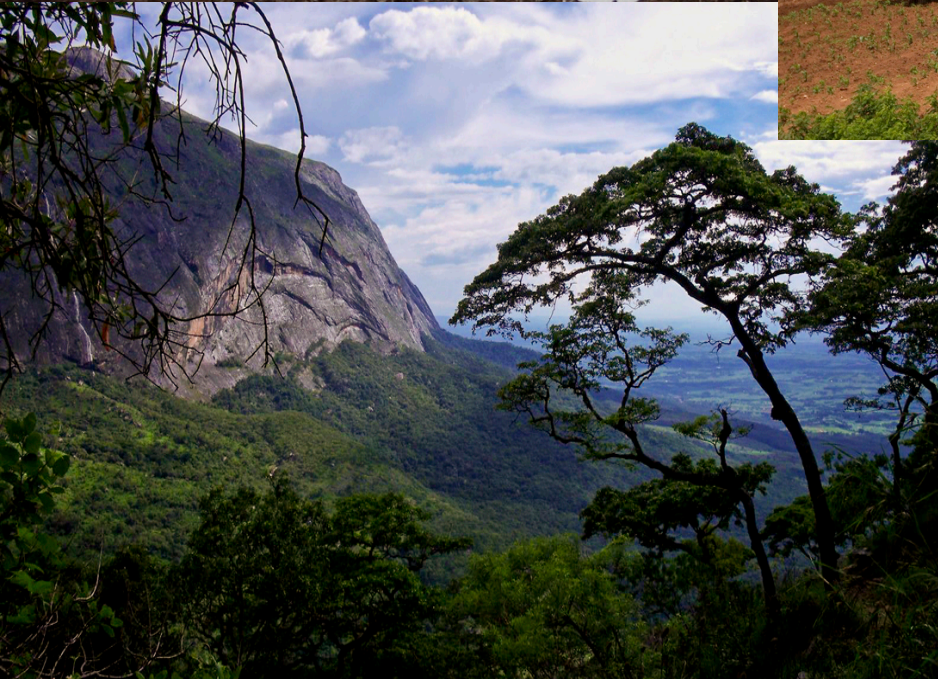




USAID
FROM THE AMERICAN PEOPLE

USAID/Malawi Private Sector Engagement Assessment



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ACRONYMS

BAA	Broad Agency Announcement
CSR	Corporate social responsibility
CDCS	Country Development Cooperation Strategy
DfID	UK Department for International Development
ESCOM	Electricity Supply Corporation of Malawi, Ltd.
FtF	Feed the Future
FISH	USAID/Malawi Fisheries Integration of Society and Habitats Project
FOREX	Foreign exchange
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Federal Enterprise for International Cooperation)
GDA	Global Development Alliance
GEF	Global Environment Fund
GoM	Government of Malawi
GCF	Green Climate Fund
INVC	USAID/Malawi Integrating Nutrition in Value Chains
LAB/CTP	USAID Global Development Lab's Center for Transformational Partnerships
MICF	Malawi Innovation Challenge Fund
MSMEs	Micro, small and medium-sized enterprises
MCC	Millennium Challenge Corporation
NGO	Non-Governmental Organization
NTFP	Non-timber forest product
OU	Operation Unit
POC	Point of contact
PSE	Private sector engagement

PERFORM	USAID/Malawi Protecting Ecosystems and Restoring Forests in Malawi
PPP	Public-private partnership
REDD+	Reduced Emissions for Deforestation and Degradation
RFA	Request for Application
RFI	Request for Information
SMEs	Small and medium-sized enterprises
The Lab	USAID Global Development Lab
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USAID/DCA	USAID Development Credit Authority
USAID/DIV	USAID Development Innovations Ventures
USAID/GP	USAID Office for Global Partnerships
USAID/IDA	USAID Innovation Design and Advisory Team
USAID/PACE	USAID Partnership for Accelerating Entrepreneurship
USAID/PCM	USAID Private Capital & Microenterprise
WADA	Water and Development Alliance

EXECUTIVE SUMMARY

Economic and governance reforms implemented over the last five years have brought forth renewed confidence in Malawi's potential, resulting in increased support by donor agencies. Recognizing its significant role in addressing development challenges, donors increasingly engage the private sector as key partner. Though still nascent in a variety of areas, there are promising opportunities to unlock the potential of the private sector to play a critical role in assisting Malawi meet its development objectives.

USAID/Malawi has increased its private sector engagement (PSE) and currently supports partnerships within the Education, Economic Growth and Health sectors. These interventions reinforce the benefits of PSE but they have been viewed as outliers rather than as vehicles to achieve the Mission's objectives. USAID's experience in Malawi has also seen the private sector's involvement limited to mainly corporate social responsibility/philanthropy rather than partnership and co-investment.

As USAID/Malawi looks to amplify the gains made under its Food Security and Environment portfolios, it sought support from USAID/Washington's Global Development Lab's Center for Transformational Partnerships (LAB/CTP) to reinforce and empower the private sector as a partner to strengthen the economic foundation for Malawi's future growth and development. The Assessment Team (the "Team"), comprising an Agriculture and Environment team from the Lab/CTP and USAID/Malawi, conducted desk research before traveling to Malawi from November 30th to December 15, 2015 to conduct a PSE assessment and landscape analysis. The Team sought to identify potential areas of overlapping interests in which USAID/Malawi could partner with the private sector to realize mutually beneficial goals as well as key bottlenecks that hinder the private sector's ability to drive economic development and growth.

As the Team examined these areas of overlapping interests, it explored short, medium and long-term opportunities to build upon USAID/Malawi's past PSE efforts through potential modifications to existing mechanisms, new projects that complement current programs and/or new programs and stand-alone Global Development Alliances (GDAs). In response to USAID/Malawi's requests and the current realities of its portfolio, the Team focused on the following objectives:

1. Evaluate challenges to increased engagement and investment in line with the needs and interests of the private sector.
2. Identify potential market-based opportunities to leverage private sector ideas, energy and resources to foster economic growth.
3. Define the role that USAID can play to stimulate increased private sector engagement.

The recommendations that follow outline Mission-based interventions that could be achieved with current resources either through investing in new projects, modifying existing projects, supporting additional studies and analysis and brokering partnerships or collaborations that support this private sector-led approach. However, unlocking the private sector's development potential requires a sustained course of action. The recommendations note which steps can be taken immediately by the Mission, along with suggestions for longer term engagement. This report serves as a starting point for sharing ideas, opportunities and models used across USAID to inform the Mission's approach and the USAID/Washington team expects to continue to iterate on these ideas with the Mission to develop the most effective opportunities.

AGRICULTURE – KEY FINDINGS AND RECOMMENDATIONS

Low production, weak market linkages, power shortages, limited access to market information and inadequate aggregation and storage opportunities pose the largest challenges to increasing engagement and investment for Malawian smallholder farmers. Based on its interviews with key stakeholders, the Team identified the following partnership opportunities for further consideration:

- **Poultry Supply Chain Partnership** – Provide beneficiary smallholder soy farmers with diversified year-round income, improved nutritional outcomes and direct market linkages to buyers along the poultry value chain.
- **Trader/Aggregator Partnerships** – Expand USAID/Malawi’s flagship FtF activity, Integrating Nutrition in Value Chains (INVC), by strengthening the competitiveness of the soy and groundnut value chains while exploring high-value legumes, such as pigeon peas, lentils and guar.
- **Support Multi-Donor Challenge Fund and Social Impact Investments** – Work with the UNDP and DFID-created Malawi Innovation Challenge Fund on a specific window designed to introduce small-scale, low-cost technologies (e.g. irrigation) and/or DFID-supported agricultural impact investor AgDevCo to scale models targeting smallholder farmers.
- **Bridge Funding** – Build on existing linkages with FtF program beneficiaries and accelerate the expansion of technical centers which will serve as soy aggregation sites and centers to provide key technical assistance and extension services.

ENVIRONMENT – KEY FINDINGS AND RECOMMENDATIONS

A shortage of power, inadequate supply of key materials, deforestation, and poor community engagement were consistently listed as the largest impediments to increasing engagement and investment in the environment sector. The Team identified the following PSE opportunities for further consideration:

- **Deforestation** – Deforestation affects the private sector’s ability to operate in Malawi and the Team found several avenues through which to engage companies in the creation of mutually beneficial interventions (e.g. afforestation of high-value tree crops and NTFPs).
- **Co-management, community engagement and carbon financing** – USAID/Malawi is currently discussing GDA concepts related to conservation finance; the Team presents insights and recommendations based on conversations with key stakeholders in these areas.
- **Climate smart agriculture and sustainable landscapes** – These concepts support commercial fish farming – especially through a strengthened soy value chain – and the production of renewable energy around an anchor farm that brings irrigation to surrounding communities.
- **Combating wildlife trafficking** – While the Team did not find initial PSE opportunities that combat wildlife trafficking, it presents other avenues for USAID/Malawi to consider that integrate wildlife trafficking programming into current/future activities and regional initiatives.
- **Addressing overfishing and threats to biodiversity** – The Team identified PSE potential to support land-based commercial fish farming production as a way to address the overfishing of chambo from Lake Malawi.

CROSS-CUTTING OPPORTUNITIES

Partnerships that involve both agriculture and environment enhance each portfolio's impact outside of its traditional sphere of influence. The following concepts at the intersection of agriculture and environment provide additional areas for potential Mission engagement:

- The role of soy in agriculture and aquaculture
- A partnership with food and beverage corporations that involves multiple agricultural products
- Addressing power challenges to unlock economic growth
- The potential for anchor farms to roll out solutions in irrigation, power and extension services
- The pipeline of investment that facilitates inclusive growth
- New financing schemes that spur economic growth and address social/environmental challenges

INTRODUCTION

This assessment aims to establish an actionable analytic foundation for enhancing USAID/Malawi's development impact through private sector engagement (PSE) opportunities by:

- Identifying and analyzing the interests, challenges and issues facing the private sector and/or potential alliance partners in target areas of Mission intervention
- Identifying and analyzing the efforts of other donors in developing alliance partnerships in the areas of interest to USAID/Malawi
- Identifying high-potential private sector entities that could prove critical for developing future PSE activities and/or partnerships
- Providing recommendations that enhance USAID/Malawi's future PSE activities (e.g. CDCS language, specific opportunities, resource requirements)

The Assessment Team (the "Team") sought to identify potential areas of overlapping interests in which USAID/Malawi could partner with the private sector to realize mutually beneficial goals. It also looked for key bottlenecks that hinder the sector's ability to drive economic development and growth. As the Team examined these areas of overlapping interests, it explored short, medium and long-term opportunities to build upon USAID/Malawi's past PSE efforts through potential modifications to existing mechanisms, new projects that would complement current programs, and/or new programs and stand-alone Global Development Alliances (GDAs).

The Mission's key analytical interests for the assessment are as follows:

- What has been the role of the private sector in USAID's target areas of intervention? What challenges exist for greater PSE?
- How interested are domestic and international private sector entities to engage in alliances?
- What is the absorptive capacity within these targeted areas for PSE, as envisioned through alliances or similar PSE mechanisms?
- What opportunities exist to engage and educate the private sector in the potential for market expanding (in line with its self-interest) and socially beneficial development activities?

- What role can USAID play to raise greater interest in PSE in its target areas of intervention?

THE PSE ASSESSMENT PROCESS

The assessment consists of distinct phases. Each phase accomplishes specific goals that are critical to the process of identifying partners, understanding partner motives, scoping partnership opportunities, prioritizing partnership initiatives and planning next steps.

Mobilization. The mobilization of the PSE Assessment Team (the “Team”) was timed to ensure that strategic partnerships could be conceptualized, prioritized and incorporated. Prior to the mobilization of the Team, SSG coordinated with USAID/Malawi’s management to validate project priorities and orient the appraisal accordingly, identify an initial list of private sector partners for field interviews, select USAID/Malawi staff to participate in the process and finalize all logistical and administrative arrangements.

USAID/Malawi provided lists of companies to contact and categorized/prioritized firms. SSG Advisors performed desk research to identify additional firms in both sectors and worked with a local consultant to ensure creation of a sector-wide assessment. The Global Development Lab’s Center for Transformational Partnerships (LAB/CTP) and SSG Advisors created interview templates to guide discussions, uncover insights and present findings.

Field Phase. Between December 1 and 15, 2015 the Team, consisting of two LAB/CTP Advisors and two United States-based consultants from SSG Advisors, convened in Malawi to carry out the field phase of the PSE assessment with three USAID/Malawi staff. Following a team orientation and an in-briefing with USAID/Malawi staff, the Team interviewed 75+ private sector companies, NGOs, and donors in the agriculture and environment sectors. In order to target aligned interests and capture other relevant information for the partnership development process, these PSE interviews captured information on the following three key topics along with additional findings and basic analysis:

1. **Purpose** – What does the company do? How is it organized? Who are its clients/customers? Why does it exist? What is its business model?
2. **Pains** – What challenges does the company face? What stops it from achieving its goals? What recurring problems impact its ability to meet the needs of its customers?
3. **Gains** – What does the company hope to accomplish in the future? What investments does it plan to make? Where does it see opportunities for growth?

Mission Out-Brief. The PSE Team presented initial findings and recommendations to Mission management and staff on December 15, 2015.

Report Submission. The Team submits a final report that includes (1) initial partnership conceptualization for further development, prioritization and consideration, (2) guidance for action planning and (3) follow-up assistance as identified by the Mission to take high priority concepts to fruition.

USAID/MALAWI PSE BUILDING BLOCKS

While each PSE concept will have its own unique success factors, USAID Malawi’s partnership development process as a whole will be reinforced by its strong interest in developing shared value partnerships and the foundation of current and past partnerships in the Education, Health and Economic Growth sectors. Within the Economic Growth portfolio, the Mission has engaged

the New Alliance for Food Security and Nutrition and collaborated with donors to facilitate the signing of New Alliance Letters of Intent by firms committed to specific investments in line with GoM's agricultural development objectives. USAID/Malawi seeks to deepen and expand partnerships in agriculture to reach more farmers, introduce new technologies, expand access to quality inputs, engage the supply chain for local agro-processors and increase export opportunities. Within the environment portfolio it wants to address major threats to biodiversity by engaging the private sector to slow deforestation, combat wildlife trafficking and build adaptation and resilience.

Mission Assets

USAID/Malawi has a variety of capabilities and resources to deploy in service of PSE activities. Proper application of these resources is essential to good partnership design:

Experienced and Knowledgeable Local and International Staff. The Mission team consists of experienced local experts who have been deeply involved in the economic, social and political development of Malawi. They bring a wide array of perspectives, networks and technical capacities, all of which are invaluable to private sector, public sector and NGO partners. In addition to the breadth of experience, the Mission has staff who have been trained in various USAID partnership tools as well as staff experienced in partnership development from their service in other Missions. The December 2015 assessment involved multiple full-time Mission staff whose technical expertise, creativity and country knowledge were immensely valuable during partner interviews and brainstorming. It is expected that they will play a key role in developing and supporting the implementation of partnerships that build upon results and recommendations of this report.

Technical Expertise. Through its project staff and contractors, USAID offers technical assistance to help its project beneficiaries improve management practices and production techniques and technologies, navigate relationships with the private sector and even acquire loan financing. For example, finance institutions, agro-processors and traders have a keen interest in working with organized farmer groups using modern production techniques but they lack the technical expertise to help farmers adopt the practices.

Tools and Mechanisms. Global Development Alliances, Development Credit Authority, Power Africa, Private Capital & Microenterprise Group, Annual Program Statement, Broad Agency Announcements and Challenges and Prizes represent some of tools available to USAID/Malawi to integrate financing, technological innovations and impactful partnerships in its portfolio.

Ability to Engage and Organize Farmers and Communities. Many identified partners, including formal produce buyers, want to expand the number, size and capacity of farmers' groups and associations. But they lack the ability or resources to invest heavily in new farmer groups. INVC, PERFORM and FISH bring the capacity and mandate to engage communities and assist with organizing efforts that maximize partnership benefits for community members (including smallholders) and partners.

Convening Power and Credibility. The strength of USAID's brand is a critical asset for Mission partnership development. USAID is seen as a trustworthy partner that lives up to its commitments and effectively engages the broader stakeholder community. The power of USAID's reputation allows it to convene multiple organizations around specific development challenges and lead through multi-stakeholder partnership development, policy advocacy and project activities.

Dedicated Partnership Resources. Assuming resource allocations consistent with previous years, USAID wants to make investments that unlock private sector investments in new technology development, expand relationships between smallholder farmers and national supply chains and increase PSE in addressing climate change, biodiversity conservation and the creation of sustainable landscapes.

AGRICULTURE

INTRODUCTION

As a focus country under Feed the Future (FtF), USAID/Malawi is committed to achieving the President's vision to increase food security and livelihood opportunities for smallholder farmers. Recognizing the role that the private sector plays in this vision, the Mission wants to expand its PSE work, potentially through GDAs or contractors and implementing partners. The follow-on to the FtF flagship activity, Integrating Nutrition in Value Chains (INVC), which is expected to be awarded by August 2016, will offer opportunities for partnerships in areas like value addition, input supply and access to finance. The Mission is particularly interested in exploring opportunities to engage the private sector in agro-processing of target value-chain commodities (orange-fleshed sweet potato and legumes like soy, groundnuts and pigeon peas), food fortification and commercialization of agricultural technologies and agriculture-related ICT technologies. The assessment prioritized meetings with New Alliance Letter of Intent companies, specifically those active in the Malawi FtF target commodity value chains and motivated to partner with USAID.

To understand the challenges facing the private sector as they relate to agriculture, the Team interviewed 35+ actors that represent the following areas: large-scale buyers and exporters, agricultural input suppliers, agro-processors, donor-funded agricultural projects, financial institutions, poultry producers, farmer organizations, GoM offices, agricultural support organizations, the commodity exchange and other donors.

INDUSTRY LEVEL INSIGHTS

The table below highlights interview insights as they relate to specific sub-sectors and where business operations, motivations and assets align with USAID/Malawi project objectives.

Partner Type	Partner Goals	Partner Resources/Assets
Agro-processors	<ul style="list-style-type: none"> • Obtain consistent, high quality supply of commodities; manage supply/pricing of produce through forward contracts • Attract customers to current products and produce quantities to meet customer demand • Expand consumer base through new product development/export channels 	<ul style="list-style-type: none"> • Ability and interest to provide seeds and other inputs to farmers • Ability to provide extension services to improve productivity • Purchasing commitments • Predictability and transparency as a formal buyer • Supply chain infrastructure
Traders/Aggregators	<ul style="list-style-type: none"> • Increase volume of commodity purchase for sale to domestic and foreign commercial buyers • Expand/build capacity of farmer networks and strengthen relationships with existing farmers • Invest in anchor farms, processing and packing facilities and infrastructure to add value and boost quality/yields • Compete with firms in neighbor countries growing similar commodities • Identify high value crops where Malawi has competitive edge • Invest in improved staff capacity to provide TA to farmers 	<ul style="list-style-type: none"> • Access to markets • Purchasing power • Communication and distribution channels to farmer networks • Trust and farmer relationships • Willingness to invest in new facilities, services, technologies, infrastructure and products • Ability to expand production and strengthen farmer networks • Global market linkages
Input suppliers of seeds, fertilizer, pest management and small tools	<ul style="list-style-type: none"> • Increase sales of agricultural inputs; boost volume of imports and obtain bulk pricing • Work with donors to rationalize GoM seed subsidy program • Identify efficiencies to offer inputs to farmers at affordable prices; grow sales • Improve distribution of quality and timely inputs in rural areas • Develop technical knowledge of farmers, extension workers and sales staff to ensure safe, effective use of improved technologies 	<ul style="list-style-type: none"> • Existing relationships with international input suppliers • Extension service capabilities • Existing customer base and distribution strategies • Motivation to sell increased volume of agricultural inputs

Commercial banks	<ul style="list-style-type: none"> Expand lending and reduce risk to lower default rates/increase profit Seek strategies for increasing agricultural portfolio while reducing risk in volatile financial environment Interest in collaborating with donors and companies offering agricultural extension services 	<ul style="list-style-type: none"> Capital Access to financial services Continued interest to invest in smallholder farmers
Farmer organizations	<ul style="list-style-type: none"> Organize and support farmers to transition farmer associations into cooperatives and create mindset for farmers to manage a business Work with seed research centers to get improved seeds to farmers Engage in research, policy and partnership; advocate for farmers to GoM re: macro-economic changes 	<ul style="list-style-type: none"> Close relationships with farmers Organizational capacity Technical skills in production and post-harvest operations Provide training for associations to transition to cooperatives throughout value chain Provide training on governance, leadership and market linkages
Producers	<ul style="list-style-type: none"> Increase commodity volumes to sell to foreign and domestic buyers Invest in self-operated anchor farms Expand farmer network and strengthen relationships with farmers around anchor farms 	<ul style="list-style-type: none"> Extension service capabilities Access to commercial buyers and export markets Willingness to expand production and strengthen farmer networks

KEY THEMES AND CHALLENGES FACING THE PRIVATE SECTOR

As a result of weak market linkages, limited access to market information and inadequate aggregation and storage opportunities, most Malawian smallholder farmers sell their surplus to traders/speculators when the market value is lowest. End buyers view the traders/agents as reliable sources for commodity procurement but expressed an openness to procure directly from farmers or through a commodity exchange. However, the Team identified the following key challenges related to agricultural productivity, infrastructure and services that hinder private investment:

LOW PRODUCTION AND WEAK MARKET LINKAGES

Key Challenge – Low Production and Weak Market Linkages	
Small farm plot size and lack of commercialization complicate expansion of local sourcing schemes	<ul style="list-style-type: none"> The average smallholder farm size is less than one hectare, with farmers growing maize for consumption and tobacco and other cash crops. For farmers, small plots increase production costs because they cannot mechanize to achieve economies of scale.
Low productivity, given the size of the	<ul style="list-style-type: none"> The agricultural production per hectare of the same crops in surrounding countries is estimated at three-fold or more than Malawi. This is attributed

smallholder farms, is a constraint to increasing farmer incomes	<p>to poor farm management, limited use of appropriate agricultural technologies (e.g. high yielding seeds and improved inputs) and the minimal use of irrigation (which would allow farmers to produce more than one crop per annum).</p> <ul style="list-style-type: none"> • Even without irrigation, interviewees stated that use of improved agricultural practices (seeds, inputs and management practices) alone would result in very significant increases in crop production.
Contract farming is not widely practiced	<ul style="list-style-type: none"> • Past experience resulted in side-selling as farmers would break contractual agreements to obtain instant cash and potentially better prices from traders. • This results in untenable risks for buyers, thereby limiting their incentives to invest in increased production, improved inputs or local sourcing schemes.
Limited availability of extension services for farmers and their networks	<ul style="list-style-type: none"> • Although some seed and input providers supply their customers with extension services to ensure appropriate utilization (leading to higher quality and yields) and NGOs work with beneficiary farmers, the national extension service is in disarray. • One interviewee confirms a ratio of one extension agent for 3,000 farmers.

LACK OF INVESTMENT

Key Challenge – Lack of Investment	
Farmers do not grow or invest to their potential	<ul style="list-style-type: none"> • Low prices, the need to sell at harvest, weak connections to buyers and limited access to finance and market information influence how farmers approach planning, production and investment. • Low profit margins in current system give smallholders no incentive to invest in new varieties, improved inputs or modern technologies.
Lack of storage, packaging and aggregation points	<ul style="list-style-type: none"> • Creates challenges for farmers and buyers (e.g. local and regional grain silos, cold storage and pack houses). • Issues impact current and future yields and further depress potential surpluses.
Agriculture is viewed as risky in the eyes of lenders and investors	<ul style="list-style-type: none"> • Poor structure and weak linkages within agriculture supply chains, along with dependence on rain-fed production and poor farm management, are key sources of risk affecting the overall 'bankability' of the sector. • Banks view processors and other mid-level actors with hard assets (e.g. storage or processing facilities) and links to end buyers more favorably. Few mid-level actors reported difficulty in accessing credit. • Smaller players (e.g. farmers and smaller processors) have a more difficult time obtaining non asset-based finance. Credit at this end of the supply chain is usually low volume, short tenor and high interest. • Few smallholders pursue options through formal finance channels, compromising the bankability of value chain activities.

PRIVATE SECTOR'S VISION / POTENTIAL OF THE SECTOR

Interviewees articulated that a thriving agriculture sector requires stronger and more efficient local supply chains in which domestic processors and traders/exporters meet existing export market demand with the right quality and quantity of locally-sourced commodities. In this context, medium to large-scale traders and agro-processors are motivated to scale up local sourcing in order to:

- **Secure more reliable supply chains.** All processors and traders stated that demand continues to outpace production in Malawi – “if it is grown, it is sold”. One processor said his factory currently runs at 50% capacity due to low supply. Even at slightly higher

prices, many buyers prefer a more structured or direct engagement with farmers if it produces a reliable and consistent supply of goods they need. But creating the direct engagement model continues to be a challenge.

- **Improve margins by supplementing the role of middlemen.** Some buyers felt that a more direct relationship with farmers – even if through a structured, intermediary relationship or vertically integrated supply chain – would produce higher margins for both buyers and farmers.
- **Encourage farmers to diversify into more high value agricultural crops.** Traders proposed legumes with strong export market value in India and neighboring countries.
- **Encourage farmers to diversify their income.** Some firms want to expand outgrower poultry production (egg and breeders) and link soy production to the poultry feed value chain.
- **Improve quality of groundnuts.** Aflatoxin continues to be a constraint for export.

WHAT THE PRIVATE SECTOR DOES TO ACHIEVE THIS VISION

The team observed multiple positive trends and steps that private sector actors currently consider and undertake to advance this vision:

- Multiple buyers showed an interest in, or are taking steps to **invest in, supply chain infrastructure and supplier networks** to reduce supply risks and support economic growth in rural communities.
- Some buyers are open to entering **more structured relationships with farmers** and farmer groups. Forward contracts involve agreements between producers and buyers that lock in prices and sales volumes in advance. From interviewees' perspectives, contract enforcement is weak in Malawi as producers side-sell to higher bidders should prices rise. But buyers explore other options to 'formalize' relationships by providing inputs and simple mechanization (a model used successfully in the tobacco industry) to align their interests with farmers to source locally.
- Multiple buyers provide various forms of **value chain finance to their supplier networks**. This includes inputs (e.g. seeds, seed stock, feed, vaccines, chicks), technology, credit and cash advances and limited guarantees on behalf of trusted suppliers to obtain loans. Often the capacity of buyers to provide value chain finance is limited by cash flow and ability to access credit.
- One bank expressed interested in **lending more to the agriculture sector** and has the liquidity to do so. Lack of collateral continues to be an issue, particularly at the farmer end of the supply chain, but the bank has developed a model in which a combination of external loan guarantee, positive experience with loan repayments and access to extensions services all mitigate the bank's risk and opens opportunities for loans to be approved.

WHERE COULD USAID PLAY A CRITICAL ROLE IN ADDRESSING THESE CHALLENGES?

Upon analyzing key themes and the principal challenges facing the private sector, the Team looked for areas of overlapping interest with FtF objectives. Using these areas of convergence as a foundation, the Team identified PSE opportunities that help private sector partners address their challenges and promote inclusive business models that incorporate USAID beneficiaries as suppliers, customers and partners.

In order to meet the Mission's priorities, including value addition in the target commodities (legumes, soy, OFSP), access to finance and quality inputs, food fortification and commercialization of agricultural and ICT technologies, the Team considered the following tools and mechanisms to develop a robust PSE strategy:

- Partnering with specific organizations around a GDA or multi-stakeholder partnership, either through a USAID program (existing or new) or stand alone facility
- Exploring the use of innovative programs that incentivize private sector-led development
- Contributing to market research that unlocks an industry's ability to address a challenge
- Convening diverse partners to foster discussion, coordination and collaboration (including commercial linkages) that might not have otherwise taken place
- Funding TA and/or expansion of extension services
- Coordinating activities within the donor community

The table below highlights the range of opportunities considered for the Mission's enhanced PSE strategy:

Opportunity Area	Description	Examples
Existing Programs	Activities that enhance collaboration and partnership in existing USAID-funded projects	<ul style="list-style-type: none"> - Increased collaboration with oil processing firms through INVC's existing and/or follow-on activities - Integrate traders/aggregators into INVC value chain with existing target FtF commodities
Market Studies/Research	Fund research on crops where firms have identified market demand	<ul style="list-style-type: none"> - Introduce new high-value lentil crops (i.e. guar bean) designated for export markets (e.g. India)
GDA and non-GDA Opportunities	Partnerships (potentially GDAs) with private sector partner(s)	<ul style="list-style-type: none"> - Poultry industry wants to expand breeding and egg layer production - Traders/aggregators want to increase production and forward contracts
Convene Stakeholder Event	Forum to address critical issues with negative impact on development activities and investments	<ul style="list-style-type: none"> - Aflatoxin: Convene stakeholders from private sector, public sector and donor community to discuss key challenges around trade/nutrition of groundnuts
Multi-Donor Challenge Funds, Coordination and Collaboration	Many donors invest in same targeted commodities which complement USAID investments.	<ul style="list-style-type: none"> - Co-invest in established for-profit and/or blended finance investment funds - Collaborate with donors (DFID, GIZ) to map out investment pipeline and identify gaps
Prizes/Challenges, Innovation Transfer	Integration of innovation into development activities	<ul style="list-style-type: none"> - Work with investors on specific funding window - Engage USAID India/Malawi AgriBridge Project

OPPORTUNITIES USAID SHOULD PRIORITIZE AND FURTHER EXPLORE WITH POTENTIAL PARTNERS

Based on insights gained during the PSE assessment, the USAID/Malawi Team will further incubate, structure, prioritize and implement partnerships that apply the following strategic operating principles:

Development Impact	<ul style="list-style-type: none"> • Does partnership demonstrate the ability to significantly increase the size, scale, efficiency, sustainability of the activity and its impact on development objectives?
Based on shared value	<ul style="list-style-type: none"> • The impact and sustainability of USAID/Malawi partnerships will depend largely on the extent to which they advance business partners' interests, motivations and growth strategies and reflect interests/needs of farmers, families and communities. • While alignment with USAID/Malawi priorities and objectives will be a clear determinant in the partnership development process, ultimately partnerships will require explicit partner buy-in, ownership and commitment to succeed.
Time to market	<ul style="list-style-type: none"> • How much time and level of effort are required to move the concept from discussions and expressions of interest to a firm decision to partner or not? • Is there an agreed-upon urgency to finalize deliberations?

	<ul style="list-style-type: none"> • What timing factors (e.g. planting seasons) factor into decision-making?
Stand-alone versus integrated activity	<ul style="list-style-type: none"> • Does the partnership leverage existing portfolio activities and resources or will it require new contracting and/or the development of a new activity?
Mission's capacity (internal staff, budget, and other resources)	<ul style="list-style-type: none"> • Does the Mission have staff, budget and other resources required to develop and manage the partnership and/or fully represent USAID's interests to the private sector, especially in the development stage? • What role do implementing partners play in development and execution?
Viability of potential partner(s)	<ul style="list-style-type: none"> • Are partners new or does the Mission/implementing partner have a previous relationship with them? • Is it a local company or multinational corporation? • Does cursory due diligence raise any issues of concern? • What kind of leverage – cash/in-kind – does the partner bring to the activity? • Is type/amount of leverage critical to the activity's success and sustained impact?

SPECIFIC AGRICULTURE OPPORTUNITIES

The Team identified four initial partnership concepts for further development and consideration:

Poultry Supply Chain Partnership with two of Malawi's largest poultry product suppliers would expand the poultry sector's work with smallholder farmers. Farmers would be linked to the poultry value chain as breeders for table egg production and/or broilers. They would also have a direct market link to the poultry industry for their soy, a key ingredient in the production of chicken feed produced by these companies. The program would provide beneficiary smallholder farmers with a diversified year-round income, improve nutritional outcomes and establish direct market linkages for soy and feed production along the poultry value chain.

Trader/Aggregator Partnerships expand on INVC and aim to strengthen the competitiveness of the soy and groundnut value chains through innovations that increase productivity and help farmers earn higher incomes. While soybeans and groundnuts will continue to be focus crops, interviews with key actors in the Trader/Aggregators segment indicated interest in partnering to meet high market demand for high-value legumes, such as pigeon peas, lentils and guar.¹

Multi-Donor Challenge Fund Partnerships address a significant constraint to agricultural productivity (the lack of available smallholder irrigation schemes) through private sector innovations. The Malawi Innovation Challenge Fund (MICF), created by the UNDP and DFID, 'challenges' the private sector and other target fund beneficiaries to propose technological innovations that address development challenges and have a defined pro-poor impact. The challenge fund instrument allows the private sector to compete in an economically efficient and transparent manner for co-funding ideas.

The MICF is considering opening an **Irrigation Window** which will promote new, small-scale, low-cost irrigation technologies and market access approaches that help smallholders improve

¹ Guar bean, or cluster bean, is a drought-tolerant annual legume used as a vegetable for human consumption. Highly refined guar gum is used as a stiffener in soft ice cream, a meat binder and a stabilizer for cheeses, instant puddings and whipped cream substitutes. Most of the global crop is grown for a lower grade of guar gum for use in cloth and paper manufacturing, oil well drilling muds, explosives, ore flotation and other industrial applications. The global demand for guar bean has exploded with reports of Indian smallholder farmers quadrupling their annual incomes. It was traditionally grown in Malawi.

yields of high value crops, reduce water demand and improve their quality of life. It is recognized, however, that even when enabled with irrigation technologies, smallholders need access to extension, farm management, inputs, markets and credit to enable them to successfully utilize irrigation technologies.

Alternatively, USAID/Malawi could explore a partnership with DfID-supported AgDevCo, a social impact investment group specializing in agricultural investments in six African countries, including Malawi. AgDevCo is engaged in multiple outgrower schemes and expressed interest in expanding into long-term irrigation projects. Its leadership expressed interest in co-investment opportunities with USAID.

Bridge Partnership with Oil Processors ensures continuity of programming in the soy value chain in select target areas served through INVC. The bridge activity would build on existing linkages with FtF program beneficiaries and accelerate the expansion of technical centers that will aggregate products as well as provide key technical assistance and extension services. Increasing production is an issue which will require the use of available technologies (high-yield seeds and inoculants) as well as timely extension services and credit financing. One company wants to test a model utilized by the tobacco industry with increased emphasis on extension services and the development of a financial credit-rating system and receipt scheme to assist smallholder farmers access finance. The partnership would also pilot new technologies to increase agricultural productivity (e.g. use of inoculants and mechanization).

Facilitate Aflatoxin Event that convenes principal stakeholders involved in the groundnuts industry (including beef processors) to discuss pre-competitive partnerships that reduce the amount of Aflatoxin in products. USAID/Malawi may work with the Global Development Lab's Innovation Design & Advisory Team (IDA) to explore open innovation funding models that incentivize private sector-led solutions to the Aflatoxin challenge. IDA is working with USAID/Indonesia to design an event that uses the LAUNCH model, which may be a good one to consider as the Mission contemplates its role in leading the event.

ENVIRONMENT

INTRODUCTION

The Mission tasked the PSE Assessment Team (“the Team”) with exploring opportunities across its Environment portfolio to determine where USAID interventions would have the biggest impact in:

- Addressing threats to biodiversity in areas of biological significance, potentially by working with protected area management concessionaires on park management and effective engagement with border zone communities
- Combatting illegal wildlife trafficking
- Building adaptive capacity and resiliency
- Slowing or reversing deforestation and improving land management through investments in sustainable landscapes and climate smart agriculture

In order to understand the challenges facing the private sector as they relate to biodiversity and the overall health of Malawi's environment, the Team interviewed 35+ actors²³ across aquaculture, wildlife conservation and park management, supermarkets, hospitality and tourism, finance, transportation, donor-funded projects (e.g. FISH, PERFORM), non-timber forest products (NTFP), horticulture (tobacco, coffee, tea, mangoes), agroforestry and timber and carbon finance.

Given this assessment's goal to advise USAID/Malawi in its efforts to identify promising private sector engagement opportunities, the following sections:

- Highlight key themes and challenges facing the private sector and the strategies employed to address these challenges
- Analyze where challenges and mitigation strategies align with USAID/Malawi's environment goals
- Present a range of activities and partnership concepts that form a more robust PSE strategy
- Prioritize and present partnership concepts that have significant potential for impact

INDUSTRY LEVEL INSIGHTS

The table below highlights interview insights as they relate to specific sub-sectors and where business operations, motivations and assets align with USAID/Malawi project objectives.

Partner Type	Key Themes	Partner Resources/Assets
Aquaculture	<ul style="list-style-type: none"> • Demand outstrips supply, leading to huge market upside potential • Native tilapia species not yet suited for commercial fish farming • Land-based fish farming is promising due to pressure on Lake Malawi 	<ul style="list-style-type: none"> • Physical assets (equipment, land) • Technical expertise in creating and managing commercial aquaculture farms • Networks of suppliers (including outgrower farmers) and distributors
Wildlife conservation and park management	<ul style="list-style-type: none"> • Malawi is major trafficking conduit • Malawi has lost more animals to hunting for protein than poaching • Tourism and NTFPs offer economic alternatives to poaching/trafficking 	<ul style="list-style-type: none"> • Employment opportunities (tours, hotels, NTFPs, curios) • Community engagement expertise • Investment in new services, products, technologies and infrastructure
Agroforestry and timber	<ul style="list-style-type: none"> • Poor GoM-led afforestation efforts led to denuding of Vipya Forest • Illegal logging happens on private land near GoM-owned land • Prosecuting illegal loggers leads to land occupation, theft and fire • Poor collaboration with GoM to get more land for expanded production 	<ul style="list-style-type: none"> • Physical assets (equipment, owned/leased land, trees) • Agroforestry experience • Access to markets (domestic and foreign) for raw and finished goods • Major employer in rural areas

² Due to time constraints, the Team predominantly met with firms with offices in Blantyre and Lilongwe.

³ Given the use of personal interviews, it is important to note the anecdotal and narrative nature of this report's analyses and recommendations; further investigations may be necessary to verify these findings.

Horticulture (tobacco, sugar, coffee, tea, mangoes)	<ul style="list-style-type: none"> • Estates use anchor farm(s) and outgrowers to produce and process • Tobacco/sugar industries created contract farming schemes; other firms trying to replicate • Mangoes, macadamia, cashews do well in Malawi (high-value crops) • Unreliable quality/quantity of supply • Lack of reliable electricity 	<ul style="list-style-type: none"> • Supply chain infrastructure/equipment • Predictability and transparency as a formal buyer for outgrower farmer networks • Connection to global buyers • Access to capital and FOREX • Interest in expanding to new regions/products • Employment opportunities
Non-timber forest products (NTFP)	<ul style="list-style-type: none"> • Nascent industry with potential to provide economic opportunities • Deforestation is major threat 	<ul style="list-style-type: none"> • Community engagement models • Technical expertise in NTFP production • Access to global buyers of raw and processed products
Hospitality and Tourism	<ul style="list-style-type: none"> • Lake Malawi is #1 tourist attraction • Lack of Malawi tourism brand and little industry coordination • Lack of reliable electricity • Weak relationship with villages but interest in strengthening it 	<ul style="list-style-type: none"> • Located in/near USAID target regions • Employment opportunities in rural areas • Interested in local sourcing and power solutions (esp. solar) • Community engagement experience
Carbon finance	<ul style="list-style-type: none"> • Voluntary market is weak (oversupply); no incentive to buy credits • Opportunities with Green Climate Fund as large climate financier 	<ul style="list-style-type: none"> • Certified carbon credits • Experience with carbon markets and mitigation (cookstoves, tree planting) and adaptation activities
Commercial banks	<ul style="list-style-type: none"> • Collateral requirements and interest rates stunt debt-financed growth • Industry is highly profitable 	<ul style="list-style-type: none"> • Provision of financial services • Interest in mobile payment solutions • Interest in expanding client base
Supermarkets	<ul style="list-style-type: none"> • Informal linkages with local farmers • Local products do not regularly meet quantity or quality standards • Majority of products imported from other African nations 	<ul style="list-style-type: none"> • Access to consumer markets • Interest in improving packaging, grading and quality of produce • Interest in local procurement • Distribution network
Power providers	<ul style="list-style-type: none"> • Significant potential for hydro, solar, ethanol and biodiesel production • Load shedding with ESCOM • Malawi lacks net metering law • Lack of affordable finance to grow 	<ul style="list-style-type: none"> • Infrastructure and expertise in power production • Main off-taker of biowaste products • Systems and infrastructure to source byproducts from farmers
Alternative Energy Providers	<ul style="list-style-type: none"> • Primarily self-funded SMEs • Bamboo, briquettes, solar, hydropower solutions piloted on small scale • ESCOM power outages incentivize firms to invest in own solutions 	<ul style="list-style-type: none"> • Nurseries and production facilities • Distribution channels • Major private sector customers

KEY THEMES AND CHALLENGES FACING THE PRIVATE SECTOR

In order to assess the level of commitment organizations may have in partnering with USAID, the Team focused on the principal challenges facing the private sector as well as what firms do in response to those challenges. A company that spends resources (e.g. time, money) demonstrates “skin in the game”, the amount of which being a key determinant of a firm’s level of interest in partnership. Below we lay out the four common themes that emerged from interviews and how these themes affect the private sector.

KEY THEME #1: INSUFFICIENT AND UNRELIABLE POWER

Throughout the assessment, interviewees named power as a chief challenge not only to growth but firm survival. ESCOM (Malawi’s utility) is not considered reliable and firms either do nothing or invest in alternatives like renewable energy, coal and expensive diesel-run generators. The Team found this to be such an important constraint to Malawi’s development (especially as it relates to building adaptive capacity and resilience) that it explores the issue in two Cross-Cutting PSE concepts.

Chief challenges	Private sector response
Increasingly frequent outages cause delays and limit productivity	Increase use of diesel-run generators and coal that eat into bottom line
Buying and stockpiling expensive back-up fuel (e.g. diesel) diverts attention from business operations	One firm created a hydropower company to supply electricity to its production facility
Lack of power leads to low penetration of irrigation solutions, further limiting productivity	Explore renewable options (hydro, solar, biomass) through pilot projects
Weather pattern changes influence predictability of rain, lake water levels and energy output	Companies with access to water create dams to irrigate own land

KEY THEME #2: UNRELIABLE QUALITY AND QUANTITY IN KEY VALUE CHAINS

Companies interviewed complained of the poor and unreliable quality and supply of products needed for their business operations. This inability to secure a stable supply of quality materials both stunts growth and keeps Malawian products out of more lucrative (international) markets. Indeed, large buyers of myriad products (e.g. essential oils, NTFPs, soy, produce) emphasized that they cannot meet market demand and expressed interest in partnerships that develop stronger supply chains.

Chief challenges	Private sector response
Market demand going unmet from lack of supply and poor quality	Create and operate farms that decrease reliance on smallholder farmers

	Establish outgrower schemes with select farmers to ensure consistency of supply and quality
Low level of connection between firm and farmers leads to side-selling and variable quality/productivity	Use extension services, TA, contract farming and improved wages to connect farmer to the firm's survival and success
	Tobacco and sugar industries created contract farming models others try to replicate
	Improve employee benefits (education/health for families, nutrition program, living wage, better training options)
Weather pattern changes cause farmers to use fast-growing (but low-yielding) seed varieties	Provide quality planting materials to farmers to control disease and increase productivity
Low levels of irrigation at both large farm and smallholder farmer levels	'Zero waste' systems to improve productivity
Low skill levels in machinery operation and maintenance	Provide extension services to smallholders to improve agricultural productivity

KEY THEME #3: DEFORESTATION

The private sector interviewees all recognize the threat deforestation poses to Malawi. But most say it is the job of government to deal with the problem. While probably accurate, this perspective of transference does little to protect industries from the environmental and social threats associated with the shortage of cooking fuel as few firms explicitly connect deforestation to their future as 'going concerns'. Tension simmers below the surface, especially between large landowners and surrounding communities, and places of biological significance (e.g. Lake Malawi, Mount Mulanje) suffer from the lack of alternatives and industry leadership.

Chief challenges	Private sector response
Overpopulation and lack of viable alternatives create illegal logging trade that cuts down forests at accelerating rate for wood-based charcoal used as cooking fuel	<ul style="list-style-type: none"> - Pilot alternatives (bamboo, native trees, briquettes) to wood-based charcoal - Promote affordable cookstoves
Deforestation cuts into bottom line through theft of trees for charcoal and illicit timber sales	<ul style="list-style-type: none"> - Plant community woodlots - Increase policing of private forests
Illegally-harvested timber is cheaper than what the formal market can produce	Firms sell raw logs or processes wood to add value before sale
Many levels of GoM participate in illegal deforestation and GoM lacks funds to combat trade	Firms want stronger PPP framework through which to work with GoM
Firms will not combat illicit activities for fear of retribution (occupation, strikes, theft, vandalism, physical assault, arson)	Increase CSR/community engagement programs

Local people cut forest for new farm land	Increase productivity on current land to reduce need for finding new land
Tea and tobacco industries use large amounts of wood to process products	Keep private woodlots and use bamboo as alternative for fuel and construction
Conflicts with communities threaten 'right to operate' as unrest and encroachment increase	CSR projects: plant trees, schools, clinics (tea industry leads in this area)
Rural people who live near forests lack economic incentive to protect forests	- Work with local people to harvest NTFPs - Employ local people (hotels, safari firms)

KEY THEME #4: POOR COMMUNITY ENGAGEMENT

Companies increasingly see effective community engagement as important to their core business operations. This goes beyond the 'right to operate' to the protection of core assets. Declining resources has communities looking at company property to meet their needs, especially for fuel. Aside from a select few, most firms do not yet have clear community engagement strategies beyond philanthropic CSR. Moreover, conversations with representatives from hotels, safari companies and protected area management indicate that the tourism industry is fragmented, which complicates its ability to lead any serious conversation about the role of strong community engagement in driving private sector success. In general, the private sector's engagement of local communities resembles USAID/Malawi's engagement of the private sector - it is ready to move to a deeper and more effective model of mutually beneficial partnership.

Chief challenges	Private sector response
Poor subsistence farmers cannot wait 5+ years for NTFP revenue when they need fuel now	Pilot project to supply bamboo to communities
Conflicts with communities threaten 'right to operate' and key company assets	Work with communities to protect, harvest and process high-value NTFPs and/or tree crops (mango, cashew)
Community members in/around Nkhosakota and Liwonde Reserves poach animals and cut trees	Establish community trusts to co-manage woodlots, CSR programs, revenue sharing
Local people employed by regional criminal networks to poach animals	Tourism employs locals as guides, security, porters, hotel staff
Malawi is major transit hub for trafficked illegal goods and drivers are paid to hide goods in trucks	One transport firm used (then discarded) camera monitoring/GPS tracking system
Malawi lacks strong brand that attracts tourists and provides a stronger economic incentive for locals to preserve than to "take what they can when they can".	Industry events talk about issues but there has been no long-term leadership or follow-up execution
Low level of connection between firm and smallholder farmers, side selling, low quality/productivity	Use extension services, TA, contract farming and improved wages to connect farmer to firm's success

	Improve employee benefits (nutrition program, education/health for families, living wage, job training)
	CSR: health/education projects (malaria nets, nutrition, school building), plant woodlots

WHERE COULD USAID PLAY A CRITICAL ROLE IN ADDRESSING THESE CHALLENGES?

Upon analyzing key themes and the principal challenges facing the private sector, the Team looked for areas of overlapping interest with USAID’s Environmental objectives. Using these areas of convergence as a foundation, the Team identified PSE opportunities that help private sector partners address their challenges and promote the growth of inclusive business models that incorporate USAID beneficiaries as suppliers, customers and partners.

In order to meet the Mission’s priorities (e.g. address threats to biodiversity, combat wildlife trafficking, build adaptive capacity), the Team looked at PSE concepts that would engage community members as partners in activities with clear economic incentives to protect Malawi’s environment. The Team considered various tools when developing a robust PSE strategy:

- Partnering with specific organizations around a GDA or multi-stakeholder partnership, either through a USAID program (existing or new) or stand alone facility
- Collaborating with other USAID teams from Power Africa, DCA, the Global Development Lab (e.g. Innovation Design & Advisory Team) and South African Trade Hub
- Exploring the use of innovative programs that incentivize private sector-led development
- Contributing to market research that unlocks an industry’s ability to address a challenge
- Convening diverse partners to foster discussion, coordination and collaboration (including commercial linkages) that might not have otherwise taken place
- Funding TA and/or extension services
- Facilitating conversations between key GoM offices
- Coordinating activities across the donor community

The table below highlights the range of opportunities considered for the Mission’s enhanced PSE strategy.

Opportunity Area	Description	Examples
Existing programs	Activities that enhance collaboration and partnership in existing USAID-funded projects	- CSR programs give trees to reforestation project along waterways in protected areas (PERFORM + FISH) - Connect promising enterprises to PERFORM for potential sub-grants

Market study/research	Fund research on issues that could affect many private sector and development activities	- Cost-benefit analysis of commercial bamboo production vs. native trees - Which FtF crops work in inter-cropping schemes with export products? - Which NTFPs work best in Malawi?
GDA and non-GDA opportunities	Partnerships (potentially GDAs) with private sector partner(s)	- Supply chain development of NTFPs, fish feed, high-value tree crops
Convene stakeholder event	Mission, FISH or PERFORM convene stakeholders to discuss issues and potential solutions	- Deforestation's effect on business - Adapting to power shortage in Malawi - Anchor farms and solutions in solar, supply chain and community relations
Government engagement	Engage GoM (in)directly to help address challenges facing firms	- Help GoM build policy/mechanism to engage private sector, esp. in forestry
Working with donor community	Coordinate activities across donors to address common challenges	- Co-invest in funds targeting Malawi - Convene donors to map investment pipeline and identify gaps in funding

OPPORTUNITIES USAID SHOULD PRIORITIZE AND FURTHER EXPLORE WITH POTENTIAL PARTNERS

Using the same set of criteria to prioritize PSE opportunities as those highlighted in the Agriculture section (page 15), the Environment Team identified opportunities in the following areas:⁴

1. Deforestation
2. Co-management, community engagement and carbon financing
3. Climate smart agriculture and sustainable landscapes
4. Combatting wildlife trafficking
5. Addressing overfishing and threats to biodiversity in Malawi's waterways

PRIORITY THEME #1: DEFORESTATION

Deforestation affects the private sector's ability to operate and the Team sees various avenues through which to engage companies in the creation of mutually-beneficial partnerships. Interviewees want GoM to lead (and pay for) any initiative that combats illegal deforestation but the Team recognizes the inability and unwillingness of the Government to act. Thus, it falls on the private sector to do so, if only to protect its interests and ensure its ability to continue doing business. Based on private sector interests and assuming minimal GoM engagement, the Team recommends USAID/Malawi:

- Explore a GDA around afforestation of high-value tree crops
- Integrate afforestation activities into current/new programs and PSE concepts (e.g. Kulera REDD+, anchor farm development, production of NTFPs like baobab and essential oils)
- Hold LAUNCH-style event (modeled after USAID/Indonesia's efforts) that convenes actors to explore private sector-led solutions to deforestation

⁴ As noted previously, lack of power is one of the main challenges facing the private sector in Malawi and given its impact on both agriculture and environment, the Team explores it in more depth in the Cross-Cutting section of this report.

- Develop challenge, prize and/or milestone financing schemes that incentivize private sector-led efforts to combat deforestation
- Work with GoM Department of Forestry to develop models and frameworks to work with the private sector (e.g. PPPs, concession agreements, MOUs)

PRIORITY THEME #2: CO-MANAGEMENT

As one of Africa’s largest Reducing Emissions from Deforestation and Forest Degradation (REDD+) projects, [Kulera REDD+ Project](#) produced one million verified carbon credits. The Mission envisions a scaled-up Kulera that generates revenue to fund conservation projects in/around protected areas and wants to complement (and eventually replace) its investment with increased private sector investment. The Team did not design a carbon financing concept but instead outlines the following key takeaways for USAID/Malawi to consider as it explores ways to capitalize on Kulera’s success:

- The voluntary market suffers from oversupply of credits and low demand. It does not function in a way that incentivizes private sector investment at the level envisioned by its proponents.
 - It will be difficult to scale programs when the price of carbon is so low.
- The largest source of carbon funding is the UN-backed [Green Climate Fund \(GCF\)](#). With \$10 billion pledged, this fund represents one avenue through which projects in Malawi can scale with significant financial backing.
 - One alternative to the voluntary carbon market is the GCF and the Mission may consider projects that build capacity for organizations to apply for GCF funding.
- The Team recommends building on the lessons learned from similar GDAs that use revenue-generating NTFPs to involve private sector investment.
- Given the nature of Malawi’s deforestation (illegal logging to feed demand for wood-based charcoal for cooking in a rapidly growing nation), any partnership or intervention must consider alternatives to wood-based cooking fuel.

PRIORITY THEME #3: CLIMATE SMART AGRICULTURE AND SUSTAINABLE LANDSCAPES

While this section does not explicitly highlight a ‘climate smart agriculture’ or ‘sustainable landscapes’ partnership, almost all concepts include these goals through community engagement that builds economic incentives for conservation, be that via high-value tree crops (e.g. mangoes), NTFPs (e.g. essential oils, baobab) or native trees along key waterways. As for climate smart agriculture, concepts that support commercial fish farming – especially through a strengthened soy value chain – and the production of renewable energy around an anchor farm that brings irrigation to surrounding communities contribute to the objectives of building resilience and sustainability.

PRIORITY THEME #4: COMBATING WILDLIFE TRAFFICKING

Most of the Mission’s current wildlife trafficking work happens at the community level in the form of community outreach and engagement. While successful, this approach does not address market demand or the logistics of wildlife trafficking. In addition, Majete Reserve provides a good example of how long it takes (8-10 years) to develop an effective community engagement program that protects high value animals (e.g. elephants and rhinos). Interviewees say that most animal poaching in Liwonde and Nkhokotakota is done by community members for bush meat but some local people actually work for larger criminal organizations. Thus, any

intervention that hopes to diminish Malawi's prominent role as a transit center for trafficked goods, especially in the near-term future, should integrate Malawi into larger anti-trafficking efforts. While the Team did not find initial PSE opportunities that combat wildlife trafficking, it presents other potential avenues for USAID/Malawi to consider:

- Integrate global/regional USAID wildlife trafficking programs into USAID/Malawi activities
- Build anti-wildlife trafficking activities into current programs
- Integrate wildlife trafficking activities into proposed PSE concepts

PRIORITY THEME #5: EASE PRESSURE ON LAKE MALAWI

The Team identified potential to support land-based commercial fish farming with companies that have ambitious growth goals and see market opportunity presented by overfishing of chambo, which has decimated fish populations in Lake Malawi and caused the price of chambo to rise beyond the income level of most Malawians. Commercial fish farming has tremendous potential to (1) ease overfishing on Lake Malawi (helping to preserve the Lake's biodiversity), (2) increase the amount of protein in the Malawian diet, (3) strengthen the value chains that contribute to fish food (e.g. soy, maize) and (4) provide employment options for people along both supply chains and distribution networks.

CROSS-CUTTING CONCEPTS

Given agriculture's role in the Malawian economy, many of the challenges and solutions that relate to the environment also relate to agriculture. Indeed, climate smart agriculture has never been more important to Malawi's development as improved agricultural practices can help increase the resilience of farmers as well as reduce illegal logging and hunting. Finally, partnerships that involve both agriculture and environment can grow each portfolio's impact outside of its traditional sphere of influence. This section considers these concepts at the intersection of agriculture and environment:

1. The role of soy in agriculture, aquaculture and livestock production
2. Partnerships that strengthen the supply chains of global food & beverage corporations
3. Addressing power challenges to unlock economic growth
4. The role of anchor farms to roll out solutions in irrigation, power and extension services
5. The pipeline of investment that facilitates growth
6. The role of open innovation programs in addressing social and environmental challenges

THE ROLE OF SOY IN AGRICULTURE, AQUACULTURE AND LIVESTOCK PRODUCTION

Since soy figures prominently in USAID/Malawi's FtF strategy and multiple protein-based value chains, the Team recommends exploring a strategy that promotes improved soy production and market linkages between smallholder farmers and buyers along the aquaculture, poultry and beef value chains. This involves buyers across three industries who want more control over their supply chains in order to increase the quality/quantity of soy sourced as a key input in animal feed. Farmers benefit from competition between three markets and many who plant soy also plant maize and groundnuts, which are products in high demand by these same buyers. Buyers may be interested in investing in improved storage/aggregation sites for farmers that serve as centers for inputs distribution and extension services. These centers could also act as entry points for afforestation projects in surrounding villages.

SUPPLY CHAIN DEVELOPMENT

The Team suggests exploring partnership with food & beverage corporations to deepen their relationship with Malawi as they develop supply chains for future growth across Africa. Ideally, PSE concepts would move USAID/Malawi's corporate partnership approach from CSR-driven one-off projects to programs driven by core business units like supply chain, operations and distribution. They could take 1-2 forms:

1. **Supply chain development GDA:** This concept would strengthen a specific supply chain and contribute to both business goals (e.g. stable supply of quality products) and USAID's development goals (e.g. raising farmer incomes) by focusing on capacity building (i.e. improved farming practices), irrigation, extension services and improved inputs.
2. **Co-creating a challenge fund:** USAID/Malawi and a corporate partner develop a challenge fund for entrepreneurs to propose business solutions that transform Malawi into one of the firm's primary sourcing partners. The fund would incentivize local entrepreneurs to find new solutions to supply chain challenges (e.g. waste, climate change) and help scale good ideas. It would include a mix of technical assistance for entrepreneurs and tools for the partner to mitigate risk and incentivize expansion to new products and regions.

THE ROLE OF POWER IN UNLOCKING GROWTH

While power has been a chief constraint to business operations and growth in Malawi for many years, 2015 proved to be especially difficult. About 98% of Malawi's power comes from three plants on the Shire River and the country suffers from numerous power outages that force companies to rely on expensive diesel generators and even coal-fired power to keep factories running. To complicate matters, ESCOM will pull a turbine off-line in 2016 in order to renovate it and double its capacity (an MCC-supported project⁵). In addition to the lack of power, ESCOM set up pricing rules that require industrial users to pay more for the power they (should) receive, which dramatically affects their profitability.⁶

Conversations with the MCC note that Malawi needs 20+ years to extend its electric grid to the whole country; only off-grid solutions will bring power to Malawi in the near-term. For many of these solutions to work, they need independent power production, which allows companies to sell surplus power back to the grid (i.e. net metering). GoM is considering law changes that allow net metering.

The Team recommends coordinating with Power Africa as it explores how to deepen its involvement in Malawi, potentially through off-grid power generation. This may involve the use of anchor farms/firms that produce power from hydro, solar and/or biomass for

⁵ ESCOM will take one turbine off-line to fix it and increase its capacity. The country will go from 24 MW to 18 MW for six months and then back up to 36 MW after the renovations.

⁶ ESCOM charges its industrial clients based on a formula that involves the maximum amount of power a company can use ('maximum demand') and the actual amount of power a company uses ('actual demand'). Compared to other regional utilities, ESCOM charges a higher percentage of 'maximum demand', which makes power relatively expensive in Malawi. Companies must pay a set amount for 'maximum demand' regardless of their actual power use, so even though ESCOM cuts power output to its industrial customers (thus lowering 'actual demand'), it still charges for 'maximum demand'. Therefore, customers in Malawi pay more for power that they do not actually use.

production/processing facilities, surrounding communities and (potentially) sale to other companies and/or ESCOM. Working through these anchor farms may prove to be an attractive way to facilitate the growth of renewable energy across the country.

ANCHOR FARM

While not new, the anchor firm concept presents PSE opportunities in Malawi that involve large private sector firms around which to build an integrated set of partnerships. As presented in [An Anchor Firm Approach to Strengthening Value Chain Competitiveness](#)⁷, anchor firms present significant capacity to multiply outputs and increase incomes for low-income populations. This is primarily due to three key factors: (1) anchor firms require a number of smaller firms and farmers to directly supply products as inputs into their production processes; (2) anchor firms can work well with a large number of service providers—few of which are vertically integrated—and their co-investments with these providers can accelerate the growth process in the value chains, which often provides increased market opportunities for ancillary service providers; and (3) anchor firms can offer differentiated products of greater quality and value, giving them competitive advantage, especially if they control the production process.

Tea is a great example of where health, education, climate smart agriculture and environment programs intersect around an anchor farm. The industry employs 60,000 people in Malawi and works with thousands of smallholder farmers surrounding the main estates and processing facilities through outgrower schemes. As such, partnerships that integrate interventions at the estate level would allow USAID to pilot and scale ideas that have significant impact on a large number of people.

The anchor farm concept also plays a significant role in other partnership opportunities with firms that source and process inputs for fish/cattle feed (e.g. soy, maize). Some firms expressed interest in producing renewable energy to power operations and provide irrigation and electricity to farmers along their supply chains. Through this approach, the commercial interests of the large company open the door for additional interventions targeted at smallholders who would not normally receive enhanced support from the firm.

Finally, designing interventions that connect USAID portfolios around an anchor firm allows the Agriculture and Environment Teams to work with businesses that have traditionally been excluded from partnerships because they do not operate in the FtF Zones of Influence. Below are possible areas for exploration:

- Contract farming
- Off-grid power (e.g. solar, hydropower, biomass)
- Irrigation (gravity-fed and electric)
- Intercropping of FtF crops (e.g. soy, groundnuts) or high-value crops (e.g. guar)
- Afforestation that supports (selective) logging and NTFPs (e.g. honey, essential oils, baobab)
- Afforestation that supports alternative fuel sources in/around communities and waterways
- Distribution channel development
- Health and Education
- Financial inclusion and mobile solutions
- Community engagement

⁷ December 2011 FIELD Brief written by USAID/Ecuador, FHI360 and ACDI/VOCA

PIPELINE FOR INVESTMENT

One of the greatest concerns for firms of all sizes is the lack of access to affordable finance. Funding gaps disproportionately affect micro, small and medium-sized enterprises (MSMEs) since they lack the cash flow and often business experience to quickly scale. As a result, entrepreneurs tend to finance their endeavors with grants or assistance from family and friends. These sources, however, offer limited potential for scale and are often not sufficient to grow the firm to a place where it can receive commercial finance. Most firms die in the interim as they cannot afford slow expansion and low levels of working capital make them susceptible to (small) market fluctuations.

The Team spoke with several promising entrepreneurs whose businesses relate to USAID's development objectives, most notably around fish farming and alternatives to wood-based charcoal. This presents the Mission with an opportunity to address its environmental objectives while incentivizing and supporting social and environmentally-oriented MSMEs operating in these spaces.

Available Resources

The Global Development Lab has several teams working on programs that engage and support MSMEs:

- **Innovation Design and Advisory (IDA):** IDA builds Mission capacity to use innovative approaches like prizes and challenges, BAA solicitations, human-centered design and pay-for-performance models. It provides advisory services and access to resources/connections as well as assistance with operating unit (OU) co-programming.
- **Development Innovation Ventures (DIV):** DIV program has been successful in engaging non-traditional partners (35% of its grantees are from the private sector and 66% are new to USAID) in identifying promising solutions to development challenges. It focuses on evidence-based solutions with the potential to scale and invests in ideas across the three stages of growth: Proof of Concept, Testing at Scale and Widespread Implementation.
- **Private Capital & Microenterprise (PCM):** Formerly the Private Capital Group for Africa, PCM designs programs that buy down risk and leverage USAID funding to attract additional commercial financing.
- **Partnership for Accelerating Entrepreneurship (PACE):** PACE works with incubators, accelerators and impact investors to support the growth of new social enterprises. Its partnerships with [Village Capital](#) and [Shell Foundation](#) may be interesting to the Mission as it considers how to fill the funding gap that faces many entrepreneurs in Malawi.

Recommendations

- Use Environment funds to engage the private sector around climate smart agriculture.
- Work with The Lab to explore how pay-for-performance and results-based financing options could help meet development objectives while building capacity in local businesses.⁸

⁸ According to IDA, pay-for-performance (P4P) instruments are financing mechanisms that make payments contingent on delivery of pre-agreed results, with achievement of those results being subject to independent verification. It considers Advanced Market Commitments (AMCs), Development Impact Bonds (DIBs), Incentive Awards and Prizes and Performance-based Contracts and Grants as types of P4P instruments that enable USAID to engage the private sector and implementing organizations. In addition, there are P4P instruments that focus on transfers to individuals or transfers to governments. Conditional cash transfers apply the P4P approach to individuals by making cash transfers contingent on the recipient meeting certain criteria, such as enrolling children in school or receiving vaccinations. Cash on Delivery Aid attempts to use the approach

- Partner with existing investment funds (either donor-run and private sector-run) to provide pre- and post-investment support to socially inclusive MSMEs.
- Support results-based delivery of financial advisory services for firms raising capital.⁹
- USAID/PCM recently published a [Broad Agency Announcement \(BAA\)](#) that relates to innovative financing tools. If USAID/Malawi chooses a BAA model to help increase the amount of accessible liquidity in the market, the PCM team is an excellent resource. If the Mission does an addendum to PCM's BAA, PCM can provide technical services to help Mission staff design it.

This approach does not preclude partnering with large companies, since these partnerships create other social and economic benefits that include:

- Expansion into new products or regions (e.g. INVC's Partnering for Innovation awards)
- Minimization of the Mission's management burden through partnership with one or more large companies with linkages to many MSMEs along supply chains and/or distribution channels
- Leverage of company relationships with international buyers to design solutions that link smallholder farmers to global supply chains
- Creation of innovative finance solutions for smallholder farmers along the supply chain that take advantage of the anchor firm's credit rating and relationship with (global) investors

OPEN INNOVATION PROGRAMMING (CHALLENGES AND PRIZES)

USAID/Malawi has expressed interest in exploring the use of open innovation programs such as prizes and challenges to better leverage private sector expertise and resources to achieve its development objectives. Used separately or together, prizes and challenges can be a powerful way to incentivize technology development, awareness, participation, collaboration and behavioral or market change. They can also be effective in galvanizing a wide range of problem-solvers, including entrepreneurs and private companies, with whom USAID does not typically work.

Open innovation programs have thus far been run primarily out of USAID/Washington but Missions increasingly experiment with such platforms to meet their goals. USAID/Malawi could do so in these areas:

- Alternative power/fuel generation
- Developing and scaling technologies that improve agricultural production and/or combat Aflatoxin
- Reducing deforestation and/or increasing afforestation
- Scaling non-forest timber product production (e.g. baobab)

with governments by offering payments to governments for progress toward a predetermined goal, such as reducing under-five mortality. Each of these instruments have different structures, organizational implications and uses within foreign aid activities.

⁹ USAID/Malawi could support pay-for-performance programs to provide financial, business advisory and technical services to firms raising capital. Examples of performance-based grant models include USAID/Ghana FINGAP Project, the West Africa Trade Hub, Macedonia Competitiveness Project, Colombia Enterprise Development Program and Ecuador Productive Network II Project. Financial advisors would develop a client pipeline and be paid based on milestones that lead to completed investments (i.e. finder's fee). This component could be embedded in a project by engaging financial advisors through a voucher- or milestone-based fixed price subcontract, consultant agreement or challenge fund contract. USAID could solicit proposals from local firms to 1) provide financial advisory services or 2) manage a pool of financial advisors on a performance basis.

- Developing high-value tree products for export (e.g. mangoes, bananas, macadamia nuts)
- Combating wildlife trafficking

IDA helps Missions think through the use of prizes and challenges in current/future programming. In December 2015, USAID was formally given prize authority to award prizes to foreign-based and US-based entities. As a result, IDA currently seeks opportunities to co-create prizes with Missions. This represents an excellent opportunity for USAID/Malawi to receive support in designing and setting up such a program.

Because open innovation platforms can effectively engage non-traditional partners, the Mission may want to consider whether this approach, potentially combined with a Development Innovation Ventures (DIV)-type program, could be used to identify and scale promising solutions from non-traditional local partners.

In addition, the Mission may wish to consider an Annual Program Statement (APS), an addendum to the GDA APS and a Broad Agency Announcement (BAA) as potential approaches to solicit, co-create and co-invest in solutions with a broad range of partners. For example, a number of the priority opportunity areas and specific partnership concepts could be pursued through a competitive process within a BAA or APS framework. The Lab/CTP Team can provide guidance to structure these solicitations.

CONCLUSION AND NEXT STEPS

USAID/Malawi can undertake steps to further develop the PSE concepts presented in this landscape analysis. The Team recommends that the Mission prioritize which partnership opportunities to pursue in the lead-up to the award of the new FtF activity and the expansion of its Environment portfolio. New programming would ideally integrate the PSE lens into the design of new activities and implementation plans where possible.

The Team encourages the Mission to utilize the findings of the Cost-Benefit Analysis (undertaken in early 2016 by the Mission Economist) to help it consider which potential co-investments will achieve the maximum benefits. The Team recommends USAID/Malawi move the PSE development process forward by:

- Drafting specific near-term action plans to develop partnership concepts with identified organizations. These action plans will consist of discrete steps to be taken by USAID/Malawi to continue engaging partners and articulating partnership concepts in greater detail.
- Co-creating specific partnership concepts with prospective partners. USAID/Malawi staff will conduct follow-up meetings with potential partner organizations to discuss the concepts presented in this report and gather input. As needed, the Team will facilitate joint strategy sessions with key partners to collaboratively set specific goals and define illustrative activities for the partnership.
- Carrying out partnership prioritization and screening processes to determine how best to allocate scarce partnership development resources in the lead-up to the new FtF program and to kick-start Environment sector partnerships. This prioritization exercise will take various factors into account, such as alignment with the Mission goals and objectives, ease of execution and implementation, cost and synergy with other activities.

- As needed, deploying specialized consultants to support development of key partnerships requiring specialized expertise, such as poultry/livestock and carbon finance.
- Developing implementation plans for selected/priority partnerships. These plans will consist of target deadlines for key milestones, specific project resources required and designation of specific staff to lead individual partnership development work streams.
- Coordinating within the USAID/Malawi M&E team to ensure that partnership development exercises are adequately tracked and measured.
- Executing Memoranda of Understanding (MOUs) with top priority partners and launching partnership activities.

The landscape analysis carried out by the Lab/CTP and SSG Advisors identified a number of near and long-term PSE opportunities for USAID/Malawi. It should, however, be noted that the analysis is not exhaustive and that the Mission should continue to explore the partner landscape both within Malawi and regionally.

The Lab/CTP Team plans to return to Malawi in May 2016 to conduct a partnerships training and will provide additional support for partnership planning and prioritization at that time. It will likely be joined by at least one member of the original PSE Assessment Team. In the interim, the Team can continue to provide virtual assistance in moving the concepts presented forward.