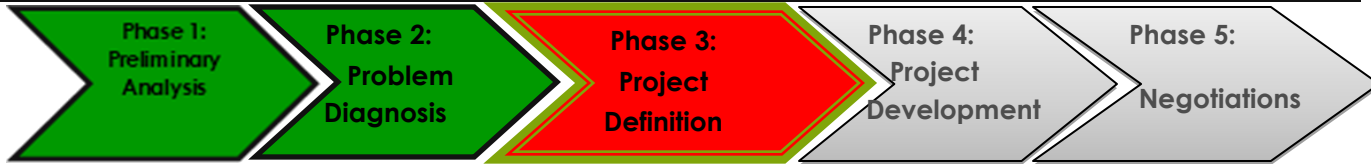


MALAWI II COMPACT DEVELOPMENT

Quarterly Update

April-June 2020

Compact Development Process:



Status: Completed

- Compact Development Team created
- Data collected
- Economic, social, gender, & business issues assessed
- Public consultations launched
- Binding constraints identified

Status: Completed

- Compact Development Team expanded
- Root causes of critical problems constraints identified
- Project concepts developed

Status: We are Here – Target Q4 2020

- *Projects Concepts refined*
- *Project Proposals Developed*
- *MCC Appraisal of Projects*

Target: Q4 2021

- Plans for the agreed-upon projects developed
- Location for implementation identified
- Monitoring and evaluation (M&E) plan developed
- Implementation unit created, recruitment started
- Technical, financial, and legal terms of compact negotiated.

Prioritisation of Compact II Investments

The second compact seeks to address two binding constraints: i) High price of road freight transport service and barriers to linking farms to markets in rural areas, and ii) Difficulties with access to land for investment due to mismanagement of the estate sector and unclear/uncertain customary land rights, particularly for women smallholders. Even given the impacts of COVID-19, the Millennium Development Trust (MMD) with support from the Millennium Challenge Corporation (MCC) is hard at work. We are currently prioritizing the geographical areas which will benefit from the MCC investments related to the high price of transport and farm to market linkages. The first step of the prioritization exercise has been applied to all districts of Malawi through a mapping exercise constructed from secondary data sources such as the National Statistics office IHS 4 and census data. The table below summarizes the rationale developed to score districts for selection:

District Selection Criteria

Definition of the Criteria

Scoring Criteria

Agriculture Potential

Agricultural potential' is defined as the maximum profit that a farmer can gain from crop production if operating at maximum efficiency. Agricultural potential is determined by input and output prices, agro-ecological conditions, access to markets, and access to irrigation.

A maximum rate of 6 is given to districts where at least 50% of the district is covered by corridors of high potential for increased agriculture efficiency. Additional points are added to districts with smaller but high potential corridors/areas for increased agriculture efficiency.

Access to Market

Access to market is defined as time required to travel from the nearest farm to nearest market of at least 25,000 people and vice versa. This depends on improvements and expansion of the road network beyond the direct control of the farmer, and therefore affect agricultural profit potential levels.

A maximum rate of 4 points is given to districts where at least 50% of the district is covered by corridors of high potential for increased market access. A district receives additional points for pockets of high, medium increases in potential from market access

District Selection Criteria Definition of the Criteria

Access to water/Irrigation Defined as availability of adequate water resources for irrigation.

Poverty reduction potential based on poverty incidence This measurement gives an indication of the percentage efficiency increase through agriculture investments that are required to push small holder farmers out of poverty in a district. The more poverty stricken an area is the more the investment required .

Scoring Criteria

A rating of up to 4 points is given to districts in the high, medium-high, and medium categories of Access to water/irrigation.

A rate of 5 is given to districts with smaller efficiency increase for smallholders to get out of poverty

MMD is currently using this methodology to assess all the 28 districts in the country. This is the first filtering exercise which will produce about 15 districts. Thereafter, fresh criteria will be development to further screen these 15 districts with the view to coming up with a reduced number of districts.

Due Diligence of Out-grower schemes in Malawi

In April, 2020 MCC engaged a team of international consultants to identify/audit potential and inclusive partnerships in Malawi with interest to work with local (small and medium enterprises/cooperatives) through inclusion of smallholder farmers in their agriculture value chains supply chains.

Out of 41 private sector firms that were interviewed, the study identified only 11 off takers (six traders/processors and five estates) which demonstrated adequate scale of profitability, adaptability, gender equity, sustainability and environmental consciousness. The identified off-takers are just initial scoping outputs which are intended to help inform further studies on existing pipeline of potential co-investment opportunities in Malawi.

MMD in collaboration with MCC is currently conduct a private sector opportunities study, (PSOA) to better understand market demand and identify investment opportunities globally on expanded operations in commercial agriculture in Malawi.

Upcoming Due Diligence Studies:

The MCC team anticipates conduct additional due Diligence and Key Studies/Diagnostics Due Diligence and Key Studies/Diagnostics on:

- A diagnostics study related to the legal, institutional and regulatory environment for agriculture in Malawi.
- A stakeholder survey to assess the interest and demand for land that could be mobilized / aggregated and used for investment in higher value productive activities.
- An analysis of financial intermediation within the agricultural sector and identification of opportunities for interventions which would spur private investment.

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