



PROJECT

“Private Sector Development Project”

UNDP Project ID

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ANNUAL PROGRESS REPORT
January - December 2019

United Nations Development Programme
(UNDP)

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Acronyms

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| AWP | Annual Work Plan |
| MGDS | Malawi Growth and Development Strategy |
| MICF | Malawi Innovation Challenge Fund |
| MoITT | Ministry of Industry and Trade |
| PSDP | Private Sector Development Project |
| MSME | Micro, Small and Medium sized Enterprise |
| UNDAF | United Nations Development Assistance Framework |
| UNDP | United Nations Development Programme |

A. Executive Summary

The overall objective of the Private Sector Development (PSD) project is to support productive partnerships with the private sector with the aim of contributing to the transformation of the private sector into the engine of real growth and anchor for economic diversification, job creation and greater economic opportunity for the poor that Malawi requires.

The operational approach of the project is characterized by mix of instruments such as policy support especially implementation of the Buy Malawi Strategy (BMS), provision of matching grant finance to established private sector companies through the Malawi Innovation Challenge, and provision of technical support, matching grant finance and equity through the Growth Accelerator Business Acceleration programme, to post-revenue start up business, mostly youth owned.

The spirit behind the BMS is to encourage consumption of locally produced goods and services through deliberate interventions. Consequently, it is expected that such conduct will substantially enhance competitiveness of local firms, stimulate local production, job and wealth creation and promote industrialization, a key priority of in the Malawi Growth and Development Strategy III. Inclusive growth is an underlining factor as the BMS seeks to create necessary conditions for sustained, inclusive and sustainable economic growth, shared prosperity and decent work for all.

The Malawi Innovation Challenge Fund (MICF) is a matching grant facility established by UNDP Malawi to provide co-financing to the private sector for innovative inclusive business initiatives in the agricultural, manufacturing, logistics and financial sectors. The MICF aims to support the process of transformation within the Malawian economy from one that is dependent on imports and consumption to one that is geared to exporting and production.

The MICF has been designed to bring real impact, both in terms of attempting to change market systems and increased employment and incomes of the poor. The MICF offers a “challenge” to the private sector to achieve pre-defined objectives, often enabling technological innovations, and pre-defined pro-poor impacts. The challenge fund is a competitive mechanism to bring ideas to life by allocating financial support (to de-risk investment) to innovative business models to improve incomes of the poor/smallholder farmers and test the long-term commercial viability of the idea.

The Growth Accelerator is no physical space but is rather a business acceleration instrument that provides technical assistance and seed capital to young and ambitious post revenue start-up companies that intend to provide sustainable business solutions to development challenges that align economic growth with sustainable development goals and the 2023 African Union Commission's agenda. The instrument clearly addresses a gap in the market by playing a catalysing role through the provision of technical assistance, grant finance and equity to selected start-up companies.

Through this instrument, young and ambitious entrepreneurs of both sexes are equipped with the right skills to grow their business and provide real impact to Malawi such as new products/services, job creation and increased incomes to the lower end of the economic spectrum that integrate in business supply chains. The operational modality for the Growth Accelerator follows the blueprint of the MICF, but on a much smaller scale targeting post-revenue start-ups. The competition of ideas allows start-ups to put forward some innovative business models that traditional financial institutions would not consider for financing.

This progress report covers the period from 01st January to 31st December 2019. During the stated period implemented activities included:

- Finalisation and implementation of the 2019 PSD Annual Work Plan (AWP) agreed by both the United Nations Development Programme (UNDP) and the Ministry of Industry, Trade and Tourism (MoITT).
- Implementation of the Buy Malawi Strategy Marketing and Communication Plan.
- Launch of two new windows and implementation of projects by grantees under the Malawi Innovation Challenge Fund (MICF).
- Implementation of the first round of the Growth Accelerator Business Acceleration programme (Growth Accelerator).
- Launch of the second round of the Growth Accelerator Business Acceleration programme.

Some of the main achievements during the reporting period include:

- Through the MICF, from 2014 to 31 December 2019, a cumulative total of 27 private sector companies have been supported with matching grants as part of affordable capital to de-risk investment to implement respective innovative business models that bring products on the market for both financial return and social impact. This support confirms UNDP Malawi's contribution to enabling the private sector access affordable capital to de-risk investment and business growth including access regional and international markets. Some of the enterprises are exporting their products such as

non-refrigerated margarine, specialty artisanal tea, organic coffee and UHT milk to regional markets and beyond.

- Through the MICF, from 2014 to December 2019, the cumulative aggregate number of poor people with access to, and participating in supply chains of these enterprises, and are experiencing livelihood improvement reached 302,057 (36% women) while the cumulative aggregate number of low-income people getting permanent employment reached 1,477 (35% women).
- Through the national roll out of the Buy Malawi Strategy (BMS) to encourage consumers to consume locally produced goods and services while companies increase productivity and quality of these goods and services for both domestic and international markets, 68 registered private companies have enrolled and financially subscribed to the BMS.
- Through the Growth Accelerator Business Acceleration programme, 11 post revenue business start-ups have been equipped with right skills and access to capital such as grant finance and equity for their businesses to provide real impact to Malawi such as job creation. By 31 December 2019, these businesses created 29 jobs for the youth (8 female).
- Two new MICF Windows were launched. These were Innovative Finance Window and Agribusiness Window. Four and six companies were selected under the Innovative Finance Window and Agri-business Window respectively.
- The second round of the Growth Accelerator Business Acceleration programme was launched and thirteen ventures were selected into the second cohort to receive technical, grant finance and/or equity.

B. Situational Background/Context

With most Malawians still living below the poverty line (i.e. less than \$1/day), Malawi remains one of the least developed countries in the world. The Country's inability to diversify the structure of its economy and its exports has compromised the opportunity to sustain high rates of economic growth and move towards becoming a middle-income country. The slow rate of economic transformation impedes Malawi's potential of moving away from being a consumer and import-oriented country to a manufacturing and export-oriented country. To achieve the latter, Malawi requires concerted efforts to strengthen and increase the capacity and recognition of the private sector.

For now, Malawi lacks a private sector that can increase the low levels of investment and production and transform the economic structure of the country through the diversification of its economy and exports. The Private Sector Development (PSD) project 2013-2019 has been a private sector led and private sector driven project. It aimed at incentivizing the private sector to deliver sustained, rapid and inclusive growth; ensuring that value chains with strong potential, identified by the National Export Strategy (NES), contribute to growth and poverty reduction and are inclusive of the poor; and better aligning business incentives with development objectives to promote innovations and inclusive business models to draw poor communities into markets more efficiently.

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

The operational approach of the project is characterized by mix of instruments such as policy support especially implementation of the Buy Malawi Strategy (BMS), provision of matching grant finance to established private sector companies through the Malawi Innovation Challenge, and provision of technical support, matching grant finance and equity through the Growth Accelerator Business Acceleration programme, to post-revenue start up business, mostly youth owned.

The PSD project fully aligns with the 2019-2023 United Nations Development Assistance Framework (UNDAF), which is also aligned to the 2017-2022 Malawi Growth and Development Strategy III (MGDS III). The project contributes to Outcome 1 of the UNDAF "By 2023, Malawi has strengthened economic diversification, inclusive business, entrepreneurship, and access to clean energy. The MGDS III aims to accelerate the country's transition to a productive, competitive and resilient nation that also integrates the Sustainable Development Goals.

The Project has 3 Outputs, namely:

- Expected Project Outputs:**
1. The Industrial development policy and prioritized sectoral policies and strategies developed and implemented
 2. The MICF is established and operational to increase inclusiveness and competitiveness of value chains in agriculture and manufacturing
 3. Programme coordination and management

The Responsible Party for Output 1 is the Ministry of Industry, Trade and Tourism (MoITT) whilst for Output 2 and 3 is the United Nations Development Programme (UNDP). mHub also works with UNDP under Output 2 as a responsible party for the Growth Accelerator. Financial and Management oversight for the whole project is provided by the UNDP.

C. Assessment of Project Results During the Reporting Period

Table 1 below presents a summary of the progress in the reporting period (01 January 2019 – 31 December 2019) on activities for each Output as defined for implementation in the 2019 Annual Work Plan

Table 1: Progress on implementation of activities within each Output

| OUTPUT 1: The Industrial development policy and prioritized sectoral policies and strategies developed and implemented | |
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| ACTIVITY | ACHIVEMENTS |
| <ul style="list-style-type: none"> • Support to the implementation of the Buy Malawi Strategy 'Marketing and Communications Plan' | <ul style="list-style-type: none"> - Most BMS events have been platforms for recruiting or registering companies to be members of the BMS. By 31 December 2019, 68 companies were registered as members. - A consultant was recruited to review procurement related laws and policies and propose new provisions that could enhance implementation, mainstreaming and institutionalisation of BMS in Malawi's public and private sectors. |

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| | <ul style="list-style-type: none"> - A number of promotional and marketing activities have been undertaken in line with the marketing and communication plan, namely: Buy Malawi Day; Trade Fairs; Advertisements on radio, TV, newspapers, BMS website, and the social media; Shop storming; Brochures, stickers; fliers and banners and billboards. |
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OUTPUT 2: The MICF is established and operational to increase inclusiveness and competitiveness of value chains in agriculture and manufacturing

| ACTIVITY | STATUS |
|---|--|
| <ul style="list-style-type: none"> • Support to operationalisation the Malawi Innovation Challenge Fund • Support to operationalisation of the Growth Accelerator Business Acceleration | <ul style="list-style-type: none"> • Since inception, the Malawi Innovation Challenge Fund portfolio has cumulatively grown up to contracting 40 companies, for a total of 41 projects in total. Out of the 41 projects, 7, 4 and 6 have been contracted in 2019 under the Manufacturing Window, Innovative Finance Window and Agribusiness Window respectively. The remaining 24 projects fall in the Agricultural and Manufacturing Window, Manufacturing and Logistics Window, Agribusiness Window, and Irrigation Window. • End line surveys for five companies that have completed their projects were conducted and reports were shared by Fund Managers. • In addition, the MICF Website has continuously been updated. • Strong relationship has been built between fund managers and companies/grantees to ensure that risks and other related issues are easily and quickly identified and openly discussed to ensure that projects remain on track • In terms of results, the various projects being |
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| | <p>undertaken by the MICF grantees to date have resulted in livelihood improvement of 302,057 (36% women) people); 46,491 (over 30% women) smallholder households benefiting from new or enhanced income generating opportunities; 1,477 (35% women) low income unskilled people getting permanent employment; Around USD\$12.0 Million additional investment directly leveraged from the Private Sector through the MICF.</p> <ul style="list-style-type: none"> - Quarterly MICF progress reports were documented and shared by the Fund Managers. UNDP shared the same with MICF donors. - Eleven youth owned ventures as first cohort of the Growth Accelerator Business Acceleration programme have been equipped with the right skills and access to capital in form of matching grant finance and/or equity to enable them to grow their businesses and provide real impact to Malawi such as job creation, increased incomes of communities, and consumer absorption of new products/services. So far, these ventures have created 29 (8 female) jobs for the youth. - Quarterly Growth Accelerator progress reports were documented and shared by mHub as a responsible party. UNDP shared the same with the Growth Accelerator donor. - The second round of the Growth Accelerator Business Acceleration programme was launched and thirteen ventures were selected into the second cohort to receive technical, grant finance and/or equity. - New partners such as the National Bank of Malawi and Eco Bank joined the Growth Accelerator programme to provide the matching |
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| | <p>contributions in form of loans to interest selected ventures of the second cohort.</p> <ul style="list-style-type: none"> - The Malawi FINSCOPE MSME study was supported and draft report is ready. - UNCDF/UNDP consultations with various stakeholders such as commercial banks, private sector companies, Pension Funds, development partners, etc. on the feasibility of establishing a Malawi Window in the "BUILD FUND" which is an Impact Investment Fund were conducted and a report is ready. The assessment concluded that this is feasible and next steps are being taken including UNDP discussions with development partners lobbying for funds to be put in this fund exclusively for the Malawi Window. |
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| OUTPUT 4: Programme Management | |
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| ACTIVITY | STATUS |
| Project Steering Committee meetings | <ul style="list-style-type: none"> • One Project Steering Committee meeting was conducted as scheduled on 17th October 2019. Minutes were documented and are available. |
| MICF, Growth Accelerator and BMS monthly meetings | <ul style="list-style-type: none"> • MICF monthly meetings were held. • Growth Accelerator monthly meetings were held. • BMS monthly meetings were held but not consistent as meetings were postponed for some months. |

D. FINANCIAL UTILISATION

Table 2: Financial status and utilization (January to December 2018)

| Final Atlas Budget (\$) | Commitments | Actual Expenditure (\$) | Total (Commitments+ Actual Expenditure) | % Utilisation |
|-------------------------|-------------|-------------------------|---|---------------|
| 14,827,752 | 8,884,888 | 3,875,153 | 12,760,041 | 86% |

E. LESSONS LEARNED

1. Commitment by the PSD Secretariat, which is in the MoITT is imperative when it comes to reporting, organization of Steering Committee meetings, and the overall project implementation of Output One of the projects.
2. The former Output 3 of the PSD Project has been taken out since it did not materialize from 2013 – 2016. As a lesson, it is imperative to ensure realistic programming going forward.
3. The good relationship that existed between the MICF Team, the grantees and Fund Managers has proven fruitful and effective for the successful implementation of projects and business models by the grantees.
4. It is important to have all Growth Accelerator ventures understand what equity in business is so that they make right and informed decisions when deciding to go for it to avoid premature termination of contracts for lack of mutual understanding between the ventures and equity partners.
5. Regular contact and follow up with the Growth Accelerator ventures have been vital to ensure they stay the course to achieve their business acceleration objectives.

F. CONCLUSIONS

This report has highlighted activities that were undertaken, and the progress made in terms of achievements/milestones by the Private Sector Development project in 2019. implementation. The report has shown that the project made significant strides in 2019.