Channelling support to Non State Actors

A Discussion Note to support the formulation of Malawi's NAIP (2017-2021)

The next NAIP is based on the premise that agriculture growth is private sector driven. It is oriented towards commercial agriculture while still keenly aware of the importance of smallholders and food security. The next NAIP is clear on the fact that agriculture growth is a joint venture between government and private sector; successful implementation either happens hand-in-hand or not at all. This realisation has pulled the role of non-state actors into focus: The National Agriculture Policy (NAP) is clear on this; the NAIP will act on this, incorporating the recommendations of the recent Core Function Analysis. Malawi's next NAIP should not be perceived government programme, but as a programme for the sector.

Non State Actors are a diverse and wide-ranging group. In a productive sector like agriculture this includes: farmer organisations, commodity associations, NGOs, CSOs, churches, traditional leaders, academia, but also commercial service providers, agriculture entrepreneurs, producer organisations, agri-businesses. The CAADP Guidelines for Non State Actor Participation in CAADP Processes (2011) uses the following classification:

> **Consumers and producers** who are primarily the target beneficiaries
>
> **Organisations engaged with food and agriculture**, who have a vital role in informing and implementing the CAADP agenda. These are highly diverse ranging from farms to supermarkets to research organisations; and can be considered in terms of different constituencies such as: Farmers/ producers; Private Sector (e.g. agro-processing); Women; CSO/NGOs; Knowledge Institutions
>
> **Collective bodies** such as Farmers Organisations, CSO alliances, or Chambers of Commerce, who have a vital role in representing the interests of key constituencies and help provide some structure to an otherwise diverse and fragmented field.

In Malawi, NSAs need to be supported to successfully take on their role and responsibilities under the NAIP, through strengthening (farmer) organisations or developing agri-business skills; by supporting them to take part in construction and maintenance of agriculture/irrigation infrastructure (e.g. through water user associations); as well as strengthening value chain actors (e.g. commodity associations) in value chain activities (such as grading and processing). NSAs can also play more of a service delivery role in extension and information dissemination; data capture and monitoring; market information; research (farmer run demonstration plots) and in creating awareness (on climate smart agriculture and sustainable water use).

Umbrella and membership-based organisations often need capacity development to more effectively represent their constituencies, but they can also provide services. NGOs are already often used as service providers; Even the commercial private sector can be supported: Small and Medium Enterprises (agri-businesses, agro-processors) can be supported with skills development, but also with increasing their access to inputs and finance. Large private companies can be a partner in development-oriented Public-Private-Partnerships.

Currently, NSAs in the agriculture sector receive funding, but tends to be on a one-off basis, by a range of donors, via projects of varying duration and often not clearly linked to a national policy or programme. This means that, on the whole, better-coordinated and aligned support to NSAs could have a greater cumulative impact. Furthermore, the time-bound project nature of NGO support has raised concerns around sustainability. It is well known that NGO strength rise and falls with its funding and good projects can be suddenly terminated, without there being a 'safety net' for capturing and continuing success, possible in a different project, by a different actor.

A better overview and a more robust framework for NGO support, that is an objective of the NAIP, will provide a mechanism towards more continuity, better sustainability and greater cumulative impact.

In the meantime, good experiences were made with the Multi-Donor Trust Fund set up to support ASWAp implementation. The MDTF proved a useful tool in harmonising donor support, not only in terms of its focus (avoiding overlaps, closing gaps, exploiting synergies) but also in terms of more harmonised procedures (joint indicators, joint reporting).

In addition to harmonizing donor support, the MDTF was also successful in supporting the agricultural sector more broadly at least in its later years, where funding was also provided to other ministries. Some criticism in relation to the MDTF is that it did not always align very well to ASWAp, an example is the significant amount of support that was provided to roads, which was not at all a part of the ASWAp

During the FAO mission to support NAIP formulation (February 2017) the idea of creating a specific facility (e.g. a pool fond) in support of NSAs was briefly introduced. After the mission, this idea was circulated and met with growing interest.

The purpose of this Discussion Note is to encourage and inform the discussion; so that NAIP formulation is based on shared views and the NAIP can be built on a consensus between Government and DPs.

Broadly, there are five options for harmonised DP support to NSAs[1]:

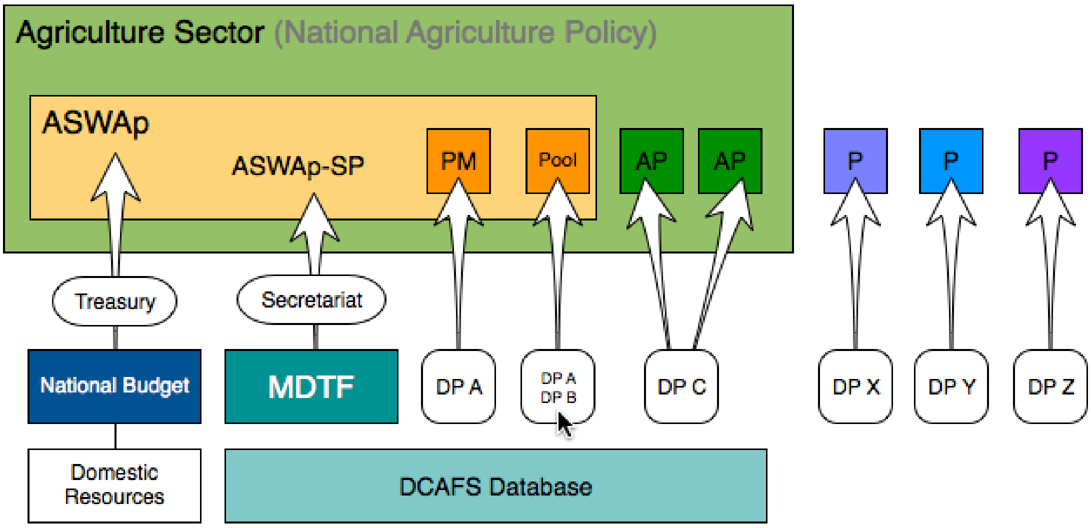
1. Earmarked funds from within a government managed basket
2. Earmarked funds from within a DP managed basket
3. A separate DP managed pool fund
4. (Non profit) Trust Fund managed by an NSA
5. (International or national) Private company (Bank) managed pool fund

Each of these options is explained in more detail in the sections below. However, to weigh these options against each other, it is important that we look at the current set-up and gain clarity on exactly what kind of improvements are envisaged.

[1] Technically there is a further option of *non-earmarked funds* in either a government or a DP managed basket. Where roles between government and NSAs are clearly divided and where there is a high political willingness to support NSAs, then a non-earmarked option where funds for NSAs are mixed with those for government offers a lot of flexibility. However, in Malawi there is a risk that non-earmarked funds will not find their way to NSAs funds. Therefore, as a minimum, and independent of any of these 6 options, funds intended for NSAs need to be earmarked.

Current set-up and challenges

During the ASWAp era there was not yet a National Agriculture Policy. ASWAp supported the agriculture sector, but (despite its name) the programme was not sector-wide, as it left out important areas needed for agriculture development. The National Agriculture Policy that has recently been formulated is wider than the ASWAp was.



Key: PM: Project Modality - AP: Aligned Project - P: (Stand alone) Project - DP: Development Partner

In the past, ASWAp was funded by domestic resources (captured in the national budget and channelled to the Ministry) and by donor funding. DPs used various modalities: There was the Multi-Donor-Trust-Fund (MDTF) that funded activities grouped together in what was called the ASWAp Support Programme. Some DPs (DP A) supported ASWAp in the form of a project modality (PM). Other DPs (DP A, DP B) pooled their resources in the MDTF, which co-financed certain activities within ASWAp.

In addition to the modalities above, there are two further modalities namely: The aligned project (AP), where DPs support the agriculture sector in line with national policy; and the stand-alone (or non-aligned) project (P) that has an impact on agriculture but that is not aligned to a national or sector policy.

The Donor Committee on Agriculture and Food Security (DCAFS) is a group of resident donors in the agricultural sector in Malawi. It includes donors that provide funds to the MDTF, but also those that don't: In fact, the DCAFS was created to ensure that also non-basket-fund partners were given a seat at the table. The DCAFS Secretariat has been successful in capturing not only the MDTF donor flows, but also a significant part of other donor flows in agriculture. Difficult to capture has been the fund flows outside ASWAp, often from NGOs and in the form of stand-alone projects. These donors are both outside the DCAFS group and outside the DCAFS database. That group of donors is less homogenous and includes also bilaterals donor, larger NGOs and trusts. Even bilateral and multilaterals who are in the DCFAS group, can have fund flows that are not captured by the DCAFS database, for example direct funding from DP head offices that is not part of country strategies. These initiatives too are considered non-aligned [2].

Projects outside ASWAp tended to more often support NSAs, but this support was not harmonised with other fund flows and often followed an individual donor's project agenda, rather than being part of joint effort towards national goals.

The challenges that the 'new NAIP-era' should aim to overcome are:

- **Inadequate support to NSAs**: Traditional DPs have focused on the government's role in agriculture development and even where those DPs channelled funds to government with the intention of these funds being used for NSAs, the government has hardly made use of these and contract private service providers only once or twice.
- **Insufficiently harmonised support to NSAs**: Often direct support to NSAs is in the form of separate (stand-alone) projects that tend to be off-budget and are often not captured in the DCAFS database, especially when these are implemented by NGOs. This means that support to NSAs is often not optimally aligned to the national policy, is of a fragmented nature (and impact) and sometimes follows different (even conflicting) agendas and approaches[3].
- **Unclear division of functions between public and private sectors**: A framework that allows for a division of funds based on the role of stakeholders (instead of on their lobbying power) was not available during ASWAp. Recently a Core Function Analysis was completed with several supporting documents. This lays the foundation for such a framework to be used by the NAIP.
- **Inflexibility in funding mechanisms** to respond to advocacy and policy change activities as well as to the need for strengthening NSA structures (including those of non-traditional NSAs such as private sector, media and academia).

Different forms of support to Non State Actors

Support to NSAs can take different forms; in the NAIP the following forms of direct support to NSAs can be envisaged:

1. **Direct financial support**

   In the form of (matching) grants for a series of purposes including:

   – Agri-business or value-chain activities (based on a business plan)
   – Agriculture innovation (e.g. for climate smart farming)
   – Capacity building and/or organisational development (e.g. strengthening of farmer organisations or commodity associations)
   – Research & dissemination activities organised by NSAs (e.g. meetings, exchange visits or other events like Agriculture Shows; printing and distribution of information material; use of media, press, radio and TV).

[2] Some of these donors are: AGRA, AUSRES, Canada, Coraid, CRS, Gates foundation, DAPP, and various forms of Italian aid.

[3] For example, no harmonized extension messages, confusion between demanding farmers' contribution and giving inputs/services for free.

2. **Service delivery**

   In the form of government (donors) contracting NSAs as service providers:

   - This can be transportation of fertilisers (e.g. as part of FISP), or extension, research (farmer-based demonstration plots), veterinary services (e.g. vaccination campaigns); the collection or dissemination of information (e.g. as part of market information systems) etc.
   - The implementation of certain technical tasks such as infrastructure development, road construction and maintenance, drainage, borehole drilling.

3. **Co-financing**

   This can be in the form of risk -sharing mechanisms such as:

   - Agriculture loan guarantee schemes whereby a fund is established that can assume a debt obligation of a borrower if that borrower defaults. Such a fund would act as a kind of collateral, allowing banks and other lenders to give commercial loans to viable small businesses that would otherwise be turned down because of lack of security or proven track record[4].
   - Weather insurance schemes whereby production is ensured against weather induced losses (e.g. droughts or floods)[5]. Such schemes can be set-up in the form of a Public-Private Partnership. Government of donor funds can be used to develop insurance products and possibly provide financial back up.

The different support scenarios described below may be differently suitable depending on the purpose of NSA support: Earmarking within a pooled fund may suit purposes 1 and 2; but 3 is technically demanding and may need to be outsourced to a professional entity.

A general challenge to all of the modalities described below is related to the large overheads that are a result of the need for a large amount of (smaller) contracts with NSA actors. This is especially true in the case of (small) grants to many (potentially scattered) beneficiaries. This results in high overheads, demands a lot of management capacity, and nearly always will require the establishment of a secretariat (whether the fund is government or donor managed) as well as carefully thought out procedures, which needs to include a balance between the size of grants (from small to large) and the type of grants (e.g. for capacity building, organisational strengthening, innovation).

[4] Some larger Farmer Organisation have set up such loan collateral funds.

[5] Most popular are the Weather Index Insurances whereby the insurance is triggered by an independently verifiably weather *index* (e.g. mm rainfall), as opposed to by measuring actual production. This eliminates the need for field visits and significantly reduces overhead costs.

1. Earmarked funds from within a government managed basket

DPs have pooled funds into a common basket that is managed by government and is in support of a national programme. A portion of these funds is earmarked as being intended for direct support to NSAs.

Conditions

- A sub-group of NAIP activities that are in support of NSAs or to be implemented by NSAs must be clearly identified (what exactly is supported?) and costed (how much does this support cost?) and subsequently clearly labelled in both programme and budget;
- The national Public Financial Management system (IFMIS) must be able to direct resources to these activities and be able to trace their use (budget coding, monitoring);
- A strong and sustained political willingness on the side of government to support NSAs.

Risks

- The high demands on management require a fund management structure. Government would need to set-up and monitor that structure, which itself is a challenge.
- Fiduciary risks: After funds reach the Government Treasury, only the Ministry of Finance has authority over their use. Financial constraints on the side of government may prevent funds being spent on NSA support. General fiduciary risks of limited financial management capacity also apply. A way to counter these risks is by setting up a separate bank account that can be monitored and audited separately.
- When NSA strengthening translates into a stronger NSA voice and an increased demand for accountability, the willingness of government to support these actors wanes;
- A conflict of interests may occur when government actors themselves vie for these funds in a private capacity[6].
- Controlling patronage (selectively distributing support) and rent-seeking (asking beneficiaries to pay for support) may be difficult.

Advantages

- Government is in control and needs to provide leadership. There may be capacity constraints, but capacity can grow with responsibility. The Government has the mandate for sector planning and having an overview of the resource envelop also for NSAs enables a more comprehensive planning and a more effective use of public capacity (where NSAs provide a service, government can concentrate elsewhere)
- A further advantage in Malawi is that opportunities for opportunistic behaviour amongst NSAs are reduced when they are (nearly) all funded from the same source. In Malawi there have been cases where an NSA receives funding from different donors for the same task (a kind of 'double billing'). This will become much more difficult when the resources are pooled in the same place.

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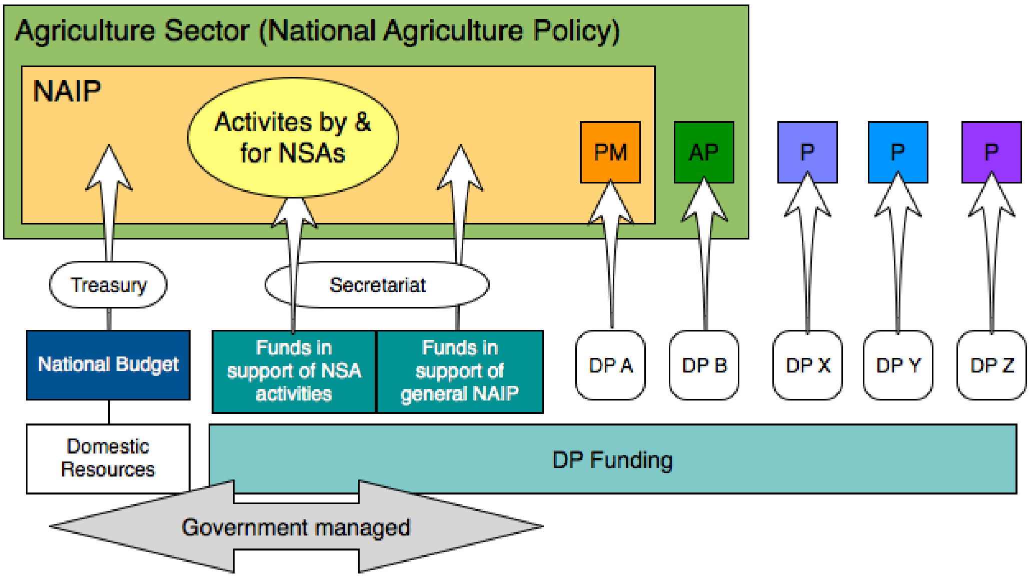
[6] In Zambia, ASIP, the privatisation of veterinary services led government vets to set-up private companies, which then bid on government contracts (e.g. vaccination campaigns, eradication of tsetse fly exercises). In several cases the actual owners of these companies were also the ones sitting on the tender board deciding on whom to award the contract to.

Malawi situation



- Under ASWAp, the government did not manage the MDTF; the WB did this on behalf of contributing donors. So the first question that arises under this scenario is: Will the government manage the full basket of support for the NAIP, ***a part of which*** is meant to support NSAs? Or will DPs continue to manage a basket (e.g. an MDTF) used mainly for support to government, while at the same time the government manages the basket used for direct support to NSAs? As the management of the NSAs basket is more challenging, the second option (whereby government manages *only* that) is farfetched. Therefore, in the diagram below it is assumed that the government manages the total support-basket, a part of which is for NSAs.
- Much as the government currently acknowledges the role of NSAs, there are many areas or situations in which government and NSAs are of opposing views such as exportation bans, price regulation, the role of parastatals, the role of government in fertiliser distribution, protectionist policies (e.g. dairy, seed). As in most countries government and NSAs will find themselves in opposite camps at least part of the time.
- There may occur (temporary but urgent) shortages in public funds, making it hard to resist the temptation to not fill these gaps with funds meant for NSAs.
- The Public Financial Management system may not (yet) be strong and transparent enough to be able to direct, monitor and report on earmarked funds.
- Government of Malawi has limited experience in recruiting service providers for implementation, and hence may not have capacity to manage such as process (you also need a few experienced procurement officers etc.)

Tentative conclusion

Agriculture sector governance in Malawi may not (yet) be at the level or standard required for government to effectively disburse, manage and monitor funds the purpose of which is the strengthening on actors outside of government. However there is an example in the Rural Livelihoods and Economic Enhancement Programme (RLEEP) funded by IFAD and implemented through a PMU under the Ministry of Local Government.

2. Earmarked funds from within a DP managed pool fund

DPs pool funds into a common basket in support of both government actors as well as NSAs towards the successful implementation of the NAIP. The funds that are intended for direct support to NSAs are earmarked to distinguish these from support to government or support to general NAIP implementation (e.g. coordination and M&E overheads).

Conditions

- A sub-group of NAIP activities that are in support of NSA or to be implemented by NSAs must be clearly identified (what exactly is supported?) and costed (how much does this support cost?) and subsequently clearly labelled in both programme and fund budget; Either as total quantity, as percentage of whole, or based on specific activities.
- The fund should operate according to a single financial management and disbursement system to which all contributing DPs have agreed, e.g. the system of the lead donor;
- The financial management procedures of the basket must be able to direct resources to these actors and these activities and to be able to trace their use.

Risks

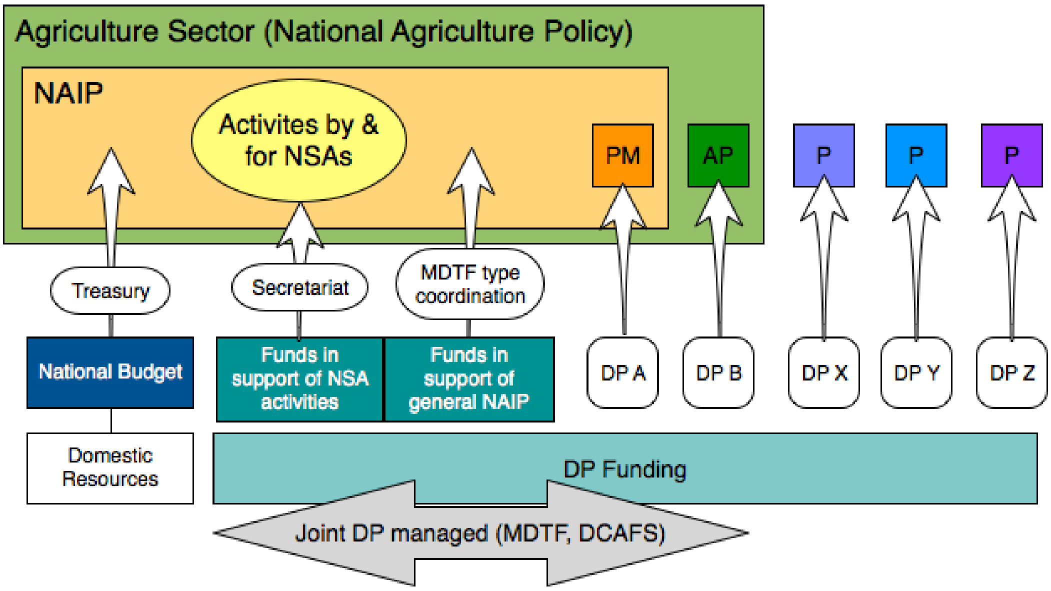
- Support to NSAs will likely be in the form of many different contracts, which will lead to high overheads and will require a fund management set-up,
- Especially when support is targeted to organisations that have an advocacy or lobby responsibility (e.g. member based organisation such as famer unions), there is a risk that such organisations begin to focus excessively on the (real or perceived) demands of donors over the needs of their intended beneficiaries;
- Where the commercial private sector is supported, there is a risk of creating undue advantages that can lead to market distortions.

Advantages

- A single (main) fund for support to NSAs facilitates coordination of such support. Leading to more harmonised approaches, a support that is balanced geographically and thematically, and the hopefully can generate more continuity, sustainability and impact (as described above).
- A reduction of transaction costs for individual donors, as each would just pay a management fee to the lead donor(s).

Malawi situation

- Development Partners already established an MDTF, achieving quite a few successes under ASWAp. Under this scenario, the MDTF (or similar) would simply be extended to also include a portion of funds that can go directly to NSAs.
- The funds that are in support to government or to general NAIP implementation, such as for coordination and M&E, can continue to be managed as MDTF funds (that were used for similar purposes) have been managed and coordinated before.



- The funds that are in support of NSAs would need to be managed by a separate fund management set-up that should include a Fund Manager and a Secretariat. In this scenario it is foreseen that the responsibility for fund management is with development partners, maybe with the current MDTF manager (WB) and based on a realistic estimate of overheads. The overheads for running this fund depend on what it is designed to do: Whether support is in the form of grants or risk-reduction; whether it issues many small grants or few larger ones; whether grants are geographically concentrated or scattered across the country etc.
- An advantage of this scenario is that all DP funds, be it in support of government or NSAs, are in one place, thus facilitating an overview of the total resource envelop and making it easier to exploit synergies between the two: Often the purpose of support to government is to create a leverage for increased private sector involvement; so across activities, two types of support can be linked: For example, government can be supported to tender for and monitor construction of irrigation framework (MDTF), the private sector can be supported to bid for and implement the work (NSA-Fund: capacity development) and villagers and farmers can be supported to mobilise in user-groups to maintain the irrigation infrastructure (NSA-Fund: organisational development).

Tentative conclusion

This appears to be a good option for Malawi. It builds on strength and experiences while increasing transparency and opportunities for complementary action.

3. A separate DP managed pool fund

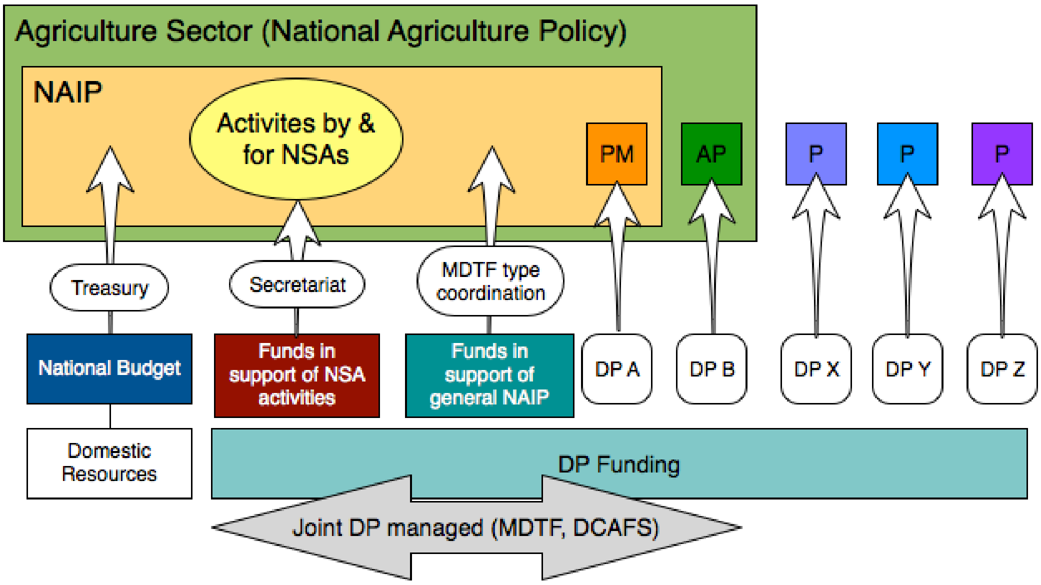
DPs pool funds into a common basket in support of NSAs and towards the successful implementation of the NAIP. This pool fund is managed by one or more DPs as a separate to other (already existing) facilities in support of the NAIP.

Conditions

- A sub-group of NAIP activities that are in support of NSA or are about NSA strengthening must be clearly identified (what exactly is supported?) and costed.
- The pooled funds must be managed through a single Fund Management that includes a fund manager and secretariat and has very clear procedures around grant application, support measures and monitoring of progress.

Risks

- Risks are essentially as above for earmarked funds within a DP managed basket. An added risk of having two separate funds (one for general NAIP support and one for specific NSA support) is the increased transaction costs on the side of the individual contributing donors, and also risks in terms of coordination between the two different baskets, especially if managed by two different donors/fund managers.



Malawi situation

- When a 'new fund for NSA support' is established, rather than extending the coverage of the existing MDTF (as in scenario 2) then this may require new negotiations by participating DPs on the terms of their joining, the procedures of disbursement etc.
- On the other hand it opens up the opportunity to start afresh and see if the new fund can capture the contributions of donors that were hitherto outside the MDTF (see diagram below). Some donors are not able to follow WB procedures and that may have been a hindrance in their pooling of resources into the MDTF. With a new target group and a separate fund management set-up, an effort must be made to include relevant (aligned and stand-alone) projects.

- This effort towards cooperation with other projects in support of NSAs and relevant to agriculture can even go beyond the narrower sector (as under ASWAp) and include initiatives like the Rural Livelihoods and Economic Enhancement Programme (RLEEP) funded by IFAD and implemented through a PMU in the Ministry of Local Government. This programme will likely be extended.

Tentative conclusion

Like scenario 2, this scenario 3 also builds on strengths. It may have the added advantage of being able to capture a growing number of interventions that are currently ‘off-screen’ and to so contribute to increased coordinated and harmonised action.

4. Trust Fund managed by an NSA

One or more donors establish a fund; using a single donor’s resources or the pooled resources of a group of donors; an NSA or a consortium of NSAs manages the fund. This can be an NGO, a Farmer Organisation or a CSO.

Conditions

- The fund should dispose of sufficient amount of money to justify its overheads. This means that either one very large donor, or several donors should be contributing;
- A competitive tender process should be designed to select fund management;
- NGO applicants should prove their ability to be impartial in the selection of grants, especially if they are local member-based and agriculture oriented NGOs; and they must prove that their systems (procurement, financial management) are up to standard
- A consortium of NGOs whereby a local NGO is accompanied by an international NGO has in other cases proven to have capacity strengthening and transparency benefits and could be recommended here.
- The ability of the NGO(s) managing the fund to further raise funds for boosting the fund should an important criterion in awarding the fund management contract;
- Contributing donors should develop a mechanism to provide fiduciary oversight.

Risks

- Capacity and continuity constraints on the side of the NSA(s): For example in the case of NGOs, their strength rises and falls with the level of (DP) support they receive. Long established (international) NGOs and those that raise their own core funds, have lower risks of lack of continuity.
- NGOs, Farmer Organisations and CSOs may be biased towards their own members when supporting grant application, issuing grants and may exaggerate grant success of their members over non-members.
- Potential difficulty to find an NSA that is accepted by a wide range of stakeholders.

Advantages

- An advantage is that the NSA forms more of a partnership, especially with the beneficiaries of the fund (in contrast to the scenario below of a bank managed fund).
- Another advantage is that the task of fund management itself becomes a capacity tool for NSA(s). Partnering with them is an opportunity to strengthen them.

Malawi situation

- Even if NSAs tender as a consortium, at least one should be Malawi based. A candidate is CISANET as a network of NSAs in agriculture. CISANET is member of the national NGO Board Gongoma (representing NGOs in all sectors). They could be considered as partner in a consortium (for example one that includes an international NGO).
- The NSA can also be supported to engage in fundraising, thus diversifying the sources if funds for this support facility.
- This scenario might offer additional opportunity to bring on-board the wide range of NGO support that flows into the agriculture sector but is not currently captured in the DCAFS database and is not usually considered when matching the available resources to national policy priorities. As part of this package, the NGO could be tasked to register all NGOs supporting the sector. In Malawi this is the mandate of the NGO Board and of CONGOMA. If necessary their capacity in fulfilling that task could be strengthened.

Tentative conclusion

Scenario 4 has the advantage that it may offer a route towards strengthening the NGO scene in Malawi and towards better capturing their activity in agriculture. It too would build up a single interlocutor as a contact point to the wide and scattered group of NGOs. A successful example of this set-up is the Natural Resources Management Facility in Kenya run by NGO Act! And funded by the Swedish International Development Cooperation Agency.

5. Private company (or Bank) managed fund

A fund is established using a single donor's resources or the pooled resources of a group of donors and the fund is managed by a (for-profit) private company or a bank

Conditions

- In its simplest form the private company or the bank is hired as fund manager based on a competitive tender procedure. The company/bank must have a track record or otherwise be able to demonstrate fund management ability.
- Well thought out fund set-up (size and type of grants, non-grant support) and clear guidelines are a necessity as is a clear contract and ToRs signed by the company/.
- The company would be paid an overhead and possibly a commission based on objectives achieved (as an incentive for successful fund management).
- Ongoing fiduciary control and regular independent monitoring are mechanisms to ensure that the fund stays on track and serves its aims.
- An alternative set-up is via a PPP, whereby a private company, national or international, partners with development partner(s) or government.
- More challenging but possibly effective constructions are those involving Development Finance Institutions (DFIs) can be considered. DFIs are development banks specialised in supporting private sector development and usually source their capital from development funds. This makes them creditworthy and enables them to raise large amounts of money on international capital markets and providing financing on very competitive terms. The Netherlands Development Finance Company (FMO) and German Investment & Development Company (DEG) are among the largest DFIs worldwide.

Risks

- Private companies and banks are ‘or-profit’ organisations. In managing a development fund, a balance must be found between the commercial and the development motive. This is not necessarily a problem: The private sector results-oriented culture may improve the effectiveness and efficiency of the facility.
- A conflict of interest can occur between the company/bank goals and the demands of the fund management (many small grants with high overheads may be less attractive from the point of view of maximising profits).

Advantages

- Stakeholders may regard a bank or company as non-partisan and non-biased; the manager is accepted by all (in contrast to an NSA actor who is associated with a certain constituency or membership).
- The results-oriented nature of private enterprise may make the fund management more efficient and effective.

Malawi situation

- The private sector in Malawi is not very well developed and there may be no companies or banks that can take on the task of fund manager.
- Maybe options can be explored, in which Malawian companies are partner in a PPP arrangement.

An example of a simple set-up (of a company being contracted to manage a fund) can be found in Zambia where the Zambian PMTC (Ltd) manages the Civil Society Environment Fund that is financed by the Royal Danish Embassy. The fund issues four types of grants; for the strengthening of organisations, for the building of capacity, for financing innovative projects and for research and information dissemination.