	-	-	-
IT Training	-	-	-	-	-	-
IT Technical Support	50,000	20,000	10,000	10,000	10,000	
	<b>50,000</b>	<b>20,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	-
Training of Trainers MAMN	100,000	20,000	20,000	20,000	20,000	20,000
	<b>100,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>
<b>Reserve Bank of Malawi</b>						
<b>Capacity Building and Support to the Industry / Meso Level</b>	<b>150,000</b>	<b>40,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>20,000</b>
<b>MICRO</b>						
Contribution to FIMA - Fund Loans	717,896	-	360,071	357,825		
Contribution to FIMA - Fund Grants	1,083,216	-	348,929	351,175	383,112	-
<b>FIMA - Fund</b>	<b>1,801,112</b>	<b>-</b>	<b>709,000</b>	<b>709,000</b>	<b>383,112</b>	<b>-</b>
<b>Sub Total Reatil Capacity / Micro Level</b>	<b>1,801,112</b>	<b>-</b>	<b>709,000</b>	<b>709,000</b>	<b>383,112</b>	<b>-</b>
<b>Subtotal Management Unit</b>	<b>-</b>					
Grand Total (w/o support costs and Contingencies)	<b>1,951,112</b>	<b>40,000</b>	<b>739,000</b>	<b>739,000</b>	<b>413,112</b>	<b>20,000</b>
<b>Contingencies</b>	<b>282,713</b>	<b>98,975</b>	<b>79,760</b>	<b>49,561</b>	<b>41,789</b>	<b>12,629</b>
<b>Support costs</b>	<b>-</b>					
<b>Grand Total</b>	<b>2,233,825</b>	<b>138,975</b>	<b>818,760</b>	<b>788,561</b>	<b>454,901</b>	<b>32,629</b>

## Annex 1: Resident Advisor (RA) - Terms of Reference

### I. POST INFORMATION

Post Title: Microfinance Country Resident Advisor Country: Malawi Post Number: Organizational Unit: UNCDF Supervisor/ Grade: Advisor (Regional Financial Inclusion Practice Area) (Current/proposed grade: ICS-12) Post Status: Non-rotational Source of Funding: Core	Current Grade: Proposed Grade: ICS-11 Approved Grade: Post Classified by: Classification Approved by:
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### II ORGANISATIONAL CONTEXT

The Resident Advisor will implement the strategy for inclusive financial sector development described in the *Programme document*, the more detailed working documents, *and the approved Programme workplan*.

The Resident Advisor works under the direction of the UNCDF Regional Advisor, Regional Microfinance, and in close relationships with the UNDP Country Office and eventually the Coordinating Unit of the National Strategy for Financial Inclusion. He provides technical leadership and management to the microfinance programme in the country, including responsibility for managing the project cycle.

The Resident Advisor is responsible for the effective development and execution of the AEP Microfinance component and of the future Financial inclusion programme in the country, for the identification of new investment opportunities in Financial Services Providers (FSPs), and for supporting the design and implementation of viable financial inclusion programmes in the country to ensure a more inclusive financial sector. At the country level, the Resident Advisor supervises up to two (2) professional national staff and up to two (2) administrative staff of the national programme; and s/he guides one (1) Programme Officer on Financial inclusion matters as well as a Financial inclusion team assigned to each programme.

At the corporate level, the Country Resident Financial inclusion Adviser receives overall technical leadership and policy direction from the UNCDF Financial inclusion Regional Technical Manager, keeping him/her apprised of programme opportunities and relationship developments with key stakeholders. The incumbent receives guidance and support from the Financial inclusion Portfolio Adviser on portfolio management, including disbursement of resources, financial and performance management and programme coherence at the national level; from the Regional Unit on corporate operational issues; and regarding business development/resource mobilization strategies, intelligence and tools.

The Country Resident Advisor serves as technical adviser to the UNDP country office in the area of Financial Inclusion and to the AEP as well. The incumbent partners with UNDP practice areas and AEP on policy and knowledge-related initiatives in the country, and works closely with the UNDP CO and AEP to ensure integration of Financial inclusion activities into the annual work plan of the UNDP CO and in AEP annual work plan according to the objectives set – up in that

Programme The incumbent represents UNCDF and UNDP on Financial inclusion policy and programme matters, first and foremost with the governmental bodies, the Financial inclusion industry, central banks, donors and other investors. S/he builds strategic partnerships with key donors and investors, promoting the comparative advantages and strategic niches of UNCDF and the Financial inclusion line of business, enhancing UNCDF as a preferred partner in the area of Financial inclusion and accelerating (non-core) resource mobilization.

### **III FUNCTIONS / KEY RESULTS**

#### **A. Summary of key functions:**

- Provides technical management for the Financial inclusion programme and the implementation of its operations; and management of the Financial inclusion programme staff in the country;
- Provides technical leadership and policy advice in the area of Financial inclusion to key stakeholders in the country;
- Provides national leadership in applying business development strategies, tools and intelligence, to build and maintain strategic partnerships, capitalize on business opportunities and enhance resource mobilization for Financial inclusion in the country;
- Provides national leadership in the active acquisition and sharing of business-sensitive knowledge in Financial inclusion;
- Provides support to Financial Inclusion Regional Unit and UNCDF senior management on corporate initiatives and activities.

Under the direction of the Regional Technical Manager, Financial inclusion Regional Unit and with secondary guidance from the UNDP CO, the Financial inclusion Country Resident Adviser:

#### **1. PROGRAMME MANAGEMENT: Provides technical management for the Financial inclusion programme and the implementation of its activities; and management of the Financial inclusion project staff in the country, focusing on achieving the following results:**

- Implementation of the future programme to support the National Strategy to Build an Inclusive Financial Sector in the country, ensuring soundness of technical design and strategy
- Technical support to the Financial Service Providers (FSPs), their Network, the Central Bank, the Government and other stakeholders involved in the FIMA and to the Investment Committee of the Fund for the implementation of the Action Plan of the National Strategy; In that respect, the RA will carry out the following tasks:
- Integration of the national microfinance activities into the annual work plan of the UNDP CO;
- Review of work plans of the programme team, ensuring clear performance targets are established;
- Effective management of all financial, performance and operational aspects of UNCDF national portfolio and technical operational aspects of UNDP microfinance investment including facilitating project implementation according to annual work plan of the programme, ensuring achievement of outputs;
- Reporting on programme achievements, delivery and other areas of accountability to Microfinance Regional Unit for input to regular performance monitoring and ROAR; financial reporting and reporting arrangements for non-core resources to donors;

- Effective and efficient use of ATLAS in line with project cycle; Atlas approval authority at Level 3;
- Effective and efficient management of human resources of the Microfinance national project staff, including staffing, work planning and performance management, in consultation with UNDP country office management and UNCDF Regional Unit, as appropriate;
- Effective and efficient management of financial resources for the Microfinance national project, including budget preparation, funding and reporting;
- Management of decentralized evaluation;
- A coherent programme framework with the local development service line at the national level;
- Report on the implementation and advancement of the programme. This will consist of:
  - Reporting on programme achievements, delivery and other areas of accountability to Financial Inclusion Regional Unit for quarterly performance monitoring in relation to the UNDP / UNCDF data base being developed;
  - Reporting on programme progress against targets to the investment committee in relation to Fund activities, Programme management and operations.
- Briefing UNDP / UNCDF on financial status on a quarterly basis
- Reporting on the implementation and advancement of the national strategy to the investment committee

**2. TECHNICAL LEADERSHIP/POLICY ADVICE: Provides technical leadership and policy advice in the area of microfinance to key stakeholders in the country focusing on achieving the following results:**

- Technical leadership and support to the microfinance programme within the country;
- Effective and innovative programme strategies, formulation and design, involving sector assessment, dialogue and negotiations with key national stakeholders, including donors and other investors, government officials, UNDP country office, central bank and the microfinance industry, advancing UNCDF's comparative advantages and furthering UNCDF goals and objectives;
- Technical support to design or improve of national policy, strategy and programme, for development of enabling regulatory and legal framework and capacity-building of central bank;
- Technical guidance to Programme Officers and the country team on programme preparation and implementation, and technical monitoring and follow-up of their work plans;
- Technical leadership, advice and support to UNDP country office management to improve quality of UNDP's microfinance programme; effective national coordination with relevant practice areas of technical support to the country; Advice on policy issues emerging from design and implementation of microfinance projects at the country office level;

Specifically, the Resident Advisor will fulfill the following responsibilities:

**1. Take a dynamic part to the Financial Sector Deepening Group (FSDG)**

- Provide technical assistance to design the right mechanisms for the functioning of the FSDG;
- Provide technical support by bringing its expertise in the relevant debate;

- Prepare and organize exposure visits and relevant training programmes;
- Prepare and organize appropriate workshops on policy issues impacting the development of the financial sectors;
- Facilitate the discussions among the key stakeholders;
- Bring in the FSDG subject of discussions based on the lessons learned during the implementation of the Programme;

## **2. Legal and Regulatory Framework**

- Prepare a capacity building plan with the RBM outlining its capacity building needs and priorities to be addressed under the project;
- Prepare a workplan with the unit to implement project activities. This workplan should include capacity building activities as well as benchmarks and performance targets to be monitored;
- Prepare a MOU to be discussed and signed by RBM and UNDP;
- Organize exposure visits to countries/Central Banks that provide relevant lessons for the Malawi context.
- Work with RBM to ensure that an evolving legal and regulatory environment supports the development of financial sectors that serves diverse markets and includes a diverse range of institutions that provide a wide array of products and services demanded by micro and small enterprises and household/firms.

## **3. Strengthening the Local Service Providers**

- Identify local service provider interested in the development of the sector and with the adequate potential to efficiently serve efficiently the market;
- Prepare and propose to the I.C. a MOU to cost – share their training costs;
- Include the participant firm to the relevant training courses and workshops;

## **4. Capacity Building MAMN**

- Discuss with MAMN their Business Plan and their training programme and needs and prepare a proposal and a performance – based agreement to the I.C.;
- Provide the right technical assistance (directly, through proposed sub – contract to local service providers and international expertise) and financial means according to the approved proposal and the PBA;
- Identify the right courses and organize the training for the trainers members of MAMN;
- Support the development of the website (identify the right expertise, provide guidance...);
- Support the setting – up of the Resource Centre;
- Contribute to the recruit of the Executive Director and provide technical assistance;

## **5. Capacity Building Reserve Bank of Malawi (RBM) (see legal and regulatory framework)**

## **6. Financial Institutions**

- Analyze the proposal from the FIs and present it before the I.C.;
- Prepare a PBA after approval;

- Develop tailored training, exposure, and technical assistance plans for each participating microfinance institution based on a Business Plan;
- Provide regular technical assistance to MFIs to help them meet their annual capacity building objectives particularly in the areas of:
  - Product development
  - Promotion, marketing and branch network development
  - Financial management/administration
  - MIS
  - Human resource development/management;
- Ensure MFIs have appropriate, reliable, and transparent reporting;
- Reviewing quarterly reports and the progress of partner organizations against performance benchmarks;
- Translate and disseminate all relevant progress/technical reports.
- Subcontract other local and/or international technical service providers where relevant technical support is required.
- Support institutions and the Programme in raising new sources of financing to fund MFI expansion and growth.

**3. BUSINESS DEVELOPMENT/EXTERNAL RELATIONS: Provides national leadership in applying business development strategies, tools and intelligence, to build and maintain strategic partnerships, capitalize on business opportunities and enhance resource mobilization for microfinance in the country, focusing on achieving the following results:**

- Expanded support to the country to develop an appropriate financial infrastructure that will improve sustainable access to financial services to clients;
- Identification of promising investment opportunities in the country that meet established investment criteria;
- Strong national partnerships with major multilateral and bilateral organizations for business development and cost-sharing, and increases in partner co-financing of microfinance projects in the country;
- Strong partnership with the UNDP country office and national policy practitioners to support the government, central bank, donors and other key stakeholders in the country to successfully implement national strategies, policies and interventions to develop an inclusive financial sector;
- Advice to the Advisor, Microfinance Regional on development of resource mobilization and communications strategies that meet needs of national programmes;
- Effective working relationships with the government, central bank, , the other donors and investors civil society and the microfinance industry;
- Dialogue and outreach to key internal and external constituencies and partners, including the UNDP country office management, to increase visibility and awareness of UNCDF comparative advantages and strategic niches in microfinance within the country.

**4. KNOWLEDGE MANAGEMENT: Provides national leadership in the active acquisition and sharing of business-sensitive knowledge in microfinance, focusing on achieving the following results:**

- Identification, documentation and incorporation of lessons learned from microfinance experience in the country and at regional level, as input into portfolio management and planning at national and regional level for enhancing policy and programme support to

microfinance and for knowledge management collaborations with key partners, particularly CGAP;

- Identification and development of new products, tools and processes in UNCDF niche areas to better employ comparative advantages of UNCDF and UNDP in the sub-region to serve targeted clients; review of existing products, concepts and tools in microfinance to ensure continued effectiveness and to increase awareness of these products, tools, etc. among key stakeholders, adapting them to changes in circumstances and requirements in the country and the region;
- Collaboration with key partners and microfinance practitioners in the country for research and development of innovative, cutting-edge strategies and approaches to sharpen delivery of microfinance products and services in order to better achieve UNCDF Business Plan objectives and MDG goals; sharing of experiences with key partners and stakeholders in the country;
- Development and contribution to knowledge-sharing networks on microfinance initiatives regionally;
- Participation and contributions to UNDP sub-practice in microfinance and small/medium enterprises.

Specifically, the Resident Advisor will ensure the following:

- Prepare and submit to the joint I.C. the relevant documentation to set – up a Competitive Fund to support financial market innovations and capacity building based on the information provided in the Programme document;
- Provide information and training on savings mobilization and management to financial institutions in partnership with DMS;
- Facilitate the training of local professionals to support professional to support MicroSave training and toolkits to enhance new product development, particularly relating to savings services.
- Identify technical partners and support the development of innovation initiatives;
- Analyze and present before the joint I.C. the funding proposal for innovation initiatives;
- Follow – up the implementation of the approved proposal;
- Facilitate the dissemination of the results by publishing them and organizing results to discuss them;

**5. CORPORATE SUPPORT: Provides support to Microfinance Regional Unit and UNCDF management on corporate initiatives and activities, focusing on achieving the following results:**

- Advice from national perspective to support annual and cumulative Regional Unit and UNCDF ROAR analyses; substantive inputs into Regional Unit work plan and UNCDF Business Plan;
- Support to development of Microfinance Regional Unit and UNCDF programme and business strategies and to annual reviews;
- Advice to UNCDF senior management on technical issues and business development opportunities, including inputs into corporate presentations and reports.
- Advice on technical issues, knowledge management and business development opportunities having inter-regional and corporate relevance on microfinance and/or UNCDF programme.

**B. Impact and results**



The key anticipated results under the programme include:

- Appropriate mechanism (s) established to promote an effective policy dialogue for the development of an inclusive financial sector;
- Innovations in financial markets that extend financial services (savings, loans, payment services, money transfers, or insurance) to low-income groups, primarily in rural markets;
- Capacity of institutions operating in financial sector strengthened to increase outreach and sustainability of the sector.
  - Financial institutions
  - Microfinance network
  - Reserve Bank of Malawi
  - Local Service Provider

The results of the work of the Microfinance Country Resident Adviser have major impact on the overall effectiveness, efficiency and growth of UNCDF's microfinance programme in the country and the region, as reflected in the ROAR, financial delivery, business development and resource mobilization, especially of non-core resources. It has a direct impact on the success of the Microfinance Regional Unit in achieving Unit and UNCDF Business Plan objectives, results expected in the UNCDF SRF and, finally, on achieving the MDGs. Results have a major impact on UNCDF's reputation as a preferred partner in microfinance and center of excellence within the country and the region, and its success engaging key actors in strategic partnerships and joint programming for microfinance projects for the country and the LDCs in the region. Finally, results have a significant impact on resource mobilization (non-core), and on the capacity of UNCDF to successfully contribute to the building of inclusive financial sectors in the country and in the region.

#### **IV. COMPETENCIES**

##### **CORPORATE**

- Demonstrates integrity and fairness by modeling UN values and ethical standards
- Displays cultural and gender sensitivity and adaptability
- Treats all people fairly and without favoritism
- Shows strong corporate commitment
- Promotes the vision, mission and strategic goals of UNCDF and UNDP

##### **FUNCTIONAL**

- Demonstrated strong technical knowledge in field of microfinance;
- Proven practical knowledge of microfinance as applied in LDC context at both local and national levels;
- Familiarity with UNDP and UN system and role of key institutions in the field of microfinance. Knowledge of UNDP field level organization;
- Comprehensive understanding of the project management cycle and managing for results
- Knowledge of programme framework
- Knowledge of Atlas at level required for the position

##### **MANAGERIAL/BEHAVIORAL**

- **Leadership**

- Focuses on impact and results for client
  - Takes initiative and calculated risks
  - Builds trust in interactions with others
  - Leads team creatively and effectively, and resolves conflicts
  - Displays positive attitude
  - Takes decisions

- **Managing Relationships**

- Builds strong client relationships
  - Builds strong relationships with partners
  - Communicates clearly and convincingly

- **Task Management**

- Provides quality outputs in a timely manner
  - Analyzes problems carefully and logically, leading to fact-based and practical recommendations

- **Managing Complexity**

- Manages projects effectively
  - Supports development of clear Unit strategy
  - Develops innovative solutions

- **Building and Sharing Knowledge**

- Shares knowledge and experience with colleagues
  - Actively builds deep knowledge in microfinance area
  - Makes valuable practice contributions in microfinance
  - Promotes knowledge management in the Unit/Office

- **Learning and People Development**

- Provides constructive coaching and feedback
  - Promotes learning environment in Unit/Office

## **V. Qualifications**

Education:	Masters degree in economics; finance, business administration, or related field
Experience:	At least ten (10) years experience in progressively more responsible positions in microfinance, preferably in LDCs and with UN/UNDP experience Demonstrated success in building strategic partnerships and resource mobilization
Language Requirements:	Fluency in English

## **VI. Duration**

The RA contract will be a five-year contract.

## **Annex 2: Terms of Reference: Investment Committee**

### **1. Background**

1. In order to promote coordination, synergy, partnership, good use of the resources and avoid overlapping of the support activities to the sector, the Project will establish with the USAID DMS a joint Investment Committee. This joint Investment will be also be opened to other donors / investors active in the sector at a level of investment (see above).millions USD and sharing best practices and the same vision to promote inclusive financial sectors.

### **2. Roles and Responsibilities**

#### **Main roles and responsibilities**

The Joint I.C. will have the main following roles and responsibilities:

- Design and approve a framework for assessing the investment;
- Ensure that partners with high potential are selected and that sound investments are made;
- Assess the performance of the supported institutions (financial institutions, local service providers and ) against contractually agreed performance benchmarks

#### **2.2. Detailed roles and responsibilities**

The joint I.C. will:

- Design a common framework for the donors to use for:
  - Assessing the Investment;
  - Reporting (following the international standards);
  - Joint review of the implementation of the funded proposals through audit and consulting firms or technical review of their own teams;
  - Sharing information...
- Review the Performance – based agreements to be signed with the DFIs;
- Receive, analyze and decide on the investment proposals (technical support and micro – capital grants) sent by the RA and ensure that performance targets and minimum performance standards are clearly specified for key results: Outreach, Number of Active Clients; Sustainability: Operational Self-sufficiency; Portfolio Quality: Portfolio at Risk at 30 Days [PAR@30]; other specific targets will be set for innovation (rural finance, savings, electronic banking...)
- Propose to UNDP and UNCDF to make payments to the participating organizations as required.
- Monitor achievements of participating financial intermediaries (MFIs and Banks) against their performance – based agreements (contractually agreed benchmarks) and approve the disbursements of tranches based on Workplan targets/objectives achieved or objectives outlined in future workplans;

- Review progress in the enabling environment for microfinance and make recommendations;
- Carry out, in relationship with UNCDF and other partners, technical reviews to assess the performance the participating organizations;
- Identify policy issues that are constraints to MFI development, and provide recommendations.

### **3. Composition**

The joint I.C. will comprise:

- The Reserve Bank of Malawi (as non – voting);
- The MAMN (as non – voting);
- The representative of the Ministry in charge of the microfinance sector (non – voting);
- A representative of DMS;
- A representative of USAID;
- A representative of UNDP and UNCDF;
- The RA (as non – voting).

A representative of UNDP and UNCDF and of USAID will act alternatively as the Chairperson.

The UNCDF and UNDP Programme RA and DMS will act alternatively as the Secretariat.

Each representative should have technical competencies in financial sector development. If not, he should be trained before becoming a member.

### **4. Criteria for Applications from MFIs**

The financial institutions that want to apply should at least meet the following criteria:

- Good vision and good governance;
- Disciplined management (good pricing policy, objective of sustainability, market – oriented activity, financial transparency (reporting and accountability), delinquency control, internal control, business plan);
- Potential to growth and increase outreach.

For the investment related to innovations, in addition, the financial intermediary should prove its interest in innovation and providing services to rural agriculture.

The TSP could assist the financial intermediaries to correct some of their weaknesses before sending an application or to designing a business plan.

For the information to be included in the proposal, see below.

### **5. Decision Making Process**

The joint I.C. will meet at least four times a year and on a as – needed basis.

The secretariat of the joint I.C. will circulate the funding proposals four weeks before the meeting along with its technical analysis.

The decision will be taken on a consensus basis after objective analysis and discussions.

## **6. Implementation of the decisions:**

Each donor accepting to finance or co – finance a given proposal will follow its own financial arrangements to release the funds.

If need be, the Investment Committee will review and adjust these Terms of Reference.

## **Information to be included in funding proposals**

### **1. Institution presentation**

- a. Brief History, mission statement, vision, governance and ownership structure, management (Human Resources and background of the key managers, systems, manuals, internal control, MIS...);
- b. Financial service and products delivery systems (branches, products and terms, clients...);
- c. Results and key indicators (last 2 or 3 years: Number of active clients, PAR@30 days, outstanding portfolio, outstanding savings, Operational and Financial Self – sufficiency or Adjusted Return on Assets (AROA)), audited financial statements (income statements and balance sheets)
- d. Institution main strengths and weaknesses.

### **2. Funding proposal**

- a. Problem to be solved;
- b. Objective and impact on outreach and sustainability;
- c. Activities, partners, budget;
- d. Institution contribution, other sources of funds and amount requested from the Capacity and Innovation Fund.