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## **GENERAL CONDITIONS FOR THE UTILIZATION OF GRANTS**

### **1.0 Background**

Ministry of Finance, Economic Planning and Development is implementing Financial Access for Rural Markets, Smallholders and Enterprises (FARMSE) Programme with funding from International Fund for Agricultural Development (IFAD), the Government of Malawi (GOM) and the Private Sector and intends to use part of the proceeds of this funding providing grants to applicants whose concept notes and project proposals will be successful. FARMSE is a seven year programme beginning July 2018 and finishing June 2025. The total cost of the programme is US\$57.7 Million with IFAD contributing US\$42 Million of which \$21 Million is a loan at highly concessional terms while the other \$21 Million is a grant. The Government of Malawi is contributing USD9.6 Million out of which US\$3.1 Million will be financed from its Social Cash Transfer fund while US\$6.5 Million be in the form of forgone taxes and duties. Private Sector Partners (PSPs) will contribute US\$6.1 Million of the \$57.7 Million.

FARMSE is a nation-wide programme and its geographic coverage will be clustered based on two distinct targeting mechanisms. The programme will combine localized and national geographic targeting approaches. First strategy is Socio-economic based that supports graduation of the poor from poverty by targeting ultra-poor households. The Second targeting strategy relies on self-selection through use of financial services by tapping on existing and new financial services that meet the needs of target poor households

FARMSE will support the following three major thematic areas: (i) support graduation of ultra-poor households to reduce poverty; (ii) strengthen existing and new informal financial groups through support of Community Based Financial Organisations' service providers; and (iii) enhance outreach of formal financial services to rural areas.

The programme will implement its activities through provision of grants on competitive basis to service providers. The grants are in three categories: Ultra-Poor Graduation support; support to Community Based Financial Organisations; and Innovations and Outreach Facility for formal financial organisations.

### **2.0 Component 1.0 -Ultra-poor graduation model development and scaling up**

This component will support on-going government efforts in developing and delivering effective graduation programmes in rural areas to reduce extreme poverty levels among both ultra-poor labour constrained and non-labour constrained households. In order to leverage resources and develop partnerships, this component may also be delivered by strategic partners that will be willing to introduce additional funding.

The outcome of this component is to improve the capacity of ultra-poor households to graduate from poverty, improve food security and secure livelihood opportunities. The objective is to roll out a cost-effective, replicable model(s) to graduate households from ultra-poverty and food insecurity into sustainable, self-reliant livelihoods.

This component is based on GOM existing graduation model which focuses on concentrating and coordinating efforts to move households out of poverty on a sustainable basis, and is divided into two stages: selection of operational districts, based on existing GOM poverty statistics, and in collaboration with EPD, selection and assessment of qualifying ultra-poor households; Roll out the graduation process.

The implementing agencies may subcontract qualified national and/or international agencies to support implementation of graduation. Applicants should have substantial experience in the implementation of graduation/community development initiatives and proven operational capacity in Malawi. Preference will be given to agencies with a record of managing rigorous community level processes and household level interventions. Experience and interest in enhancing capacities around gender and youth programming will also be required. Alone, or in partnership with other organizations, grantees will implement proposed models approved by the programme.

The roll out will deploy the approved model(s) at scale to expand programme benefits and test replicability. A total of 15,000 households will be targeted, of which, approximately 30% will be women and 20% youth headed households. The rollout is expected to take place from year four onwards. Roll out sites will be selected based on representation of large sections of rural Malawi and opportunities for household livelihood development. Grantees will be selected based on experience, their knowledge of gender and youth, but with a special emphasis on capacity to manage small to medium community programmes.

### **3.0 Sub-Component 2.1 – Community Based Financial Organisation (CBFO) Support**

Rural communities lack financial services to enhance their capacity to access loans to finance off-farm and on-farm enterprises. Over the years, informal saving and loans groups have mushroomed to fill the financial service gaps. However, the informal financial groups lack capacity to provide effective services.

The outcome of this sub-component is to have an improved rural financial access through existing, new and innovative informal community based financial organizations savings and loans products.

Under this component, FARMSE will strengthen existing and new informal financial groups through support of Community Based Financial Organisations' service providers.

This sub-component has two activities: (i) Building capacity of CBFOs to provide opportunities for additional skills and linking CBFOs and/or their members to formal financial institutions and high value markets. This will enhance smallholder income, asset and some livelihood/ enterprise development opportunities; (ii) Formation of new Groups.

A total of 380,574 households is expected to be reached under this sub-component through 16,143 existing and 5,000 new groups. It is expected that a minimum of 30% and 20% of group members being women and youth respectively. CBFOs support groups/consortia will be awarded performance based, multi-year, multi-phased service contracts on a competitive basis.

CFBO models must hold the potential to link with the formal financial sector including mobile money services. Projects must also be proactively sought to link with Component 1.0 with the goal of developing an explicit "graduation linking" CBFO model and some models may be linked to Component 2.2 - specific agricultural value chain intervention.

#### **4.0 Sub-component 2.2 – Innovation and Outreach Facility (IOF) for Formal Financial Services**

Rural areas of Malawi suffer from limited range and outreach of rural financial services due to capacity constraints in both supply and demand. Most financial institutions have limited physical presence in rural areas, lack a proper understanding of rural financial markets, and have inadequate products and delivery mechanisms. While some agribusiness companies support their commercial operations by providing input finance to smallholder farmers, they grapple with farmer side selling and limited sources of funds. As a result, financial services beyond basic VSLAs are scarce, expensive and inflexible. Demand-side constraints also stifle expansion of rural financial services. Smallholders and rural Micro Small and Medium Enterprises (MSME) are often unable to access and properly use financial services due to low levels of financial literacy and business skills. They often operate in unstructured value chains and have no track record with formal financial services or formal marketing outlets making them high-risk clients for Financial Service Providers (FSPs).

The outcome of this subcomponent is to enhance the capacity of FSPs to deliver demand-driven services in rural areas. The objectives are two: i) to increase access to new and innovative financial services and low-cost delivery mechanisms for poor rural households and MSMEs; and ii) to support the scaling up of proven financial services and delivery mechanisms.

The IOF would support a broad range of products meeting the needs of rural poor households and MSMEs. Example of savings products include mobile-enabled services, commitment savings products for agricultural inputs, investments or school fees, and specific products for VSLAs, women, and youth. Examples of loan products would include inter alia cash flow-based multipurpose loans, agricultural production loans, postharvest

and warehouse receipt financing. Other products might include crop and livestock insurance. Support to low-cost delivery mechanisms (e.g low-cost branches and agency models), as well as structured financing arrangements involving value chain partners (e.g., off takers, input providers, commodity exchanges) will also be considered. Given the impact of climate change on target group, the programme will also support the development and roll out of innovative financial products that would contribute to enhance their resilience (e.g. micro insurance products).

Non-Financial Sector Service Providers will also be eligible for support if they are engaged in financial service provision (or have the intention to do so), either directly or in partnership with FSPs. Partnerships will be encouraged as they can often manage risk better and reduce transaction costs than a single institution alone. Projects for non-financial service providers would include *inter alia*: value chain finance arrangements between FSPs, input suppliers, agribusiness companies, warehouse operators and commodity exchanges or partnerships with mobile money operators for digital payment solutions. Some non-financial services activities will also be supported if deemed critical to enhance beneficiaries' capacity to access and use financial services supported under the IOF, such as strengthening farmer organizations or basic financial literacy support, market linkages establishment, or targeted extension services.

The facility has three broad funding windows guiding project selection:

- i) Market research and feasibility studies;
- ii) Pilot testing of innovative products and delivery mechanisms; and
- iii) Scaling up of successful financial services.

Prospective partners can thus choose to apply to the window that best suits the nature of development needs

#### **4.1 Window 1: Market research and feasibility studies**

This window will support FSPs in identifying market opportunities, client needs, key product features and possible delivery mechanisms. It will also identify risks and risk mitigation measures, costs and revenues estimates, and possible partnerships for product introduction and roll-out. Research could provide insights into the reasons why current service provider products and services are not being used and how they could be improved. Research will provide evidence to support a decision to move to a product/service to pilot stage, upgrade existing products, or expand successful existing products. Research outcomes will also inform a proposal for windows 2 and 3.

Depending on the scope of research and its relevance to FARMSE objectives, the IOF could provide financing of up to USD 50,000 The applicant would cover at least 20% of total costs through cash and/or in-kind contribution. The window would also co-finance study tours and exchange visits enabling FSP decision-makers and operational staff to get first-hand insights into experiences of FSPs with successful rural products/services in other African countries. Study tours would be eligible if there is a clear link to the component

objective and if the FSP can make a convincing case how the exchange would enhance its products and delivery mechanisms to FARMSE's target population.

**4.2 Window 2: Pilot Testing and Innovation:** This window will support pilot-testing of product innovations and new low-cost delivery mechanisms. Based on prior market research (via the Window 1 or credible internal research), FARMSE Programme would co-finance costs of piloting of researched product(s). It will finance the recruitment of a qualified TSPs to work with a dedicated FSP team. Activities would include developing and piloting product prototypes, conducting pilot tests, adjusting and refining product features. Subject to commercial viability, a roll-out plan and budget could be prepared. Eligible costs to be covered by this window would include TA, some fieldwork costs, staff training, management information systems/information (MIS) and information and communications technology (ICT) updates and equipment. Support could cover costs of developing training material for prospective clients. The FSP would be expected to contribute at least 30% of total project costs, in cash or kind. The FARMSE grant ceiling would be USD 70,000.

**4.3 Window 3: Expanding Outreach.** This window will support scaling up of proven products/services and delivery mechanisms. It may finance rollout of products and services piloted under Window 2, but also existing products/services developed by the FSP. Proposals would be based on: i) a proven product/delivery mechanism to be scaled up for FARMSE target group; and ii) a well-defined outreach strategy with clearly defined performance targets and milestones. The IOF could co-finance physical investment costs related to the roll-out, as well as incremental operating costs on a declining basis. Most costs should be directly linked to outreach targets. To accommodate high impact projects which could lead to transformative change and reach many beneficiaries, a ceiling for matching grants under this window is set at USD 1 million. FSPs would be required to contribute 30% of the total project costs of which at least 20% should be in cash and 10% in kind.

## **5.0 Application Procedure**

In all three grants facilities, there will be a two-stage application procedure comprising Concept Note stage and followed by a *Full Proposal*. The Concept Notes will be made on a form supplied by FARMSE requiring the applicant to supply certain vital information including attachments. Once the concept note is approved, applicants will be invited to submit a full proposal.

FARMSE will hold proposal development workshop to walk through the proposal development guidelines in order to improve the quality of proposals. The full proposal will be expected to be submitted within 28 days from the date of proposal development workshop.